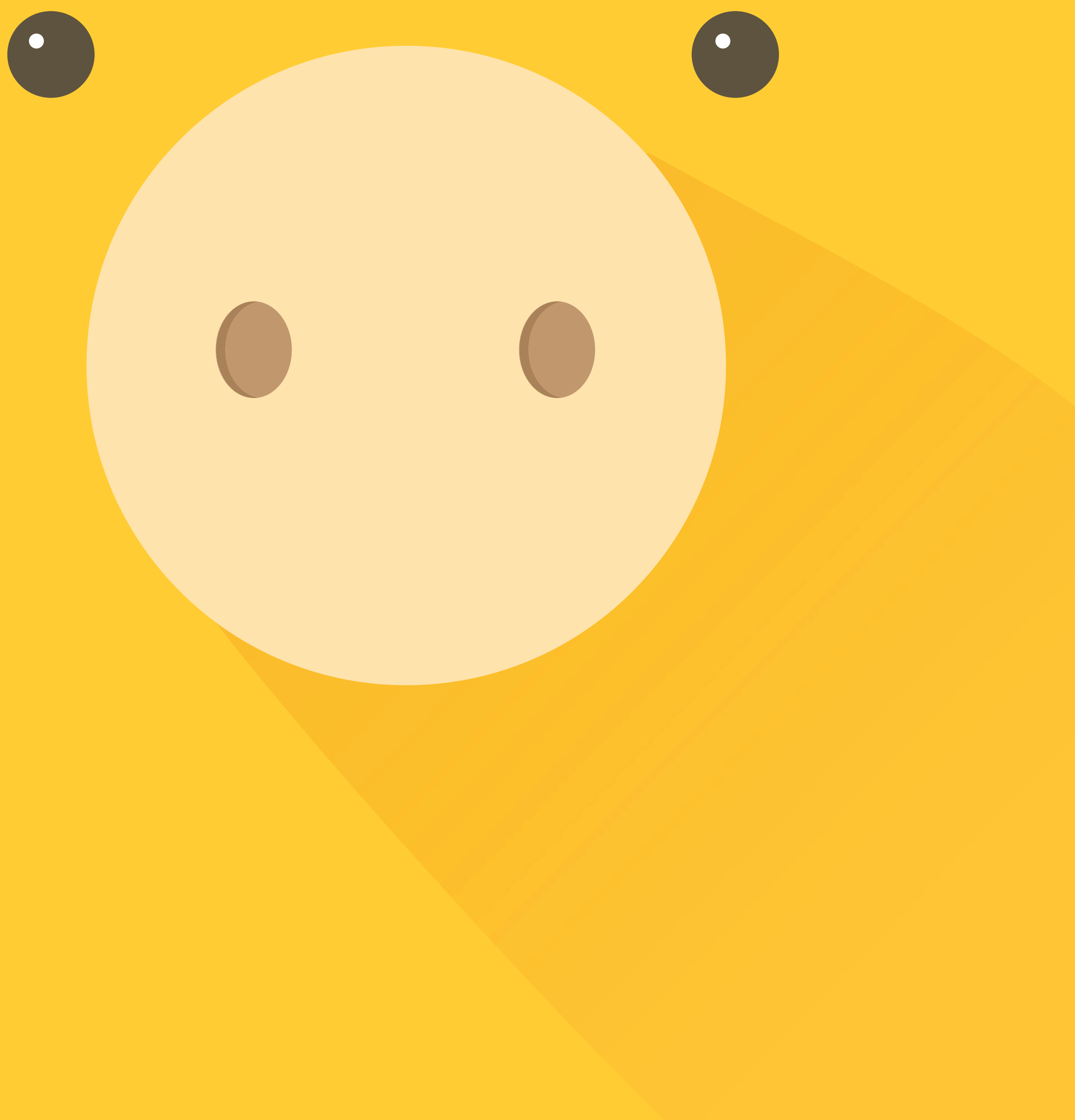
CHALLENGER



ABOUT EQUITABLE GROUP INC.

Equitable Group Inc. ("Equitable") is a growing Canadian financial services business that operates through its wholly owned subsidiary, Equitable Bank (the "Bank"). Equitable Bank, *Canada's Challenger Bank™*, is the country's ninth largest independent Schedule I bank and offers a diverse suite of residential lending, commercial lending and savings solutions to Canadians. Through its proven branchless approach and customer service focus, Equitable Bank has grown to over $24 billion of Assets Under Management. *EQ Bank*, the digital banking arm of Equitable Bank, provides state-of-the-art digital banking services to more than 50,000 Canadians. Equitable Bank employs nearly 600 dedicated professionals across the country and is a 2018 recipient of *Canada's Best Employer Platinum Award*, the highest bestowed by AON. For more information about Equitable Bank and its products, please visit **equitablebank.ca**.

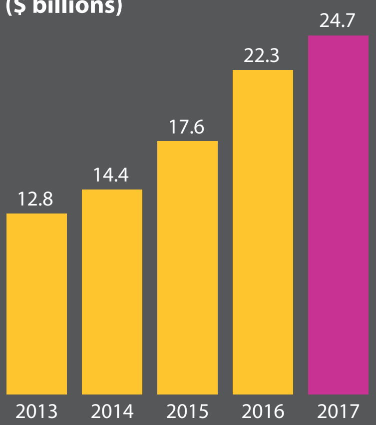
For information on Equitable's contributions to the social, cultural, economic and environmental enrichment of the community, and the Bank's employee culture, please review Equitable's Public Accountability Statement at equitablebank.ca.

CANADA'S CHALLENGER BANK PERFORMS

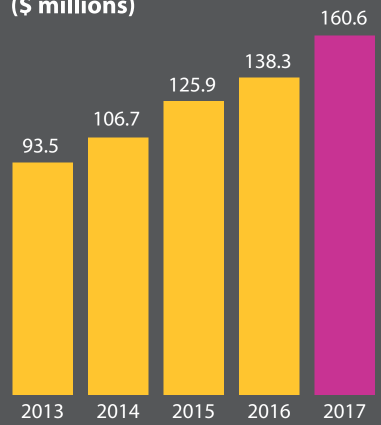
($ million, except ratios, per share amounts and number of employees)

	2017	2016	Change
Net income	$ **160.6**	$ 138.3	16%
Earnings per share – diluted	**9.39**	8.49	11%
Return on Equity	**15.8%**	16.9%	(1.1%)
Efficiency Ratio	**36.8%**	37.8%	(1.0%)
Assets under Management	**24,653**	22,278	11%
Deposit Principal	**11,025**	9,680	14%
Common share dividends declared	**0.95**	0.84	13%
Book value per common share	**64.57**	54.96	17%
Common share price – close	**71.50**	60.46	18%
Common share market capitalization	**1,180**	995	19%
Common Equity Tier 1 capital ratio	**14.8%**	14.0%	0.8%
Full-time employees – period average	**573**	531	8%

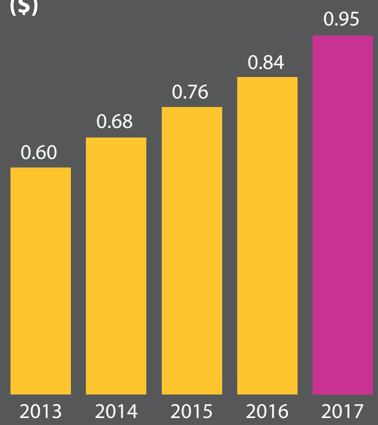
Assets Under Management
($ billions)



Net Income
($ millions)



Dividends per Share
($)



A MESSAGE FROM DAVID LeGRESLEY

BOARD CHAIR

It was a year to remember.
It was a year to learn from.
And it was a year to put behind us.

In 2017, your company achieved best-ever earnings, earnings per share, book value per share and, with growth in assets, its largest mortgage portfolio on record. Yet these achievements came during a period of turmoil that was broadly unanticipated and, in many ways, unnecessary. Absent the collateral impact of the challenges experienced by one of our competitors, which were made manifest in a brief but serious liquidity event in the market, the records Equitable set would have been even higher.

This Annual Report, along with our other excellent disclosure documents, highlights this past year's financial and operating achievements and the strategies behind them. What these reports cannot do adequately is detail the tremendous efforts undertaken by management, as well as employees throughout the Bank, to respond to, and skillfully overcome, the liquidity event. Spearheaded by Andrew Moor's around-the-clock leadership, but wholeheartedly supported by a fully committed team, Equitable bounced back as a smarter, stronger, and more resilient organization.

A year ago when I wrote my letter to you, real estate prices in Canada's major urban areas were again reaching record levels and increasing at rates that seemed unsustainable. More recently, a number of regulatory as well as environmental changes – principally rising interest rates – have led to a somewhat more balanced residential real estate market. Sales volumes are lower, prices are generally flat to down slightly, and bidding wars continue, but at a more modest pace. Throughout this period, the Bank has added quality assets and maintained excellent loan to value and loss ratios.

The next issue to deal with is the impact of recently implemented changes to OSFI's Guideline B-20: Residential Mortgage Underwriting Practices and Procedures. It is too early to tell how borrowers and other lenders will react to these revisions. While your management team certainly has counter-measures in mind (including increasing commercial lending), I believe Canadians will always seek housing in major urban areas, which is principally where we lend. Individuals who do not qualify for Prime mortgages will continue to borrow to purchase real estate, whether from regulated or non-regulated lenders. Equitable's focus on providing superior customer service and competitive rates as both a Prime and Alternative lender will position us well in this changing environment.

In addition to the attention paid to the underlying mortgage market, Equitable's management and Board are focused on: extending the reach of *EQ Bank*; introducing new products such as our *PATH Home Plan*™; and aggressively pursuing our role as Canada's Challenger Bank™. These growth initiatives will in no way cause us to lessen our focus on governance, compliance, disclosure, liquidity and risk mitigation.

One change has been made to your Board recently with Johanne Brossard's resignation. We greatly appreciate Johanne's contributions. Her expertise in retail banking was most helpful as we developed *EQ Bank*. We wish her well with her new projects.

I thank our customers, shareholders and business partners for their confidence in Equitable. Thank you also to my fellow Directors for their extraordinary efforts throughout the year, but particularly during the liquidity event last spring. While our business is built on a very solid foundation, it took a committed Board to help us batten down during the storm. It has been a volatile year. It has been a year that we will all remember.

I also want to reiterate the Board's appreciation for the commitment and strength of the Equitable team led by Andrew. Despite market turmoil, we have a great business that is being driven by the daily efforts of over 600 employees across Canada. Equitable was again honoured as one of Canada's top employers for 2018. My thanks and congratulations to all.

I encourage all shareholders to attend our annual meeting on May 15th, 2018 at 10am EST. Again this year, we will host the meeting at the Bank's headquarters, 30 St. Clair Avenue West, Toronto.

Yours sincerely,

David LeGresley,
Board Chair

A MESSAGE FROM ANDREW MOOR

PRESIDENT AND CHIEF EXECUTIVE OFFICER

2017 was a year of significant change for Equitable as a result of the spillover impacts of a liquidity event at another financial institution (the "Liquidity Event").

In response to this event, on May 3, 2017, Equitable announced that it had received a backstop funding facility of $2 billion from all six of Canada's largest Schedule I banks. The totality of the actions taken and the support received from customers, partners and the broader banking industry reflected confidence in the Bank. At December 31, 2017, Equitable was in a very strong capital and liquidity position. I express my appreciation to the entire Equitable community and to the leadership teams of the Big 6 for their support of Equitable in challenging times.

The Liquidity Event was not the only item we had to address. In the latter part of the year, OSFI's proposals to revise Guideline B-20 governing the underwriting of single family residential mortgages became an issue. The market impact of these changes will take time to assess, but we were able to make the system and policy modifications necessary to hit the required implementation date of January 1, 2018: no small undertaking.

Against this backdrop, the Bank continued to produce strong financial performance with record net income of $160.6 million, up 16% over 2016. Financial returns are only one measure of a good bank. I am confident that we continue to be focused on the right elements to deliver great service to our customers by putting customer experience at the front of our thinking in both the *EQ Bank* digital platform and in the more people-driven parts of the business. The Bank's employees continue to be highly engaged in building our position as Canada's Challenger Bank™ and we were, for the second year in a row, recognized by Aon Hewitt as a Platinum Best Employer – the award's highest level.

While coping with all of the moving parts of a challenging year consumed the time and attention of employees, senior executives and the Board, we continued to develop the Bank's strategic position with a view to the longer term. The balance of my letter will discuss some of what was achieved and describe, more broadly, how we see the banking landscape evolving and how Equitable is positioned to prosper in this changing environment.

The Future of Banking

Digital technology will influence the structure of banks and banking markets for years to come. Like many others, I believe we are seeing the realignment of the value chain in banking and the effect on the industry is going to be profound.

The impacts of digital technology go far beyond the obvious view that most banking transactions will be from a digital device – they already are – but rather to a redefinition of what a banking service is and who provides it. As Canada's Challenger Bank™, Equitable is working in two areas to advance our position in the marketplace:

1. Build a brand that stands for value and innovation in banking; and
2. Use technology to make banking better for our customers.

Our brand building is focused on digital channels, working with our broker partners, and creating a reputation with our customers that compels them to refer their family and friends to the Bank. We will supplement this core approach with more traditional advertising from time to time.

Equitable's use of technology positions *EQ Bank* as an ideal hub bank – that is, a bank that provides a safe store of value while providing easy access to other financial services providers. Initiatives such as Payments Canada's work on the *Real-time Rail* (an always-on payments infrastructure to support immediate payments) and the Canadian Government's constructive attitude towards open banking have the potential to be important architectural elements that will enable Equitable to create even more convenient banking solutions for our customers.

Canada's Challenger Bank™

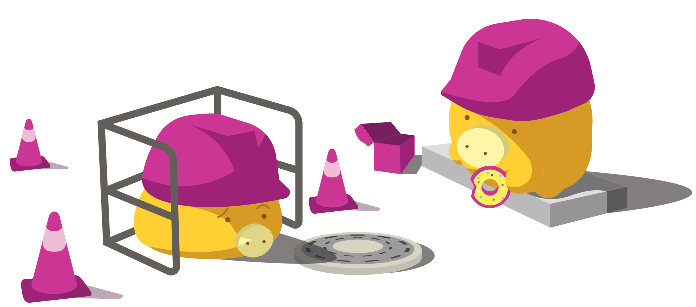
I am often asked what our position as Canada's Challenger Bank™ means? While the concept has the flexibility to morph with the context and the possibilities, at its heart, we are trying to change banking to make it better for Canadians using processes and approaches that are enabled by technology and a customer-centric focus. Equitable's approach is to create new ways of banking that are better by design. In an effort to align our own internal priorities, we keep the following three principles top of mind when building the Bank:

1. Go above and beyond to serve customers;
2. Be quick and nimble to act on opportunities; and
3. Approach opportunities with a deep focus and the goal of being highly productive.

By following these priorities, we are deliberately choosing to build a differentiated approach that may not be optimally designed for all potential customers, but should meet the distinctive needs of particular groups of consumers.

The Savings Plus Account within *EQ Bank* is a case in point. It combines the benefits of a high interest savings account with payment functionality and budgeting tools that customers traditionally associate with a chequing account. Money deposited in Savings Plus is put to work immediately and continues to earn interest until customers actually want to spend it. With Savings Plus, payroll can be deposited directly into the account where it attracts a good rate of interest until monthly bills are paid by pre-authorized debits or bill-pay functionality: all with no fees. This is a radical departure from the convention of having payroll paid into a non-interest bearing chequing account where it sits, not growing, until bills are paid (usually with a commensurate service charge). Savings Plus is a small step forward in Canadian banking no doubt, but a step forward.

There is opportunity to improve banking in every area of the business. We will not tackle every opportunity, but instead focus on a few areas where the idea aligns with the general principle of improving banking for our customers and where our approach can stand out in the market.



Strategic Development

During 2017, we made two significant strategic advancements: building out our *EQ Bank* platform; and building up the capability to launch equity-release mortgages.

EQ Bank

Our digital platform made several advancements during the year, including:

- Streamlining the onboarding approach so that most potential customers can sign up for a new EQ account and get up and running within a few minutes;
- Enabling our customers to make instantaneous transfers to other EQ account holders; and
- Developing the capability to distribute GICs through the platform.

From a standing start only two years ago to the current position of over 50,000 customers and $1.7 billion of deposits, *EQ Bank* is well positioned to deliver value for our customers and shareholders in the years ahead. We were recently honoured to be recognized as one of the best digital banks in the world and clearly believe that significant opportunity lies ahead. *EQ Bank* is important to our shareholders principally because the direct customer relationships we foster through this channel diversify and strengthen our funding model.

Equity Release Products

In January 2018, Equitable launched an equity release mortgage business. Offering products under the brand PATH Home Plan™, this business allows Canadian seniors to tap into equity in their homes to provide funds for retirement, without having to sell. At a time when personal pensions are stretched, and many seniors have substantial equity in their homes, this business makes a lot of sense. Demographic changes of an increasingly ageing population are anticipated to increase the potential market for this product in the years ahead.

Equitable spent over six years studying the equity release market globally and domestically, and through this period, we have developed a detailed understanding of the risks and dynamics involved. Comparisons with well-established equity release markets in Australasia and the UK in particular suggest there is substantial room for market growth in Canada. Equitable is one of just two participants in the domestic equity release market.

The Year Ahead

Over the coming year, we have work to do on key items that will influence the future direction of your company, including determining:

1. Our approach to the liquidity backstop facility;
2. How the longer-term impact of OSFI's Guideline B-20 should or could change our approach to the single family residential mortgage market; and
3. How we build further capability within our digital banking platform to create additional value for our customers.

As part of our arrangement with Big-6 banks, our $2 billion liquidity backstop facility will remain in place until June 2019. During 2018, management and the Board will study the Bank's long-term funding model and, among related items, consider our long-term view on the need, size and pricing of a liquidity backstop. The backstop facility will cost the Bank approximately $20 million before tax in 2018. Our goal, beyond June 2019, is to maintain a high level of strength and comfort in our funding model at a significantly reduced cost.

As I write this message, the impact of revisions to OSFI's Guideline B-20 on the residential mortgage market remains uncertain. In Management's Discussion and Analysis, we provide some guidance to investors on how this might impact our growth prospects and capital allocation decisions. We certainly have good opportunities to deploy capital to achieve positive returns in all markets, including commercial where we have increased our focus as a means of building business with our extensive partnership network.

Our digital banking platform will continue to evolve and develop. In the early part of 2018, we are building out our GIC offering and have a roadmap to improve the customer experience and promote our newest product in the second quarter. Through the balance of the year, we will focus on developing other ways to make our customers' financial lives better with the addition of registered savings products.

Conclusion

The development of the Bank under a stressed scenario during 2017 took plenty of energy and personal effort from the top to the bottom of the organization and from our business partners. I would like to acknowledge the steady advice I received from our well-qualified Board of Directors, the support of my colleagues on the executive team and the Equitable team across the business.

I particularly thank Johanne Brossard for her years of service as a Director of the Bank. I will miss her insights and dedicated approach.

The Equitable team is a committed and imaginative group of people and I am excited by the possibilities that we will uncover together. Culture is hard to replicate. The culture that Equitable has built has customer service at its heart supported by agility and a commitment to doing things properly. This culture is surely going to provide a competitive advantage for our Bank in the years ahead.

2018 promises to be another year of success and development for your Bank. No doubt, there will be challenges, but I am confident that we will build value for all stakeholders.

Yours sincerely,

Andrew Moor
President and Chief Executive Officer

MANAGEMENT TEAM

Dan Dickinson
Senior Vice President and Chief Digital Officer

Brian Leland
Senior Vice President, Residential Credit

Kimberly Kukulowicz
Senior Vice President, Residential Sales and Partner Relations

Tim Wilson
Senior Vice President and Chief Financial Officer

Andrew Moor
President and Chief Executive Officer

Jody Sperling
Senior Vice President, Human Resources

Ron Tratch
Senior Vice President and Chief Risk Officer

Darren Lorimer
Senior Vice President, Commercial Lending

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

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2017

Management’s Discussion and Analysis (“MD&A”) is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. (“Equitable” or the “Company”) for the three months (“quarter”) and year ended December 31, 2017. This MD&A should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the fourth quarter (see Tables 26-28 in the section “Fourth Quarter Overview” of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 28, 2018. The Company’s continuous disclosure materials, including interim filings, annual Management’s Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company’s website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled “Business Profile and Objectives”, “2017 Highlights”, “Business Outlook”, “Credit Quality and Allowance for Credit Losses”, “Liquidity Investments and Equity Securities”, “Other Assets”, “Capital Management”, “Fourth Quarter Overview”, “Risk Management”, in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws (“forward-looking statements”). These statements include, but are not limited to, statements about the Company’s objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “planned”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases which state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will be taken”, “occur”, “be achieved”, or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the "Bank"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total Assets Under Management[1] of over $24 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, allowing us to be more efficient and to pass on these savings to our customers. We generally serve the market through our extensive partnerships with Canada's mortgage brokers, mortgage bankers, deposit agents, investment dealers, and financial planners who provide independent professional advice to their clients. In 2016, Equitable broadened its distribution by launching *EQ Bank*, a new digital bank providing select 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. We intend to expand the range of savings products and services that we offer through *EQ Bank* over time, while at the same time maintaining a strong commitment to our broker partners.

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

Equitable is *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 are known in these other countries primarily for their success in driving innovation and improving customer service levels. They deliver high returns on equity by targeting profitable market segments that are underserved by larger financial institutions. According to a recent PwC report[2], "many do not define success in terms of their ability to challenge or rival the large high street banking groups. Rather, their goal is to serve their specific target markets profitably." That description captures our ambition for Canada well.

