CHALLENGER

FIRST QUARTER REPORT 2018

FOR THE THREE MONTHS ENDED MARCH 31, 2018

EQUITABLE

TSX.EQB
EQB.PR.C

EQUITABLE GROUP INC.

TABLE OF CONTENTS

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

For the three months ended March 31, 2018

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") ended March 31, 2018. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 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 May 10, 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 Q1 2018 versus the prior 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", "Q1 2018 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", and "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 $25 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 that includes business-for-self borrowers, newcomers to Canada and commercial real estate investors. 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. The first product offered through our digital bank was the *EQ Bank Savings Plus Account* and it continues to be well received by Canadian savers. In March of 2018, we launched *EQ Bank* GICs, giving Canadians more options to save with guaranteed competitive interest rates over a variety of terms. We intend to continue expanding the range of savings products and services that we offer 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 are focused on segments of the market in which we can improve the banking experience or have 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)	**Mar 31, 2018[3]**	Dec 31, 2017	% Change	Mar 31, 2017	% Change
	Three months ended				
RESULTS OF OPERATIONS					
Net income	**$ 40,167**	$ 40,446	(1%)	$ 43,393	(7%)
Net income available to common shareholders	**38,976**	39,256	(1%)	42,202	(8%)
Net interest income	**81,270**	79,697	2%	78,352	4%
Total revenue	**200,786**	197,648	2%	181,525	11%
EPS – basic	**$ 2.36**	$ 2.38	(1%)	$ 2.56	(8%)
EPS – diluted	**$ 2.34**	$ 2.36	(1%)	$ 2.54	(8%)
ROE[1]	**14.5%**	14.9%	(0.4%)	18.4%	(3.9%)
Return on average assets[1]	**0.8%**	0.8%	-%	0.9%	(0.1%)
NIM – TEB – total assets[1]	**1.58%**	1.59%	(0.01%)	1.66%	(0.08%)
Efficiency Ratio – TEB[1][2]	**37.7%**	37.3%	0.4%	33.2%	4.5%
BALANCE SHEET					
Total assets	**21,054,763**	20,634,250	2%	19,300,418	9%
Assets Under Management	**25,259,152**	24,652,969	2%	22,959,080	10%
Mortgages receivable	**19,676,690**	19,298,548	2%	18,164,958	8%
Mortgages Under Management ("MUM")[1]	**23,794,216**	23,233,420	2%	21,743,431	9%
Shareholders' equity	**1,181,472**	1,138,117	4%	1,023,702	15%
CREDIT QUALITY					
Provision for credit losses	**770**	387	99%	738	4%
Provision for credit losses – rate	**0.02%**	0.01%	0.01%	0.02%	-%
Net impaired mortgages as a % of total mortgage assets[4]	**0.13%**	0.12%	0.01%	0.21%	(0.08%)
Allowance for credit losses as a % of total mortgage assets	**0.13%**	0.17%	(0.04%)	0.19%	(0.06%)
SHARE CAPITAL					
Common shares outstanding	**16,515,238**	16,503,437	0%	16,475,149	0%
Book value per common share[1][5]	**$ 67.14**	$ 64.57	4%	$ 57.73	16%
Common share price – close	**$ 53.68**	$ 71.50	(25%)	$ 69.37	(23%)
Common share market capitalization	**886,538**	1,179,996	(25%)	1,142,881	(22%)
EQUITABLE BANK CAPITAL RATIOS[1][6]					
Risk-weighted assets ("RWA")	**7,396,553**	7,035,380	5%	6,739,517	10%
CET1 Ratio	**14.7%**	14.8%	(0.1%)	13.9%	0.8%
Tier 1 Capital Ratio	**15.7%**	15.9%	(0.2%)	15.0%	0.7%
Total Capital Ratio	**16.0%**	16.3%	(0.3%)	16.4%	(0.4%)
Leverage Ratio	**5.5%**	5.4%	0.1%	5.3%	0.2%

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(3) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior periods.*
(4) *Effective January 1, 2018, as a result of adoption of IFRS 9, net impaired mortgages have been revised to include all mortgages that are in arrears 90 days or greater and reflect gross impaired mortgage assets less stage 3 allowances. Prior period net impaired mortgages are presented under IAS 39 and do not include insured mortgages that are less than 365 days in arrears. Prior 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 our book value per common share as at January 1, 2018.*
(6) *Effective January 1, 2018, the Bank adopted IFRS 9 and the transitional impact on regulatory capital and RWA was recognized upon adoption.*

Q1 2018 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

In Q1 2018, Equitable produced strong quarterly earnings, generating an EPS of $2.34 and a ROE of 14.5%, despite the continued impact of liquidity actions we undertook in Q2 2017. These liquidity management costs, net of the associated funding cost benefits, reduced our EPS and ROE in Q1 2018 by approximately $0.27 and 1.6 percentage points, respectively (December 31, 2017 – $0.32 and 1.9 percentage points, March 31, 2017 – nil and nil).

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

Strategic Objectives for 2018	Accomplishments
Grow our existing businesses through superior service	• Grew our Alternative Single Family assets by 16% over Q1 2017 • Grew our Commercial Lending portfolio by 4% with originations that were 12% higher than in Q1 of last year • Increased brokered GIC principal by $1.7 billion or 23% from a year ago and by $813 million or 10% over the previous quarter
Build *EQ Bank* into Canada's leading digital banking platform	• Grew *EQ Bank* deposit balances to over $1.7 billion, an increase of 42% from last year and 7% from last quarter • Launched *EQ Bank* GICs in early March and created direct-to-consumer access to this sizable market
Leverage our capabilities and balance sheet to diversify into adjacent markets	• Launched a new reverse mortgage business under the *PATH Home Plan*™ brand, and further diversified our product suite
Maintain a disciplined approach to capital management and a low risk profile	• Maintained an average loan-to-value ratio of 65% on our uninsured residential mortgage portfolio, as compared to 64% in Q4 2017 and 62% in Q1 2017 • Recorded a provision for credit losses of $0.8 million or 2 bps of average loan balances(1) • Reported a CET1 Ratio of 14.7%, which was well ahead of the regulatory minimum and most competitive benchmarks • Declared a common share dividend of $0.27 per share in May, which was 17% higher than the declaration in May 2017
Strengthen our key capabilities	• Successfully implemented IFRS 9 on January 1, 2018 • Launched myEquitable, an online mortgage servicing portal that provides Equitable Bank customers access to their mortgage details and information

(1) *Provision for credit losses and related ratio for Q1 2018 were prepared in accordance with IFRS 9.*

ITEMS OF NOTE

There were no items of note in our financial results for Q1 2018 or Q4 2017.

Q1 2017 financial results were impacted by the following item:

- $1.1 million of gains on investments acquired from Maple Bank GmbH's Toronto Branch ("Maple Bank").

DIVIDENDS

On May 10, 2018, the Company's Board of Directors declared a quarterly dividend in the amount of $0.27 per common share, payable on July 5, 2018, to common shareholders of record at the close of business on June 15, 2018. This dividend represents a 17% increase over dividends declared in May 2017.

In addition, on May 10, 2018, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on June 30, 2018, to preferred shareholders of record at the close of business on June 15, 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 growing in 2018 but that 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 affected a subset of financial institutions in 2017 (see the Company's Q1 and Q2 2017 MD&As).

Recent Regulatory Changes

Governments and policymakers at all levels in Canada continue to focus on the stability of the domestic housing market. Since the fall of 2016, the Federal and Ontario Governments have introduced a series of measures intended to curtail market activity, house price appreciation, and to ensure the ongoing stability of the country's financial institutions. The most recent changes are embodied in OSFI's *Guideline B-20, Residential Mortgage Underwriting Practices and Procedures* ("B-20") which became effective on January 1, 2018.

As we had expected, the B-20 revisions appear to be having a negative impact on single family residential market activity, though it is still too early to understand the potential long-term implications of the changes. Even with this reduced activity, we expect our Alternative Single Family assets to grow in 2018, albeit at a modest rate, because of renewal trends and the fact that the volume of originations, even if down, would still be high enough to offset attrition. The combination of mortgage rule changes and the continuing customer service focus of our team is expected to lead to increased renewal rates compared to prior years.

Equitable's single family mortgage originations in Q1 were lower than in prior quarters as a result of lower activity in real estate markets and the new constraints on lending activity caused by changes to B-20. With our single family team focused on the correct and timely implementation of B-20 and a desire to maintain margins, the Bank lost some edge in the market during Q1. With our adjustment to the changes complete and with some refinements in our pricing, we have adopted a more positive stance to the market and expect single family originations in Q2 to increase by 40 to 45% over Q1 levels.

As Single Family portfolio growth slows, we intend to deploy more capital into Commercial Lending and other businesses 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.

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 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 6% to 8% in 2018, with growth of individual asset categories described in detail below. Given recent market dynamics and regulatory changes, there is significant uncertainty to this growth outlook and our views will likely evolve over time.

It is management's view that Equitable is currently carrying excess common equity capital. To the extent that we do not identify more significant organic or inorganic 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 the impacts of B-20 become clearer over the course of the next several quarters.

(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 for 2018

<table>
<tr><th>Portfolio</th><th>2018 Expectations[1]</th><th>Rationale and Assumptions[1]</th></tr>
<tr><td colspan="3">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 only and are subject to change over time.</td></tr>
<tr><td>Core Lending: Alternative Single Family</td><td>• Assets grow at rates between 4% and 6%, with the growth rate being higher in the earlier quarters of the year</td><td>• Recent regulatory changes will continue to decrease overall housing market activity; house prices will decrease slightly in most markets
• Originations contract due to market activity and new B-20 standards (though the degree of change is highly uncertain)
• The Bank improves its execution against the B-20 revisions and in future quarters the YoY decline in originations is less than it was in Q1
• Portfolio growth is helped by higher renewal rates, 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</td></tr>
<tr><td>Core Lending: Commercial</td><td>• Assets grow at rates between 18% and 20%, with the growth rate accelerating throughout the year</td><td>• The market continues to present quality opportunities and the competitive environment remains stable
• Originations increase by more than 30% in 2018 after being deliberately tempered in 2017 due to funding constraints
• Attrition rates are lower than levels experienced in the 2017</td></tr>
<tr><td>Securitization Financing: Prime Single Family</td><td>• MUM and balance sheet assets do not experience any growth</td><td>• 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 maintain our market share by concentrating on niches in which we have a competitive advantage
• Origination volumes are equal to the expected attrition in the portfolio</td></tr>
<tr><td>Securitization Financing: CMHC Multi-Unit Residential ("Multis")</td><td>• Balance sheet assets grow at rates in the mid-single digits, while MUM grows at rates in the low double digits</td><td>• 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</td></tr>
</table>

(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") in 2018 will increase at year-over-year rates in the 8% to 10% range along with average asset balances as NIM remains stable. Quarterly NIM may 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 for 2018

Driver	2018 Expectations	Rationale and Assumptions
NIM: **Core Lending**	• Will be in the range of 2.30% to 2.35% in each of the remaining quarters of the year	• Our secured backstop funding facility will cost us $5 million per quarter and have a negative 16 bps effect on NIM through to June 2019 • 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 • Spreads on originated and renewed mortgages decline slightly relative to spreads within the portfolio • Low margin liquid asset balances will decrease from the elevated levels in Q1 2018, which will benefit NIM slightly
NIM: **Securitization Financing**	• Will be in the range of 20 bps to 22 bps in each of the remaining quarters of the year	• CMHC Multi margins are consistent with recent levels • Prime margins will increase from recent, unsustainably low levels • Prepayment income is lower as underlying benchmark interest rates increase and refinancing options become more expensive
NIM: **Total**	• Will be in the range of 1.55% to 1.60% in each of the remaining quarters of the year	• NIM benefits from the shift in asset mix towards our higher margin Core Lending portfolio
Income from NHA-MBS Successor Issuer Rights	• Maple revenue 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 • Quarterly revenue will move from the top end to the lower end of the range as we move through the year
Securitization Gains on Sale	• Will be in the range of $1.6 million to $1.8 million per quarter	• Securitization and derecognition activity is between $150 million and $200 million each quarter • Overall gain on sale margins will increase slightly from levels realized in Q1 2018

Non-Interest Expenses

We anticipate that throughout 2018 non-interest expenses will increase at year-over-year rates slightly higher than the growth rate of the overall business, 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 in 2018, we will manage our expense 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 2018 will be in the high 30 percent range.

Strategic Initiatives

Consistent with our vision of being *Canada's Challenger Bank™*, we will continue to pursue several important strategic initiatives in 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, in early 2018 we introduced digital functionality that provides our residential mortgages customers with the option of a 24/7 self-service experience.

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 strategy. 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. Demand for this product has exceeded our expectations and later this year we plan to introduce functionality to make the purchase experience even simpler. 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 still intend to pursue AIRB. AIRB 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 BankTM. Our intention is to enter any 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 PlanTM 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.