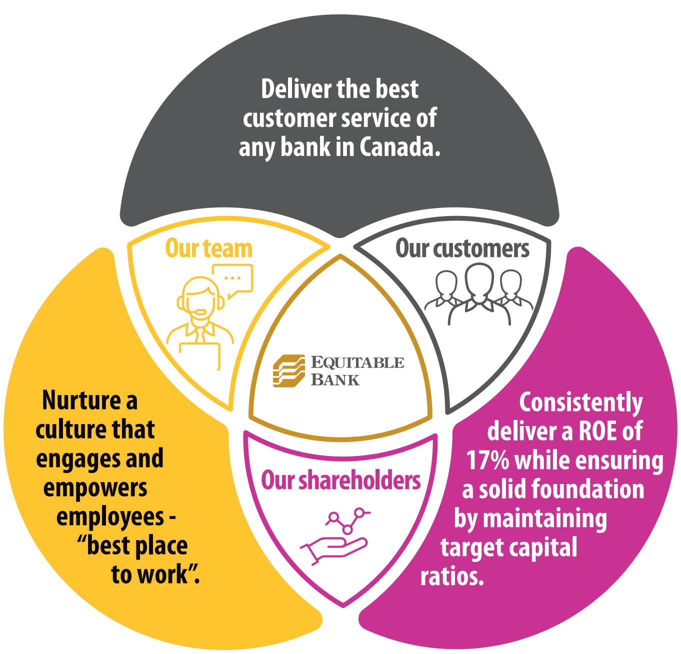
We have become a challenger bank by rethinking conventional approaches to banking, staying nimble so that we can act on new opportunities, and maintaining a focused, efficient approach to service delivery. We are focused on markets or customers that are not well served by the country's larger financial institutions or in which we have a sustainable competitive advantage.

[1] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[2] *Who are you Calling a "challenger"? How Competition is improving customer choice and driving innovation in the UK banking market, UK, 2017.*

What A Challenger Bank Means	How We Achieve It
Going above and beyond to serve our customers	• Highly responsive and accessible teams • Transactions that are completed efficiently • Attractive savings solutions with low fees • Convenient and transparent products • Intuitive and elegant customer interfaces
Being quick and nimble to act on new opportunities	• Collaborative culture and empowered staff • Broad partnerships that allow us to get to market faster • Deep credit and servicing capabilities that we can leverage to take advantage of new opportunities
Staying deeply focused and highly productive	• Emphasis on customers in underserved segments who embrace doing business with a branchless bank • Focused approach – target markets in which we have a sustainable competitive advantage • Branchless business model that results in a low and flexible cost structure

In order to realize on our Challenger Bank strategy, we have set ambitious – but in our view achievable – goals for Equitable. We intend to accomplish these objectives by focusing on five strategic priorities.

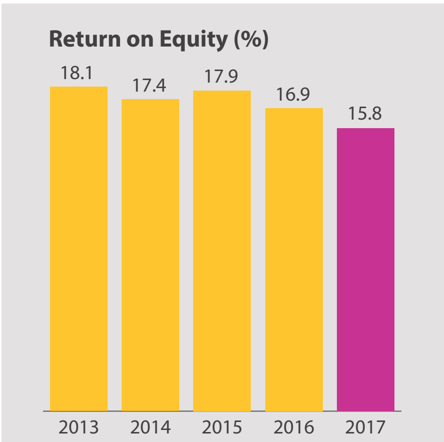
Equitable's Objectives

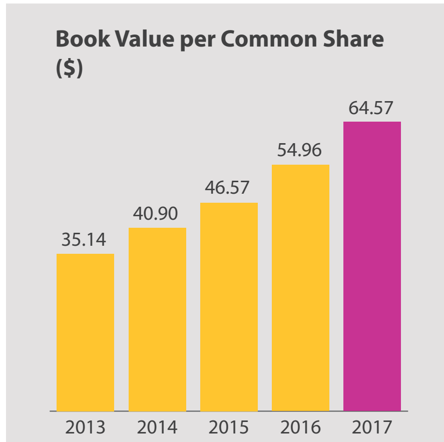


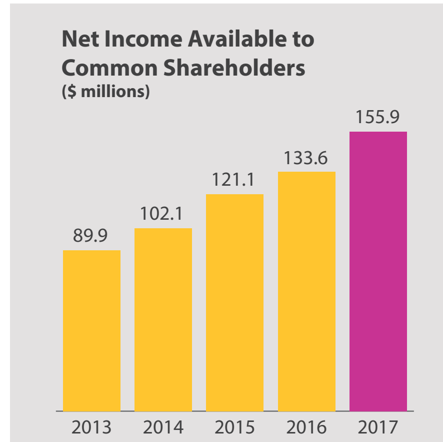
Equitable's Five Strategic Priorities

- Grow our existing businesses through superior service
- Build *EQ Bank* into Canada's leading digital banking platform
- Maintain a disciplined approach to capital management and a low risk profile
- Leverage our capabilities and balance sheet to diversify into adjacent markets
- Strengthen our key capabilities

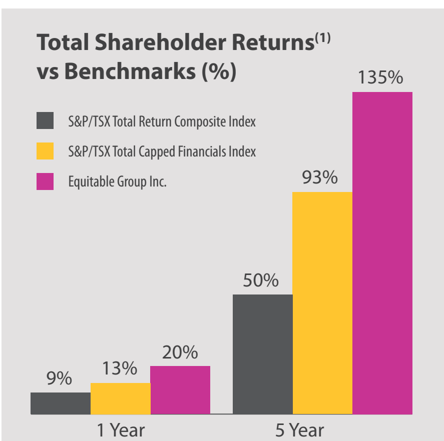
Our value creation strategies have allowed Equitable to generate a consistently high Return on Shareholders' Equity[1] ("ROE"), averaging 17.2% over the past five years. We continue to retain the vast majority of our earnings in order to build our capital base and fuel future growth, in light of the business opportunities that our strategy creates. At the same time, our steady earnings growth has allowed us to increase common share dividends eleven times over the past five years. On the basis of that track record, we have grown Equitable's book value per common share[1] by 84% over the same period.

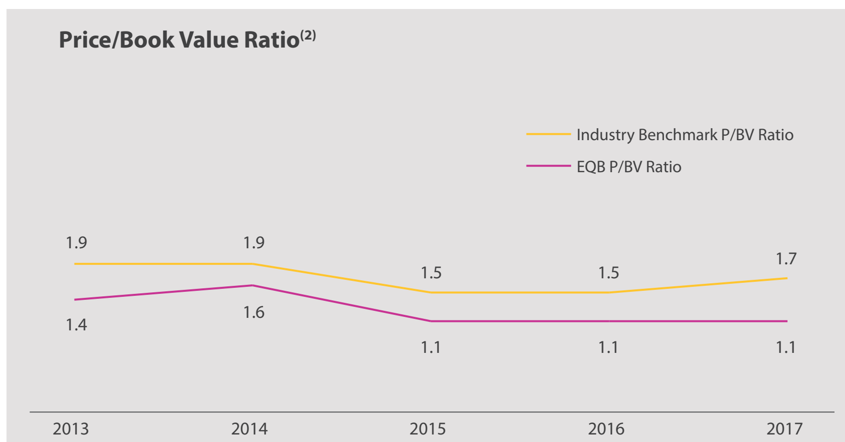






As a result of this operating performance, our Total Shareholder Return has outperformed that of the TSX Capped Financials Index over both the past year and over a 5-year horizon. This return was accomplished despite the price to current book value ratio (P/BV) of our shares – a primary metric for the valuation of banking stocks – decreasing over that period. Equitable trades at a P/BV discount of approximately 35% to the Industry Benchmark P/BV ratio[2].





[1] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[2] *Industry Benchmark P/BV ratio refers to the simple average of the P/BV ratios of the eight largest publicly traded banks.*

OUR CULTURE AND VALUES

Key to Equitable's success over time has been our culture and values. Our values are what help guide us in the way we think and work to ultimately pave a better way forward as *Canada's Challenger Bank™*. We believe that cultivating these values in our team helps us to deliver outstanding results in everything we do.

CAPABILITIES

We compete successfully with other financial institutions on the basis of our Challenger Bank strategy and our ability to execute well against it. Our execution reflects the breadth of our capabilities and in particular our customer service focus. Management intends to build on these capabilities to grow our existing businesses and to prudently diversify the products and services we offer over time.

Responsive Service

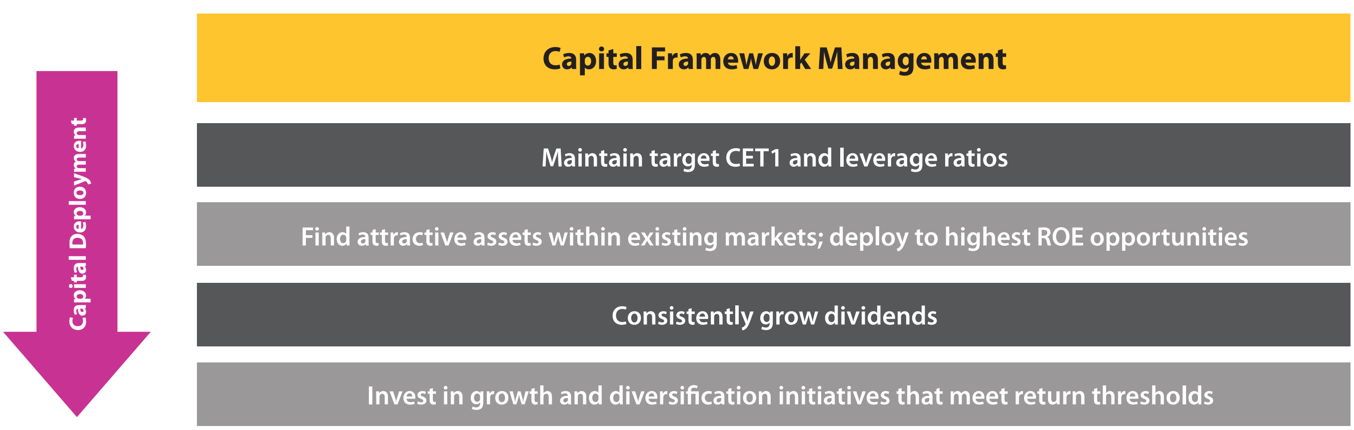
Service excellence is how Equitable differentiates itself in the market. Through training and technology we are able to build long-term customer and partner relationships that are mutually beneficial and serve to increase our share of the lending and savings markets. Our deep knowledge of, and sensitivity to, the unique needs of our borrowers – along with their advisors – allows us to execute origination and servicing processes that are efficient and effective.

***EQ Bank* – Canada's Leading Digital Bank**

By building upon the successful launch of *EQ Bank* and continuing to develop a state-of-the-art platform, we are able to offer Canadians a better banking experience. Through a simple user-centric design and intuitive technology, our customers make transactions with flexibility and ease. Our *EQ Bank Savings Plus Account* remains a unique product in the marketplace offering an everyday, competitive high interest rate with added day-to-day features such as bill payments, pre-authorized transactions, and *Interac e-Transfers*®.

Disciplined Capital Deployment

We build regulatory capital to fuel our growth primarily by retaining most of our earnings and will raise additional capital if warranted by profitable growth prospects. Management focuses on long-term value creation for our shareholders and deploys capital to opportunities only if they meet well-defined ROE thresholds. For example, while attractive returns can be garnered on a variety of loan types, single family residential mortgages typically generate a higher ROE than do commercial mortgages because they require less regulatory capital. For that reason, as well as the high barriers to entry and our ability to clearly define our strategic advantage, our portfolio has shifted more towards single family residential mortgages since 2009, though we intend for it to remain diversified across mortgage types.

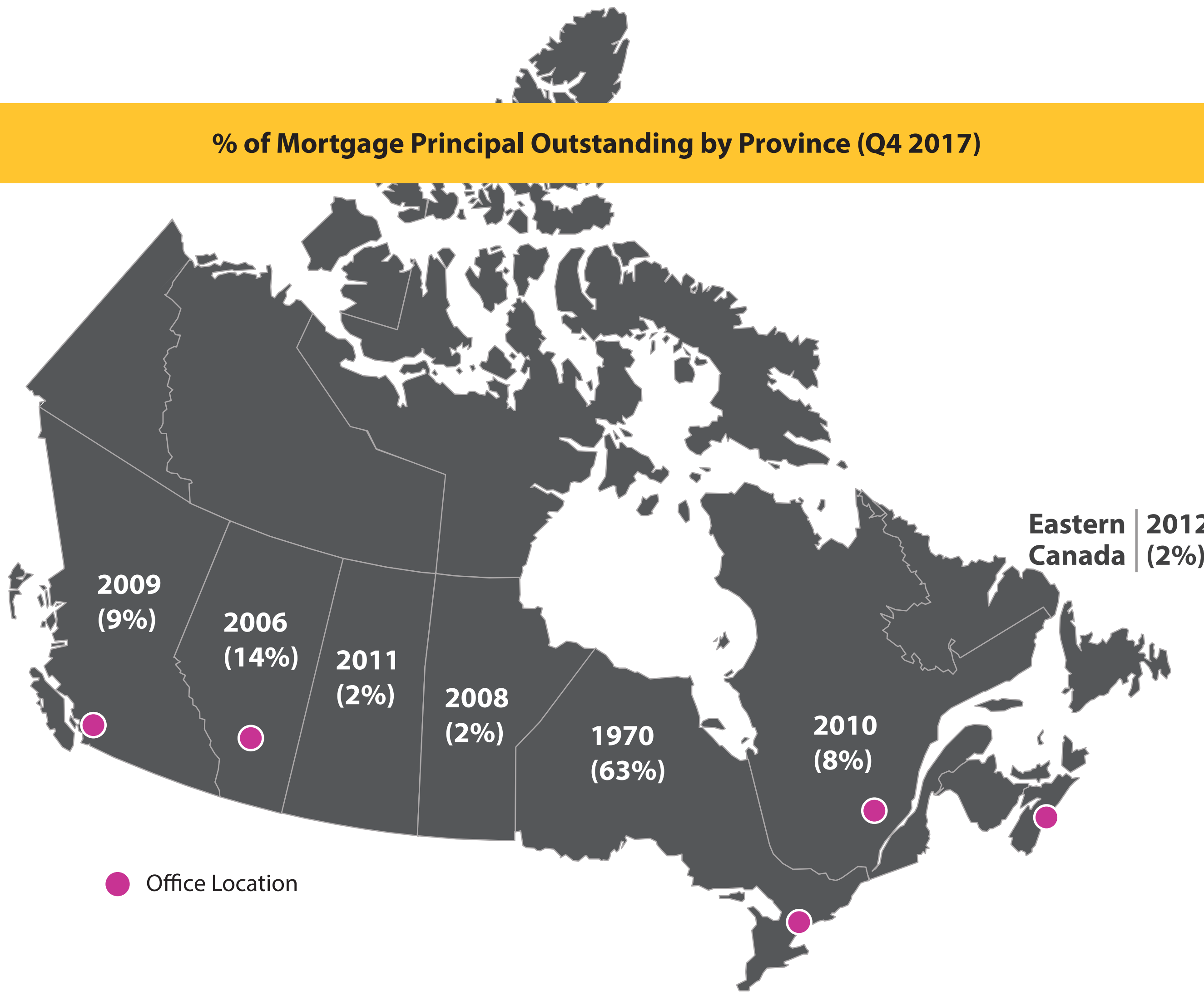


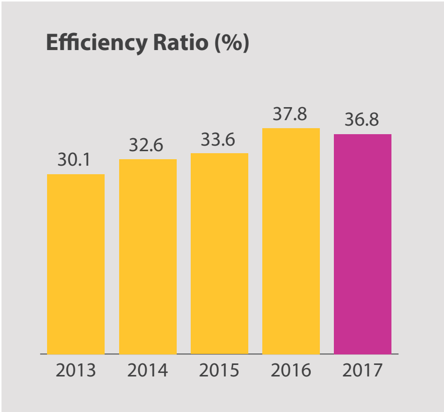
National Distribution Presence

We have systematically grown from our roots in serving the Greater Toronto Area ("GTA") to become a national financial services organization. Equitable reaches borrowers across Canada through independent mortgage brokers and other business partners. The Bank also employs a team of specialists with deep local knowledge in market hubs to support these distribution partners. Though coast-to-coast in reach, we focus on urban centres with liquid real estate markets that benefit from immigration and migration trends and have diversified economies.

Distribution of our brokered deposits has always been national in scope because of our healthy and long-term partnership with Canada's deposit broker community. To supplement our broker channel activities, in January 2016 we launched the *EQ Bank* digital platform that provides us with a proprietary distribution option for our deposit products, and through which we can reach consumers in all provinces except Québec.

% of Mortgage Principal Outstanding by Province (Q4 2017)





Efficient Operations

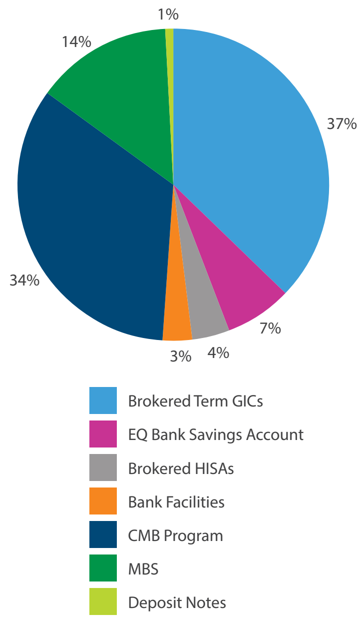
Equitable is the most efficient Schedule I Bank in Canada[1], and one of the very few that operates entirely without a physical retail presence. Due to our branchless operating model, we have a low level of fixed expenses and a highly flexible cost structure. Despite investments in strategic initiatives over the past five years, we have managed to sustain an industry leading Efficiency Ratio[2].

Rigorous Risk Management Standards

We have a mature risk management framework that guides all of our activities, including underwriting. For example, in our Core Lending business our underwriters evaluate the background and experience of each borrower, the cash flow of the individual or the property, the investment of the borrower in the purchase and the resources behind them, the value of the collateral, and the conditions attached to the credit. Our process is repeatable but not strictly mechanical: we place strong emphasis on detailed analysis of the risks and security in each transaction, and supplement that analysis with our experienced team's judgment. As a result, we can underwrite mortgages on favourable terms for borrowers with good equity and debt service ratios who would be turned away by other lenders that have more formulaic underwriting methodologies. Our rigorous approach, along with broadly positive Canadian economic conditions, has resulted in an average provision for credit losses – rate[2] of just 0.03% over the past five years.

[1] *As measured by the Efficiency Ratio and for the fiscal year 2017.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

$22.8 Bn Total



Access To Cost-Effective Funding

As a federally regulated deposit-taking institution, and member of the Canada Deposit Insurance Corporation ("CDIC"), we offer secure deposit products to savers in all Canadian jurisdictions. Our team manages over $11 billion of GICs, HISAs, and deposit notes from Canadian investors. These deposits fund our unsecuritized mortgage lending assets and over the long term have served as a reliable source of funding and asset-liability matching. We are a participant in the Canada Mortgage and Housing Corporation's ("CMHC") National Housing Act ("NHA") Mortgage-backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs, which allow us to securitize insured mortgages cost-effectively. We also have access to other funding sources including facilities sponsored by some of Canada's large banks. These funding strategies, coupled with our low cost operations, enable Equitable Bank to be price competitive in our chosen lending markets. Although our current sources of funding are sufficient to meet our needs, we intend to further diversify them to reduce our risk profile and fuel our long-term growth.

AON BESTEMPLOYER
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GREATER TORONTO'S TOP 2018 EMPLOYERS

Our People

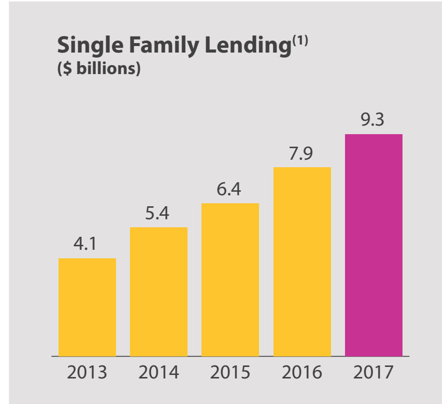
Equitable depends on skilled, productive and engaged employees at all levels to deliver on our strategies and meet our commitment to service excellence. We have a diverse and talented team of nearly 600 employees, led by a senior management team that has numerous years of relevant experience. To sustain and grow our talent, and to align our team with our value-creation objectives, we provide competitive compensation, benefits, and an employee stock purchase plan; create a welcoming work environment supported by our corporate values; deliver ongoing employee training and support; and promote from within wherever possible. Employee engagement surveys gauge program effectiveness and are used to refine our approaches to becoming an employer of choice in the industry and those scores have been increasing since 2009. Additionally, we received platinum level best employer status from AON Hewitt in both 2017 and 2018 and were named one of Greater Toronto's Top 2018 Employers. We focus on the engagement survey approach used by AON Hewitt as an objective measure of the progress of our approach to working with our teams.

OUR BUSINESS LINES

We organize our operations according to products and target customers:

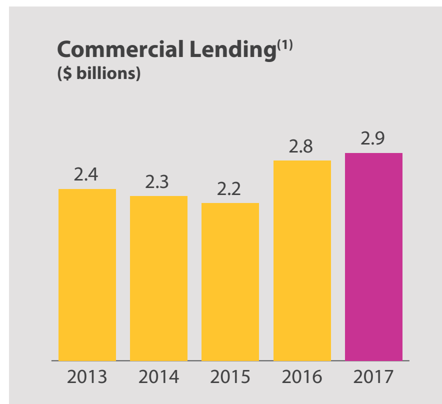
Single Family Lending Services: $9.3 billion

- **Products:** loans for owner-occupied and investment properties including detached and semi-detached houses, townhouses, and condos across Canada. Products offered include mortgages, Home Equity Lines of Credit ("HELOCs"), and equity release mortgages.
- **Target customers:** business-for-self, those who are new to Canada and establishing credit for the first time, the credit challenged, and the aging Canadian homeowner wanting to unlock the equity in their home
- **Distribution:** through Canada's mortgage brokers and referral relationships with other financial institutions
- **Strengths:** include superior levels of customer service, extensive broker relationships, and a disciplined approach to credit



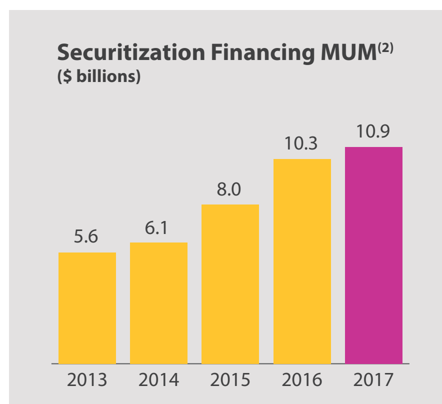
Commercial Lending Services: $2.9 billion

- **Products:** mortgages, which generally range from $0.5 million to $25 million, on a variety of commercial property types including mixed-use, multi-unit residential, shopping plazas, professional offices, and industrial
- **Target customers:** commercial clients, including both small and medium size enterprises and larger borrowers such as publicly traded entities
- **Distribution:** through mortgage brokers, mortgage banks, business partners, and other financial institutions
- **Strengths:** include service excellence, breadth and strength of distribution relationships, underwriting capabilities, and intimate market knowledge



Securitization Financing: $10.9 billion[2]

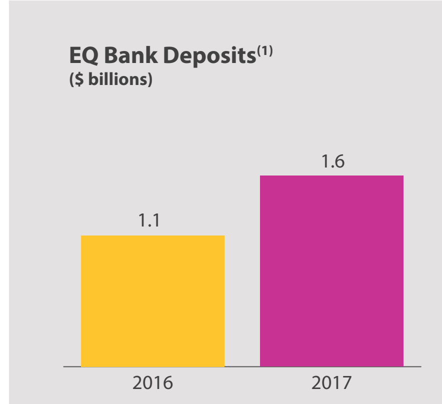
- **Products:** mainly insured mortgages on multi-unit and prime single family ("Prime") residential properties funded through securitization programs
- **Target customers:** individuals (prime borrowers) as well as commercial clients, from entrepreneurs to large, publicly traded entities
- **Distribution:** originate through mortgage brokers or sourced through mortgage banks and other third party distribution agents
- **Strengths:** include access to low-cost funding through CMHC's securitization programs, distribution relationships, extensive experience in mortgage securitization, and proven capacity to underwrite mortgages on specialized property types



[1] *Represents total principal outstanding.*
[2] *Represents the aggregate principal of Securitization Financing and Derecognized Mortgages.*

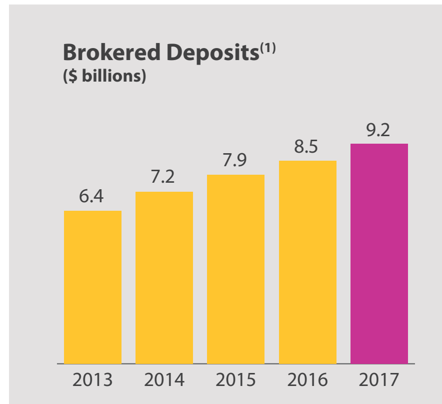
EQ Bank: launched January 2016, $1.6 billion

- **Products:** the *EQ Savings Plus Account* offers an everyday high interest rate, coupled with flexible day-to-day features such as bill payments, instant EQ to EQ transfers, and preauthorized transactions
- **Target customers:** Canadian savers who are technologically savvy and comfortable banking without access to traditional bank branches, and who are looking for an alternative to Canada's big banks
- **Distribution:** direct to consumer through the innovative *EQ Bank* digital platform
- **Strengths:** an efficient branchless operating model that allows *EQ Bank* to provide more value to the consumer with a strong everyday interest rate, an innovative and flexible technology platform, and less fees compared to the marketplace



Brokered Deposits: $9.2 billion

- **Products:** safe and secure savings products including GICs and brokered HISAs offered under the Equitable Bank brand
- **Target customers:** Canadian savers looking to build a secure fixed-income portfolio with a competitive rate of return and those who have short to medium-term liquidity needs
- **Distribution:** through third party deposit agents, investment dealers, and financial planners, including Canada's large banks
- **Strengths:** include relationships with the agents who recommend our products, our responsive service, and competitive product offerings and rates



[1] *Represents total principal outstanding.*

KEY PERFORMANCE INDICATORS

Management monitors a range of metrics to assess the performance of the business and effectiveness of our strategy. The primary indicators of Equitable's success are:

Performance Metric	What it Represents and Why It Matters
ROE	• The earnings that we are able to generate for our common shareholders, relative to the book value of our equity • Reflects management's ability to deploy capital in a disciplined manner by making profitable lending decisions and operating an efficient business
Earnings per Share ("EPS") Growth	• The earnings we are able to generate after paying preferred share dividends divided by average common shares outstanding relative to prior periods • Measures our ability to grow earnings and sustain high returns for our shareholders
Total Capital and Common Equity Tier 1 ("CET1") Ratios[(1)]	• The amount of loss absorbing capital invested in our business relative to the size of our risk-adjusted asset base • Signifies our ability to protect our depositors and the Bank in the event of financial stress
Provision for credit losses – rate	• The provision for credit losses of both principal and interest recorded during the year, as a percentage of the average loan portfolio • Reflects the credit quality of our loan book, specifically the level of impaired loans and our ability to mitigate potential losses thereon
Assets Under Management ("AUM")	• The sum of total assets reported on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company • Measures the size of our operations and the growth of our underlying franchise
Efficiency Ratio	• Non-interest expenses as a percentage of our net revenue[(1)] • Gauges how much it costs us to generate each dollar of net revenue and indicates how efficiently we operate
Employee Engagement	• Measured based on a third-party survey of our employee base that we conduct on an annual basis, which benchmarks us against other employers • Signifies the commitment and satisfaction of our employees, a key driver of our success. High engagement correlates with reduced turnover and higher productivity, and it is often considered a forward-looking indicator of performance.

[(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)	2017	2016	2015	Change from 2016	
RESULTS OF OPERATIONS					
Net income	**$ 160,617**	$ 138,330	$ 125,865	$ 22,287	16%
Net income available to common shareholders	**155,854**	133,567	121,102	22,287	17%
Net interest income	**308,362**	279,357	242,227	29,005	10%
Total revenue	**751,488**	663,923	581,994	87,565	13%
EPS – basic	**$ 9.46**	$ 8.57	$ 7.83	$ 0.89	10%
EPS – diluted	**$ 9.39**	$ 8.49	$ 7.73	$ 0.90	11%
ROE	**15.8%**	16.9%	17.9%	N/A	(1.1%)
Return on average assets[(1)]	**0.8%**	0.8%	0.9%	N/A	-%
NIM – TEB – total assets[(1)]	**1.58%**	1.64%	1.73%	N/A	(0.06%)
Efficiency Ratio – TEB[(2)]	**36.8%**	37.8%	33.6%	N/A	(1.0%)
BALANCE SHEET					
Total assets	**20,634,250**	18,973,588	15,527,584	1,660,662	9%
Assets Under Management	**24,652,969**	22,277,769	17,600,072	2,375,200	11%
Mortgages receivable	**19,298,548**	17,783,803	14,700,806	1,514,745	9%
Mortgages Under Management ("MUM")[(1)]	**23,233,420**	21,004,013	16,706,935	2,229,407	11%
Shareholders' equity	**1,138,117**	977,150	796,116	160,967	16%
CREDIT QUALITY					
Provision for credit losses	**1,543**	2,445	3,638	(902)	(37%)
Provision for credit losses – rate	**0.01%**	0.02%	0.03%	N/A	(0.01%)
Net impaired mortgages as a % of total mortgage assets[(3)]	**0.12%**	0.21%	0.22%	N/A	(0.09%)
Allowance for credit losses as a % of total mortgage assets	**0.17%**	0.19%	0.23%	N/A	(0.02%)
SHARE CAPITAL					
Common shares outstanding	**16,503,437**	16,460,142	15,538,605	43,295	0.3%
Book value per common share	**$ 64.57**	$ 54.96	$ 46.57	$ 9.61	17%
Common share price – close	**$ 71.50**	$ 60.46	$ 51.50	$ 11.04	18%
Common share market capitalization	**1,179,996**	995,180	800,238	184,816	19%
Dividends declared per:					
Common share	**$ 0.95**	$ 0.84	$ 0.76	$ 0.11	13%
Preferred share – Series 3	**$ 1.59**	$ 1.59	$ 1.59	$ -	-%
EQUITABLE BANK CAPITAL RATIOS[(1)]					
Risk-weighted assets	**7,035,380**	6,385,825	5,259,384	649,555	10%
CET1 Ratio	**14.8%**	14.0%	13.6%	N/A	0.8%
Tier 1 Capital Ratio	**15.9%**	15.1%	15.0%	N/A	0.8%
Total Capital Ratio	**16.3%**	16.6%	16.8%	N/A	(0.3%)
Leverage Ratio	**5.4%**	5.1%	5.2%	N/A	0.3%

(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) *Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.*

2017 HIGHLIGHTS

PERFORMANCE AGAINST 2017 STRATEGIC PRIORITIES

Equitable produced record annual earnings in 2017 despite the negative impact of the liquidity actions that we undertook in Q2. We took these measures to manage through stress in the funding markets that was caused by developments at another financial institution. The actions included obtaining a $2.0 billion secured backstop funding facility, insuring an $892 million portfolio of existing residential mortgages, and investing in *EQ Bank* marketing to drive account growth (see discussion in our Q1 and Q2 2017 MD&As). These actions, net of the associated funding cost benefits, reduced EPS and ROE in 2017 by approximately $1.11 and 1.7 percentage points, respectively.

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 successfully delivered on our strategic priorities in 2017 and made investments that laid the foundation for more success in future years.

Strategic Objectives for 2017	Accomplishments
Grow by providing superior service, competitive products and cost-effective operations	• Grew our Alternative Single Family assets by 19% • Completed development of *PATH Home Plan*™, an equity release solution that launched in early 2018 and diversifies our product suite • Grew our Commercial Lending mortgage portfolio by 4% over the prior year
Build our capabilities and brand	• Increased GIC principal balances by $1.0 billion or 14%, to $8.3 billion from $7.3 billion a year ago • Enhanced *EQ Bank*, Canada's leading digital banking platform, with new features such as digital onboarding, free EQ to EQ transfers, preauthorized transactions, and external linked bank account management • Grew *EQ Bank* balances to $1.6 billion, an increase of 53% from last year • Were awarded 6th place in Financial IT's 2017 ranking of the top digital banks globally • Received Canada's Best Employer Platinum Award for 2018 by AON for a second consecutive year • Position ourselves to successfully implement IFRS 9 on January 1, 2018 • Furthered our AIRB initiative and risk modelling capabilities
Consistently create shareholder value	• Delivered record EPS of $9.39, 11% higher than in the preceding year • Produced an ROE of 15.8% • Increased book value per common share by 17% from 2016 • Declared annual common share dividends that were 13% higher than in 2016 • Redeemed $65 million Series 10 debentures and reduced our overall cost of funds while maintaining a strong Total Capital Ratio
Maintain a low risk profile	• Maintained an average loan-to-value ratio of 64% on our uninsured residential mortgage portfolio, as compared to 63% in 2016 • Recorded a provision for credit losses of $1.5 million or 1 bp of average loan balances, slightly below 2016 levels • Reported a CET1 Ratio of 14.8%, which remained ahead of regulatory minimums, our own internal targets, and most competitive benchmarks

ITEMS OF NOTE

Our 2017 financial results were impacted by the following items:

- $25.1 million of liquidity action costs incurred to manage through funding market stress;
- $1.8 million of gains recorded on certain investments acquired from Maple Bank GmbH's Toronto Branch ("Maple Bank"); and
- $0.9 million of losses from preferred share sales.

Our 2016 financial results were impacted by the following items:

- $2.6 million of marketing expenses in Q1 2016 to support the launch of our *EQ Bank* platform; and
- $1.3 million of gains recorded on certain investments acquired from Maple Bank.

DIVIDENDS

On February 28, 2018, the Company's Board of Directors declared a quarterly dividend in the amount of $0.26 per common share, payable on April 5, 2018, to common shareholders of record at the close of business on March 15, 2018. This dividend represents a 13% increase over dividends declared in February 2017.

In addition, on February 28, 2018, the Company's Board of Directors declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on March 31, 2018, to preferred shareholders of record at the close of business on March 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 markets continue to present meaningful opportunities. We expect earnings to continue growing but that our ROE in 2018 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 and 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.

The B-20 revisions will likely have a negative impact on Equitable's Alternative Single Family Lending originations, though the full effect is difficult to assess at the present time without more data on competitive implications or consumer reactions. Most notably, the requirement that borrowers qualify for an uninsured mortgage using a 'stress test' at a prescribed spread over the contract rate of the mortgage may prevent us from lending to certain types of customers who have traditionally been a part of our customer base. On the other hand, larger lenders may also be negatively impacted by aspects of the changes, which could cause incremental volume to flow into the alternative mortgage market and offset some of our expected volume loss. Additionally, although B-20 changes will impact our originations in future quarters they will not affect our ability to renew existing mortgages. In fact, the B-20 revisions could make it more difficult for borrowers to switch lenders and cause our retention rates to increase.

We expect Alternative Single Family assets to grow in 2018 because of renewals and the fact that the volume of originations would still be high relative to the size of the existing portfolio. Management has conducted extensive analysis on the sensitivity of the Bank's asset growth rates and believes that the portfolio will grow in 2018 even if originations decline by up to 20%.

As Single Family portfolio growth slows, we intend to deploy more capital into Commercial Lending and other businesses such as our recently launched equity release solutions. We have deep expertise in secured lending and believe we can grow these portfolios within our current risk appetite.

In addition to domestic developments, the Basel Committee on Banking Supervision updated Basel III in December 2017. OSFI has not yet announced its domestic implementation plans, but if the risk weight treatments are consistent with the global guidelines the changes should be favourable to our capital position starting in 2022 because of reduced risk weights on low loan-to-value residential and commercial mortgages, all other things being equal.

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.

(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

Portfolio	2018 Expectations[1]	Rationale and Assumptions[1]
Forecasting asset growth remains challenging given the magnitude of the recent regulatory changes and competitive shifts. The outlook and comments below reflect management's current views only and are subject to change over time.		
Core Lending: Alternative Single Family	• Assets grow at rates in the low single digits, with the growth rate being higher in the earlier quarters of the year	• Recent regulatory changes will continue to decrease overall housing market activity; house prices will remain stable in most markets • Origination of alternative mortgages contract in 2018 due to new B-20 standards (though the degree of change is highly uncertain) • The Bank has a higher market share in the Alternative segment due to our consistently superior levels of service and competitive disruptions • Portfolio growth is helped by higher renewal rates, which result partly from the changes to B-20 • Employment is stable and overall economic growth in Canada remains positive • Our current sources of funding continue to deliver sufficient volumes to profitably support this level of growth
Core Lending: Commercial	• Assets grow at rates in the high teens	• Originations increase in 2018 after being deliberately tempered in Q2 and Q3 2017 due to funding constraints • The market continues to present quality opportunities and the competitive environment remains stable • Attrition rates are consistent with levels experienced in the fourth quarter of 2017
Securitization Financing: Prime Single Family	• MUM and balance sheet assets do not experience any growth	• 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
Securitization Financing: CMHC Multi-Unit Residential ("Multis")	• Balance sheet assets grow at rates in the mid-single digits, while MUM grows at rates in the low double digits	• We will fully utilize our fixed rate CMB capacity (approximately $350 million to $400 million per quarter) for Multi renewals and originations • We will derecognize in the range of $150 million to $200 million of securitized Multis each quarter

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

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

Revenue

Management believes that Net Interest Income ("NII") will increase at year-over-year rates in the 8% to 10% range as some of the costs associated with the market events in 2017 abate and pricing changes flow through more of our mortgage portfolio. 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 decrease slightly relative to Q4 2017 levels	• 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 net expense related to mortgage insurance premiums paid in May 2017 will be $1 million in both Q1 and Q2, and immaterial thereafter • 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 decrease from the elevated levels experienced in mid-2017 • Low margin liquid asset balances will be higher than normal for the next several quarters which will place some pressure on NIM during that period
NIM: Securitization Financing	• Will be consistent with Q4 2017 levels	• 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 decrease slightly relative to Q4 2017 levels	• NIM benefits from the shift in asset mix towards our higher margin Core Lending portfolio and a higher NIM within that portfolio
Income from NHA-MBS Successor Issuer Rights	• Maple income will be in the range of $0.04-$0.06 per share per quarter	• The assets underlying this revenue stream continue to amortize as expected through 2020 • The early quarters of the year should be at the upper end of the range and the latter quarters at the lower end
Securitization Gains on Sale	• Will be consistent with annualized Q4 2017 levels	• 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 Q4 2017

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 levels 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 are intended to build a foundation for growth and productivity that will benefit our shareholders over the longer-term. 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 have also repatriated the call centre that supports *EQ Bank* so that we can better control the quality and consistency of our customers' experiences. The call centre change will be service positive but cost neutral to us in 2018.

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 laid the foundation for the introduction of GICs over 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. Through these and other innovations, marketing investments, and a competitive interest rate we believe we can consistently grow our customer base and deposit balances. 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. To date, we have been refining our risk models, updating our internal processes, implementing supporting software tools, and actively engaging with peers and regulators. Although we will likely benefit from the recently announced revisions to the standardized approach discussed above, 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, consistent with our position as *Canada's Challenger Bank™*. 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.

Our equity release mortgage business was launched in January under the *PATH Home Plan*™ brand and is the latest example of the asset diversification involved in our Challenger Bank strategy. Equity release solutions, also known as 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. With the combination of favourable demographic trends, generally increasing home equity values, and potentially less availability of traditional mortgage financing for our target market, we believe the home equity release business will provide an attractive alternative to Canadian seniors and will further strengthen Equitable's growth trajectory. Our analysis[(1)] indicates that the potential market is approximately $12 billion and that there remains significant untapped potential because the Canadian market is currently served by only one other provider. The equity release 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. We believe that steady-state ROEs will be in-line with those of Equitable's long-term corporate average.

(1) *Based on Statistics Canada data on target market size and benchmarking of reverse mortgage penetration rates in the United Kingdom, the United States of America and the Australian markets.*

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 Q2 2017 and we believe that trend will continue for the foreseeable future. We will also take actions to strengthen our structural liquidity position such as lengthening the average term 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 in 2018, assuming that Canadian economic conditions stay within the range of broad market expectations. Arrears rates were unusually low at the end of 2017 and we believe that they are likely to increase from those levels next year. Further, if actual economic conditions are below market expectations, losses and arrears may increase beyond the rates experienced over the past several years.

The new IFRS9 framework becomes 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 early analysis 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 64% on our uninsured residential mortgage portfolio offers us protection against a significant decrease in house prices.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near term. Readers should be aware that information contained in this section may not be appropriate for any other purpose. **See "Cautionary Note Regarding Forward-Looking Statements" on page 8 of this report.**

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2017	2016	Change from 2016	
Net income	$ 160,617	$ 138,330	$ 22,287	16%
EPS – diluted	$ 9.39	$ 8.49	$ 0.90	11%
Net interest income	308,362	279,357	29,005	10%
Provision for credit losses	1,543	2,445	(902)	(37%)
Non-interest expenses	129,030	116,539	12,491	11%

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

	2017			2016		
($ THOUSANDS, EXCEPT PERCENTAGES)	Average balance	Revenue/ Expense	Average rate[1]	Average balance	Revenue/ Expense	Average rate[1]
Core Lending:						
Revenues derived from:						
Mortgages	$ 11,418,518	$ 516,564	4.52%	$ 9,582,080	$ 444,093	4.63%
Liquidity investments	824,140	7,412	0.90%	630,830	5,773	0.92%
Equity securities – TEB[2]	100,709	5,959	5.92%	124,461	8,916	7.16%
	12,343,367	529,935	4.29%	10,337,371	458,782	4.44%
Expenses related to:						
Deposits and bank facilities	9,549,045	193,333	2.02%	8,228,347	171,521	2.08%
Secured backstop funding facility[3]	-	12,139	N/A	-	-	N/A
Debentures	51,895	3,079	5.93%	65,000	3,800	5.85%
Securitization liabilities	1,673,675	29,759	1.78%	1,127,375	17,471	1.55%
	11,274,615	238,310	2.11%	9,420,722	192,792	2.05%
Net interest income – TEB		291,625	2.36%		265,990	2.57%
Taxable Equivalent Basis – adjustment		(1,643)			(2,648)	
Core lending		$ 289,982			$ 263,342	
Securitization Financing:						
Revenues derived from:						
Mortgages	$ 6,942,697	$ 178,329	2.57%	$ 6,667,109	$ 179,838	2.70%
Liquidity investments	275,195	3,841	1.40%	147,682	1,493	1.01%
	7,217,892	182,170	2.52%	6,814,791	181,331	2.66%
Expenses related to:						
Securitization liabilities	6,044,095	145,161	2.40%	5,787,342	148,489	2.57%
Deposits and secured funding facility	1,026,012	18,629	1.82%	983,476	16,827	1.71%
	7,070,107	163,790	2.32%	6,770,818	165,316	2.44%
Securitization financing		$ 18,380	0.25%		$ 16,015	0.23%
Total interest earning assets – TEB	$ 19,561,259	$ 310,005	1.58%	$ 17,152,162	$ 282,005	1.64%

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

NII was up 10% year over year due to growth in average assets of both Core Lending and Securitization Financing, offset in part by a six bp decrease in NIM. The decrease in our overall NIM was the result of a drop in Core Lending NIM of 21 bps, largely a result of liquidity actions taken in Q2 2017, offset in part by a mix shift towards higher spread Core Lending assets.