Reflecting our approach of collaborating with Canada's Fintech community to realize on our vision, we also launched a deposit account in partnership with Wealth Simple during the quarter. This product further diversifies our funding model and provides value to a segment of Canadian savers.

Funding

We believe that our current sources of funding – most notably brokered term deposits and *EQ Bank* – will be adequate to fund our asset growth in 2018. Our deposit balances have grown steadily since the middle of 2017 and we believe that trend will continue for the foreseeable future. Over that period, we have also taken actions to strengthen our liquidity position such as 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 asset diversification strategy and would also create a new issuer of deposits that are eligible for insurance through the Canada Deposit Insurance Corporation. In addition, 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 deteriorate to levels below 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 IFRS9 framework became effective for us in Q1 2018. IFRS9 is based on an expected loss concept – as opposed to the incurred loss approach under IAS39 – and incorporates forward looking economic forecasts. Our analysis, supported by extensive backtesting, suggests that IFRS 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 for borrowers whom we consider to be at higher risk of default. The LTV of 65% 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 AMOUNTS)		Three months ended				
	Mar 31, 2018[1]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Net income	**$ 40,167**	$ 40,446	(1%)	$ 43,393	(7%)
EPS – diluted	**$ 2.34**	2.36	(1%)	$ 2.54	(8%)
Net interest income	**81,270**	79,697	2%	78,352	4%
Provision for credit losses	**770**	387	99%	738	4%
Non-interest expenses	**33,810**	33,073	2%	29,820	13%

(1) The amounts for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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:

Table 3: Net interest income

	Three months ended					
	Mar 31, 2018[4]		Dec 31, 2017		Mar 31, 2017	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Revenue/ Expense**	**Average rate[1]**	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	**$ 143,115**	**4.66%**	$ 139,630	4.62%	$ 121,892	4.55%
Liquidity investments	**2,536**	**1.12%**	2,322	1.05%	1,604	0.84%
Equity securities – TEB[2]	**1,419**	**5.52%**	1,300	5.39%	1,828	6.43%
	147,070	**4.42%**	143,252	4.38%	125,324	4.32%
Expenses related to:						
Deposits and bank facilities	**56,338**	**2.15%**	53,471	2.07%	43,101	1.98%
Secured backstop funding facility[3]	**5,293**	**N/A**	5,336	N/A	-	N/A
Debentures	**-**	**N/A**	229	7.22%	950	5.93%
Securitization liabilities	**7,934**	**2.07%**	8,449	2.00%	6,616	1.59%
	69,565	**2.31%**	67,485	2.24%	50,667	1.94%
Net interest income – TEB	**77,505**	**2.31%**	75,767	2.33%	74,657	2.55%
Taxable Equivalent Basis – adjustment	**(373)**		(360)		(485)	
Core Lending	**$ 77,132**		$ 75,407		$ 74,172	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 44,876**	**2.58%**	$ 44,849	2.60%	$ 45,155	2.54%
Liquidity investments	**1,269**	**2.26%**	1,405	1.88%	509	1.19%
	46,145	**2.57%**	46,254	2.57%	45,664	2.51%
Expenses related to:						
Securitization liabilities	**35,628**	**2.41%**	36,512	2.46%	37,317	2.43%
Deposits and secured funding facility	**6,379**	**2.36%**	5,452	2.03%	4,167	1.62%
	42,007	**2.41%**	41,964	2.39%	41,484	2.31%
Securitization Financing	**$ 4,138**	**0.22%**	$ 4,290	0.24%	$ 4,180	0.22%
Total interest earning assets – TEB	**$ 81,643**	**1.58%**	$ 80,057	1.59%	$ 78,837	1.66%

(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 $2 billion secured backstop funding facility.
(4) The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior periods.

Q1 2018 v Q1 2017

NII was up 4% as growth in total average asset balances of 9% was largely offset by an 8 bp decrease in overall NIM. The decrease in Total NIM was a result of the liquidity events that unfolded in the second quarter of 2017 and changes in our funding mix.

Table 4(a): Factors affecting Q1 2018 v Q1 2017 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Rates/spread[1]	7	• Higher spreads within both our Single Family and Commercial portfolios
Asset mix	(4)	• A reduction in the relative level of our higher yielding equity securities • A shift towards our lower yielding but higher ROE Single Family business
Funding mix	1	• Redemption of higher rate Series 10 debentures last October, offset by • Growth of our higher cost *EQ Bank* deposit product • Decrease in our low rate brokered HISA
Liquidity actions initiated in Q2 2017	(24)	• Insurance premium amortization related to the $892 million of Alternative Single Family mortgages insured in May 2017, net of the associated funding cost benefits • Fees associated with our new $2 billion secured backstop funding facility
Mortgage prepayment income	(4)	• Reduced levels of early discharges in Single Family Lending
Change in Core Lending NIM	(24)	
Securitization Financing NIM:		
Asset mix	(1)	• An increase in the relative size of our lower yielding liquidity investments
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
Other	(1)	
Change in Securitization NIM	-	
Change in Total NIM[2]	(8)	

(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.*

Q1 2018 v Q4 2017

NII increased 2% from last quarter mainly driven by 2% growth in average assets and despite a 1 bp decrease in overall NIM.

Table 4(b): Factors affecting Q1 2018 v Q4 2017 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Rates/spreads[1]	(1)	• Consistent spreads within the Single Family and Commercial portfolios
Asset mix	(1)	• A shift towards our lower yielding liquidity investments
Funding mix	1	• Redemption of higher cost Series 10 debentures last October, offset by • Decrease in our low rate brokered HISA • Growth of our higher cost *EQ Bank* deposit product
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, net of the associated funding cost benefits
Mortgage prepayment income	(3)	• Reduced levels of early discharges in Single Family Lending
Other	(1)	
Change in Core Lending NIM	(2)	
Securitization Financing NIM:		
Asset mix	1	• Decrease in the relative size of our lower yielding liquidity investments
Mortgage prepayment income	(3)	• 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	(2)	
Change in Total NIM[2]	(1)	

(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		
($ THOUSANDS, EXCEPT PERCENTAGES)	**Mar 31, 2018[1]**	Dec 31, 2017	Mar 31, 2017
Stage 3 provision (individual provision under IAS 39)	**$ 351**	$ 387	$ 738
Stage 1 and 2 provision (collective provision under IAS 39)	**419**	-	-
Provision for credit losses	**$ 770**	$ 387	$ 738
Provision for credit losses – rate	**0.02%**	0.01%	0.02%
Allowance for credit losses	**$ 24,815**	$ 33,354	$ 34,923

(1) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior periods.*

The credit quality of our mortgage portfolio remained strong in Q1 2018. Our provision for credit losses during the first quarter was $0.8 million, $0.4 million higher than the prior quarter and relatively consistent with the same quarter of 2017. Provision for credit losses in the current quarter was calculated using the IFRS 9 methodology, which replaces the guidance in IAS 39. Relative to average mortgage principal outstanding during the period, the provision for credit losses was 2 bps, compared to 1 bp in Q4 2017 and 2 bps in Q1 2017, and remained consistent with 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: that aggregate amount is represented by the allowance for credit losses on our consolidated interim balance sheet. The allowance was $24.8 million or 13 bps of our total mortgage assets as at March 31, 2018, which is in excess of our 10 year average annual loss rate of 4 bps. The allowance was reduced by $8.5 million as a result of our IFRS 9 implementation on January 1, 2018. This reduction is supported by our extensive credit loss scenario modelling and third-party economic forecasts.

OTHER INCOME

Table 6: Other income

				Three months ended	
($ THOUSANDS)	**Mar 31, 2018[1]**	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Fees and other income:					
Fees and other income	**$ 4,080**	$ 4,389	(7%)	$ 5,217	(22%)
Income from successor issuer activities	**1,297**	1,764	(26%)	2,587	(50%)
Fair value loss on investments	**(370)**	-	N/A	-	N/A
Securitization activities:					
Gains on securitization and income from retained interests	**2,437**	2,840	(14%)	3,961	(38%)
Fair value gains (losses) on derivative financial instruments	**500**	(491)	202%	(743)	167%
Total	**$ 7,944**	$ 8,502	(7%)	$ 11,022	(28%)

(1) *The amounts for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior periods.*

Q1 2018 v Q1 2017

Other income was down compared with Q1 2017, mainly due to:

- 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;
- 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;
- A fair value and unrealized loss on certain preferred share investments; and
- Lower Fees and other income, mainly due to reduced gains on investments acquired from Maple Bank;

Offset by:

- Gains on derivative financial instruments related to securitization activities during the quarter relative to a loss in the prior year quarter.

Q1 2018 v Q4 2017

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

- Lower income from successor issuer activities;
- Lower gains on sale from derecognition activity, resulting from a lower gain on sale margin; and
- A fair value and unrealized loss on certain preferred shares investments;

Offset by:

- Fair value gains on derivative financial instruments.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	Three months ended **Mar 31, 2018[1]**	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Compensation and benefits	**$ 18,603**	$ 15,821	18%	$ 16,423	13%
Technology and system costs	**4,901**	5,490	(11%)	4,809	2%
Product costs	**3,055**	3,110	(2%)	3,028	1%
Marketing and corporate expenses	**2,962**	3,501	(15%)	1,922	54%
Regulatory, legal and professional fees	**2,749**	3,538	(22%)	1,974	39%
Premises	**1,540**	1,613	(5%)	1,664	(7%)
Total non-interest expenses	**$ 33,810**	$ 33,073	2%	$ 29,820	13%
Efficiency Ratio – TEB	**37.7%**	37.3%	0.4%	33.2%	4.5%
Full-time employee ("FTE") – period average	**604**	586	3%	565	7%

[1] *The Efficiency Ratio for the period ended March 31, 2018 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, current quarter 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. Overall, non-interest expenses were 2% higher than the prior quarter and up 13% from a year ago. Our Efficiency Ratio of 37.7% was up 0.4% relative to last quarter and 4.5% higher than in Q1 2017.

Q1 2018 v Q1 2017

Total non-interest expenses increased primarily because of:

- Higher Compensation and benefits costs which resulted from several factors including 7% growth in our FTE and annual inflationary salary adjustments;
- An increase in Marketing expenses to promote the *EQ Bank* platform and its savings products; and
- 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.

Q1 2018 v Q4 2017

Non-interest expenses grew mainly because of:

- Higher compensation and benefits costs which resulted from various factors including FTE growth, a seasonal increase in benefits costs, annual inflationary salary adjustments, and relatively lower bonus accruals in Q4 2017;

Offset by;

- A decrease in Marketing expenditures;
- Lower Regulatory, legal and professional fees due to annual filing costs and consulting fees in Q4 2017; and
- Lower Technology and system costs due to the timing of expense recognition for development of our digital banking platform.

INCOME TAXES

Q1 2018 v Q1 2017

Our effective income tax rate for the quarter increased slightly to 26.5% from 26.2% a year ago mainly due to lower tax-exempt dividend income earned from our preferred share investments and other adjustments.

Q1 2018 v Q4 2017

Our effective income tax rate increased to 26.5% from 26.0% in the preceding quarter, primarily due to lower tax-exempt dividend income in this quarter and certain tax adjustments that we recorded in Q4 2017.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Total assets	**$ 21,054,763**	$ 20,634,250	2%	$ 19,300,418	9%
Mortgage principal – Core Lending	**12,626,902**	12,291,564	3%	11,216,207	13%
Mortgage principal – Securitization Financing	**6,962,925**	6,923,137	1%	6,868,562	1%
Deposit principal	**11,880,772**	11,024,720	8%	9,949,511	19%
Total liquid assets as a % of total assets[(2)]	**8.4%**	7.2%	1.2%	6.0%	2.4%

(1) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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 Q1 2018 and Q1 2017:

Table 9: Mortgage principal continuity schedule

	Three months ended March 31, 2018[(4)]						
($ THOUSANDS, EXCEPT PERCENTAGES)	**Single Family Lending**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortgage Principal[(1)]**	**Securitization Financing MUM[(2)]**
Q4 2017 closing balance	**$ 9,341,819**	**$ 2,949,745**	**$ 12,291,564**	**$ 6,923,137**	**$ 19,214,701**	**$ 4,018,719**	**$ 10,941,856**
Originations	**609,434**	**424,468**	**1,033,902**	**429,270**	**1,463,172**	**-**	**429,270**
Derecognition	**-**	**-**	**-**	**(236,297)**	**(236,297)**	**236,297**	**-**
Net repayments	**(453,716)**	**(244,848)**	**(698,564)**	**(153,185)**	**(851,749)**	**(50,627)**	**(203,812)**
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**
% Change from Q4 2017	**2%**	**6%**	**3%**	**1%**	**2%**	**5%**	**2%**
% Change from Q1 2017	**16%**	**4%**	**13%**	**1%**	**8%**	**15%**	**6%**
Net repayments percentage[(3)]	**4.9%**	**8.3%**	**5.7%**	**2.2%**	**4.4%**	**1.3%**	**1.9%**

	Three months ended March 31, 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)]
Q4 2016 closing balance	$ 7,855,706	$ 2,827,006	$ 10,682,712	$ 7,017,120	$ 17,699,832	$ 3,304,181	$ 10,321,301
Originations	835,780	379,996	1,215,776	409,264	1,625,040	-	409,264
Derecognition	-	-	-	(391,591)	(391,591)	391,591	-
Net repayments	(482,753)	(199,528)	(682,281)	(166,231)	(848,512)	(37,110)	(203,341)
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
% Change from Q4 2016	4%	6%	5%	(2%)	2%	11%	2%
Net repayments percentage[(3)]	6.1%	7.1%	6.4%	2.4%	4.8%	1.1%	2.0%

(1) *Derecognized Mortgage Principal represents Mortgages Under Administration that are not reported on Equitable's consolidated balance sheets. These mortgages were securitized using transaction structures that transferred substantially all of the risks and rewards or control associated with the mortgages to 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) *Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.*

(4) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior periods.*

Q1 2018 v Q1 2017

Total MUM increased $2.1 billion or 9%, driven by growth in both our Core Lending business and Securitization Financing.