Table 4: Factors affecting 2017 v 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Rates/spreads[1]	2	• Slightly higher spreads within both our Single Family Lending 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	• A shift in mix towards lower cost securitization funding options • Redemption of a higher rate deposit note • Redemption of a higher rate debenture • Offset by growth of our higher cost *EQ Bank* deposit product and decline in our low rate brokered HISA
Liquidity actions initiated in Q2 2017	(19)	• Insurance premium amortization related to the $892 million of Alternative Single Family mortgages that we insured in May 2017 • Fees associated with our $2 billion secured backstop funding facility
Mortgage prepayment income	(1)	• Reduced levels of early discharges in Single Family Lending
Change in Core Lending NIM	(21)	
Securitization Financing NIM:		
Asset mix	(3)	• An increase in the relative size of our lower yielding liquidity investments
Mortgage prepayment income	5	• 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]	(6)	

(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

($ THOUSANDS, EXCEPT PERCENTAGES)		2017		2016		Change from 2016	
Individual provision	**$**	**1,543**	$	2,445	$	(902)	(37%)
Collective provision		**-**		-		-	N/A
Provision for credit losses	**$**	**1,543**	$	2,445	$	(902)	(37%)
Provision for credit losses – rate		**0.01%**		0.02%		N/A	(0.01%)
Allowance for credit losses	**$**	**33,354**	$	34,426	$	(1,072)	(3%)

The credit quality of our mortgage portfolio remained strong in 2017. Our provision for credit losses during the year was $1.5 million, $0.9 million lower than in 2016. Relative to average mortgage principal outstanding during the year, the provision for credit losses was 1 bp, slightly below the level experienced in 2016 and historical norms. 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 and that no additions to our collective allowance were required during the year.

The provision for credit losses represents management's best estimate of loss formations during the year after carefully assessing the overall portfolio and individually reviewing impaired loans. The amount of provision may vary year-to-year based on impaired loan balances, our estimates of the likely credit losses on those 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 balance sheet. The allowance was $33.4 million or 17 bps of our total mortgage assets at December 31, 2017, which is in excess of our 10 year average annual loss rate of 4 bps.

OTHER INCOME

Table 6: Other income

($ THOUSANDS)	2017	2016	Change from 2016	
Fees and other income				
Fees and other income	**$ 19,116**	$ 16,111	$ 3,005	19%
Income from successor issuer activities	**9,186**	1,529	7,657	501%
Net (loss) gain on investments	**(888)**	146	(1,034)	(708%)
Securitization activities:				
Gains on securitization and income from retained interests	**13,317**	9,035	4,282	47%
Fair value gains (losses) on derivative financial instruments	**295**	(363)	658	181%
Total	**$ 41,026**	$ 26,458	$ 14,568	55%

Other income increased compared with 2016, mainly due to increases in:

- Income from successor issuer activities, representing income earned from certain Maple Assets that we acquired in October 2016 and which is expected to be recurring on a diminishing basis through 2020;
- Gains on securitization and income from retained interests, mainly due to an increase in the gain on sale margin and despite a lower level of derecognition activity; and
- Fees and other income, the majority of which resulted from gains recorded on certain investments acquired from Maple Bank, growth in our mortgage business and gains on the sale of foreclosed assets;

Offset by:

- A net investment loss in the current year compared to a net gain in 2016.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	2017	2016	Change from 2016	
Compensation and benefits	**$ 65,206**	$ 60,280	$ 4,926	8%
Technology and system costs	**21,037**	19,587	1,450	7%
Marketing and corporate expenses	**13,128**	11,908	1,220	10%
Product costs	**12,286**	10,734	1,552	14%
Regulatory, legal and professional fees	**11,042**	7,878	3,164	40%
Premises	**6,331**	6,152	179	3%
Total non-interest expenses	**$ 129,030**	$ 116,539	$ 12,491	11%
Efficiency Ratio – TEB	**36.8%**	37.8%	N/A	(1.0%)
Full-time employee ("FTE") – period average	**573**	531	42	8%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our Efficiency Ratio decreased to 36.8% from 37.8% a year ago as expense growth was slightly below the growth of our business.

Total non-interest expenses increased primarily due to:

- Higher compensation and benefits costs which grew in line with FTE;
- Growth in Regulatory, legal and professional fees driven by an increase in CDIC's standard premium rates, higher deposit balances, and an increase in professional services usage;
- An increase in Technology and system costs mainly to support the maintenance and enhancement of our core systems (including our digital platform);
- Higher Product costs which are largely related to brokered deposit transaction volumes and the outsourcing of our brokered HISA administration in Q4 2016; and
- An increase in Marketing expenses to promote our *EQ Bank* platform.

INCOME TAXES

Our effective income tax rate in 2017 increased to 26.6% from 26.0% a year ago due to lower tax-exempt dividend income as a result of the sale or redemption of approximately $40 million of preferred shares and other adjustments. Our statutory income tax rate did not change from 2016 and remains at 26.5%.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	**2017**	2016	Change from 2016	
Total assets	**$ 20,634,250**	$ 18,973,588	$ 1,660,662	9%
Mortgage principal – Core Lending	**12,291,564**	10,682,712	1,608,852	15%
Mortgage principal – Securitization Financing	**6,923,137**	7,017,120	(93,983)	(1%)
Deposit principal	**11,024,720**	9,680,163	1,344,557	14%
Total liquid assets as a % of total assets(1)	**7.2%**	6.7%	N/A	0.5%

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

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets in order to reduce our risk and optimize our ROE. The following table provides mortgage principal continuity schedules by lending portfolio for 2017 and 2016:

Table 9: Mortgage principal continuity schedule

							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)**
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	**3,723,713**	**1,321,706**	**5,045,419**	**1,846,492**	**6,891,911**	**-**	**1,846,492**
Derecognition	**-**	**-**	**-**	**(1,134,266)**	**(1,134,266)**	**1,134,266**	**-**
Net repayments	**(2,237,600)**	**(1,198,967)**	**(3,436,567)**	**(806,209)**	**(4,242,776)**	**(419,728)**	**(1,225,937)**
2017 closing balance	**$ 9,341,819**	**$ 2,949,745**	**$ 12,291,564**	**$ 6,923,137**	**$ 19,214,701**	**$ 4,018,719**	**$ 10,941,856**
% Change from 2016	**19%**	**4%**	**15%**	**(1%)**	**9%**	**22%**	**6%**
Net repayments percentage(3)	**28.5%**	**42.4%**	**32.2%**	**11.5%**	**24.0%**	**12.7%**	**11.9%**

							2016
($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal(1)	Securitization Financing MUM(2)
2015 closing balance	$ 6,449,663	$ 2,229,466	$ 8,679,129	$ 5,955,318	$ 14,634,447	$ 2,072,488	$ 8,027,806
Originations	3,608,169	1,269,685	4,877,854	3,049,279	7,927,133	-	3,049,279
Derecognition	-	-	-	(1,328,487)	(1,328,487)	1,328,487	-
Net repayments	(2,202,126)	(672,145)	(2,874,271)	(658,990)	(3,533,261)	(96,794)	(755,784)
2016 closing balance	$ 7,855,706	$ 2,827,006	$ 10,682,712	$ 7,017,120	$ 17,699,832	$ 3,304,181	$ 10,321,301
% Change from 2015	22%	27%	23%	18%	21%	59%	29%
Net repayments percentage(3)	34.1%	30.1%	33.1%	11.1%	24.1%	4.7%	9.4%

(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.*

Total MUM increased by $2.2 billion or 11% compared to a year ago, driven by growth in both our Core Lending business and Securitization Financing.

Within Core Lending, both the Alternative Single Family Lending and Commercial Lending portfolios grew due to strong origination levels over the past year. Single Family growth was aided by lower attrition rates, but Commercial growth was slowed by higher attrition rates. Attrition rates increased in Commercial mainly because of a higher level of maturities compared to 2016.

Securitization Financing MUM, which includes $4.0 billion of derecognized mortgage principal, is more reflective of the performance of our underlying securitization business than are assets reported on the balance sheet. Securitization Financing MUM increased primarily due to Multi originations and despite higher attrition. We expect that attrition rates will gradually increase over the next year as the Prime Single Family portfolio seasons.

MORTGAGE ASSET ORIGINATIONS

The table below provides mortgage originations for 2017 and 2016 by lending business:

Table 10: Mortgage originations – by lending business

	2017		2016		Change from 2016	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Mortgage principal funded	% Change
Core Lending:						
Single Family Lending	**$ 3,723,713**	**54%**	$ 3,608,169	46%	$ 115,544	3%
Commercial Lending	**1,321,706**	**19%**	1,269,685	16%	52,021	4%
	5,045,419	**73%**	4,877,854	62%	167,565	3%
Securitization Financing :						
Multi-unit residential	**1,376,939**	**20%**	957,857	12%	419,082	44%
Prime single family residential	**469,553**	**7%**	2,091,422	26%	(1,621,869)	(78%)
	1,846,492	**27%**	3,049,279	38%	(1,202,787)	(39%)
Total mortgage originations	**$ 6,891,911**	**100%**	$ 7,927,133	100%	$ (1,035,222)	(13%)

Most of our businesses delivered strong mortgage origination volumes in 2017, but overall volumes were down from last year as a result of lower originations in Prime Single Family. The decrease in Prime Single Family originations reflected an overall reduction in market activity which is likely the result of regulatory changes announced last fall and a high level of competition.

In the spring of 2017, management took several actions to tighten underwriting standards and prudently manage its commitment pipeline to curtail mortgage growth in light of funding market disruptions and house price growth. These actions slowed our portfolio growth for a short period of time. As the funding market stabilized during the second half of the year, we gradually and cautiously increased our lending activity. On an annual basis, Core Lending produced record annual origination volumes, up 3% from 2016 levels and driven by record originations in both Alternative Single Family Lending and Commercial Lending. Single Family origination growth was the result of the high relative quality of our customer service and continued market share gains. Commercial originations benefited from the continued strength of our relationship with brokers and business partners and one large structured loan that was originated at the end of Q1 2017.

Securitization Financing originations decreased as a result of Prime Single Family volumes, as discussed above. Since the margins on this portfolio are thin, we do not expect this decline to have a significant adverse impact on our overall profitability. Offsetting some of this decline were Multi origination volumes which were up 44% compared to 2016. The increase in Multis was in part a result of an increase in our CMB capacity.

SECURITIZATION

We securitize mortgages in order to effectively manage our margins and diversify our sources of funding. 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 years.

Table 11: Securitization and derecognition activity

($ THOUSANDS EXCEPT PERCENTAGES)	2017	2016	Change from 2016	
Securitization derecognized – non-prepayable Multis	**$ 985,217**	$ 580,410	$ 404,807	70%
Securitization derecognized – prepayable mortgages[1]	**149,049**	748,077	(599,028)	(80%)
Total principal derecognized	**$ 1,134,266**	$ 1,328,487	$ (194,221)	(15%)
Gains on sale	**$ 10,633**	$ 8,135	$ 2,498	31%
Gains on sale margin[2]	**0.94%**	0.61%	N/A	0.33%

[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.*

Gains on sale were up from last year as a result of higher margins, offset in part by a decrease in derecognition volumes. Overall derecognition levels declined year-over-year as a result of our Leverage Ratio position and management's decision to execute fewer transactions that effect the derecognition of prepayable mortgages. On the other hand, derecognition of non-prepayable Multis increased due to higher borrower demand for this product. Gain on sale margins increased primarily as a result of the shift in mix towards non-prepayable Multis (which are generally a higher margin product).

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 12: Mortgage credit metrics

($ THOUSANDS, EXCEPT PERCENTAGES)	2017	2016	Change from 2016	
Provision for credit losses	$ 1,543	$ 2,445	$ (902)	(37%)
Provision for credit losses – rate	0.01%	0.02%	N/A	(0.01%)
Gross impaired mortgage assets[1]	23,953	39,365	(15,412)	(39%)
Net impaired mortgage assets[2]	22,489	36,829	(14,340)	(39%)
Net impaired mortgage assets as a % of total mortgage assets	0.12%	0.21%	N/A	(0.09%)
Allowance for credit losses	33,354	34,426	(1,072)	(3%)
Allowance for credit losses as a % of total mortgage assets	0.17%	0.19%	N/A	(0.02%)
Allowances for credit losses as a % of gross impaired mortgage assets	139%	87%	N/A	52%

(1) *Uninsured mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.*
(2) *Net impaired mortgage assets reflect gross impaired mortgages less individual allowances.*

In aggregate, our credit metrics indicate that the quality of our mortgage portfolio remained high in 2017:

- Our provision for credit losses decreased in both absolute dollars and relative to average mortgage principal. The decrease from 2016 reflects a reduction in impaired assets, as well as our consistently prudent risk management parameters and active monitoring processes.
- Impaired loans decreased in both dollar terms and as a percentage of the total portfolio compared to the prior year and historical norms due to our workout efforts. The majority of the decrease was in our Alternative Single Family Lending portfolio (almost half of which related to Alberta), with the remainder related to the discharge of two large commercial loans that were impaired at the end of 2016. Equitable does not sell any impaired loans to third parties in order to manage its impaired loan balances or credit losses. The impairment rate may return to more normalized levels in future quarters.
- The allowance for credit losses declined year-over-year but increased as a % of gross impaired mortgage assets and remained sufficient in the opinion of management.

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. The Risk Management section of this document discusses the Company's Liquidity Risk in more detail.

Management believes that funding markets are stable and that the Company's liquid assets are sufficient. Over the longer term we will continue to take actions to maintain a strong liquidity profile.

We hold sufficient 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.

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 13: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGES)	2017	2016	Change from 2016	
Eligible deposits with regulated financial institutions[1]	**$ 660,444**	$ 443,855	$ 216,589	49%
Government issued or guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**-**	199,401	(199,401)	(100%)
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**1,177,221**	638,323	538,898	84%
Obligations under repurchase agreements	**(452,001)**	(112,488)	(339,513)	302%
Liquid assets held for regulatory purposes	**1,385,664**	1,169,091	216,573	19%
Other deposits with regulated financial institutions	**486**	324	162	50%
Equity securities[3]	**93,279**	111,176	(17,897)	(16%)
Total liquid assets	**$ 1,479,429**	$ 1,280,591	$ 198,838	16%
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**6.7%**	6.2%	N/A	0.5%
Total liquid assets as a % of total assets	**7.2%**	6.7%	N/A	0.5%

(1) *Eligible deposits with regulated financial institutions represent deposits of Equitable Bank which are held with major Canadian financial institutions and exclude $20.4 million (December 31, 2016 – $16.0 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $345.6 million (December 31, 2016 – $231.9 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.*

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 December 31, 2017, our LCR was well in excess of the regulatory minimum of 100%.

Liquid assets at year end were up as compared with December 31, 2016, primarily due to growth of our business and our decision to adopt a more cautious stance to liquidity management after funding market disruptions experienced in Q2 2017.

OTHER ASSETS

Please refer to Note 12 to our 2017 audited annual consolidated financial statements for details of our Other assets balances at December 31, 2017 and 2016.

Other assets grew 33% or $24.1 million from a year ago mainly due to:

- $15.7 million increase in Deferred costs – Contingent liquidity facility, related to upfront costs for the secured backstop funding facility that we closed in June (amortized over a 2-year period);
- $6.9 million increase in Intangible assets, mainly due to project-related investments that we made in 2017;
- $7.8 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:

- $5.3 million decrease in Real estate owned due to the sale of foreclosed assets; and
- $2.7 million decrease in Premises and equipment, largely a result of amortization over the past year.

Included in Prepaid expenses and other is a net receivable of $3.2 million (December 31, 2016 – $3.2 million) related to an alleged fraud that was identified in 2011. The Company continues to pursue a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

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

DEPOSITS

Table 14: Deposit principal

($ THOUSANDS)	2017	2016	Change from 2016	
Brokered term deposits (GICs)	**$ 8,291,682**	$ 7,275,675	$ 1,016,007	14%
Brokered HISAs	**955,456**	1,192,046	(236,590)	(20%)
EQ Bank Savings Plus Accounts	**1,627,582**	1,062,279	565,303	53%
Deposit notes	**150,000**	150,163	(163)	(0%)
Total	**$ 11,024,720**	$ 9,680,163	$ 1,344,557	14%

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. 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. 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 by $1.3 billion or 14% over 2016, just below the growth rate of our Core Lending portfolio. A significant portion of this growth was in GICs. 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 Savings Plus Account*, which surpassed $1.6 billion at the end of 2017. *EQ Bank* deposit principal was $565 million or 53% above last year, reflecting our efforts to enhance the platform and to grow our customer base. *EQ Bank* is a key strategic pillar for us as we fulfil our vision of being *Canada's Challenger Bank™*. The platform demonstrated its value during the liquidity event in Q2 2017. Most notably, our retention rate on these direct-to-consumer deposits was significantly higher than for brokered deposits. We were also able to quickly drive increased account acquisition and balance growth by launching a promotional campaign and increasing the interest rate that we offer. We expect these deposits to represent a growing share of our overall funding base in future years.

The above increases were in part offset by a $237 million decrease in our brokered HISA account balances. Brokered HISA deposits experienced a high level of attrition during April and early May of 2017 but have since stabilized. Given the behaviour of these accounts during the second quarter, we intend to focus on growing *EQ Bank* and to de-emphasize growth of brokered HISA balances going forward. We will continue to offer the product, with a competitive rate, but have taken steps aimed at curtailing growth and making changes intended to encourage account stability such as reducing the interest rate and the maximum allowable account balance.

SECURITIZATION LIABILITIES

A large portion of the Company's securitization transactions do not qualify the mortgages for balance sheet derecognition and therefore the associated obligations are recognized on the consolidated balance sheets and accounted for as securitization liabilities.

Securitization liability principal was $7.6 billion at the end of December 31, 2017, down $195 million or 2% from last year. The decrease is mainly attributable to the repayment of a liability 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 the securitization and sale of $0.9 billion of residential mortgages which we insured in Q2 2017.

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 (December 31, 2016 - $700 million). At December 31, 2017, the balance outstanding on these facilities was $129 million (December 31, 2016 - $50 million). Our usage of these facilities is a function of our Prime Single Family and Multi activity levels and the timing of mortgage securitizations and sales, in addition to the availability of other funding sources.

We also have a $35 million operating credit facility in place with a major Canadian Schedule I Bank. The facility is secured by a portion of the Company's preferred share investments. There was no outstanding balance on the facility at December 31, 2017 or 2016.

In 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 include 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 syndicate Banks' cost of funds plus 1.25%. No advances have yet been made on this facility since its establishment but it is accessible if ever needed, subject to the terms and conditions of the agreement.

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 December 31, 2017 (December 31, 2016 - $65 million).

Details related to the Company's bank facilities and debentures can be found in Notes 16 and 17 to our 2017 audited consolidated financial statements.

OTHER LIABILITIES AND DEFERRED INCOME TAXES

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, income taxes payable, the fair value of derivative financial instruments, and future servicing liabilities for securitized mortgages that achieved derecognition. Please refer to Notes 14 and 15 to our 2017 audited consolidated financial statements for a detailed breakdown of Net deferred income tax liabilities and Other liabilities, respectively, as at December 31, 2017 and 2016.

Other liabilities and Net deferred income tax liabilities declined by $7.8 million or 3% mainly due to:

- $15.9 million decrease in current and deferred taxes payable; and
- $10.1 million decrease in Accounts payable and accrued liabilities (half of which related to obligations associated with part of our Maple Assets);

Offset by:

- $9.9 million increase in fair value of Derivative financial instruments;
- $5.7 million increase in Mortgage realty taxes; and
- $2.6 million increase in Securitized mortgage servicing liability.

Contractual obligations by year of maturity are outlined in Table 32 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2017.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased $161 million or 16% to over $1.1 billion at December 31, 2017, from $977 million a year ago. The increase reflects the earnings retained by the Company, net of dividends paid and other comprehensive income.

At December 31, 2017, the Company had 16,503,437 common shares and 3,000,000 Series 3 preferred shares issued and outstanding (December 31, 2016 – 16,460,142 common shares and 3,000,000 Series 3 preferred shares).

During 2017, 110,060 options were granted. In addition, 43,295 stock options were exercised that contributed $1.7 million to common share capital. At December 31, 2017, there were 619,771 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $31.5 million. For additional information on outstanding stock options and their associated exercise prices, please refer to Note 19 (a) to the 2017 audited consolidated financial statements.

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").