Within Core Lending, both the Alternative Single Family and Commercial lending portfolios grew due to strong origination levels over the past four quarters. Lower attrition levels in the Alternative Single Family portfolio during the same period have also contributed to mortgage growth.

In comparing Q1 originations to the prior year, we achieved record Commercial volumes due to the continued strength of our relationships with brokers and business partners and our focus on deploying additional capital into this business. Alternative Single Family Lending origination levels were down, which primarily reflected lower activity in the Canadian housing market and the likely impact of recent B-20 revisions. Further, our single family team was focused on the correct and timely implementation of B-20 and a desire to maintain margins, and as a result the Bank lost some edge in the market in Q1.

Securitization Financing MUM increased primarily due to an increase in Multi originations levels and a relatively stable Prime Single Family portfolio. The higher level of Multi originations was in part a result of an increase in our CMB capacity. Although Prime Single Family originations levels have declined, the portfolio has been consistent because of low maturity and attrition levels. Prime originations were lower as a result of an overall reduction in market activity. We expect that attrition rates will increase in 2018 as the Prime Single Family portfolio seasons.

Q1 2018 v Q4 2017

Total MUM increased 2% as a result of growth in both Core Lending and Securitization Financing MUM.

Core Lending growth was primarily driven by Commercial, which increased origination volumes and retention rates. Alternative Single Family Lending also contributed to the growth in Core Lending as higher retention rates helped to offset the decline in origination levels. We had expected Single Family retention to increase as a result of recent B-20 changes.

Securitization Financing MUM increased in large part due to steady 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		
($ THOUSANDS EXCEPT PERCENTAGES)	**Mar 31, 2018**	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Securitization derecognized – non-prepayable Multis	**$ 236,297**	$ 192,703	23%	$ 242,542	(3%)
Securitization derecognized – prepayable mortgages[(1)]	**-**	-	N/A	149,049	(100%)
Total principal derecognized	**$ 236,297**	$ 192,703	23%	$ 391,591	(40%)
Gains on sale	**$ 1,889**	$ 1,842	3%	$ 3,570	(47%)
Gain on sale margin[(2)]	**0.80%**	0.96%	(0.16%)	0.91%	(0.11%)

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

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

Q1 2018 v Q1 2017

Gains on sale decreased from last year due to a decrease in derecognition volumes and a lower gain on sale margin. Overall derecognition levels declined year-over-year largely as a result of our Leverage Ratio position and management's decision not to execute transactions that effect the derecognition of prepayable mortgages. The gain on sale margin decreased primarily due to higher cash flow discount rates used to calculate the gains.

Q1 2018 v Q4 2017

Gains on sale were up sequentially due to a higher derecognition volume and despite a lower gain on sale margin. The gain on sale margin decreased largely due to the same reason stated above when comparing to Q1 2017.

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 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

($ THOUSANDS, EXCEPT PERCENTAGES)	**Mar 31, 2018[1]**	Dec 31, 2017	Mar 31, 2017
Provision for credit losses	**$ 770**	$ 387	$ 738
Provision for credit losses – rate	**0.02%**	0.01%	0.02%
Gross impaired mortgage assets[2]	**27,033**	23,953	41,200
Net impaired mortgage assets[3]	**26,194**	22,489	38,167
Net impaired mortgage assets as a % of total mortgage assets	**0.13%**	0.12%	0.21%
Allowance for credit losses	**24,815**	33,354	34,923
Allowance for credit losses as a % of total mortgage assets	**0.13%**	0.17%	0.19%
Allowances for credit losses as a % of gross impaired mortgage assets	**92%**	139%	85%

(1) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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 greater. 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 March 31, 2018 includes $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.*

Q1 2018 v Q1 2017

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in Q1 2018:

- Our provision for credit losses in absolute dollars increased but remained stable relative to average mortgage principal.
- Impaired loans decreased in both dollar terms and as a percentage of the total portfolio compared to the same period of last year. The majority of the decrease was in our Alternative Single Family portfolio (almost two third of which related to Alberta and Saskatchewan), with the remainder related to the discharge of two large commercial loans that were impaired at the end of Q1 2017. These factors were partly offset by the addition of $4.6 million of insured mortgages that were between 90 and 365 days past due, a change necessary as a result of 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. The allowance for credit losses remains sufficient in the opinion of management.

Q1 2018 v Q4 2017

Our key credit risk metrics remained solid as compared to the prior quarter. Gross impaired loans increased by $3.1 million partly due to the inclusion of $4.6 million of insured mortgages 90 to 365 days past due under IFRS 9 as discussed above.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

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.

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)	Mar 31, 2018[(4)]	Dec 31, 2017	Mar 31, 2017
Eligible deposits with regulated financial institutions[(1)]	**$ 698,208**	$ 660,444	$ 537,368
Debt securities issued by regulated financial institutions	**-**	-	37,906
Government issued or guaranteed debt instruments:			
Debt securities issued by Government of Canada	**-**	-	4,984
Mortgages held in the form of debt securities guaranteed by Government of Canada[(2)]	**1,045,432**	1,177,221	607,784
Obligations under repurchase agreements	**(104,652)**	(452,001)	(145,495)
Liquid assets held for regulatory purposes	**1,638,988**	1,385,664	1,042,547
Other deposits with regulated financial institutions	**151**	486	277
Equity securities[(3)]	**136,320**	93,279	110,350
Total liquid assets	**$ 1,775,459**	$ 1,479,429	$ 1,153,174
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**7.8%**	6.7%	5.4%
Total liquid assets as a % of total assets	**8.4%**	7.2%	6.0%

(1) Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $20.5 million (December 31, 2017 – $20.4 million, March 31, 2017 – $10.9 million) of restricted cash held as collateral with third parties for the Company's interest rate swap transactions and $313 million (December 31, 2017 – $345.6 million, March 31, 2017 – $247.8 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) The amounts and ratios for the period ended March 31, 2018 have 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, current quarter 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 March 31, 2018, our LCR was well in excess of the regulatory minimum of 100%.

Q1 2018 v Q1 2017

Liquid asset balances were $1.8 billion at Q1 2018, up $622 million from the prior year. The increase was mainly due to growth of our business and our decision to hold more liquidity after the funding market disruptions experienced in Q2 2017.

Q1 2018 v Q4 2017

Liquid asset balances increased $296 million or 20% from Q4 2017, as we built our liquidity in advance of the spring mortgage market.

OTHER ASSETS

Q1 2018 v Q1 2017

Other assets grew 32% or $22.2 million to $92.3 million from a year ago mainly due to:

- $12.9 million increase in Deferred costs – Contingent liquidity facility, related to upfront costs for the secured backstop funding facility that we closed in Q2 2017 (amortized over a 2-year period);
- $7.3 million increase in Intangible assets, mainly due to project-related investments that we made in the last twelve months;
- $6.7 million increase in the fair value of outstanding derivative financial instruments; and
- $3.2 million increase in Receivables relating mainly to certain Maple assets that we assumed in Q4 2016;

Offset by:

- $4.9 million decrease in Real estate owned due to the sale of foreclosed assets; and
- $4.2 million decrease in Property and equipment, largely a result of amortization over the past twelve months.

Included in Other assets is a net receivable of $3.2 million (December 31, 2017 and March 31, 2017 – $3.2 million) related to an alleged external fraud that was identified in 2011. The Company continues to pursue a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

Q1 2018 v Q4 2017

Other assets decreased by $4.2 million from the prior quarter primarily because of:

- $2.8 million decrease in Deferred costs – Contingent liquidity facility as a result of amortization recorded during the quarter;
- $1.7 million decrease in Prepaid expenses; and
- $1.4 million decrease in Receivables relating to securitization activities;

Offset by:

- $1.9 million increase in Intangible assets, primarily related to our investments in various projects that occurred since last December.

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

DEPOSITS

Table 13: Deposit principal

($ THOUSANDS)		Mar 31, 2018(1)		Dec 31, 2017		Mar 31, 2017
Brokered term deposits (GICs)	**$**	**9,104,613**	$	8,291,682	$	7,396,728
Brokered HISAs		**891,834**		955,456		1,183,324
EQ Bank deposits(2)		**1,734,294**		1,627,582		1,219,448
Deposit notes		**150,000**		150,000		150,011
	$	**11,880,741**	$	11,024,720	$	9,949,511

(1) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior periods.*

(2) *EQ Bank deposits include both demand and term deposits offered through our digital banking platform under the EQ Bank brand.*

Equitable Bank is a federally regulated deposit taking institution and offers deposits eligible for CDIC insurance to savers across Canada. We source deposits primarily through a national distribution network of third party deposit agents and financial advisors. Our deposit product suite, which now includes 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 $1.9 billion or 19% over Q1 2017, just above the growth rate of our Core Lending portfolio. A significant portion of this growth was in brokered term deposits. 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 surpassed $1.7 billion at the end of the first quarter. In 2016, we introduced the *EQ Bank Savings Plus Account* through our digital banking platform, a new channel that further diversifies our funding sources and builds direct relationships with Canadian savers. *EQ Bank* deposit principal was $515 million above Q1 of last year, reflecting our efforts to enhance the platform, maintain a highly competitive rate, and grow our customer base. *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.

The above increases were in part offset by a $0.3 billion decrease in our brokered HISA account balances compared to last year. Brokered HISA deposits experienced a high level of attrition during last year's liquidity events. Given that behaviour, we intend to focus on growing *EQ Bank* and to de-emphasize growth of these brokered balances going forward. We will continue to offer the product, 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 $237 million or 3% from Q1 2017 and was down $13 million compared to Q4 2017. The decrease from last year is mainly due to the repayment of $0.3 billion of a liabilities associated with a funding program that was sponsored by a major Canadian Schedule I bank to fund uninsured single family mortgages, offset in part by $68 million of the issuances net of repayments of Securitization liabilities through the MBS and CMB Programs, including $0.9 billion that we insured in Q2 2017 as part of the liquidity actions.

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 Q1 2018, the balance outstanding on these facilities was nil (December 31, 2017 – $129 million, March 31, 2017 – nil).

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%. 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 March 31, 2018 (December 31, 2017 – nil, March 31, 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 Q1 2018 exceeded the regulatory minimums. Our CET1 and Tier 1 Capital Ratios were up from last year primarily due to our strategy of retaining the vast majority of our earnings to fund our growth, a reduction in unrealized losses on our preferred share investments, and a lower risk weight density. Risk weight density decreased primarily due to the Bank obtaining insurance on $892 million of existing residential mortgages during Q2 2017. Compared to March 31, 2017, our Total Capital Ratio declined, mainly because we redeemed $65 million 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 into 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 5.5% at Q1 2018 and the Bank remains fully compliant with our regulatory requirements. Our Leverage Ratio increased relative to last year and last quarter mainly as a result of our earnings retention.