OSFI's Capital Adequacy Requirements ("CAR") Guideline details how Basel III rules apply to Canadian Banks. OSFI has mandated that all Canadian-regulated financial institutions meet a target CET1 Ratio of 7.0% on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments). For Tier 1 Capital and Total Capital Ratios, the "all-in" capital targets are 8.5% and 10.5%, respectively.

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 December 31, 2017 exceeded the regulatory minimums on an "all-in" basis. 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 December 2016, our Total Capital Ratio declined, mainly because we redeemed $65 million debentures during Q4 2017. At current levels, capital ratios are above management's target levels, and we hope to be able to deploy the excess into asset growth during 2018.

Capital levels improved sequentially from Q3 2017 partly due to earnings growth and lower cumulative after-tax mark-to-market losses on our preferred share portfolio. Under IFRS, we record the unrealized losses on our preferred share portfolio through Other Comprehensive Income ("OCI") and not through our Income Statement since we account for the shares as available for sale debt investments and do not believe that the assets are impaired. There has been no indication of a deterioration in the credit quality of the preferred share issuers and we do not believe there is a significant risk of credit loss on our holdings.

Canadian Banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established minimum Leverage Ratio targets on a confidential and institution by institution basis. Equitable Bank's Leverage Ratio was 5.4% at December 31, 2017 and the Bank remains fully compliant with its regulatory requirements. Our Leverage Ratio increased relative to last year 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 15: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	2017	2016
Risk-weighted assets ("RWA")	**$ 7,035,380**	$ 6,385,825
Common Equity Tier 1 Capital:		
Common shares	**200,990**	199,089
Contributed surplus	**7,104**	6,148
Retained earnings	**861,862**	721,117
Accumulated other comprehensive (loss) income ("AOCI")[1]	**(8,748)**	(20,210)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(17,046)**	(15,037)
Common Equity Tier 1 Capital	**1,044,162**	891,107
Additional Tier 1 capital:		
Non-cumulative preferred shares	**72,554**	72,554
Tier 1 Capital	**1,116,716**	963,661
Tier 2 Capital:		
Collective allowance	**31,890**	31,890
Subordinated debentures	**-**	65,000
Tier 2 Capital	**31,890**	96,890
Total Capital	**$ 1,148,606**	$ 1,060,551
Capital Ratios:		
CET1 Ratio	**14.8%**	14.0%
Tier 1 Capital Ratio	**15.9%**	15.1%
Total Capital Ratio	**16.3%**	16.6%
Leverage Ratio	**5.4%**	5.1%

[1] *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.*

Table 16: Risk-weighted assets of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	2017 Amounts	2017 Risk Weighting	2017 Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	**$ 1,026,482**	**18%**	**$ 187,261**
Investments	**107,442**	**98%**	**105,184**
Mortgage receivables – Core Lending:			
Single Family Lending Services	**9,378,137**	**29%**	**2,765,841**
Commercial Lending Services	**2,958,494**	**94%**	**2,773,612**
Mortgage receivables – Securitization Financing	**6,993,807**	**2%**	**110,794**
Securitization retained interests	**104,998**	**100%**	**104,998**
Other assets	**96,288**	**71%**	**68,681**
Total Equitable Bank assets subject to risk rating	**$ 20,665,648**		**$ 6,116,371**
Less: Collective allowance	**(31,889)**		**-**
Total Equitable Bank assets	**$ 20,633,759**		**$ 6,116,371**
Off-balance sheet:			
Loan commitments			**316,829**
Derivatives			**31,792**
Total credit risk			**$ 6,464,992**
Operational risk[1]			**570,388**
Total			**$ 7,035,380**

($ THOUSANDS, EXCEPT PERCENTAGES)	2016 Amounts	2016 Risk Weighting	2016 Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	$ 691,732	14%	$ 94,298
Securities purchased under reverse repurchase agreements	199,401	0%	-
Investments	136,718	100%	136,718
Mortgage receivables – Core Lending:			
Single Family Lending Services	7,903,593	31%	2,430,921
Commercial Lending Services	2,806,749	97%	2,732,165
Mortgage receivables – Securitization Financing	7,105,351	1%	56,245
Securitization retained interests	88,782	100%	88,782
Other assets	72,578	95%	68,597
Total Equitable Bank assets subject to risk rating	$ 19,004,904		$ 5,607,726
Less: Collective allowance	(31,890)		-
Total Equitable Bank assets	$ 18,973,014		$ 5,607,726
Off-balance sheet:			
Loan commitments			271,454
Derivatives			18,783
Total credit risk			$ 5,897,963
Operational risk[1]			487,862
Total			$ 6,385,825

(1) For operational risk, Equitable Bank uses the Basic Indicator Approach – calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.

SUMMARY OF QUARTERLY RESULTS

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 17: Summary of quarterly results

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	**2017**				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
RESULTS OF OPERATIONS								
Net income	**$ 40,446**	$ 37,869	$ 38,909	$ 43,393	$ 41,678	$ 35,230	$ 33,410	$ 28,012
Net income available to common shareholders	**39,256**	36,678	37,718	42,202	40,488	34,039	32,219	26,821
Net interest income	**79,697**	71,964	78,349	78,352	77,926	70,827	67,010	63,594
Total revenue	**197,648**	189,290	183,025	181,525	179,939	169,432	162,861	151,691
EPS – basic[1]	**$ 2.38**	$ 2.23	$ 2.29	$ 2.56	$ 2.58	$ 2.19	$ 2.07	$ 1.73
EPS – diluted[1]	**$ 2.36**	$ 2.21	$ 2.28	$ 2.54	$ 2.56	$ 2.16	$ 2.05	$ 1.71
ROE	**14.9%**	14.4%	15.6%	18.4%	19.3%	17.2%	17.1%	14.7%
Return on average assets	**0.8%**	0.8%	0.8%	0.9%	0.9%	0.8%	0.8%	0.7%
NIM – TEB:								
Total Assets	**1.59%**	1.47%	1.63%	1.66%	1.70%	1.64%	1.61%	1.62%
Core Lending	**2.33%**	2.17%	2.41%	2.55%	2.64%	2.60%	2.55%	2.50%
Securitization Financing	**0.24%**	0.25%	0.30%	0.22%	0.24%	0.19%	0.22%	0.31%
Efficiency Ratio – TEB	**37.3%**	37.4%	39.2%	33.2%	33.9%	37.0%	38.2%	43.2%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**850,617**	1,098,725	938,591	835,780	930,449	1,050,366	952,937	674,417
Commercial Lending Services	**359,479**	380,442	201,789	379,996	377,578	367,197	323,061	201,849
Core Lending	**1,210,096**	1,479,167	1,140,380	1,215,776	1,308,027	1,417,563	1,275,998	876,266
Securitization Financing	**457,702**	492,905	486,621	409,264	871,391	739,352	745,409	693,127
Total originations	**1,667,798**	1,972,072	1,627,001	1,625,040	2,179,418	2,156,915	2,021,407	1,569,393
BALANCE SHEET								
Total assets	**20,634,250**	20,221,205	19,795,986	19,300,418	18,973,588	18,062,846	17,147,854	16,411,221
Assets Under Management	**24,652,969**	24,274,172	23,641,546	22,959,080	22,277,769	21,024,401	19,709,617	18,616,018
Mortgages receivable	**19,298,548**	18,787,348	18,263,623	18,164,958	17,783,803	17,049,744	16,244,106	15,540,241
MUM	**23,233,420**	22,753,938	22,013,453	21,743,431	21,004,013	19,922,211	18,723,056	17,668,821
Shareholders' equity	**1,138,117**	1,098,325	1,060,852	1,023,702	977,150	879,367	843,924	816,049
Liquid assets	**1,479,429**	1,459,711	1,570,532	1,153,174	1,280,591	1,037,259	1,033,634	939,691
CREDIT QUALITY								
Provision for credit losses	**387**	40	378	738	870	1,243	105	227
Provision for credit losses – rate	**0.01%**	0.001%	0.01%	0.02%	0.02%	0.03%	0.003%	0.01%
Net impaired mortgages as a % of total mortgage assets	**0.12%**	0.13%	0.16%	0.21%	0.21%	0.19%	0.20%	0.22%
Allowance for credit losses as a % of total mortgage assets	**0.17%**	0.18%	0.19%	0.19%	0.19%	0.20%	0.20%	0.21%

Table 17: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,486,677**	16,478,314	16,477,456	16,464,170	15,692,833	15,570,678	15,556,836	15,543,952
Weighted average diluted	**16,625,927**	16,570,256	16,567,699	16,614,221	15,808,124	15,722,532	15,709,456	15,674,734
Book value per common share	**$ 64.57**	$ 62.25	$ 59.98	$ 57.73	$ 54.96	$ 51.72	$ 49.55	$ 47.81
Common share price – close	**$ 71.50**	$ 56.00	$ 59.48	$ 69.37	$ 60.46	$ 58.86	$ 55.99	$ 50.76
Common share market capitalization	**1,179,996**	922,826	980,091	1,142,881	995,180	918,196	871,566	789,413
Dividends declared per:(2)								
Common share	**$ 0.25**	$ 0.24	$ 0.23	$ 0.23	$ 0.22	$ 0.21	$ 0.21	$ 0.20
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	**7,035,380**	6,814,247	6,561,813	6,739,517	6,385,825	5,968,000	5,664,575	5,433,025
CET1 Ratio	**14.8%**	14.8%	14.8%	13.9%	14.0%	13.4%	13.5%	13.5%
Tier 1 Capital Ratio	**15.9%**	15.8%	15.9%	15.0%	15.1%	14.6%	14.8%	14.9%
Total Capital Ratio	**16.3%**	17.2%	17.4%	16.4%	16.6%	16.2%	16.5%	16.7%
Leverage Ratio	**5.4%**	5.3%	5.3%	5.3%	5.1%	4.9%	5.0%	5.0%

(1) *Annual EPS may not equal the sum of the quarterly EPS' as a result of rounding.*
(2) *Annual dividends declared per share may not equal the sum of the quarterly dividends per share as a result of rounding.*

FOURTH QUARTER OVERVIEW

Equitable produced strong results in the last quarter of 2017. EPS in Q4 surpassed that of the previous quarter, reestablishing an upward trend in our results after actions taken to manage through funding market stress in the first half of the year caused our earnings trajectory to decline sharply in Q2 (see discussion in section "2017 Highlights"). These actions continued to affect our results in Q4 but the impact on EPS was $0.32, less than in the prior quarter (Q3 – $0.42 and Q2 – $0.26). We expect the impact to decline to $0.24 (the cost of the secured backstop funding facility) by mid-2018 and remain at that level through Q2 2019. As a result, and due to growth in our business, earnings should continue to grow in 2018.

During the three months ended December 31, 2017, Equitable:

- delivered quarterly diluted EPS of $2.36, up $0.15 or 7% from Q3 2017 but down $0.20 or 8% from Q4 2016;
- declared common share dividends of $0.25, up 14% from Q4 2016; and
- generated an ROE of 14.9%, exceeding the quarterly average of the eight largest publicly traded Canadian banks.

ITEMS OF NOTE

Q4 2017 financial results were impacted by the following item:

- $0.5 million of fair value losses on derivative financial instruments related to securitization activities.

Q3 2017 financial results were impacted by the following item:

- $1.5 million of fair value gains on derivative financial instruments related to securitization activities.

Q4 2016 financial results were impacted by the following item:

- $1.3 million of gains on investments acquired from Maple Bank.

NET INTEREST INCOME

The table below details the Company's NII and NIM for the three months ended December 31, 2017, with comparisons to the prior quarter and the corresponding quarter of the prior year, by product and portfolio.

Table 18: Net interest income

								Three months ended
		Dec 31, 2017			Sep 30, 2017			Dec 31, 2016
($ THOUSANDS, EXCEPT PERCENTAGES)		**Revenue/ Expense**	**Average rate**[1]		Revenue/ Expense	Average rate[1]		Revenue/ Expense	Average rate[1]
Core Lending:									
Revenues derived from:									
Mortgages	**$**	**139,630**	**4.62%**	$	129,372	4.47%	$	120,714	4.63%
Liquidity investments		**2,322**	**1.05%**		2,089	0.93%		1,611	0.84%
Equity securities – TEB		**1,300**	**5.39%**		1,402	5.92%		2,197	7.55%
		143,252	**4.38%**		132,863	4.23%		124,522	4.40%
Expenses related to:									
Deposits and bank facilities		**53,471**	**2.07%**		50,516	2.06%		43,195	1.98%
Secured backstop funding facility		**5,336**	**N/A**		5,425	N/A		-	N/A
Debentures		**229**	**7.22%**		950	5.80%		950	5.80%
Securitization liabilities		**8,449**	**2.00%**		8,089	1.86%		6,025	1.55%
		67,485	**2.24%**		64,980	2.24%		50,170	1.94%
Net interest income – TEB		**75,767**	**2.33%**		67,883	2.17%		74,352	2.64%
Taxable Equivalent Basis – adjustment		**(360)**			(402)			(617)	
Core Lending	**$**	**75,407**		$	67,481		$	73,735	
Securitization Financing:									
Revenues derived from:									
Mortgages	**$**	**44,849**	**2.60%**	$	43,368	2.54%	$	46,159	2.65%
Liquidity investments		**1,405**	**1.88%**		1,272	1.42%		587	1.08%
		46,254	**2.57%**		44,640	2.48%		46,746	2.61%
Expenses related to:									
Securitization liabilities		**36,512**	**2.46%**		35,558	2.36%		37,907	2.51%
Deposits and secured funding facility		**5,452**	**2.03%**		4,599	1.85%		4,648	1.70%
		41,964	**2.39%**		40,157	2.29%		42,555	2.39%
Securitization Financing	**$**	**4,290**	**0.24%**	$	4,483	0.25%	$	4,191	0.24%
Total interest earning assets – TEB	**$**	**80,057**	**1.59%**	$	72,366	1.47%	$	78,543	1.70%

(1) *Average rates are calculated based on daily average balances outstanding during the period.*

Q4 2017 v Q4 2016

NII in Q4 2017 was up 2% as growth in total average asset balances of 10% was largely offset by an 11 bp decrease in NIM. The decrease in Total NIM was the result of a decline in Core Lending NIM, driven by the liquidity events that unfolded in the second quarter of 2017.

Table 19(a): Factors affecting Q4 2017 v Q4 2016 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Rates/spread[(1)]	10	• 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	(9)	• Growth of our higher cost *EQ Bank* deposit product • Decrease in our low rate brokered HISA • Partly offset by the redemption of higher rate Series 10 debentures
Liquidity actions initiated in Q2 2017	(22)	• 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	(6)	• Reduced levels of early discharges in Single Family Lending
Change in Core Lending NIM	(31)	
Securitization Financing NIM:		
Asset mix	(2)	• An increase 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
Other	(1)	
Change in Securitization NIM	-	
Change in Total NIM[(2)]	(11)	

(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.

Q4 2017 v Q3 2017

NII increased 11% from last quarter driven by 3% growth in average assets and a 12 bp increase in NIM. The increase in our overall NIM was mainly the result of a higher NIM in our Core Lending business.

Table 19(b): Factors affecting Q4 2017 v Q3 2017 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Rates/spreads[1]	8	• Higher spreads in both our Single Family Lending and Commercial portfolios
Asset mix	1	• Decrease in the relative size of our lower yielding liquidity investments
Funding mix	2	• Redemption of higher cost Series 10 debentures • Partly offset by growth of our higher cost *EQ Bank* deposit product
Liquidity actions initiated in Q2 2017	8	• 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	(4)	• Reduced levels of early discharges in Single Family Lending
Other	1	
Change in Core Lending NIM	16	
Securitization Financing NIM:		
Asset mix	1	• Decrease in the relative size of our lower yielding liquidity investments
Funding mix	(3)	• A shift in mix towards our relatively higher cost funding options and decrease in our lower cost funding products
Mortgage prepayment income	1	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Change in Securitization NIM	(1)	
Change in Total NIM[2]	12	

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

PROVISION FOR CREDIT LOSSES

Table 20: Provision for credit losses

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2017**	Sep 30, 2017	% Change	Dec 31, 2016	% Change
Individual provision	**$ 387**	$ 40	868%	$ 870	(56%)
Collective provision	**-**	-	N/A	-	N/A
Provision for credit losses	**$ 387**	$ 40	868%	$ 870	(56%)
Provision for credit losses – rate	**0.01%**	0.001%	0.01%	0.02%	(0.01%)
Allowance for credit losses	**$ 33,354**	$ 33,545	(1%)	$ 34,426	(3%)

The Company's provision for credit losses was $0.4 million in the quarter, down $0.5 million compared to the same period last year but up $0.3 million from Q3 2017 levels. The low level of provision reflects the health of our mortgage portfolio and is a result of low loss estimates for newly impaired loans. 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 and that no additions to our collective allowance were required during the quarter.

OTHER INCOME

Table 21: Other income

($ THOUSANDS)	Dec 31, 2017	Sep 30, 2017	% Change	Dec 31, 2016	% Change
		Three months ended			
Fees and other income					
Fees and other income	$ 4,389	$ 4,839	(9%)	$ 5,279	(17%)
Income from successor issuer activities	1,764	2,653	(34%)	1,529	15%
Net loss on investments	-	(100)	100%	(557)	100%
Securitization activities:					
Gains on securitization and income from retained interests	2,840	3,304	(14%)	2,448	16%
Fair value (losses) gains on derivative financial instruments	(491)	1,493	(133%)	589	(183%)
Total	$ 8,502	$ 12,189	(30%)	$ 9,288	(8%)

Q4 2017 v Q4 2016

Other income was down $0.8 million or 8% compared with Q4 2016, mainly because of:

- A fair value loss on derivatives versus a gain in the same period of 2016; and
- A decrease in Fees and other income, primarily because 2016 included gains recorded on certain investments acquired from Maple Bank and there were no such gains in 2017.

Q4 2017 v Q3 2017

Other income decreased $3.7 million or 30% from Q3 2017, primarily due to:

- A fair value loss on derivative financial instruments related to securitization activities in Q4 compared with a gain in Q3; and
- A lower level of Income from successor issuer activities, as a result of attrition in the Maple portfolio.

NON-INTEREST EXPENSES

Table 22: Non-interest expenses and Efficiency Ratio

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	**Dec 31, 2017**	Sep 30, 2017	% Change	Dec 31, 2016	% Change
Compensation and benefits	**$ 15,821**	$ 16,495	(4%)	$ 14,863	6%
Technology and system costs	**5,490**	4,974	10%	5,198	6%
Regulatory, legal and professional fees	**3,538**	2,950	20%	2,259	57%
Marketing and corporate expenses	**3,501**	2,527	39%	3,058	14%
Product costs	**3,110**	3,128	(1%)	2,968	5%
Premises	**1,613**	1,568	3%	1,404	15%
Total non-interest expenses	**$ 33,073**	$ 31,642	5%	$ 29,750	11%
Efficiency Ratio – TEB	**37.3%**	37.4%	(0.1%)	33.9%	3.4%
Full-time employee ("FTE") – period average	**586**	573	2%	552	6%

Q4 2017 v Q4 2016

Our Efficiency Ratio increased to 37.3% from 33.9% a year ago as growth in expenses outpaced growth in our revenue. Revenue growth was muted by the liquidity actions undertaken in Q2 2017.

Total non-interest expenses increased $3.3 million or 11%, mainly because of:

- Growth in Regulatory, legal and professional fees driven by an increase in CDIC's standard premium rates, higher deposit balances, and an increase in professional services usage;
- Higher Compensation and benefits costs as a result of growth in FTE; and
- An increase in Marketing expenses to promote our *EQ Bank* digital banking platform.

Q4 2017 v Q3 2017

Expenses were up sequentially by $1.4 million or 5%, primarily because of:

- An increase in Marketing expenses related to our *EQ Bank* advertising campaigns;
- Growth in Regulatory, legal and professional fees, the majority of which related to professional services utilized during the quarter; and
- Higher Technology and system costs mainly in relation to support, maintenance and enhancement of our core systems (including our digital platform);

Offset by:

- A decrease in Compensation and benefit costs due to a year-end true-up.

INCOME TAXES

Q4 2017 v Q4 2016

The Company's effective income tax rate in the quarter decreased to 26.0% from 26.3% a year ago, mainly due to certain tax adjustments which were offset partially by lower tax-exempt dividend income.

Q4 2017 v Q3 2017

Our effective income tax rate for the quarter was 26.0% compared to 27.8% in the third quarter, mainly due to certain tax adjustments recorded in the prior quarter.