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

Table 14: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2018(1)	Dec 31, 2017	Mar 31, 2017
Total risk-weighted assets ("RWA")	**$ 7,396,553**	$ 7,035,380	$ 6,739,517
Common Equity Tier 1 Capital:			
Common shares	**201,602**	200,990	199,819
Contributed surplus	**7,401**	7,104	6,413
Retained earnings	**902,092**	861,862	759,470
Accumulated other comprehensive (loss) income ("AOCI")(2)	**(6,308)**	(8,748)	(13,159)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(17,592)**	(17,046)	(14,557)
Common Equity Tier 1 Capital	**1,087,195**	1,044,162	937,986
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,159,749**	1,116,716	1,010,540
Tier 2 Capital:			
Eligible general allowance (collective allowance under IAS 39)(3)	**23,976**	31,890	31,890
Subordinated debentures	**-**	-	62,891
Tier 2 Capital	**23,976**	31,890	94,781
Total Capital	**$ 1,183,725**	$ 1,148,606	$ 1,105,321
Capital ratios:			
CET1 Ratio	**14.7%**	14.8%	13.9%
Tier 1 Capital Ratio	**15.7%**	15.9%	15.0%
Total Capital Ratio	**16.0%**	16.3%	16.4%
Leverage Ratio	**5.5%**	5.4%	5.3%

(1) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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 are excluded.*

(3) *Eligible general allowances for Q1 2018 refer to the sum of stage 1 and 2 allowances reported under IFRS 9. Prior to Q1 2018, it represented collective allowances under IAS 39.*

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 Q1[(1)]**	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2
RESULTS OF OPERATIONS								
Net income	**$ 40,167**	$ 40,446	$ 37,869	$ 38,909	$ 43,393	$ 41,678	$ 35,230	$ 33,410
Net income available to common shareholders	**38,976**	39,256	36,678	37,718	42,202	40,488	34,039	32,219
Net interest income	**81,270**	79,697	71,964	78,349	78,352	77,926	70,827	67,010
Total revenue	**200,786**	197,648	189,290	183,025	181,525	179,939	169,432	162,861
EPS – basic[(2)]	**$ 2.36**	$ 2.38	$ 2.23	$ 2.29	$ 2.56	$ 2.58	$ 2.19	$ 2.07
EPS – diluted[(2)]	**$ 2.34**	$ 2.36	$ 2.21	$ 2.28	$ 2.54	$ 2.56	$ 2.16	$ 2.05
ROE	**14.5%**	14.9%	14.4%	15.6%	18.4%	19.3%	17.2%	17.1%
Return on average assets	**0.8%**	0.8%	0.8%	0.8%	0.9%	0.9%	0.8%	0.8%
NIM – TEB:								
Total Assets	**1.58%**	1.59%	1.47%	1.63%	1.66%	1.70%	1.64%	1.61%
Core Lending	**2.31%**	2.33%	2.17%	2.41%	2.55%	2.64%	2.60%	2.55%
Securitization Financing	**0.22%**	0.24%	0.25%	0.30%	0.22%	0.24%	0.19%	0.22%
Efficiency Ratio – TEB	**37.7%**	37.3%	37.4%	39.2%	33.2%	33.9%	37.0%	38.2%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**609,434**	850,617	1,098,725	938,591	835,780	930,449	1,050,366	952,937
Commercial Lending Services	**424,468**	359,479	380,442	201,789	379,996	377,578	367,197	323,061
Core Lending	**1,033,902**	1,210,096	1,479,167	1,140,380	1,215,776	1,308,027	1,417,563	1,275,998
Securitization Financing	**429,270**	457,702	492,905	486,621	409,264	871,391	739,352	745,409
Total originations	**1,463,172**	1,667,798	1,972,072	1,627,001	1,625,040	2,179,418	2,156,915	2,021,407
BALANCE SHEET								
Total assets	**21,054,763**	20,634,250	20,221,205	19,795,986	19,300,418	18,973,588	18,062,846	17,147,854
Assets Under Management	**25,259,152**	24,652,969	24,274,172	23,641,546	22,959,080	22,277,769	21,024,401	19,709,617
Mortgages receivable	**19,676,690**	19,298,548	18,787,348	18,263,623	18,164,958	17,783,803	17,049,744	16,244,106
MUM	**23,794,216**	23,233,420	22,753,938	22,013,453	21,743,431	21,004,013	19,922,211	18,723,056
Shareholders' equity	**1,181,472**	1,138,117	1,098,325	1,060,852	1,023,702	977,150	879,367	843,924
Liquid assets	**1,775,459**	1,479,429	1,459,711	1,570,532	1,153,174	1,280,591	1,037,259	1,033,634
CREDIT QUALITY								
Provision for credit losses	**770**	387	40	378	738	870	1,243	105
Provision for credit losses – rate	**0.02%**	0.01%	0.001%	0.01%	0.02%	0.02%	0.03%	0.003%
Net impaired mortgages as a % of total mortgage assets	**0.13%**	0.12%	0.13%	0.16%	0.21%	0.21%	0.19%	0.20%
Allowance for credit losses as a % of total mortgage assets	**0.13%**	0.17%	0.18%	0.19%	0.19%	0.19%	0.20%	0.20%

(1) *The amounts and ratios for the period ended March 31, 2018 have been prepared in accordance with IFRS 9. Prior period comparatives were reported under IAS 39 and thus were not comparable to current quarter disclosures.*

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

Table 15: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2018 Q1[(1)]	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,507,603**	16,486,677	16,478,314	16,477,456	16,464,170	15,692,833	15,570,678	15,556,836
Weighted average diluted	**16,629,832**	16,625,927	16,570,256	16,567,699	16,614,221	15,808,124	15,722,532	15,709,456
Book value per common share	**$ 67.14**	$ 64.57	$ 62.25	$ 59.98	$ 57.73	$ 54.96	$ 51.72	$ 49.55
Common share price – close	**$ 53.68**	$ 71.50	$ 56.00	$ 59.48	$ 69.37	$ 60.46	$ 58.86	$ 55.99
Common share market capitalization	**886,538**	1,179,996	922,826	980,091	1,142,881	995,180	918,196	871,566
Dividends declared per:[(2)]								
Common share	**$ 0.26**	$ 0.25	$ 0.24	$ 0.23	$ 0.23	$ 0.22	$ 0.21	$ 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								
Risk-weighted assets	**7,396,553**	7,035,380	6,814,247	6,561,813	6,739,517	6,385,825	5,968,000	5,664,575
CET1 Ratio	**14.7%**	14.8%	14.8%	14.8%	13.9%	14.0%	13.4%	13.5%
Tier 1 Capital Ratio	**15.7%**	15.9%	15.8%	15.9%	15.0%	15.1%	14.6%	14.8%
Total Capital Ratio	**16.0%**	16.3%	17.2%	17.4%	16.4%	16.6%	16.2%	16.5%
Leverage Ratio	**5.5%**	5.4%	5.3%	5.3%	5.3%	5.1%	4.9%	5.0%

(1) *The amounts and ratios for the period ended March 31, 2018 have been prepared in accordance with IFRS 9. Prior period comparatives were reported under IAS 39 and thus were not comparable to current quarter disclosures.*

(2) *Annual dividends declared per share may not equal the sum of the quarterly dividends per share as a result of 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 Q1 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 changes to the accounting for financial instruments resulting from the adoption of IFRS 9, effective January 1, 2018. The Company also adopted IFRS 15 "Revenue from Contracts with Customers" on January 1, 2018 and the transition impact is immaterial given majority of the Company's revenue includes interest income from financial instruments which are not within the scope of the standard. Refer to Note 3 to the interim consolidated financial statements for discussion in more detail.

FUTURE ACCOUNTING POLICIES

IFRS 16 *"Leases"* is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company is in process of evaluating the impact of these future accounting changes on its financial statements. Please refer to Note 3 to the 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 Q1 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 March 31, 2018 (December 31, 2017 – $4.0 billion, March 31, 2017 – $3.7 billion). The securitization liabilities associated with these transferred assets are approximately $4.1 billion at March 31, 2018 (December 31, 2017 – $4.0 billion, March 31, 2017 – $3.6 billion). The securitization retained interests recorded with respect to certain securitization transactions were $106.2 million at March 31, 2018 (December 31, 2017 – $104.4 million, March 31, 2017 – $94.0 million) and the associated servicing liability was $25.8 million at March 31, 2018 (December 31, 2017 – $25.6 million, March 31, 2017 – $24.6 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.4 billion of mortgages in the ordinary course of business at March 31, 2018 (December 31, 2017 – $1.2 billion, March 31, 2017 – $1.1 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 $9.9 million were outstanding at March 31, 2018 (December 31, 2017 – $10.2 million, March 31, 2017 – $7.0 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 audit 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 of 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 41% or $53.8 million of the total equity securities portfolio at March 31, 2018, compared to 48% or $52.6 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 99% of the total equity securities portfolio at the end of Q1.

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 March 31, 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

				March 31, 2018[(1)]
	Stage 1	Stage 2	Stage 3	Total
Mortgages receivable:				
Low risk	$ 8,351,916	1,088,914	$ -	$ 9,440,830
Standard risk	6,975,761	3,019,058	-	9,994,819
High risk	111,800	127,023	-	238,823
Impaired	-	-	27,033	27,033
Total	$ 15,439,477	$ 4,234,995	$ 27,033	$ 19,701,505
Less allowance	(13,909)	(9,981)	(839)	(24,729)
	$ 15,425,568	$ 4,225,014	$ 26,194	$ 19,676,776

				March 31, 2018[(1)]
	Stage 1	Stage 2	Stage 3	Total
Mortgage commitments:				
Low risk	$ 124,473	$ 8,756	$ -	$ 133,229
Standard risk	557,170	161,635	-	718,805
High risk	-	-	-	-
Total	$ 681,643	$ 170,391	$ -	$ 852,034
Less allowance	(61)	(25)	-	(86)
	$ 681,582	$ 170,366	$ -	$ 851,948

(1) *The amounts for the period ended March 31, 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. Redemptions 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 the 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 March 31, 2018, see Note 14 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 it's 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 March 31, 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	$	12,624	$	(4,165)
Impact on EVE		(14,744)		21,299
EVE impact as a % of common shareholders' equity		(1.33%)		1.93%
200 basis point shift				
Impact on net interest income	$	20,189	$	(6,066)
Impact on EVE		(27,586)		41,422
EVE impact as a % of common shareholders' equity		(2.49%)		3.75%

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

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

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

UPDATED SHARE INFORMATION

At May 10, 2018, the Company had 16,515,238 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 715,829 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $37.0 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 first quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. On January 1, 2018, we adopted IFRS 9 and have determined that changes to internal control over financial reporting as a result of this adoption were not material.

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

($ THOUSANDS)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Total assets on the consolidated balance sheet	**$ 21,054,763**	$ 20,634,250	2%	$ 19,300,418	9%
Mortgage principal derecognized	**4,204,389**	4,018,719	5%	3,658,662	15%
Assets Under Management	**$ 25,259,152**	$ 24,652,969	2%	$ 22,959,080	10%

(1) *The amounts for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Shareholders' equity	**$ 1,181,472**	$ 1,138,117	4%	$ 1,023,702	15%
Preferred shares	**72,557**	72,557	-%	72,557	-%
Common shareholders' equity	**$ 1,108,915**	$ 1,065,560	4%	$ 951,145	17%
Common shares outstanding	**16,515,238**	16,503,437	0.1%	16,475,149	0.2%
Book value per common share	**$ 67.14**	$ 64.57	4%	$ 57.73	16%

(1) *The amounts for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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 for 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 for 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 general allowance (collective allowance under IAS 39) and subordinated debentures. Total Capital equals to Tier 1 plus Tier 2 Capital.
  - **Leverage Ratio:** this measure is calculated by dividing Tier 1 Capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 Capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.

  The capital ratios are calculated 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 is in net interest income because it captures all interest rate mismatches across all terms.

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

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Non-interest expenses	**$ 33,810**	$ 33,073	2%	$ 29,820	13%
Net revenue	**89,587**	88,559	1%	89,859	(0.3%)
Efficiency Ratio	**37.7%**	37.3%	0.4%	33.2%	4.5%

(1) *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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 Company'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)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Mortgage principal – recognized on the consolidated balance sheet	**$ 19,589,827**	$ 19,214,701	2%	$ 18,084,769	8%
Mortgage principal – derecognized	**4,204,389**	4,018,719	5%	3,658,662	15%
Mortgages Under Management	**$ 23,794,216**	$ 23,233,420	2%	$ 21,743,431	9%

[(1)] *The amounts for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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	
($ THOUSANDS)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Net interest income	**$ 81,270**	$ 79,697	2%	$ 78,352	4%
Other income	**7,944**	8,502	(7%)	11,022	(28%)
TEB adjustment	**373**	360	4%	485	(23%)
Net revenue	**$ 89,587**	$ 88,559	1%	$ 89,859	(0.3%)

[(1)] *The amounts for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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. Provision for credit losses for Q1 2018 was prepared under IFRS 9 and the prior year comparative figures were reported under IAS 39.