TOTAL MORTGAGE PRINCIPAL

The following table provides quarterly mortgage principal continuity schedules by lending business for Q4 2017 and Q4 2016:

Table 23: Mortgage principal continuity schedule

	Three months ended December 31, 2017						
($ THOUSANDS, EXCEPT PERCENTAGES)	**Single Family Lending**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortage Principal[1]**	**Securitization Financing MUM [2]**
Q3 2017 closing balance	**$ 9,054,784**	**$ 2,853,236**	**$ 11,908,020**	**$ 6,792,951**	**$ 18,700,971**	**$ 4,052,967**	**$ 10,845,918**
Originations	**850,617**	**359,479**	**1,210,096**	**457,702**	**1,667,798**	**-**	**457,702**
Securitization derecognized	**-**	**-**	**-**	**(192,703)**	**(192,703)**	**192,703**	**-**
Net repayments	**(563,582)**	**(262,970)**	**(826,552)**	**(134,813)**	**(961,365)**	**(226,951)**	**(361,764)**
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**
% Change from Q3 2017	**3%**	**3%**	**3%**	**2%**	**3%**	**(1%)**	**1%**
% Change from Q4 2016	**19%**	**4%**	**15%**	**(1%)**	**9%**	**22%**	**6%**
Net repayments percentage[3]	**6.2%**	**9.2%**	**6.9%**	**2.0%**	**5.1%**	**5.6%**	**3.3%**

	Three months ended December 31, 2016						
($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortage Principal[1]	Securitization Financing MUM [2]
Q3 2016 closing balance	$ 7,540,069	$ 2,657,201	$ 10,197,270	$ 6,763,386	$ 16,960,656	$ 2,961,555	$ 9,724,941
Originations	930,449	377,578	1,308,027	871,391	2,179,418	-	871,391
Securitization derecognized	-	-	-	(371,142)	(371,142)	371,142	-
Net repayments	(614,812)	(207,773)	(822,585)	(246,515)	(1,069,100)	(28,516)	(275,031)
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
% Change from Q3 2016	4%	6%	5%	4%	4%	12%	6%
Net repayments percentage[3]	8.2%	7.8%	8.1%	3.6%	6.3%	1.0%	2.8%

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

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

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

Q4 2017 v Q4 2016

Please refer to page 31-32 of this document for a discussion of our year-over-year portfolio growth.

Q4 2017 v Q3 2017

Total MUM increased by 2% because of growth in both our Core Lending and Securitization Financing portfolios.

Core Lending balances continued to grow due to high originations levels, even though they were down from the prior quarter and prior year. Portfolio growth was aided by slightly lower attrition levels. Securitization Financing MUM increased only marginally due to a low level of originations in our Prime Single Family business.

MORTGAGE ASSET ORIGINATIONS

Mortgage origination levels are seasonal, particularly in Single Family Lending, and as such, we do not focus on quarter over quarter comparisons. The table below provides mortgage originations for Q4 2017 and Q4 2016.

Table 24: Mortgage originations – by lending business

					Three months ended	
	Dec 31, 2017		Dec 31, 2016		Change from 2016	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Mortgage principal funded	% Change
Core Lending:						
Single Family Lending	**$ 850,617**	**51%**	$ 930,449	43%	$ (79,832)	(9%)
Commercial Lending	**359,479**	**22%**	377,578	17%	(18,099)	(5%)
	1,210,096	**73%**	1,308,027	60%	(97,931)	(7%)
Securitization Financing:						
Multi-unit residential	**386,794**	**23%**	219,653	10%	167,141	76%
Prime single family residential	**70,908**	**4%**	651,738	30%	(580,830)	(89%)
	457,702	**27%**	871,391	40%	(413,689)	(47%)
Total mortgage originations	**$ 1,667,798**	**100%**	$ 2,179,418	100%	$ (511,620)	(23%)

Overall origination volumes were down 23% compared to the fourth quarter of 2016 mainly as a result of lower activity levels in Prime Single Family.

Within Core Lending, both Single Family and Commercial origination levels were down relative to Q4 2016. The decrease in Single Family originations is reflective of lower activity in the overall Canadian housing market.

Securitization Financing originations in the last quarter dropped 89% from 2016 levels, mainly due to a decrease in Prime Single Family volumes. The changes were due to the same reasons that we discussed earlier when comparing full year 2017 to 2016 (see page 32 for our discussion of year-over-year change).

SECURITIZATION

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

Table 25: Securitization and derecognition activity

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2017**	Sep 30, 2017	% Change	Dec 31, 2016	% Change
Securitization derecognized – non-prepayable Multis	**$ 192,703**	$ 276,902	(30%)	$ 172,778	12%
Securitization derecognized – prepayable mortgages	**-**	-	N/A	198,364	(100%)
Total principal derecognized	**$ 192,703**	$ 276,902	(30%)	$ 371,142	(48%)
Gains on sale	**$ 1,842**	$ 2,504	(26%)	$ 2,117	(13%)
Gain on sale margin	**0.96%**	0.90%	0.06%	0.57%	0.39%

Q4 2017 v Q4 2016

Gains on sale for the quarter were down 13% from 2016 levels as a higher gain on sale margin was offset by a decrease in derecognized volumes. The decline in derecognized volumes was the result of our Leverage Ratio position and management's decision to not execute transactions to effect the derecognition of prepayable mortgages.

The gain on sale margin in Q4 2017 was up from Q4 2016 largely due to a mix shift towards non-prepayable Multis (which are generally higher margin products).

Q4 2017 v Q3 2017

Gains on sale were down sequentially due to reduced derecognition volumes and despite a higher gain on sale margin.

Table 26: Unaudited interim consolidated statements of income

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)			Three months ended
	Dec 31, 2017	Sep 30, 2017	Dec 31, 2016
Interest income:			
Mortgages – Core Lending	**$ 139,630**	$ 129,372	$ 120,714
Mortgages – Securitization Financing	**44,849**	43,368	46,159
Investments	**939**	65	2,431
Other	**3,728**	4,296	1,347
	189,146	177,101	170,651
Interest expense:			
Deposits	**56,255**	53,025	46,393
Securitization liabilities	**44,961**	43,647	43,932
Bank facilities	**6,970**	6,536	1,224
Debentures	**229**	950	950
Other	**1,034**	979	226
	109,449	105,137	92,725
Net interest income	**79,697**	71,964	77,926
Provision for credit losses	**387**	40	870
Net interest income after provision for credit losses	**79,310**	71,924	77,056
Other income:			
Fees and other income	**6,153**	7,492	6,809
Net loss on investments	**-**	(100)	(557)
Gains on securitization activities and income from securitization retained interests	**2,349**	4,797	3,036
	8,502	12,189	9,288
Net interest and other income	**87,812**	84,113	86,344
Non-interest expenses:			
Compensation and benefits	**15,821**	16,495	14,863
Other	**17,252**	15,147	14,887
	33,073	31,642	29,750
Income before income taxes	**54,739**	52,471	56,594
Income taxes			
Current	**10,360**	15,773	13,426
Deferred	**3,933**	(1,171)	1,490
	14,293	14,602	14,916
Net income	**$ 40,446**	$ 37,869	$ 41,678
Dividends on preferred shares	**1,190**	1,191	1,190
Net income available to common shareholders	**$ 39,256**	$ 36,678	$ 40,488
Earnings per share			
Basic	**$ 2.38**	$ 2.23	$ 2.58
Diluted	**$ 2.36**	$ 2.21	$ 2.56

Table 27: Unaudited interim consolidated statements of comprehensive income

	Three months ended		
($ THOUSANDS)	**Dec 31, 2017**	Sep 30, 2017	Dec 31, 2016
Net income	**$ 40,446**	$ 37,869	$ 41,678
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized gains from change in fair value	**3,812**	1,755	4,453
Reclassification of net losses to income	**-**	11	888
	3,812	1,766	5,341
Income tax expense	**(1,002)**	(469)	(1,418)
	2,810	1,297	3,923
Cash flow hedges:			
Net unrealized gains from change in fair value	**939**	3,501	7,611
Reclassification of net (gains) losses to income	**(211)**	758	500
	728	4,259	8,111
Income tax expense	**(193)**	(1,131)	(2,153)
	535	3,128	5,958
Total other comprehensive income	**3,345**	4,425	9,881
Total comprehensive income	**$ 43,791**	$ 42,294	$ 51,559

Table 28: Unaudited interim consolidated statements of cash flows

($ THOUSANDS)	Three months ended Dec 31, 2017	Sep 30, 2017	Dec 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period	**$ 40,446**	$ 37,869	$ 41,678
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	**(5,047)**	640	3,017
Amortization of premiums/discounts on investments	**3,682**	2,775	(156)
Amortization of capital assets and intangible costs	**2,362**	2,343	2,105
Provision for credit losses	**387**	40	870
Securitization gains	**(1,842)**	(2,504)	(2,117)
Net loss on sale or redemption of investments	**-**	100	557
Stock-based compensation	**325**	285	261
Income taxes	**14,293**	14,602	14,916
Securitization retained interests	**6,529**	6,479	4,949
Changes in operating assets and liabilities:			
Restricted cash	**31,327**	14,671	(8,933)
Securities purchased under reverse repurchase agreements	**-**	-	(96,640)
Mortgages receivable, net of securitizations	**(517,881)**	(532,881)	(740,992)
Other assets	**(2,663)**	6,849	7,576
Deposits	**523,979**	499,201	495,126
Securitization liabilities	**(164,989)**	(19,227)	503,960
Obligations under repurchase agreements	**135,914**	(112,898)	43,198
Bank facilities	**(64,783)**	51,839	(348,909)
Other liabilities	**25,915**	(37,099)	105,024
Income taxes paid	**(31,844)**	(10,709)	(3,055)
Cash flows (used in) from operating activities	**(3,890)**	(77,625)	22,435
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of common shares, net of issuance cost	**-**	-	49,333
Proceeds from issuance of common shares	**989**	40	1,263
Redemption of debentures	**(65,000)**	-	-
Dividends paid on preferred shares	**(1,190)**	(1,191)	(1,190)
Dividends paid on common shares	**-**	(3,955)	(3,269)
Cash flows (used in) from financing activities	**(65,201)**	(5,106)	46,137
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	**(24)**	-	(124,607)
Proceeds on sale or redemption of investments	**5,957**	76	118,775
Net change in Canada Housing Trust re-investment accounts	**2**	12	(168)
Purchase of capital assets and system development costs	**(228)**	(4,508)	(2,181)
Cash flows from (used in) investing activities	**5,707**	(4,420)	(8,181)
Net (decrease) increase in cash and cash equivalents	**(63,384)**	(87,151)	60,391
Cash and cash equivalents, beginning of period	**724,314**	811,465	383,788
Cash and cash equivalents, end of period	**$ 660,930**	$ 724,314	$ 444,179
Cash flows from operating activities include:			
Interest received	**$ 241,477**	$ 174,746	$ 127,351
Interest paid	**(108,345)**	(92,216)	(91,303)
Dividends received	**(1,138)**	1,112	1,733

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 2017 annual consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2016. Refer to Note 3 to the audited consolidated financial statements for a summary of the Company's significant accounting policies.

FUTURE ACCOUNTING POLICIES

IFRS 9 *"Financial Instruments"* and IFRS 15 *"Revenue from Contracts with Customers"* are mandatorily effective for annual periods beginning on or after January 1, 2018 and IFRS 16 *"Leases"* is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company has completed its evaluation of the estimated impact of IFRS9 and IFRS15 on its consolidated financial statements. Please refer to Note 3 to the audited consolidated financial statements for further discussion.

CRITICAL ACCOUNTING ESTIMATES

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

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgage receivables, discount rates utilized in the valuation of the Company's financial assets and liabilities, the creditworthiness of the Company to its counterparties, the creditworthiness of issuers of the investments held by the Company, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management relies on external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior years and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future years. For further information regarding critical accounting estimates, please refer to Note 2(d) to the audited consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company hedges interest rate risks associated with insured residential mortgages and mortgage commitments intended for securitization, certain mortgages, securitization and deposit liabilities. The Company also hedges the risk of changes in future cash flows related to our Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans.

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

For non-prepayable insured residential mortgages, where the transferred assets qualify for derecognition, the Company uses bond forwards to protect itself from fluctuations in interest rates between the time the Company commits to funding these mortgages and the time they are securitized. The change in value of the commitments and the funded mortgages before securitization are substantially offset by the change in value of the bond forwards and the Company does not apply hedge accounting to these derivative instruments.

The Company uses interest rate swaps to hedge our interest rate exposure on certain securitization and deposit liabilities. The Company applies hedge accounting to these relationships.

The Company also hedges the risk of changes in future cash flows related to our RSU and DSU plans by entering into total return equity swap contracts with third parties, the value of which is linked to the price of the Company's common shares. Changes in the fair value of these derivative financial instruments offset the compensation expense related to the change in share price, over the period in which the swap is in effect. The Company applies hedge accounting to the RSU-related derivative financial instruments but does not use hedge accounting for the DSU-related swaps.

As part of its CMB activities, the Company may assume reinvestment risk between the amortizing MBS and the bullet CMB for securitized mortgages which are derecognized. The Company assumes this risk by entering into total return swaps with highly rated counterparties and exchanging the cash flows of the CMB for those of the MBS transferred to CHT.

For more information on derivative financial instruments see Notes 3, 5, 6, 9 and 10 to the audited consolidated financial statements.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our audited 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) 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 transferred control associated with the transferred assets. The outstanding securitized mortgage principal that qualified for derecognition totaled $4.0 billion at December 31, 2017 (December 31, 2016 – $3.3 billion). The securitization liabilities associated with these transferred assets are approximately $4.0 billion (December 31, 2016 – $3.3 billion). The securitization retained interest recorded with respect to these securitization transactions was $104.4 million (December 31, 2016 – $88.8 million) and the associated servicing liability was $25.6 million at December 31, 2017 (December 31, 2016 – $23.0 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.2 billion of mortgages in the ordinary course of business at December 31, 2017 (December 31, 2016 – $1.0 billion).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet their obligations to a third party. Letters of credit in the amount of $10.2 million were outstanding at December 31, 2017 (December 31, 2016 – $5.9 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in deposits, subordinated debentures (fully redeemed in October 2017), and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 23 to the audited consolidated financial statements 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.

The Company's business activities, including our use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, liquidity and funding risk, and market risk.

The Risk Management framework, Credit Risk, Liquidity and Funding Risk Management, and Market Risk Management sections below form an integral part of the 2017 annual consolidated financial statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 4 of the annual consolidated financial statements.

RISK MANAGEMENT FRAMEWORK

The Board has overall responsibility for the establishment and oversight of the Company's Enterprise Risk Management ("ERM") framework. The Company's ERM framework is designed to ensure that all risks are managed within the Company's pre-defined risk appetite thresholds outlined in our Risk Appetite ("RA") framework. The Company's ERM and RA frameworks are designed to align our overall corporate strategy, financial and capital plans, business unit strategies and day-to-day operations, as well as our risk management policies and practices (i.e., risk limits, risk selection/underwriting guidelines and criteria, etc.) across the organization. The ERM and RA frameworks are updated by Senior Management and approved by the Board on an annual basis, or more frequently, if required.

The ERM framework covers the type and amount of risk that the Company is capable and willing to take on in support of its business operations and strategy. The ERM framework is designed to ensure active monitoring of all key current and emerging risks on a continuous basis, and to provide the Board with timely periodic updates on our risk management practices and related economic capital requirements. It also sets out our approach for identifying, assessing, managing and reporting on our key risks, including the establishment of roles, responsibilities, processes and tools to be used. To ensure that all significant and emerging risks are considered, we review our risk profile with respect to each of our core risks on a continuous basis, and report to the Board at least quarterly. The Company's ERM framework is also designed to ensure that all key risks are managed within our pre-defined risk appetite thresholds as outlined in our RA, and that the potential for loss remains within acceptable Board-approved limits.

The Company's Enterprise Risk Management framework is illustrated below:

Enterprise Risk Management Framework

The Risk and Capital Committee ("RCC"): The RCC of the Board assists the Board in fulfilling its oversight and governance responsibilities for the management of the Company's core and emerging risks and the adequacy of our Internal Capital Adequacy Assessment Process ("ICAAP"), as well as our strategic and capital plans. The RCC specifically assists the Board in fulfilling its oversight role for credit, liquidity and funding, and market risks and receives reporting from the Company's ERM Committee and Asset and Liability Committee ("ALCO") in this regard. The RCC also has primary oversight responsibility for operational risk, business and strategic risk, and reputational risk. In addition, the mandate of the RCC requires that the Committee review and approve the significant risk management policies and frameworks developed and implemented to identify, measure, mitigate, monitor and report on the Company's core risks, along with its risk-based capital requirements and the results of its stress testing for all key risks. At present, the RCC is comprised of five independent directors, including the Chairs of the Audit Committee, Human Resources and Compensation Committee and the Governance and Nominating Committee. It meets quarterly with the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and the Chief Risk Officer ("CRO").

To ensure capital allocation and risk management are aligned, the Company's ICAAP, which is reviewed annually with the RCC, determines the ongoing capital needs of the business and reviews those needs in the context of our operating environment and strategic plans. Material risks are regularly stress tested to determine their impact on capital and to establish our internal capital adequacy targets on a go-forward basis.

The RCC is supported by the following board and management level committees:

Credit Risk Sub-Committee: The credit risk sub-committee of the RCC and was formed in 2017 and assumes the duties of the former Investment Committee of the Board, with respect to approving lending transactions which exceed the credit limits that have been delegated to management by the Board.

ERM Committee: The ERM Committee is chaired by the CRO and consists of members of senior management, reports to the RCC and assists the RCC in fulfilling its oversight and governance responsibilities vis-à-vis the Company's risk management practices and ICAAP. To ensure that all significant risks that the Company faces are actively managed and monitored, the ERM Committee reviews and monitors the Company's key and emerging risks, risk trends, the results of our enterprise-wide stress and scenario tests, relevant policies and related risk management considerations/actions to be taken. It reports to the RCC at least quarterly.

Asset and Liability Committee ("ALCO"): With respect to liquidity and funding risk, the RCC oversees the Company's ALCO, which identifies the liquidity/funding and market risks faced by the Company, sets appropriate risk limits and controls, and monitors those risks and adherence to Board approved limits. The ALCO is chaired by the CEO and is comprised of members of senior management.

Other Board Committees that help the organization to monitor its activities overall risk profile are as follows:

Audit Committee: The Audit Committee of the Board assists the Board in fulfilling its oversight responsibilities with respect to the quality and integrity of the Company's financial reporting processes and the performance of the internal audit function. The Audit Committee is assisted in fulfilling its mandate by the Company's Finance and Internal Audit departments. Internal Audit undertakes regular and independent reviews of the Company's risk management controls and procedures, the results of which are reported to the Audit and other applicable Board Committees.

Governance and Nominating Committee: The Governance and Nominating Committee of the Board maintains primary oversight over the Company's Regulatory Compliance Management Program and ensures the Company's compliance with all legal and regulatory requirements.

Human Resources and Compensation Committee: The Human Resources and Compensation Committee of the Board assists the Board in ensuring that the Company's compensation policies and practices are aligned with our risk appetite and risk management frameworks. This ensures that the incentive for management to assume risks in the pursuit of business objectives is aligned with our Board-approved risk appetite.

Under the Company's risk management framework, senior management reports on all key risk issues to at least one of the aforementioned committees of the Board on a quarterly basis.

The Company approach to enterprise-wide risk management aligns with the three lines of defense model:

i. Business Unit Leaders are the 'first line', and are primarily accountable for identifying, assessing, managing and reporting risk within their functional areas of responsibility.

ii. The Risk Oversight functions, which include the Finance, Risk Policy and Compliance departments, are accountable for independent oversight of the Business Unit operations from a 'second line' perspective. Given the size and relatively low complexity of the Bank's operations and risk profile, business line management leverages the skills of the 'second line' as subject matter experts to assist in the design of our risk monitoring practices. Due to the inherent expertise embedded in our 'second line', the performance of some traditional 'first line' oversight functions may be undertaken by the 'second line'.

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

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 and the ERM 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. All mortgages are individually evaluated by the Company's or our agent's underwriters using internal and external credit risk assessment tools, and are assigned risk ratings in accordance with the level of credit risk attributed to each loan. Each transaction is approved independently in accordance with the authorization structure set out in the Company's policies. Our underwriting approach, particularly in our Core Lending business, places a strong emphasis on security evaluation and judgmental analysis of the risks in the transaction. As a result, for borrowers who have good equity and debt service ratios, we can underwrite mortgages on terms favourable to the Company in situations where other lenders may not be able to reach a satisfactory business transaction. Since 2014, the Company has been originating insured Single Family prime mortgages through third party agents, in addition to originating them internally. As part of our risk management practices, we ensure that these third party sourced prime mortgages are underwritten to the high standards required of both Company-originated mortgages, as well as those required by our mortgage insurers. We also conduct periodic reviews of our mortgage underwriting and servicing policies, procedures and practices vis-à-vis the applicable requirements outlined by our mortgage insurers to ensure that we remain compliant with their ongoing operational requirements.

We have clearly defined underwriting policies and procedures that we adhere to in our mortgage underwriting process – these include a maximum Loan-to-Value ("LTV") on all uninsured commercial and residential mortgage loans; certain standards with regard to the asset quality and debt service coverage of commercial properties; standards for the marketability of the properties taken as security, including geographic market restrictions; and requirements surrounding the overall credit quality and integrity of all borrowers. We also actively analyze the profile of our lending businesses and new mortgage originations in tandem with external market conditions, including market values and employment conditions that prevail in those markets where we lend. When we judge that the risk associated with a particular region or product is increasing, we adjust our underwriting criteria to ensure that our underwriting policies continue to be prudent and reflective of current and expected economic conditions, and thereby safeguard the future health of our portfolio. When appropriate, we also respond to the changing marketplace with initiatives designed to increase or decrease our mortgage originations, as required, while continuing to ensure a prudent credit risk profile across our entire portfolio.

The Company categorizes individual credit exposures in our mortgage portfolio using an internal risk rating system that rates each mortgage in the portfolio on the basis of perceived risk, or probability of, a potential financial loss – in order to focus management on monitoring higher risk mortgages. Each mortgage's risk rating is initially determined during the underwriting process and subsequently either confirmed or revised thereafter, as a result of certain trigger events, using customized risk grids applicable to the property type supporting the loan. In the case of mortgage impairment, probable recovery is determined using a combination of updated property-specific information, historical loss experience and management judgment to determine the impairment provision that may be required.