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Provision for credit losses	**$ 770**	$ 387	100%	$ 738	4%
Divided by: average mortgage principal	**19,402,264**	18,957,836	2%	17,892,301	8%
Provision for credit losses – rate	**0.02%**	0.01%	0.01%	0.02%	-%

[(1)] *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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	
($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2018[(1)]	Dec 31, 2017	% Change	Mar 31, 2017	% Change
Net income	**$ 40,167**	$ 40,446	(1%)	$ 43,393	(7%)
Average total assets	**20,802,555**	20,423,464	2%	19,133,463	9%
Return on average assets	**0.8%**	0.8%	-%	0.9%	(0.1%)

[(1)] *The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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						
($ THOUSANDS, EXCEPT PERCENTAGES)		**Mar 31, 2018[(1)]**		Dec 31, 2017	% Change		Mar 31, 2017	% Change
Net income available to common shareholders	**$**	**38,976**	$	39,256	(1%)	$	42,202	(8%)
Weighted average common equity outstanding		**1,090,635**		1,045,469	4%		927,725	18%
Return on shareholders' equity		**14.5%**		14.9%	(0.4%)		18.4%	(3.9%)

(1) The amounts and ratios for the period ended March 31, 2018 have 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, current quarter disclosures are not directly comparable to prior 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 March 31, 2018, December 31 and March 31, 2017, the TEB adjustment was $0.4 million, $0.4 million and $0.5 million.

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2018

With comparative figures as at December 31, 2017 and March 31, 2017

($ THOUSANDS)

	Note		March 31, 2018[1]		December 31, 2017		March 31, 2017
Assets:							
Cash and cash equivalents		**$**	**698,359**	$	660,930	$	537,645
Restricted cash			**333,097**		366,038		258,599
Securities purchased under reverse repurchase agreements			**-**		-		4,984
Investments	*7*		**148,072**		107,442		170,176
Mortgages receivable – Core Lending	*8, 9*		**12,643,847**		12,304,741		11,212,879
Mortgages receivable – Securitization Financing	*8, 9*		**7,032,843**		6,993,807		6,952,079
Securitization retained interests			**106,222**		104,429		93,975
Other assets			**92,323**		96,863		70,081
		$	**21,054,763**	$	20,634,250	$	19,300,418
Liabilities and Shareholders' Equity							
Liabilities:							
Deposits	*10*	**$**	**11,999,157**	$	11,114,313	$	10,047,387
Securitization liabilities	*9*		**7,554,866**		7,565,545		7,793,863
Obligations under repurchase agreements	*9*		**104,652**		452,001		145,495
Deferred tax liabilities			**38,162**		35,802		38,004
Other liabilities			**176,454**		199,601		186,967
Bank facilities			**-**		128,871		-
Debentures			**-**		-		65,000
			19,873,291		19,496,133		18,276,716
Shareholders' equity:							
Preferred shares			**72,557**		72,557		72,557
Common shares			**199,123**		198,660		197,339
Contributed surplus			**6,309**		6,012		5,322
Retained earnings			**906,235**		866,109		764,325
Accumulated other comprehensive loss			**(2,752)**		(5,221)		(15,841)
			1,181,472		1,138,117		1,023,702
		$	**21,054,763**	$	20,634,250	$	19,300,418

[1] The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 4).

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018

With comparative figures for the three month period ended March 31, 2017

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Note	Three months ended March 31, 2018[1]	Three months ended March 31, 2017
Interest income:			
Mortgages – Core Lending		**$ 143,115**	$ 121,892
Mortgages – Securitization Financing		**44,876**	45,155
Investments		**1,046**	2,128
Other		**3,805**	1,328
		192,842	170,503
Interest expense:			
Deposits		**62,284**	46,994
Securitization liabilities		**43,562**	43,933
Bank facilities		**5,726**	274
Debentures		**-**	950
		111,572	92,151
Net interest income		**81,270**	78,352
Provision for credit losses	*8*	**770**	738
Net interest income after provision for credit losses		**80,500**	77,614
Other income:			
Fees and other income		**5,377**	7,804
Net loss on investments		**(370)**	-
Gains on securitization activities and income from securitization retained interests	*9*	**2,937**	3,218
		7,944	11,022
Net interest and other income		**88,444**	88,636
Non-interest expenses:			
Compensation and benefits		**18,603**	16,423
Other		**15,207**	13,397
		33,810	29,820
Income before income taxes		**54,634**	58,816
Income taxes:			
Current		**14,320**	16,191
Deferred		**147**	(768)
		14,467	15,423
Net income		**$ 40,167**	$ 43,393
Dividends on preferred shares		**1,191**	1,191
Net income available to common shareholders		**$ 38,976**	$ 42,202
Earnings per share:	*12*		
Basic		**$ 2.36**	$ 2.56
Diluted		**$ 2.34**	$ 2.54

[1] *The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 4).*

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31,2018

With comparative figures for the three month period ended March 31, 2017

($ THOUSANDS)

	Three months ended	
	March 31, 2018[1]	March 31, 2017
Net income	**$ 40,167**	$ 43,393
Other comprehensive income – items that will be reclassified subsequently to income:		
Debt instruments at Fair Value through Other Comprehensive Income/Available for sale:		
Net unrealized (losses)/gains from change in fair value	**(3)**	9,605
Reclassification of net gains to income	**-**	(195)
Other comprehensive income – items that will not be reclassified subsequently to income:		
Equity instruments designated at Fair Value through Other Comprehensive Income[1]:		
Net unrealized gains from change in fair value	**889**	N/A
Reclassification of net losses to retained earnings	**(6)**	N/A
	880	9,410
Income tax expense	**(233)**	(2,468)
	647	6,942
Cash flow hedges:		
Net unrealized losses from change in fair value	**(604)**	(100)
Reclassification of net losses to income	**1,154**	451
	550	351
Income tax expense	**(146)**	(151)
	404	200
Total other comprehensive income	**1,051**	7,142
Total comprehensive income	**$ 41,218**	$ 50,535

[1] *The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 4).*

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018

With comparative figures for the three month period ended March 31, 2017

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
March 31, 2018	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Financial instruments at FVOCI[1]**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 198,660**	**$ 6,012**	**$ 866,109**	**$ 3,153**	**$ (8,374)**	**$ (5,221)**	**$ 1,138,117**
Cumulative effect of adopting IFRS 9[2]	**-**	**-**	**-**	**5,450**	**-**	**1,418**	**1,418**	**6,868**
Restated balance as at January 1, 2018	**72,557**	**198,660**	**6,012**	**871,559**	**3,153**	**(6,956)**	**(3,803)**	**1,144,985**
Net income	**-**	**-**	**-**	**40,167**	**-**	**-**	**-**	**40,167**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**404**	**647**	**1,051**	**1,051**
Net realized losses on sale of equity investment	**-**	**-**	**-**	**(6)**	**-**	**-**	**-**	**(6)**
Exercise of stock options	**-**	**374**	**-**	**-**	**-**	**-**	**-**	**374**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,191)**	**-**	**-**	**-**	**(1,191)**
Common shares	**-**	**-**	**-**	**(4,294)**	**-**	**-**	**-**	**(4,294)**
Stock-based compensation	**-**	**-**	**386**	**-**	**-**	**-**	**-**	**386**
Transfer relating to the exercise of stock options	**-**	**89**	**(89)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 199,123**	**$ 6,309**	**$ 906,235**	**$ 3,557**	**$ (6,309)**	**$ (2,752)**	**$ 1,181,472**

					Accumulated other comprehensive income (loss)			
March 31, 2017	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
Balance, beginning of period	$ 72,557	$ 196,608	$ 5,056	$ 725,912	$ (2,773)	$ (20,210)	$ (22,983)	$ 977,150
Net income	-	-	-	43,393	-	-	-	43,393
Other comprehensive income, net of tax	-	-	-	-	200	6,942	7,142	7,142
Exercise of stock options	-	613	-	-	-	-	-	613
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(3,789)	-	-	-	(3,789)
Stock-based compensation	-	-	384	-	-	-	-	384
Transfer relating to the exercise of stock options	-	118	(118)	-	-	-	-	-
Balance, end of period	$ 72,557	$ 197,339	$ 5,322	$ 764,325	$ (2,573)	$ (13,268)	$ (15,841)	$ 1,023,702

(1) *Current year balance is classified as at FVOCI for debt and equity instruments, however, balance at the beginning of the period is classified as Available for Sale under IAS 39.*

(2) *See Note 4 – Transition to IFRS 9.*

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018

With comparative figures for the three month period ended March 31, 2017

($ THOUSANDS)

	Three months ended	
	March 31, 2018[(1)]	March 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 40,167**	$ 43,393
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**3,265**	(15)
Amortization of premiums/discount on investments	**2,290**	3,435
Amortization of capital assets and intangible costs	**2,335**	2,090
Provision for credit losses	**770**	738
Securitization gains	**(2,937)**	(2,577)
Stock-based compensation	**386**	384
Income taxes	**14,467**	15,423
Securitization retained interests	**6,734**	5,516
Changes in operating assets and liabilities:		
Restricted cash	**32,941**	(10,721)
Securities purchased under reverse repurchase agreements	**-**	194,417
Mortgages receivable, net of securitizations	**(375,137)**	(389,904)
Other assets	**5,302**	3,397
Deposits	**886,837**	284,467
Securitization liabilities	**(10,287)**	31,650
Obligations under repurchase agreements	**(347,349)**	33,008
Bank facilities	**(128,871)**	(50,000)
Other liabilities	**(24,741)**	(10,689)
Income taxes paid	**(18,343)**	(26,474)
Cash flows from operating activities	**87,829**	127,538
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	**374**	613
Dividends paid on preferred shares	**(1,191)**	(1,191)
Dividends paid on common shares	**(4,124)**	(3,443)
Cash flows used in financing activities	**(4,941)**	(4,021)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(42,670)**	(37,985)
Proceeds on sale or redemption of investments	**45**	9,918
Net change in Canada Housing Trust re-investment accounts	**19**	210
Purchase of capital assets and system development costs	**(2,853)**	(2,194)
Cash flows used in investing activities	**(45,459)**	(30,051)
Net increase in cash and cash equivalents	**37,429**	93,466
Cash and cash equivalents, beginning of period	**660,930**	444,179
Cash and cash equivalents, end of period	**$ 698,359**	$ 537,645
Cash flows from operating activities include:		
Interest received	**$ 191,269**	$ 170,938
Interest paid	**(63,903)**	(66,384)
Dividends received	**1,102**	1,356

[(1)] The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 4).

See accompanying notes to the interim consolidated financial statements.

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2017 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on May 10, 2018.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

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

Note 3 – Significant Accounting Policies

The significant accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2017 as described in Note 3 of the audited consolidated financial statements in the Company's 2017 Annual Report, except for changes to the accounting for financial instruments resulting from the adoption of International Financial Reporting Standards 9, Financial Instruments ("IFRS 9") and the adoption of International Financial Reporting Standards 15, Revenue from contracts with customers ("IFRS 15"). As a result, the Company changed its accounting policies as outlined below, effective January 1, 2018.

IFRS 9:

As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results, therefore all comparative period information is presented in accordance with our previous accounting policies. Adjustments to the carrying amounts of financial assets and liabilities, at the date of initial application have been recognized in opening retained earnings and other components of equity for the current period. New or amended interim disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

(a) Classification and measurement of financial assets

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost ("AMC"), based on the business model for managing the financial instruments and the contractual cash flow characteristics of the instrument.

(i) Debt Instruments

On initial recognition, all debt instruments, including mortgages, are classified based on:

- The business model under which the asset is held; and
- The contractual cash flow characteristics of the financial instrument

Business model assessment

Business model assessment involves determining whether financial assets are held and managed by the Company for generating and collecting contractual cash flows, selling the financial assets or both. The Company assesses the business model at a portfolio level using judgment and is supported by relevant objective evidence including:

- how the performance of the asset is evaluated and reported to the Company's management;
- the frequency, volume, reason and timing of sales in prior periods and expectations about future sales activity;
- whether the assets are held for trading purposes i.e., assets that are acquired by the Company principally for the purpose of selling or repurchase in the near term, or held as part of a portfolio that is managed together for short-term profits.
- the risks that affect the performance of assets held within a business model and how those risks are managed

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement i.e. if they represent cash flows that are solely payments of principal and interest ("SPPI").

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains any contractual terms that could change the timing or amount of contractual cash flows such that the financial asset would not meet the SPPI criteria. In making the assessment the Company considers:

- contingent events that would change the amount and/or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- associated penalties relating to prepayments;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Debt instruments measured at AMC

Debt instruments are measured at AMC using the effective interest rate, if they are held within a business model whose objective is to hold the financial asset for collecting contractual cash flows where those cash flows represent SPPI. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. AMC is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization of these deferred costs is included in Interest income in the Consolidated Statements of Income.

Impairment on debt instruments measured at AMC is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses ("ACL") in the Consolidated Balance Sheets.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold the financial asset for collection of contractual cash flows and for selling financial assets, where the cash flows represent payments that are SPPI. Subsequent to initial recognition, the assets are fair valued and unrealized gains and losses are recorded in other comprehensive Income ("OCI"), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk is recognized in Interest Income – Investments in the Consolidated Statements of Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in other income in the Consolidated Statements of Income. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to investments income in the Consolidated Statements of Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Balance Sheets, which remains at its fair value. Instead, an amount equal to the impairment is recognized in accumulated other comprehensive income ("AOCI") with a corresponding charge to Provision for credit losses in the Consolidated Statements of Income. The accumulated allowance recognized in AOCI is recycled to the Consolidated Statements of Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are SPPI. These instruments are measured at fair value in the Consolidated Balance Sheets, with transaction costs recognized immediately in the Consolidated Statements of Income as part of other income. Realized and unrealized gains and losses are recognized as part of other income in the Consolidated Statements of Income.

(ii) Equity instruments

Equity instruments are measured at FVTPL, unless they are not held for trading purposes and an irrevocable election is made to designate these instruments at FVOCI upon initial recognition. The measurement election is made on an instrument-by-instrument basis. Changes in fair value are recognized as part of Investments income in the Consolidated Statements of Income for equity instruments measured as at FVTPL. The Company has elected to measure certain equity investments at FVOCI that are held for longer term investment purposes. These instruments are measured at fair value in the Consolidated Balance Sheets, with transaction costs being added to the cost of the instrument. Dividends received that represent return on capital, are recorded in Investments income in the Consolidated Statements of Income. Unrealized fair value gains/losses are recognized in OCI and are not subsequently reclassified to the Consolidated Statements of Income when the instrument is derecognized or sold.

(iii) Financial assets and liabilities designated at FVTPL

Financial assets and financial liabilities classified in this category are those that have been designated by the Company on initial recognition. Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial liabilities are designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

Financial assets and financial liabilities designated at FVTPL are recorded in the Consolidated Balance Sheets at fair value. For assets designated at FVTPL, changes in fair values are recognized in other income in the Consolidated Statements of Income. For liabilities designated at FVPTL, all changes in fair value are recognized in other income in the Consolidated Statements of Income, except for changes in fair value arising from changes in the Company's own credit risk are recognized in OCI and are not subsequently reclassified to the Consolidated Statements of Income upon derecognition/extinguishment of the liabilities.

(b) Impairment

Scope

The company applies the three-stage approach to measure Allowance for Credit Losses ("ACL"), using the expected credit loss impairment approach as required under IFRS 9, for the following categories of financial instruments that are not measured at FVTPL:

- Financial assets at AMC
- Debt securities as at FVOCI; and
- Off-balance sheet loan commitments

The ACL is calculated based on the stage in which the financial instruments falls at the reporting date. The financial instruments migrate through the three stages based on the change in their risk of default since initial recognition.

Expected credit loss ("ECL") impairment model

The Company's ACL calculations are outputs of an ECL model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The ECL impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of the financial instrument depending on credit deterioration of the instrument since its inception. The ACL calculated using the ECL model reflects an unbiased, probability-weighted credit loss which considers multiple scenarios based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL.

Measurement of ECL

The ECL impairment model measures the credit losses using the following three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition:

- Stage 1 – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial instrument, an amount equal to twelve months ECL is recorded. The ECL is computed using a probability of default ("PD") occurring over the next twelve months. For those instruments with a remaining maturity of less than twelve months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to initial recognition but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the PD over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the ACL captures lifetime ECL.

The PD, exposure at default ("EAD"), and loss given default ("LGD") are inputs used to estimate the ECL, and are modelled based on macroeconomic factors that are closely related with credit losses in the relevant portfolios, and are probability-weighted using five scenarios.

Details of these statistical parameters/inputs are as follows:

- PD is an estimate of the likelihood of default over a given time horizon, and is expressed as a percentage.
- EAD is the expected exposure in the event of default at a future default date, and is expressed as an amount.
- LGD is an estimate of the loss arising in case where a default occurs at a given time and is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the EAD.

Forward-looking information ("FLI") and Macroeconomic factors

The measurement of ECL for each stage and the assessment of SICR considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of FLI requires significant judgement.

The Company relies on a broad range of FLIs, such as expected GDP growth, unemployment rates, central bank base rates, house price indices and family income. The inputs used in the model for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To capture portfolio characteristics and risks, qualitative adjustments or overlays are made using management judgement.

Multiple forward-looking scenarios

The Company determines ACL using five probability-weighted forward-looking scenarios obtained on a periodic basis from an external third party. These scenarios include a 'base case' scenario which represents the most likely outcome and four additional scenarios representing more optimistic and more pessimistic outcomes. These additional scenarios are designed to capture material non-linearity of potential credit losses in portfolios. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Assessment of significant increase in credit risk ("SICR")

The determination of whether the ECL on a financial instrument is calculated on a twelve month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment, delinquency and monitoring, and macroeconomic outlook including forward-looking information. With regards to delinquency and monitoring, there is a rebuttable presumption that the risk of default of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

With regards to is macroeconomic outlook assessment, the Company considers the movements in Beacon score, Consumer Price Index ("CPI"), Gross Domestic Product ("GDP"), Housing Price Index ("HPI"), Forward looking PD, Unemployment Rate, and Non Residential Building Permits ("NRBP").

Modified financial assets

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows.

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the modification is substantial. If the modification is substantial, the original asset is derecognized and a new asset is recognized at fair value. The new financial asset is generally recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. Where the modification does not result in derecognition, the date of the origination continues to be used to determine the significant increase in credit risk.

Definition of default

The Company considers a financial instrument to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing collateral (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collectability, either in whole or in part, of principal or interest, or the mortgage is past due 90 days.

Write-off

The Company writes off an impaired financial asset, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is after the expected receipts from the realization of collateral. In subsequent periods, recoveries if any, against written off loans are credited to the provision for credit losses in the Consolidated Statement of Income.

(c) Hedge accounting

The Company has retained the IAS 39 hedge accounting requirements. The hedge accounting policy applied by the Company in these interim consolidated financial statements are the same as those described in Note 3 of the audited consolidated financial statements in the Company's 2017 Annual Report.

IFRS 15:

There is no material impact on the Company's financial statements and its accounting policies from the adoption of IFRS 15 as majority of the Company's revenue includes interest income from financial instruments which do not fall within the scope of this standard.

Future accounting policies:

Besides the adoption of IFRS 9 and IFRS 15, there are no significant updates to future accounting policies disclosed by the Company in Note 3 of the audited consolidated financial statements in the Company's 2017 Annual Report.

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

Note 4 – Transition to IFRS 9

(a) Reconciliation of IAS 39 to IFRS 9:

On adoption of IFRS 9, the Company has assessed all its financial assets and liabilities based on the business model and solely payments of principal and interest ("SPPI") tests. This has resulted in the re-classification and re-measurement of certain financial assets and liabilities as at January 1, 2018, which are summarized in the table below:

	As at December 31, 2017				As at January 1, 2018	
	IAS 39				IFRS 9	
	Measurement basis	Carrying amount	Re-classification	Re-measurement	**Carrying amount**	**Measurement basis**
Financial assets:						
Cash and cash equivalents	FVTPL	$ 660,930	$ (660,930)	$ -	**$ -**	**-**
Cash and cash equivalents	-	-	660,930	-	**660,930**	**AMC**
Restricted cash	FVTPL	366,038	(366,038)	-	**-**	**-**
Restricted cash	-	-	366,038	-	**366,038**	**AMC**
Investments:						
Common shares	FVTPL	300	-	-	**300**	**FVTPL**
Common shares	FVOCI	86	-	-	**86**	**FVOCI**
Preferred shares	FVOCI	92,893	(23,180)	-	**69,713**	**FVOCI**
Preferred shares(1)	-	-	21,794	-	**21,794**	**FVTPL**
Preferred shares(2)	-	-	1,386	(49)	**1,337**	**AMC**
Others	AMC	2,258	-	-	**2,258**	**AMC**
Others(3)	FVOCI	11,905	(11,905)	-	**-**	**-**
Others(3)	-	-	11,905	-	**11,905**	**FVTPL**
Mortgages receivable - Core lending	AMC	12,291,933	(137,812)	8,195	**12,162,316**	**AMC**
Mortgages receivable - Core lending(4)	-	-	150,620	675	**151,295**	**FVTPL**
Mortgages receivable - Core lending(5)	FVTPL	12,808	(12,808)	-	**-**	**-**
Mortgages receivable - Securitization(6)	AMC	6,934,688	(59,121)	-	**6,875,567**	**AMC**
Mortgages receivable - Securitization(6)	FVTPL	59,119	59,121	-	**118,240**	**FVTPL**
Securitization retained interests(7)	FVOCI	104,429	(104,429)	-	**-**	**-**
Securitization retained interests(7)	-	-	104,429	569	**104,998**	**AMC**
Other assets:						
Derivative financial instruments	FVTPL	12,827	-	-	**12,827**	**FVTPL**
Others	AMC	11,066	-	-	**11,066**	**AMC**
		$ 20,561,280	$ -	$ 9,390	**$ 20,570,670**	
Financial liabilities:						
Deposits(8)	AMC	$ 11,103,561	$ 10,752	$ (28)	**$ 11,114,285**	**AMC**
Deposits(8)	FVTPL	10,752	(10,752)	-	**-**	**-**
Securitization liabilities	AMC	7,565,545	-	-	**7,565,545**	**AMC**
Obligations under repurchase agreements	AMC	452,001	-	-	**452,001**	**AMC**
Other liabilities:						
Derivative financial instruments	FVTPL	10,049	-	-	**10,049**	**FVTPL**
Mortgage commitments	FVTPL	60	-	-	**60**	**FVTPL**
Other	AMC	182,249	-	-	**182,249**	**AMC**
Bank facilities	AMC	128,871	-	-	**128,871**	**AMC**
		$ 19,453,088	$ -	$ (28)	**$ 19,453,060**	

(1) *Preferred shares of $21,794 are reclassified from FVOCI to FVTPL, as these are hybrid instruments and do not meet the SPPI criteria.*
(2) *Preferred shares of $1,386 are reclassified from FVOCI to AMC, as the business model for the instrument is "held-to-collect" and the cash flows meet the SPPI criteria.*
(3) *Investments of $11,905 are reclassified from FVOCI to FVTPL as the cash flows do not meet the SPPI criteria.*
(4) *Mortgages receivable – Core lending of $150,620 are reclassified from AMC to FVTPL as the SPPI criteria is not met.*
(5) *Mortgages receivable – Core lending of $12,808 are reclassified from FVTPL to AMC as the business model is "held-to-collect" and the cash flows meet the SPPI criteria.*
(6) *Mortgages receivable – Securitization of $59,121 are reclassified from AMC to FVTPL as they do not meet the SPPI criteria.*
(7) *Securitization retained interests of $104,429 are reclassified from FVOCI to AMC, as the business model for the instrument is "held-to-collect" and the cash flows meet the SPPI criteria.*
(8) *Under IAS 39, Deposits of $10,752 were designated at FVTPL as they were economically hedging certain Mortgage receivables. On transition to IFRS 9, the hedged mortgages are now classified at AMC, and correspondingly these deposits are reclassified from FVTPL to AMC.*

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

(b) The following table shows the effects of the reclassification of financial assets from IAS 39 categories into the “amortized cost” category under IFRS 9:

		Fair value
Assets reclassified from available-for-sale to amortized cost:		
Fair value as at March 31, 2018	$	106,856
Fair value losses that would have been recognized during 2018 in OCI if the financial assets had not been reclassified		1,056
Assets reclassified from FVTPL to amortized cost:		
Fair value as at March 31, 2018	$	11,357
Fair value gains that would have been recognized during 2018 in the statement of income if the financial assets had not been reclassified		(155)
Liabilities reclassified from FVTPL to amortized cost:		
Fair value as at March 31, 2018	$	10,646
Fair value gains that would have been recognized during 2018 in the statement of income if the financial assets had not been reclassified		(106)

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9:

The following table reconciles the closing allowance for credit losses in accordance with IAS 39 as at December 31, 2017 to the opening ECL allowance in accordance with IFRS 9 as at January 1, 2018:

	As at December 31, 2017												
	IAS 39								As at January 1, 2018 IFRS 9				
		Individual		Collective		Total		Transition adjustments[1]	Total		Stage 1		Stage 2		Stage 3
Mortgages – Core Lending	$	1,464	$	31,890	$	33,354	$	(8,470)	24,884	$	13,930	$	9,627	$	1,327

[1] *As at January 1, 2018, adoption of IFRS 9 - Expected credit losses, has decreased the allowances for credit losses by $8,470, and increased the opening shareholders’ equity by $6,223, net of tax.*

Note 5 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company’s direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company’s risk exposures and how it manages those risks can be found on pages 45 to 56 of the Company’s 2017 Annual Report.

Note 6 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

(ii) Financial instruments classified as at FVOCI and FVTPL

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Derivatives

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

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

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at March 31, 2018 and December 31, 2017. The tables do not include assets and liabilities that are not financial instruments.