The Company also invests in preferred shares to generate returns that meet certain internally acceptable ROE thresholds. These securities also represent a potential source of liquidity for the Company. However, such investments expose the Company to credit risk – should the issuer of the preferred shares be unable to make dividend payments or, under a worst case scenario, if the issuer becomes insolvent. To limit its exposure to credit risk, the Company establishes policies with exposure limits based on credit rating and investment type. Securities rated P-2 and higher comprised 41.7% of the Company's preferred share equity securities portfolio at December 31, 2017, compared to 44.2% a year earlier. Securities rated P-3 (mid) or higher represent 100% of the preferred share portfolio at the end of December 2017 (December 31, 2016 – 99%).

The Company's rating scale for the credit quality of our counterparties is based on both internal and external credit grading systems. Table 29 below maps those grading systems against the categories on the Company's credit risk exposure ratings scale. It presents the long-term Standard & Poor's equivalent grades for the Company's cash and cash equivalents, debt and equity securities, and derivative counterparties. Low risk denotes that there is a very low risk of either default or loss, standard risk that there is a low risk of default or loss, and high risk that there is some concern that default or loss could occur.

Cash and cash equivalents and derivatives ratings are based on the issuer grade of the respective financial institution, their subsidiaries or other financial intermediaries. Debt securities are categorized based on short-term or long-term issue grades, depending on the maturity dates of the securities. Preferred share securities are categorized based on the DBRS preferred share rating scale used in the Canadian securities market. Mortgages are categorized according to the Company's internal risk rating framework, which is based on the expected degree of financial loss caused by default.

Equitable assigns economic and regulatory capital for our counterparty credit exposures in accordance with OSFI's Capital Adequacy Requirements ("CAR") Guideline, which is based on standards issued by the Basel Committee on Banking Supervision ("BCBS"). All deemed credit exposures, such as counterparty credit risk that may arise through deposits placed with banks, derivatives contracts and other activities, are regularly assessed to ensure that such activities are consistent with the Bank's Board-approved RA and do not expose the Bank to undue risk of loss. All related counterparty credit limits are approved by Senior Management and monitored on an ongoing basis to ensure that all such exposures are maintained within approved limits.

Table 29: Credit risk exposure ratings scale

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

Management has assessed the credit quality of the Company's assets as at December 31, 2017 and 2016, on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories. The table below shows the credit quality by class for all financial assets exposed to credit risk, based on the Company's credit risk exposure rating scale.

Table 30: Asset credit quality

($ THOUSANDS)	Neither past due nor impaired						2017
	Low risk	Standard risk	High risk	Past due but not impaired	Individually Impaired	Allowances	Total
Cash and cash equivalents	$ 660,930	$ -	$ -	$ -	$ -	$ -	$ 660,930
Restricted cash	366,038	-	-	-	-	-	366,038
Investments:							
Debt securities[1]	-	-	11,905	-	-	-	11,905
Equity securities – preferred shares	36,785	51,428	4,681	-	-	-	92,894
Canada Housing Trust re-investment accounts	2,258	-	-	-	-	-	2,258
Mortgage receivable – Core Lending	2,510,907	9,556,181	202,834	44,930	23,242	33,353	12,304,741
Mortgage receivable – Securitization Financing	6,972,910	9,996	-	10,190	711	-	6,993,807
Securitization retained interests	104,429	-	-	-	-	-	104,429
Other assets:							
Receivables related to securitization activities	8,582	-	-	-	-	-	8,582
Accrued interest and dividends on non-mortgage assets	930	-	-	-	-	-	930
Other	1,554	-	-	-	-	-	1,554
	$ 10,665,323	$ 9,617,605	$ 219,420	$ 55,120	$ 23,953	$ 33,353	$ 20,548,068

[1] *Includes debt securities guaranteed by Government of Canada, corporate debt and successor issuer rights.*

($ THOUSANDS)	Neither past due nor impaired						2016
	Low risk	Standard risk	High risk	Past due but not impaired	Individually Impaired	Allowances	Total
Cash and cash equivalents	$ 444,179	$ -	$ -	$ -	$ -	$ -	$ 444,179
Restricted cash	247,878	-	-	-	-	-	247,878
Securities purchased under reverse repurchase agreements	199,401	-	-	-	-	-	199,401
Investments:							
Debt securities[1]	-	-	23,042	-	-	-	23,042
Equity securities – preferred shares	48,994	61,702	-	-	-	-	110,696
Canada Housing Trust re-investment accounts	2,499	-	-	-	-	-	2,499
Mortgage receivable – Core Lending	1,849,604	8,534,883	250,368	38,658	39,365	34,426	10,678,452
Mortgage receivable – Securitization Financing	7,093,301	5,795	427	5,828	-	-	7,105,351
Securitization retained interests	88,782	-	-	-	-	-	88,782
Other assets:							
Receivables related to securitization activities	5,193	-	-	-	-	-	5,193
Accrued interest and dividends on non-mortgage assets	1,441	-	-	-	-	-	1,441
Other	247	-	-	-	-	-	247
	$ 9,981,519	$ 8,602,380	$ 273,837	$ 44,486	$ 39,365	$ 34,426	$ 18,907,161

[1] *Includes debt securities guaranteed by Government of Canada, corporate debt and successor issuer rights.*

Collateral held as security

All mortgages are secured by real estate property located in Canada. Appraised values for collateral held against mortgages are obtained at the time of origination and are generally not updated, except when a mortgage is individually assessed as impaired. For impaired mortgages, the most recent appraised value of collateral at December 31, 2017 was $33 million (December 31, 2016 – $50.3 million). At December 31, 2017, the appraised values of collateral held for mortgages considered past due but not impaired, as determined when the mortgages were originated, was $75 million (December 31, 2016 –$61.3 million). It is the Company's policy to pursue the timely realization of collateral in an orderly manner.

Real estate from foreclosures that were owned and held for sale at December 31, 2017 amounted to $2.3 million (December 31, 2016 – $7.6 million) and are included in Other assets (Note 12) in the consolidated balance sheets. The Company does not use the real estate obtained through foreclosure for its own operations.

The Company does not hold collateral against investments in debt and equity securities; however, securities received under reverse repurchase agreements are allowed to be sold or re-pledged in the absence of default by the owner. The Company has a commitment to return collateral to the counterparty in accordance with the terms and conditions stipulated by the master repurchase agreement. Equitable has no contractual agreement with any counterparty that require it to post increased collateral in the event of a credit rating downgrade of Equitable Bank.

Credit Concentration Risk

A key component of credit risk that is closely monitored and measured within the unsecuritized mortgage portfolio is credit concentration risk. By way of definition, credit concentration risk results if an unduly large proportion of the Company's lending business involves a single person, organization or group of related persons or organizations, a single geographic area, a single industry or a single category of investment. The ability of these counterparties to meet contractual obligations may be similarly affected by changing economic or other conditions. On a regular basis, with the approval of the Risk and Capital Committee of the Board and the full Board, management establishes credit limits for exposure to certain counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the Company's mortgage and investment portfolios.

Management believes that it is adequately diversified by borrower, property type and geography. At December 31, 2017, no individual borrower represented more than $153.6 million (December 31, 2016 – $60.1 million) or 1.42% (December 31, 2016 – 0.62%) of uninsured mortgage principal outstanding. See Table 13 and 15 of our unaudited Q4 2017 Supplemental Information and Regulatory Disclosures Report for a breakdown of mortgage principal outstanding by property type and geography, respectively.

LIQUIDITY AND FUNDING RISK

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

In accordance with our RA, the Board defines the Company's liquidity and funding risk appetite as 'low', and also reviews and approves the limits to measure and control this risk. These are articulated in our Company's Board-approved Liquidity Risk Management Framework – which is designed to ensure compliance, along with being compliant with regulatory guidelines using appropriate levels of governance, measurement and management tools, and disclosure requirements. This Framework requires the Company to maintain a pool of high quality liquid assets and stipulates various liquidity ratios and limits, concentration limits and, among other considerations, ongoing periodic liquidity stress testing requirements. Our liquidity position and adherence to the requirements of this Framework are monitored on a daily basis by Senior Management. These metrics are also reported monthly to the Asset Liability Management Committee ("ALCO") and, quarterly, both to the ERM Committee and the RCC of the Board. Any exceptions to established limits are reported immediately to the ALCO or to the Board, as applicable. Both as at December 31, 2017 and the date of this MD&A, we were in full compliance with our Liquidity and Funding Risk Management Framework, as well as all related regulatory requirements.

We also adhere to the Office of the Superintendent of Financial Institution's ("OSFI") Liquidity Adequacy Requirement ("LAR") Guideline, with both the Liquidity Coverage Ratio ("LCR") and the Net Cumulative Cash Flow ("NCCF") reported to OSFI on a monthly basis.

Our practice is to hold a sufficient amount of liquidity on our balance sheet to ensure that we remain well positioned to manage unexpected events that may reduce/limit our access to funding. 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. Actual liquidity may vary from period-to-period, mainly due to the timing of anticipated cash flows and funding seasonality.

In addition to our funding and liquidity management policies and procedures, we have also developed a Liquidity and Funding Risk Contingency Plan, which outlines actions to be undertaken to address the outflow of funds in the event of a funding or liquidity crisis. In 2017, Equitable also developed a Recovery Plan tailored to the nature, size and complexity of its operations, its business model, and associated risk profile. The plan assesses enterprise-wide strengths and vulnerabilities as well as potential two-way interactions between our strategy, business model, legal entity structure, business and risk management practices, and recovery actions that may impact our ability to recovery from a liquidity or funding crisis.

Table 31: Assets held for liquidity protection

($ THOUSANDS)	Policy minimum	2017	2016
Liquidity assets held for regulatory purposes		$ 1,369,132	$ 1,169,091
Liquidity assets as a % of minimum required policy liquidity[(1)]	100%	237%	165%

[(1)] *For purposes of this calculation, Equitable's Liquidity and Funding Risk Management Policy requires the value of assets held for liquidity protection to be reduced to reflect their estimated liquidity value.*

Stress and scenario testing is an integral part of Equitable's Liquidity and Funding Risk Management framework and supports the development of action plans to address funding needs in stressed environments. We manage our funding needs to ensure that we can meet our financial commitments in a timely manner and at reasonable prices, even in times of stress. The Company's stress testing models consider scenarios that incorporate institution-specific, market-specific and combination events. These scenarios model cash flows over a one-year period incorporating such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an accelerated redemption of notice deposits. In each scenario, the Company targets to hold sufficient liquid assets and have fundraising capacity sufficient to meet all obligations for at least a three month forecast period while maintaining normal business activities. In order to establish these scenarios, we assess our fund raising capacity and establish assumptions related to the cash flow behavior of each type of asset and liability. As at December 31, 2017, we held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period under all considered scenarios.

Since 2013, we have actively diversified our funding sources in order to proactively manage our funding risk profile. This diversification has been accomplished through the launch of our direct to consumer platform, *EQ Bank*, the addition of several large bank sponsored funding facilities, a deposit note program, and new securitization vehicles. Also, in 2017, we applied to OSFI for approval by the Minister of Finance for the Company to incorporate a new Trust subsidiary – in order to further diversify our business model. A Trust subsidiary would create a new issuer of deposits that is eligible for CDIC insurance coverage. If approved, an ancillary benefit of this would be a further diversification of our sources of funding, and could further reduce our funding and liquidity risk.

Since Q2 2017, we also have a $2 billion contingent funding facility in place with a consortium of Canada's six largest banks.

The following table summarizes contractual maturities of the Company's financial liabilities.

Table 32: Contractual obligations

		Payments due by period			
($ THOUSANDS)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Deposits principal and interest[(1)]	$ 8,854,849	$ 4,062,986	$ 3,648,181	$ 1,143,682	$ -
Securitization liabilities principal and interest[(1)]	7,424,524	1,131,791	2,777,528	2,332,227	1,182,978
Bank facilities principal and interest[(1)]	128,870	128,870	-	-	-
Other liabilities[(1)]	107,241	88,120	9,771	5,565	3,785
Total 2017 contractual obligations	$ 16,515,484	$ 5,411,767	$ 6,435,480	$ 3,481,474	$ 1,186,763
Total 2016 contractual obligations	$ 16,815,863	$ 5,846,897	$ 4,850,619	$ 4,854,581	$ 1,263,766

[(1)] *The balance for financial liabilities will not agree with those in our consolidated balance sheet as this table incorporates all cash flows, on an undiscounted basis, including both principal and interest.*

See Note 22 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2017 and 2016.

MARKET RISK

Market Risk consists of Interest Rate risk and Equity Price risk, and is broadly defined as the possibility that changes in either market interest rates or equity prices may have an adverse effect on our profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes, such as optionality features embedded in our cashable deposits or mortgage commitments. For the interest sensitivity position of the Company as at December 31, 2017, see Note 24 to the consolidated financial statements. With respect to Equity Price risk, the value of our securities portfolio may be impacted by market determined variables which are beyond our control, such as benchmark yields, credit and/or market spreads, implied volatilities, the possibility of credit migration and default, among others. Overall, we have a 'low' appetite for Market risk.

With respect to structural Interest Rate risk, our objective is to manage and control the Company's interest rate risk exposures within acceptable parameters and our primary method of mitigating this risk involves funding our assets with liabilities of a similar duration.

The responsibility for managing the Company's Interest Rate risk resides with the ALCO, which meets monthly to review and approve all Treasury-related policies, to review key Interest Rate Risk metrics, and to provide direction on our operating and funding strategy. Also, Senior Management continuously reviews our interest rate risk profile and monitors the Company's ongoing funding strategy through the daily interest rate-setting process.

We monitor Interest Rate Risk by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on net interest income and on the economic value of shareholders' equity[(1)] ("EVE"). 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. Management considers this measure to be more comprehensive than measuring changes in net interest income, as it captures all interest rate mismatches across all terms. Certain assumptions that are based on actual experience are also built into the simulations, including assumptions related to the pre-maturity redemption of deposits and early payouts of mortgages.

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 NII during the 12-month period following December 31, 2017. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 33: Net interest income shock

($ THOUSANDS)	Increase in interest rates	Decrease in interest rates[(1)]
100 basis point shift		
Impact on net interest income	**$ 11,404**	**$ (3,268)**
Impact on EVE	**(13,609)**	**14,519**
EVE impact as a % of common shareholders' equity	**(1.28%)**	**1.37%**
200 basis point shift		
Impact on net interest income	**$ 18,385**	**$ (2,507)**
Impact on EVE	**(22,951)**	**19,739**
EVE impact as a % of common shareholders' equity	**(2.16%)**	**1.86%**

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

The management of Equity Price risk is also assigned to the ALCO by the RCC of the Board. The ALCO manages the Company's securities portfolio in accordance with its *'Securities Portfolio Management Policy'* and takes into consideration the following factors:

- General economic conditions and the possible effect of inflation or deflation;
- The expected tax consequences of investment decisions or business strategies;
- The credit quality of each investment and its role within the overall portfolio;
- The expected total return from income and the appreciation of capital;
- The Bank's need for liquidity, available capacity, and regularity/stability of earnings; and
- Each investment's special relationship or special value, if any, to the overall objectives of the portfolio.

On a monthly basis, the ALCO reviews the investment performance, composition, quality and other pertinent characteristics of the securities portfolio. This information is also presented to and reviewed by the RCC of the Board at least quarterly, or more frequently, if required.

OPERATIONAL RISK

We define Operational risk as the possibility that a loss could result from people, inadequate or failed internal processes or systems, or from external events. Our definition specifically excludes legal risk – which we include under the 'Legal and Regulatory Risk' category below.

Operational risk is present in virtually all business activities of the Company and includes such considerations as fraud, damage to equipment, system failures, data entry errors, cyber security and business continuity. To the extent that they may impact collateral values or other pertinent loan loss drivers, we also consider natural disasters in our assessment of operational risk. As outlined in the Company's RA, Equitable has a 'low' appetite and a 'low-to-medium' tolerance for Operational Risk. We recognize that while the nature of operational risk is such that there is little or no expected reward in taking on this risk, the costs to attempt to eliminate operational risk may be excessive.

The Company's Operational Risk Management program includes the following key components:

- **Governance:** While Operational risk may not be completely eliminated, proactive management of this risk is very important in order to mitigate exposure to financial losses, reputational damage and/or regulatory fines. We have implemented a Board-approved *Operational Risk Management Policy* and an *Operational Risk Management Framework*, which are jointly designed to monitor, review and report on operational risk management across the Company. Both the Policy and the related Framework articulate our governance practices for the proper management of Operational risk and include clear accountabilities for the three-lines-of-defense (i.e., Business Units, Risk Management and related oversight functions such as Compliance and Finance, and Internal Audit) – in alignment with both the BCBS's *'Principles for the Sound Management of Operational Risk'*, and with OSFI's related *'Operational Risk Management Guideline'.* Given the size of the Company, the relatively low complexity of our business operations and our operational risk profile, business line management leverages the skills of the second line as subject matter experts to assist in the development of our operational risk monitoring practices. Additionally, given the expertise embedded in our second line of defense, the performance of some first line operational risk management activities are undertaken by the second line.

- **Training:** All employees within our organization are required to play a key role in managing Operational risk. In this regard, we have, since 2014, rolled out operational risk management and cyber security awareness training and testing for all employees across the Company – to provide them with an overview of the various types of operational risks, and their respective roles and responsibilities in helping to protect the interests and assets of the Company.

- **Risk and Control Self-Assessments ("RCSA's"):** We use these tools on an annual basis to help us identify and evaluate operational risk factors within our individual business and functional units, as well as on Company-wide basis. They assist us in the proactive identification and assessment of key operational risks inherent in our material activities and systems, and in evaluating the effectiveness of controls that are in place to manage these risks.

- **Key Risk Indicators ("KRI's"):** As part of our RCSA monitoring exercise, we utilize KRI's to measure, monitor and report on the level of operational risk on a business/functional unit basis, as well as across the organization. These KRI's also serve as early warning triggers to highlight potential issues before the Company experiences an incident or loss event.

- **Other Operational Risk Management ("ORM") Tools:** In addition to the RCSA's and KRI's noted above, a number of other operational risk management tools are in use as part of the Company's ORM program – these include an operational risk taxonomy, operational risk event collection and analysis, and change management risk and control assessment.

- **Risk Measurement and Reporting:** On a regular monthly basis, our centralized Operational Risk Management Team consolidates key operational risk management trends, significant events, if any, and KRI's across the Company; these are reported to the ERM committee and to the RCC of the Board on a quarterly basis, at a minimum.

- **Business Continuity Management:** The Company maintains a robust Business Continuity Management program, which includes a 'Crisis Management Plan' – to ensure that we have the capability to sustain, manage and recover critical operations and processes in the event of a business disruption, thereby minimizing any adverse effects on our customers, partners and other stakeholders. Our Business Continuity Management Program is comprised of various plans (i.e., Crisis Management Plan, Business Continuity Plans, Disaster Recovery Plan and our Comprehensive Recovery Plan) to ensure the ability to operate as a going concern in the event of a severe business disruption. All key business units within the organization are required to maintain, and regularly test and review, their business continuity plans.

- **Fraud:** Equitable Bank maintains a robust control framework designed to manage the risks related to misrepresentation and fraudulent activities across the Bank. This framework is oriented around our three lines of defense model. Our first line business unit processes in mortgage underwriting and deposit taking form the primary layer of defense against external fraudulent activities. Here our businesses focus on early detection and rejection of potentially fraudulent transactions. Remaining vigilant, particularly in the face of recent regulatory changes, tightening mortgage qualification criteria, and increasing housing prices, we have continually enhanced our capabilities through the adoption of new technologies (ex. Equifax's Citadel tool), the maintenance and use of data strategically, and the continual development of training and awareness programs for staff.

  Centrally, and operating as a 2nd line centre of excellence in conjunction with our Compliance and AML teams, we operate a Central Fraud team to provide independent oversight of 1st line activities, expert assistance in detection, the development and delivery of training, as well as policy development and Quality Assurance. Our Internal Audit team provides 3rd line oversight of fraud prevention activities. The 2nd and 3rd lines provide independent reporting to committees of the Board on a regular basis.

- **Model Risk:** We define Model risk as the potential for adverse consequences arising from decisions based on incorrect or misused models and their outputs. It can lead to financial loss, reputational risk, or incorrect business and strategic decisions. Model Risk is viewed by the company as a key component of 'Operational risk'.

  In September 2017, OSFI issued the final version of its Guideline E-23: Enterprise-Wide Model Risk Management, which has set this Guideline's implementation timeline for Standardized Institutions such as ourselves at January 2019. We have a 'low' appetite and tolerance for model risk, and have already begun implementing the principles set out in this Guideline. A Model Risk Policy, Model Validation Framework, and Model Validation Procedures are in place to ensure the effective identification and mitigation of Model Risk. Our Policy and Framework also require that certain high materiality models contain a level of conservatism commensurate with the level of Model Risk. Also, as mentioned above under the Liquidity & Funding Risk section, the Company has now developed a comprehensive 'Recovery Plan', which confirms that we are sufficiently capable of addressing a range of firm-specific (idiosyncratic) and market-wide (systemic) stress events with credible and operational recovery actions.

- **Technology and Cyber Security:** To manage these risks, our defense systems are designed as an integral part of both our existing EQB infrastructure, and our new architecture and development for our Digital Banking platform. With our enhanced use of the internet and mobile technologies, we maintain an increased focus on the confidentiality, integrity and availability of our information and cyber security controls that protect our network, data and infrastructure.