						March 31, 2018(1)
	FVTPL - Mandatorily	FVOCI - Debt instruments	FVOCI - Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ 698,359	$ 698,359	$ 698,359
Restricted cash	-	-	-	333,097	333,097	333,097
Investments	34,794	2,290	107,409	3,579	148,072	148,072
Mortgages receivable – Core Lending	143,018	-	-	12,500,829	12,643,847	12,600,278
Mortgages receivable – Securitization Financing	74,396	-	-	6,958,447	7,032,843	6,951,874
Securitization retained interests	-	-	-	106,222	106,222	106,222
Other assets:						
Derivative financial instruments:						
interest rate swaps	10,372	-	-	-	10,372	10,372
total return swaps	2,013	-	-	-	2,013	2,013
Mortgages commitments	152	-	-	-	152	152
Other	-	-	-	10,789	10,789	10,789
Total financial assets	$ 264,745	$ 2,290	$ 107,409	$ 20,611,322	$ 20,985,766	$ 20,861,228
Financial liabilities:						
Deposits	$ -	$ -	$ -	$ 11,999,157	$ 11,999,157	$ 11,948,315
Securitization liabilities	-	-	-	7,554,866	7,554,866	7,528,675
Obligations under repurchase agreements	-	-	-	104,652	104,652	104,652
Other liabilities:						
Derivative financial instruments:						
interest rate swaps	11,689	-	-	-	11,689	11,689
total return swaps	1,896	-	-	-	1,896	1,896
bond forwards	1,261	-	-	-	1,261	1,261
Other	-	-	-	157,589	157,589	157,589
Total financial liabilities	$ 14,846	$ -	$ -	$ 19,816,264	$ 19,831,110	$ 19,754,077

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

							December 31, 2017
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 660,930	$ -	$ -	$ -	$ -	$ 660,930	$ 660,930
Restricted cash	366,038	-	-	-	-	366,038	366,038
Investments	300	-	2,258	104,884	-	107,442	107,442
Mortgages receivable – Core Lending	-	12,808	-	-	12,291,933	12,304,741	12,248,843
Mortgages receivable – Securitization Financing	59,119	-	-	-	6,934,688	6,993,807	6,925,654
Securitization retained interests	-	-	-	104,429	-	104,429	104,429
Other assets:							
Derivative financial instruments(2):							
interest rate swaps	10,198	-	-	-	-	10,198	10,198
total return swaps	2,283	-	-	-	-	2,283	2,283
bond forwards	346	-	-	-	-	346	346
Other	-	-	-	-	11,066	11,066	11,066
Total financial assets	$ 1,099,214	$ 12,808	$ 2,258	$ 209,313	$ 19,237,687	$ 20,561,280	$ 20,437,229
Financial liabilities:							
Deposits	$ -	$ 10,752	$ -	$ -	$ 11,103,561	$ 11,114,313	$ 11,059,918
Securitization liabilities	-	-	-	-	7,565,545	7,565,545	7,552,336
Obligations under repurchase agreements	-	-	-	-	452,001	452,001	452,001
Other liabilities:							
Derivative financial instruments(2):							
interest rate swaps	10,049	-	-	-	-	10,049	10,049
Mortgage commitments	60	-	-	-	-	60	60
Other	-	-	-	-	182,249	182,249	182,249
Bank facilities	-	-	-	-	128,871	128,871	128,871
Total financial liabilities	$ 10,109	$ 10,752	$ -	$ -	$ 19,432,227	$ 19,453,088	$ 19,385,484

(1) *The amounts for the period ended March 31, 2018 have been prepared and classified in accordance with IFRS 9; prior period amounts in the following table have not been restated and have been prepared and classified in accordance with IAS 39.*

(2) *Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.*

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

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

The following table presents the fair value hierarchy of all financial instruments, whether or not measured at fair value in the consolidated balance sheets:

				March 31, 2018[1]
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 698,359	$ -	$ -	$ 698,359
Restricted cash	333,097	-	-	333,097
Investments	136,320	2,240	9,512	148,072
Mortgages receivable – Core Lending	-	143,018	12,457,260	12,600,278
Mortgages receivable – Securitization Financing	-	74,396	6,877,478	6,951,874
Securitization retained interests	-	106,222	-	106,222
Other assets:				
Derivative financial instruments [2]:				
interest rate swaps	-	10,284	88	10,372
total return swaps	-	87	1,926	2,013
Mortgage commitments	-	-	152	152
Other	-	10,789	-	10,789
Total financial assets	$ 1,167,776	$ 347,036	$ 19,346,416	$ 20,861,228
Financial liabilities:				
Deposits	$ -	$ 11,948,315	$ -	$ 11,948,315
Securitization liabilities	-	1,806,603	5,722,072	7,528,675
Obligations under repurchase agreements	-	104,652	-	104,652
Other liabilities:				
Derivative financial instruments [2]:				
interest rate swaps	-	11,689	-	11,689
total return swaps	-	1,896	-	1,896
bond forwards	-	1,261	-	1,261
Other	-	157,589	-	157,589
Total financial liabilities	$ -	$ 14,032,005	$ 5,722,072	$ 19,754,077

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

				December 31, 2017
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 660,930	$ -	$ -	$ 660,930
Restricted cash	366,038	-	-	366,038
Investments	93,279	2,258	11,905	107,442
Mortgages receivable – Core Lending	-	12,808	12,236,035	12,248,843
Mortgages receivable – Securitization Financing	-	59,119	6,866,535	6,925,654
Securitization retained interests	-	104,429	-	104,429
Other assets:				
Derivative financial instruments [(2)]:				
interest rate swaps	-	10,198	-	10,198
total return swaps	-	1,294	989	2,283
bond forwards	-	346	-	346
Other	-	11,066	-	11,066
Total financial assets	$ 1,120,247	$ 201,518	$ 19,115,464	$ 20,437,229
Financial liabilities:				
Deposits	$ -	$ 11,059,918	$ -	$ 11,059,918
Securitization liabilities	-	1,780,117	5,772,219	7,552,336
Obligations under repurchase agreements	-	452,001	-	452,001
Other liabilities:				
Derivative financial instruments [(2)]:	-			
interest rate swaps	-	10,049	-	10,049
total return swaps	-	-	-	-
Mortgage commitments	-	-	60	60
Other	-	182,249	-	182,249
Bank facilities	-	128,871	-	128,871
Total financial liabilities	$ -	$ 13,613,205	$ 5,772,279	$ 19,385,484

[(1)] The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 4).

[(2)] Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

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

Note 7 – Investments

Carrying value of investments under IFRS 9 is as follows:

	March 31, 2018
Equity securities measured at FVOCI	$ **107,409**
Equity securities measured at FVTPL	**283**
Debt securities measured at FVTPL	**34,511**
Debt securities measured at AMC	**3,579**
Debt securities measured as at FVOCI	**2,290**
	$ **148,072**

The Company has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for a long term. For the period ended March 31, 2018, the Company did not sell any investments and earned a dividend income of $837.

Carrying value of investment under IAS 39 is as follows:

	December 31, 2017	March 31, 2017
Equity securities – preferred shares	$ 92,893	$ 109,832
Equity securities – common shares	386	518
Debt securities issued by regulated financial institutions	-	37,906
Debt securities – Successor issuer rights	11,905	18,631
Debt securities – corporate debt	-	1,000
Canada Housing Trust re-investment accounts(1)	2,258	2,289
	$ 107,442	$ 170,176

(1) Canada Housing Trust re-investment accounts are restricted investments, held to repay the securitization liabilities in connection with the Company's participation in the CMB program.

Net unrealized gains/(losses) on investments measured as at FVOCI and FVTPL under IFRS 9 are as follows:

	March 31, 2018
Equity securities measured at FVOCI	$ **883**
Equity securities measured at FVTPL	**(16)**
Debt securities measured at FVOCI	**(3)**
Debt securities measured at FVTPL	**(370)**

Net unrealized gains/(losses) on available for sale investments recorded in accumulated other comprehensive loss under IAS 39 are as follows:

	December 31, 2017	March 31, 2017
Equity securities – preferred shares	$ (11,255)	$ (19,147)
Equity securities – common shares	1	75
Debt securities issued by regulated financial institutions	-	8
Debt securities – Successor issuer rights	(126)	(52)
	$ (11,380)	$ (19,116)

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

Note 8 – Mortgages Receivable

(a) Mortgages receivable:

		Allowance for credit losses				
March 31, 2018	**Gross amount**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Net amount**
Mortgages – Core Lending	**$ 12,668,662**	**$ 13,970**	**$ 10,006**	**$ 839**	**$ 24,815**	**$ 12,643,847**
Mortgages – Securitization Financing	**7,032,843**	**-**	**-**	**-**	**-**	**7,032,843**
	$ 19,701,505	**$ 13,970**	**$ 10,006**	**$ 839**	**$ 24,815**	**$ 19,676,690**

		Allowance for credit losses			
December 31, 2017	Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 12,299,546	$ 621	$ 31,890	$ 32,511	$ 12,267,035
Mortgages – Securitization Financing	6,982,307	-	-	-	6,982,307
Accrued interest	50,049	843	-	843	49,206
	$ 19,331,902	$ 1,464	$ 31,890	$ 33,354	$ 19,298,548

		Allowance for credit losses			
March 31, 2017	Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 11,213,232	$ 1,644	$ 31,890	$ 33,534	$ 11,179,698
Mortgages – Securitization Financing	6,941,068	-	-	-	6,941,068
Accrued interest	45,581	1,389	-	1,389	44,192
	$ 18,199,881	$ 3,033	31,890	$ 34,923	18,164,958

Mortgages – Securitization Financing include mortgages measured as at FVTPL with changes in fair value included in gains on securitization activities. As at March 31, 2018, the carrying value of these mortgages is $74,396 (December 31, 2017 – $59,119, March 31, 2017 – $21,820) and includes fair value adjustment of $315 (December 31, 2017 – ($403), March 31, 2017 – $33).

Included in Mortgages – Core Lending are certain mortgages measured as at FVTPL with changes in fair value included in Interest income – Mortgages – Core Lending. As at March 31, 2018, the carrying amount of these mortgages is $143,018 (December 31, 2017 – $12,808, March 31, 2017 – $46,751) and includes fair value adjustment of $260 (December 31, 2017 – $66, March 31, 2017 – $607).

Included in Mortgages – Core lending are commercial loans of $196,098 (December 31, 2017 – $202,843, March 31, 2017 – 207,481) invested in certain asset-backed structured entities. The Company holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Company does not have the ability to direct the relevant activities of these structured entities and has no exposure to their variable returns, other than the right to receive interest income from its investments. Consequently, the Company does not control these structured entities and has not consolidated them.

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

	March 31, 2018	March 31, 2017
Net gains in fair values for mortgages measured as at FVTPL included in gains on securitization activities	**$ 718**	$ 155
Net gains/(losses) in fair values for mortgages designated as at FVTPL and recognized in interest income – Mortgages – Core Lending	**194**	(273)

At March 31, 2018, the Company had commitments to fund a total of $1,381,954 (December 31, 2017 − $1,242,185, March 31, 2017 – $1,061,384) of mortgages in the ordinary course of business.

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

(b) Impaired and past due mortgages:

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

			March 31, 2018	December 31, 2017	March 31, 2017
			IFRS 9		IAS 39
	Gross	Allowance for credit losses	Net	Net	Net
Mortgages – Core Lending	$ 22,386	$ 839	$ 21,547	$ 21,767	$ 37,635
Mortgages – Core Lending – Insured	2,963	-	2,963	-	532
Mortgages – Securitization Financing – Insured	1,684	-	1,684	689	-
Accrued Interest	-	-	-	33	-
	$ 27,033	$ 839	$ 26,194	$ 22,489	$ 38,167

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

				March 31, 2018
	30 – 59 days	60 – 89 days	90 days or more[(1)]	Total
Mortgages – Core Lending	$ 29,251	$ 10,831	$ -	$ 40,082
Mortgages – Core Lending – Insured	1,219	1,090	-	2,309
Mortgages – Securitization Financing – Insured	4,485	954	-	5,439
	$ 34,955	$ 12,875	$ -	$ 47,830

				December 31, 2017
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 30,479	$ 7,923	$ -	$ 38,402
Mortgages – Core Lending – Insured	4,191	1,383	954	6,528
Mortgages – Securitization Financing – Insured	4,499	1,422	4,269	10,190
	$ 39,169	$ 10,728	$ 5,223	$ 55,120

				March 31, 2017
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 24,082	$ 12,350	$ -	$ 36,432
Mortgages – Core Lending – Insured	678	1,324	224	2,226
Mortgages – Securitization Financing – Insured	4,312	1,123	393	5,828
	$ 29,072	$ 14,797	$ 617	$ 44,486

(1) *Under IFRS 9, all mortgages overdue for more than 90 days are considered impaired, whereas under IAS 39, Insured mortgages were classified as impaired when they were overdue for more than 365 days.*

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

(c) Allowance for credit losses:

IFRS 9				**March 31, 2018[(1)]**
	12 months ECL	**Lifetime non-credit impaired**	**Lifetime credit impaired**	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of period	**$ 13,930**	**$ 9,627**	**$ 1,327**	**$ 24,884**
Transfer to (from):				
Stage 1	**190**	**(116)**	**(74)**	**-**
Stage 2	**(200)**	**211**	**(11)**	**-**
Stage 3	**-**	**(2)**	**2**	**-**
Re-measurement[(2)]	**(201)**	**302**	**434**	**535**
Originations	**270**	**-**	**-**	**270**
Discharges	**(19)**	**(16)**	**-**	**(35)**
Changes in models and methodologies	**-**	**-**	**-**	**-**
Realized losses	**-**	**-**	**(857)**	**(857)**
Recoveries	**-**	**-**	**18**	**18**
Balance, end of period	**$ 13,970**	**$ 10,006**	**$ 839**	**$ 24,815**

(1) The allowance for credit losses includes allowance on mortgage commitments amounting to $86.
(2) Includes movement as a result of significant changes in credit risk, changes in credit risk that did not result in a transfer between stages and changes in model inputs and assumptions.

IAS 39			December 31, 2017
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 2,536	$ 31,890	$ 34,426
Provision for credit losses	1,543	-	1,543
Realized losses	(2,664)	-	(2,664)
Recoveries	49	-	49
Balance, end of period	$ 1,464	$ 31,890	$ 33,354

IAS 39			March 31, 2017
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 2,536	$ 31,890	$ 34,426
Provision for credit losses	738	-	738
Realized losses	(245)	-	(245)
Recoveries	4	-	4
Balance, end of period	$ 3,033	$ 31,890	$ 34,923

Note 9 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through its securitization activities and sale of assets under repurchase agreements. For further details, refer to Note 9 to the audited consolidated financial statements in the Company's 2017 Annual Report.

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

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

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

	March 31, 2018		December 31, 2017		March 31, 2017	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**$ 8,700,251**	**$ 104,652**	$ 8,819,311	$ 452,001	$ 8,483,549	$ 145,495
Carrying amount of associated liability	**7,554,866**	**104,652**	7,565,545	452,001	7,793,863	145,495
Carrying amount, net position	**$ 1,145,385**	**$ -**	$ 1,253,766	$ -	$ 689,686	$ -
Fair value of assets	**$ 8,604,737**	**$ 104,652**	$ 8,741,820	$ 452,001	$ 8,562,478	$ 145,495
Fair value of associated liability	**7,528,675**	**104,652**	7,552,335	452,001	7,847,244	145,495
Fair value, net position	**$ 1,076,062**	**$ -**	$ 1,189,485	$ -	$ 715,234	$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $1,054,822 (December 31, 2017 – $1,185,216, March 31, 2017 – $619,025). The fair value of these assets are $1,036,600 (December 31, 2017 – $1,166,518, March 31, 2017 – $613,653).

The carrying amount of assets exclude mortgages held for securitization of $268,707 (December 31, 2017 – $343,366, March 31, 2017 – $302,031).

The Company's outstanding securitization liabilities are as follows:

	March 31, 2018	December 31, 2017	March 31, 2017
Securitization principal	**$ 7,585,916**	$ 7,599,272	$ 7,824,400
Deferred net discount and issuance costs	**(50,711)**	(49,288)	(48,245)
Accrued interest	**19,661**	15,561	17,708
	$ 7,554,866	$ 7,565,545	$ 7,793,863

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

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

	March 31, 2018	March 31, 2017
Mortgages securitized and sold	**$ 236,297**	$ 391,591
Carrying value of Securitization retained interests	**7,958**	10,524
Carrying value of Securitized mortgage servicing liability	**1,993**	3,073
Gains on mortgages securitized and sold	**1,889**	3,570
Gains/(losses) from securitization activities and retained interests	**1,048**	(352)

During the first quarter of 2017, the Company had transferred substantially all of the residual risks and rewards of securitized prepayable multi-residential mortgages to third parties. As a result, the Company had derecognized $149,049 of multi-residential mortgages and recorded a gain on sale of $431, which was included in Gains on securitization activities and income from securitization retained interests. There were no such transactions during the current quarter.

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

Note 10 – Deposits

	March 31, 2018	December 31, 2017	March 31, 2017
Term and other deposits	$ 11,880,741	$ 11,024,720	$ 9,949,511
Accrued interest	146,405	116,919	117,769
Deferred deposit agent commissions	(27,989)	(27,326)	(19,893)
	$ 11,999,157	$ 11,114,313	$ 10,047,387

Term and other deposits include nil (December 31, 2017 – $10,723, March 31, 2017 – $43,503) deposits designated as at fair value through income that are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at March 31, 2018 is nil (December 31, 2017 – $29, March 31, 2017 – $181).

Note 11 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years and vest over a four-year period. As at March 31, 2018, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to March 2025. A summary of the Company's stock option activity and related information for the periods ended March 31, 2018 and March 31, 2017 is as follows:

	March 31, 2018		March 31, 2017	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	619,771	$ 50.80	557,467	$ 46.03
Granted	121,159	55.66	105,060	71.68
Exercised	(11,801)	31.64	(15,007)	40.80
Forfeited/cancelled	(13,300)	60.86	(2,587)	55.12
Outstanding, end of period	715,829	$ 51.75	644,933	$ 50.29
Exercisable, end of period	428,631	$ 46.49	362,017	$ 41.83

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

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $386 (March 31, 2017 – $384) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended March 31, 2018 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	March 31, 2018	March 31, 2017
Risk-free rate	2.1%	1.0%
Expected option life (years)	4.8	4.8
Expected volatility	26.2%	28.6%
Expected dividends	1.5%	1.4%
Weighted average fair value of each option granted	$ 13.7	$ 13.3

(b) Other stock based plans:

The Company has an Employee share purchase ("ESP") plan, a Restricted share unit ("RSU" and “PSU”) plan for eligible employees, and a Deferred share unit ("DSU") plan for Directors. For details on the plan, refer to Note 19 to the audited consolidated financial statements in the Company’s 2017 Annual Report.

Under the DSU plan, the activity for the periods ended March 31, 2018 and March 31, 2017 is as follows:

	March 31, 2018	March 31, 2017
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	32,915	32,216
Dividends reinvested	115	114
Outstanding, end of period	33,030	32,330

The liability associated with DSUs outstanding as at March 31, 2018 was $1,767 (March 31, 2017 – $2,210). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the three months ended March 31, 2018 amounted to $8 (March 31, 2017 – $8).

Under the Company's RSU and PSU plan, the activity for the periods ended March 31, 2018 and March 31, 2017 is as follows:

	March 31, 2018	March 31, 2017
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of period	56,762	58,126
Granted	44,021	27,686
Dividends reinvested	197	209
Vested	-	(152)
Forfeited/cancelled	(1,254)	(2,603)
Outstanding, end of period	99,726	83,266

The liability associated with RSUs and PSUs outstanding as at March 31, 2018 was $1,784 (March 31, 2017 – $2,205). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the three months ended March 31, 2018 amounted to $698 (March 31, 2017 – $146).

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

Note 12 – Earnings Per Share

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

	March 31, 2018[1]	March 31, 2017
Earnings per common share – basic:		
Net income	$ 40,167	$ 43,393
Dividends on preferred shares	1,191	1,191
Net income available to common shareholders	$ 38,976	$ 42,202
Weighted average basic number of common shares outstanding	16,507,603	16,464,170
Earnings per common share – basic	$ 2.36	$ 2.56
Earnings per common share – diluted:		
Net income available to common shareholders	$ 38,976	$ 42,202
Weighted average basic number of common shares outstanding	16,507,603	16,464,170
Adjustment to weighted average number of common shares outstanding:		
Stock options	122,229	150,051
Weighted average diluted number of common shares outstanding	16,629,832	16,614,221
Earnings per common share – diluted	$ 2.34	$ 2.54

[1] *The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 4).*

For the period ended March 31, 2018, the calculation of the diluted earnings per share excluded 130,845 (March 31, 2017 – 105,060) average options outstanding with a weighted average exercise price of $68.06 (March 31, 2017 – $71.68) as the exercise price of these options was greater than the average price of the Company’s common shares.

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

Note 13 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 24-25 of the MD&A.

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

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

	March 31, 2018	December 31, 2017	March 31, 2017
Common Equity Tier 1 Capital ("CET1"):			
Common shares	**$ 201,602**	$ 200,990	$ 199,819
Contributed surplus	**7,401**	7,104	6,413
Retained earnings	**902,092**	861,862	759,470
Accumulated other comprehensive loss(1)	**(6,308)**	(8,748)	(13,159)
Less: Regulatory adjustments	**(17,592)**	(17,046)	(14,557)
Common Equity Tier 1 Capital	**$ 1,087,195**	$ 1,044,162	$ 937,986
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**$ 1,159,749**	$ 1,116,716	$ 1,010,540
Tier 2 Capital:			
Collective allowance	**23,976**	31,890	31,890
Subordinated debentures	**-**	-	62,891
Tier 2 Capital	**23,976**	31,890	94,781
Total Capital	**$ 1,183,725**	$ 1,148,606	$ 1,105,321

(1) *As prescribed by OSFI (under Basel III rules), AOCI is part of CET1 in its entirety, however, the amount of cash flow hedge reserves that relates to hedging of items that are not fair valued are excluded.*

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

Note 14 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at March 31, 2018.

								March 31, 2018
	Floating rate	**0 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Greater than 5 years**	**Non-interest sensitive[1]**	**Total[1]**
Total assets	**$ 4,531,244 $**	**1,521,647 $**	**4,550,269 $**	**10,603,160 $**	**8,836,192 $**	**1,380,735 $**	**234,676 $**	**21,054,763**
Total liabilities and equity[2][3]	**(234)**	**(5,938,600)**	**(3,084,857)**	**(9,023,691)**	**(9,374,263)**	**(1,210,729)**	**(1,446,080)**	**(21,054,763)**
Off-balance sheet items[4]	**-**	**(1,360,607)**	**75,446**	**(1,285,161)**	**1,287,969**	**(2,808)**	**-**	**-**
Interest rate sensitive gap	**$ 4,531,010 $**	**(5,777,560) $**	**1,540,858 $**	**294,308 $**	**749,898 $**	**167,198 $**	**(1,211,404) $**	**-**
Cumulative gap[2]	**$ 4,531,010 $**	**(1,246,550) $**	**294,308 $**	**294,308 $**	**1,044,206 $**	**1,211,404 $**	**- $**	**-**
Cumulative gap as a percentage of total assets	**21.52%**	**(5.92%)**	**1.40%**	**1.40%**	**4.96%**	**5.75%**	**-%**	**-%**

								December 31, 2017
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3][4]	$ 4,375,847 $	(932,924) $	94,429 $	94,429 $	886,197 $	1,099,274 $	- $	-
Cumulative gap as a percentage of total assets	21.21%	(4.52)%	0.45%	0.45%	4.20%	5.32%	-%	-%

								March 31, 2017
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3][4]	$ 3,987,688 $	(423,279) $	610,623 $	610,623 $	966,674 $	1,023,417 $	- $	-
Cumulative gap as a percentage of total assets	20.66%	(2.19%)	3.16%	3.16%	5.01%	5.30%	-%	-%

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

DIRECTORS

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

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

Andrew Moor
President and Chief Executive Officer

Ron Tratch
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
Vice-President, Commercial Finance Group Origination

Isabelle Farella
Vice-President, Internal Audit

Scott Fryer
Vice-President, Deposit Services

Tamara Malozewski
Vice-President, Finance

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

Mark McPhail
Vice-President, Risk and Capital Analytics

Michael Mignardi
Vice-President and General Counsel

Alex Prokoudine
Vice-President, Capital Markets

Mahima Poddar
Vice-President, Product and Corporate Development

Rajesh Raut
Vice-President and Controller

John Simoes
Vice-President, Financial Planning and Reporting

David Soni
Vice-President, Risk Policy

Nicholas Strube
Vice-President, Treasury

David Yu
Vice-President, Information Technology

SHAREHOLDER AND CORPORATE INFORMATION

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

Regional Offices:

Montreal
1411 Peel Street, Suite 501
Montreal, Quebec, Canada, H3A 1S5

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

Vancouver
777 Hornby Street, Suite 1240
Vancouver, British Columbia, Canada, V6Z 1S4

Halifax
1959 Upper Water Street, Suite 1300
Halifax, Nova Scotia, Canada, B3J 3N2

Website
www.equitablebank.ca

Stock Listings
TSX: EQB and EQB.PR.C

Quarterly Conference Call and Webcast
Friday, May 11, 2018, 8:30 a.m. EST
Live: 647.427.7450
Replay: 416.849.0833 (code 2899725)
Archive: www.equitablebank.ca

Investor Relations
Tim Wilson
Senior Vice-President and Chief Financial Officer
416.515.7000
investor@equitablegroupinc.com

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

Annual Meeting of Shareholders
Tuesday, May 15, 2018, 10:00 a.m. EST
Equitable Bank Tower
30 St. Clair Avenue West
5th Floor
Toronto, Ontario, Canada, M4V 3A1