  The cyber security risk landscape includes numerous cyber threats such as hacking threats, identity theft, denial of service, and advanced persistent threats. These and other cyber threats continue to become more sophisticated and complex and potentially damaging. EQB proactively maintains a "defense in depth" strategy with developed standards and procedures to prevent, detect, respond, manage and address cyber security threats from all types of malicious attackers that attempt to steal sensitive information, cause a system failure or denial of service on websites or other types of service disruption.

  We work closely with our critical cyber security and software suppliers to ensure that our technology capabilities remain cyber resilient and effective in the event of any unforeseen cyber-attack. Our internal teams receive daily cyber security updates, rehearse incident table top exercises, and take specialized training in an effort to thwart current and evolving cyber threats.

  Risks are actively managed through information security management programs which include regular vulnerability assessments, completion of the OSFI Cyber Security Self-Assessment and continuous improvements to the Bank's security and change management practices based on best practices from recognized industry associations.

  EQB has not experienced any material cyber security breaches and has not incurred any material expenses with respect to the remediation of such cyber events.

  Security risks continue to be actively monitored and reviewed, leveraging the expertise of the Bank's service providers and vendors, reviewing industry best practices and regularly re-assessing controls in place to mitigate the risks identified.

LEGAL AND REGULATORY RISK

Legal and Regulatory Risk is defined as the possibility that a loss could result from exposure to fines, penalties, or punitive damages from civil litigations, contractual obligations, criminal or supervisory actions, as well as private settlements; and from not complying with regulatory requirements, regulatory changes or regulators' expectations.

In accordance with our Board-approved RA, we have a 'very low' appetite and a 'low' tolerance for Legal and Regulatory risk. We undertake reasonable and prudent measures designed to achieve compliance with governing laws and regulations; this includes Equitable's Regulatory Compliance Management ("RCM") Program – which is designed to identify and manage our continuously evolving legal and regulatory requirements. We also undertake reasonable and prudent measures designed to achieve compliance with governing laws and regulations, and promote a strong culture of compliance management across the organization. The Company's business units are engaged in the identification and proactive management of our legal and regulatory risks, while the Compliance, Legal, Anti-Money Laundering and Risk Management teams assist them by providing ongoing guidance and oversight. Management of these risks also includes the timely escalation of issues to Senior Management and to the Board.

The Company's RCM Program provides us with a control framework to manage and mitigate our exposure to regulatory risk – consistent with all applicable Canadian regulatory expectations, such as those mandated by OSFI, the CDIC, FINTRAC, and Financial Consumer Agency of Canada ("FCAC").

BUSINESS AND STRATEGIC RISK

Business and Strategic risk is defined as the possibility that we could experience material losses or reputational damage as a result of our business plans and/or strategies, the implementation of those strategies, or the failure to properly respond to changes in the external business environment.

The banking business is highly competitive and Equitable Bank's products compete with those offered by other banks, trust companies, insurance companies, and other financial services companies in the jurisdictions in which it operates. Many of these companies are strongly capitalized and hold a larger share of the Canadian banking market. There is always a risk that there will be new entrants in the market with more efficient systems and operations that could impact our mortgage lending or deposit-taking market share.

We do not use proprietary retail branches to originate deposits or mortgages. Deposits are raised directly through our online digital platform. Additionally, we rely primarily on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Registered Deposit Brokers Association ("RDBA") and the Mutual Fund Dealer Association ("MFDA") to distribute our deposit products. Mortgage originations depend on a network of independent mortgage brokers, mortgage brokerage firms and other mortgage banking organizations. Under adverse circumstances, it may be difficult to attract enough new deposits from agents or mortgage business from brokers to meet our current operating requirements. In order to manage the risk of not being able to attract enough deposits, we maintain access to a diversity of funding sources, including our direct-to-consumer *EQ Bank* platform. The potential failure to sustain or increase current levels of deposits or mortgage originations from these sources could negatively affect the financial condition and operating results of the Company.

The Company's Board has approved a 'low-to-medium' appetite and tolerance for Business and Strategic risk. We believe that this risk is best managed via a robust and dynamic annual strategic planning process that includes establishing Board-approved business growth strategies and quantifiable performance targets for each business segment over the forthcoming three-to-five year period. Management of this risk also includes regular monitoring of actual versus forecasted performance and an effective internal monitoring and reporting process – to the ERM Committee and the Board.

REPUTATIONAL RISK

Reputational risk is the possibility that current and potential customers, counterparties, analysts, shareholders, investors, regulators or others will have an adverse opinion of the Company – irrespective of whether these opinions are based on facts or merely public perception. Such an event could result in potential losses to the Company arising from a decline in business volumes, challenges accessing funding markets, or increased funding costs.

In accordance with our Board-approved RA, our appetite and tolerance for Reputational risk both remain 'low' and the Company believes that the pursuit of our long-term goals requires the proper conduct of our business activities in accordance with our established Code of Conduct and business principles, as well as with all applicable laws and regulations. Equitable also maintains a Board-approved Reputational Risk Management Policy which, along with related compliance policies and procedures and our ERM practices, is sufficiently designed to identify, assess and manage the reputational and other non-financial considerations present within the Company's business.

UPDATED SHARE INFORMATION

At February 28, 2018, the Company had 16,505,238 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 617,970 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $31.4 million.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis to enable appropriate decisions to be made regarding public disclosure. Management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2017. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Control over Financial Reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management has evaluated the design and operational effectiveness of the Company's Internal Control over Financial Reporting as of December 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the Integrated (2013) Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, management has concluded that the Company's Internal Control over Financial Reporting was effective as of December 31, 2017.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

- **Adjusted results:** in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company may present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Management believes that adjusted results, if any, can to some extent enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance. Adjusted results are also intended to provide the user with greater consistency and comparability to other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.

- **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)	2017	2016	% Change	2015	% Change
Total assets on the consolidated balance sheet	$ 20,634,250	$ 18,973,588	9%	$ 15,527,584	33%
Mortgage principal derecognized	4,018,719	3,304,181	22%	2,072,488	94%
Assets Under Management	$ 24,652,969	$ 22,277,769	11%	$ 17,600,072	40%

- **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)	2017	2016	% Change	2015	% Change
Shareholders' equity	$ 1,138,117	$ 977,150	16%	$ 796,116	43%
Less: Preferred shares	72,557	72,557	-%	72,557	-%
Common shareholders' equity	$ 1,065,560	$ 904,593	18%	$ 723,559	47%
Common shares outstanding	16,503,437	16,460,142	0.3%	15,538,605	6%
Book value per common share	$ 64.57	$ 54.96	17%	$ 46.57	39%

- **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 collective allowance 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 on the "all-in" basis in accordance with OSFI's Capital Adequacy Requirements ("CAR") Guideline. A detailed calculation of all Capital ratios can be found in Table 15 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)	**Dec 31, 2017**	Sep 30, 2017	% Change	Dec 31, 2016	% Change
Non-interest expenses	**$ 33,073**	$ 31,642	5%	$ 29,750	11%
Net revenue	**88,559**	84,555	5%	87,831	1%
Efficiency Ratio	**37.3%**	37.4%	(0.1%)	33.9%	3.4%

					Years ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2017**	Dec 31, 2016	% Change	Dec 31, 2015	% Change
Non-interest expenses	**$ 129,030**	$ 116,539	11%	$ 87,962	47%
Net revenue	**351,031**	308,463	14%	261,545	34%
Efficiency Ratio	**36.8%**	37.8%	(1.0%)	33.6%	3.2%

- **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 13 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 recognized on the consolidated balance sheet and mortgage principal derecognized but still managed by the Company.

($ THOUSANDS)	**2017**	2016	% Change	2015	% Change
Mortgage principal – recognized on the consolidated balance sheet	**$ 19,214,701**	$ 17,699,832	9%	$ 14,634,447	31%
Mortgage principal – derecognized	**4,018,719**	3,304,181	22%	2,072,488	94%
Mortgages Under Management	**$ 23,233,420**	$ 21,004,013	11%	$ 16,706,935	39%

- **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 and Table 18 of this MD&A.

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

($ THOUSANDS)	Dec 31, 2017	Sep 30, 2017	% Change	Dec 31, 2016	% Change
				Three months ended	
Net interest income	**$ 79,697**	$ 71,964	11%	$ 77,926	2%
Other income	**8,502**	12,189	(30%)	9,288	(8%)
TEB adjustment	**360**	402	(10%)	617	(42%)
Net revenue	**$ 88,559**	$ 84,555	5%	$ 87,831	1%

($ THOUSANDS)	Dec 31, 2017	Dec 31, 2016	% Change	Dec 31, 2015	% Change
				Years ended	
Net interest income	**$ 308,362**	$ 279,357	10%	$ 242,227	27%
Other income	**41,026**	26,458	55%	16,836	144%
TEB adjustment	**1,643**	2,648	(38%)	2,482	(34%)
Net revenue	**$ 351,031**	$ 308,463	14%	$ 261,545	34%

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

($ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2017	Sep 30, 2017	% Change	Dec 31, 2016	% Change
				Three months ended	
Provision for credit losses	**$ 387**	$ 40	868%	$ 870	(56%)
Divided by: average mortgage principal	**18,957,836**	18,434,432	3%	17,330,244	9%
Provision for credit losses – rate	**0.01%**	0.001%	(0.01%)	0.02%	(0.01%)

($ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2017	Dec 31, 2016	% Change	Dec 31, 2015	% Change
				Years ended	
Provision for credit losses	**$ 1,543**	$ 2,445	(37%)	$ 3,638	(58%)
Divided by: average mortgage principal	**18,457,267**	16,167,140	14%	13,437,573	37%
Provision for credit losses – rate	**0.01%**	0.02%	(0.01%)	0.03%	(0.02%)

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

($ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2017	Sep 30, 2017	% Change	Dec 31, 2016	% Change
				Three months ended	
Net income	**$ 40,446**	$ 37,869	7%	$ 41,678	(3%)
Average total assets	**20,423,464**	19,971,606	2%	18,608,783	10%
Return on average assets	**0.8%**	0.8%	-%	0.9%	(0.1%)

($ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2017	Dec 31, 2016	% Change	Dec 31, 2015	% Change
				Years ended	
Net income	**$ 160,617**	$ 138,330	16%	$ 125,865	28%
Average total assets	**19,775,794**	17,301,263	14%	14,234,441	39%
Return on average assets	**0.8%**	0.8%	-%	0.9%	(0.1%)

- **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)	**Dec 31, 2017**	Sep 30, 2017	% Change	Dec 31, 2016	% Change
Net income available to common shareholders	**$ 39,256**	$ 36,678	7%	$ 40,488	(3%)
Weighted average common equity outstanding	**1,045,469**	1,007,031	4%	834,928	25%
Return on shareholders' equity	**14.9%**	14.4%	0.5%	19.3%	(4.4%)

				Years ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2017**	Dec 31, 2016	% Change	Dec 31, 2015	% Change
Net income available to common shareholders	**$ 155,854**	$ 133,567	17%	$ 121,102	29%
Weighted average common equity outstanding	**984,867**	789,639	25%	676,999	45%
Return on shareholders' equity	**15.8%**	16.9%	(1.1%)	17.9%	(2.1%)

- **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. A detailed calculation can be found in Table 16 of this MD&A.

- **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 and Table 23 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 December 31, 2017, September 30, 2017 and December 31, 2016, the TEB adjustment was $0.4 million, $0.4 million and $0.6 million. For the year ended December 31, 2017, the TEB adjustment was $1.6 million as compared to $2.6 million for 2016.

- **Total shareholder return:** is defined as total return of stock to an investor including stock appreciation and dividends.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Equitable Group Inc. (the "Company") are prepared by management, which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared, within reasonable limits of materiality, using appropriate accounting policies that are in accordance with International Financial Reporting Standard ("IFRS") as well as the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") as these apply to its subsidiary, Equitable Bank. The consolidated financial statements reflect amounts which must, of necessity, be based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains and monitors a system of internal control to meet its responsibility for the integrity of the consolidated financial statements. These controls are designed to provide reasonable assurance that the Company's consolidated assets are safeguarded, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and timely financial information. Management also administers a program of ethical business conduct, which includes quality standards in hiring and training employees, written policies and a written corporate code of conduct. Management responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The Board of Directors of the Company (the "Board") oversees management's responsibility for the consolidated financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the consolidated financial statements with management and internal and external auditors before recommending their approval to the Board.

The Company's subsidiary, Equitable Bank, is a Schedule I Bank under the Bank Act (Canada) and is regulated by OSFI. On a regular basis, OSFI conducts an examination to assess the operations of Equitable Bank and its compliance with statutory requirements and sound business practices.

KPMG LLP has been appointed as external auditors by the shareholders to examine the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards. The external auditors are responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with IFRS. The auditors have unrestricted access to and periodically meet with the Audit Committee, with and without management present, to discuss their audits and related matters.

Andrew Moor
President and Chief Executive Officer

Tim Wilson
Chief Financial Officer

February 28, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equitable Group Inc.

We have audited the accompanying consolidated financial statements of Equitable Group Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Equitable Group Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 28, 2018

Toronto, Canada

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31	Note	2017	2016
Assets			
Cash and cash equivalents	6	**$ 660,930**	$ 444,179
Restricted cash	6	**366,038**	247,878
Securities purchased under reverse repurchase agreements		**-**	199,401
Investments	7	**107,442**	136,718
Mortgages receivable – Core Lending	8,9	**12,304,741**	10,678,452
Mortgages receivable – Securitization Financing	8,9	**6,993,807**	7,105,351
Securitization retained interests	9	**104,429**	88,782
Other assets	12	**96,863**	72,827
		$ 20,634,250	$ 18,973,588
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	13	**$ 11,114,313**	$ 9,763,082
Securitization liabilities	9	**7,565,545**	7,762,632
Obligations under repurchase agreements	9	**452,001**	112,488
Deferred tax liabilities	14	**35,802**	38,771
Other liabilities	15	**199,601**	204,465
Bank facilities	16	**128,871**	50,000
Debentures	17	**-**	65,000
		19,496,133	17,996,438
Shareholders' equity:			
Preferred shares	18	**72,557**	72,557
Common shares	18	**198,660**	196,608
Contributed surplus	19	**6,012**	5,056
Retained earnings		**866,109**	725,912
Accumulated other comprehensive loss		**(5,221)**	(22,983)
		1,138,117	977,150
		$ 20,634,250	$ 18,973,588

See accompanying notes to the consolidated financial statements.

David LeGresley
Chair of the Board

Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	Note		2017		2016
Interest income:					
Mortgages – Core Lending		**$**	**516,564**	$	444,093
Mortgages – Securitization Financing			**178,329**		179,838
Investments			**4,502**		8,821
Other			**11,067**		4,713
			710,462		637,465
Interest expense:					
Deposits			**204,894**		183,340
Securitization liabilities	*9*		**174,920**		165,960
Bank facilities			**15,997**		4,756
Debentures			**3,079**		3,800
Other			**3,210**		252
			402,100		358,108
Net interest income			**308,362**		279,357
Provision for credit losses	*8*		**1,543**		2,445
Net interest income after provision for credit losses			**306,819**		276,912
Other income:					
Fees and other income			**28,302**		17,640
Net (loss) gain on investments			**(888)**		146
Gains on securitization activities and income from securitization retained interests	*9*		**13,612**		8,672
			41,026		26,458
Net interest and other income			**347,845**		303,370
Non-interest expenses:					
Compensation and benefits			**65,206**		60,280
Other			**63,824**		56,259
			129,030		116,539
Income before income taxes			**218,815**		186,831
Income taxes	*14*				
Current			**50,220**		37,947
Deferred			**7,978**		10,554
			58,198		48,501
Net income		**$**	**160,617**	$	138,330
Dividends on preferred shares			**4,763**		4,763
Net income available to common shareholders		**$**	**155,854**	$	133,567
Earnings per share	*20*				
Basic		**$**	**9.46**	$	8.57
Diluted		**$**	**9.39**	$	8.49

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	*Note*	**2017**	2016
Net income		**$ 160,617**	$ 138,330
Other comprehensive income – items that may be reclassified subsequently to income:			
Available for sale investments:			
Net unrealized gains from change in fair value		**15,647**	3,247
Reclassification of net losses (gains) to income		**412**	(187)
		16,059	3,060
Income tax expense		**(4,223)**	(812)
		11,836	2,248
Cash flow hedges:	*10*		
Net unrealized gains from change in fair value		**6,272**	3,877
Reclassification of net losses to income		**1,875**	2,986
		8,147	6,863
Income tax expense		**(2,221)**	(1,821)
		5,926	5,042
Total other comprehensive income		**17,762**	7,290
Total comprehensive income		**$ 178,379**	$ 145,620

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			
2017	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Available for sale investments**	**Total**	**Total**
Balance, beginning of year	**$ 72,557**	**$ 196,608**	**$ 5,056**	**$ 725,912**	**$ (2,773)**	**$ (20,210)**	**$ (22,983)**	**$ 977,150**
Net income	**-**	**-**	**-**	**160,617**	**-**	**-**	**-**	**160,617**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**5,926**	**11,836**	**17,762**	**17,762**
Shares issued, net of issuance cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Exercise of stock options	**-**	**1,726**	**-**	**-**	**-**	**-**	**-**	**1,726**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(4,763)**	**-**	**-**	**-**	**(4,763)**
Common shares	**-**	**-**	**-**	**(15,657)**	**-**	**-**	**-**	**(15,657)**
Stock-based compensation	**-**	**-**	**1,282**	**-**	**-**	**-**	**-**	**1,282**
Transfer relating to the exercise of stock options	**-**	**326**	**(326)**	**-**	**-**	**-**	**-**	**-**
Balance, end of year	**$ 72,557**	**$ 198,660**	**$ 6,012**	**$ 866,109**	**$ 3,153**	**$ (8,374)**	**$ (5,221)**	**$ 1,138,117**

					Accumulated other comprehensive income (loss)			
2016	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Available for sale investments	Total	Total
Balance, beginning of year	$ 72,557	$ 143,690	$ 4,706	$ 605,436	$ (7,815)	$ (22,458)	$ (30,273)	$ 796,116
Net income	-	-	-	138,330	-	-	-	138,330
Other comprehensive loss, net of tax	-	-	-	-	5,042	2,248	7,290	7,290
Shares issued, net of issuance cost	-	49,333	-	-	-	-	-	49,333
Exercise of stock options	-	2,877	-	-	-	-	-	2,877
Dividends:								
Preferred shares	-	-	-	(4,763)	-	-	-	(4,763)
Common shares	-	-	-	(13,091)	-	-	-	(13,091)
Stock-based compensation	-	-	1,058	-	-	-	-	1,058
Transfer relating to the exercise of stock options	-	708	(708)	-	-	-	-	-
Balance, end of year	$ 72,557	$ 196,608	$ 5,056	$ 725,912	$ (2,773)	$ (20,210)	$ (22,983)	$ 977,150

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 160,617**	$ 138,330
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**(3,058)**	(471)
Amortization of premiums/discount on investments	**11,241**	237
Amortization of capital assets and intangible costs	**8,878**	7,863
Provision for credit losses	**1,543**	2,445
Securitization gains	**(10,633)**	(8,135)
Net loss (gain) on sale or redemption of investments	**888**	(146)
Stock-based compensation	**1,282**	1,058
Income taxes	**58,198**	48,501
Securitization retained interests	**24,617**	16,291
Changes in operating assets and liabilities:		
Restricted cash	**(118,160)**	(139,890)
Securities purchased under reverse repurchase agreements	**199,401**	(179,483)
Mortgages receivable, net of securitizations	**(1,547,374)**	(3,122,072)
Other assets	**(15,360)**	(6,770)
Deposits	**1,361,660**	1,554,090
Securitization liabilities	**(195,890)**	1,653,196
Obligations under repurchase agreements	**339,513**	112,488
Bank facilities	**78,871**	(185,779)
Other liabilities	**(2,466)**	105,011
Income taxes paid	**(80,174)**	(17,394)
Cash flows from (used in) operating activities	**273,594**	(20,630)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares, net of issuance costs	**-**	49,333
Proceeds from issuance of common shares	**1,726**	2,877
Redemption of debentures	**(65,000)**	-
Dividends paid on preferred shares	**(4,763)**	(4,763)
Dividends paid on common shares	**(14,977)**	(12,754)
Cash flows (used in) from financing activities	**(83,014)**	34,693
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(40,486)**	(131,390)
Proceeds on sale or redemption of investments	**76,176**	151,380
Net change in Canada Housing Trust re-investment accounts	**241**	(104)
Purchase of capital assets and system development costs	**(9,760)**	(13,136)
Cash flows from investing activities	**26,171**	6,750
Net increase in cash and cash equivalents	**216,751**	20,813
Cash and cash equivalents, beginning of year	**444,179**	423,366
Cash and cash equivalents, end of year	**$ 660,930**	$ 444,179
Cash flows from operating activities include:		
Interest received	**$ 704,813**	$ 590,687
Interest paid	**(354,727)**	(337,685)
Dividends received	**4,567**	7,438

See accompanying notes to the 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:

The consolidated financial statements of Equitable Group Inc. have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations issued by the IFRS Interpretations Committee, as published by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Company's Board of Directors on February 28, 2018.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

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

(e) Consolidation:

The consolidated financial statements as at and for the twelve months ended December 31, 2017 and December 31, 2016 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Bank, after the elimination of intercompany transactions and balances. The Company has control of Equitable Bank as it is exposed to and has rights to variable returns from its involvement with Equitable Bank and it has the ability to affect those returns through its power over the relevant activities of Equitable Bank.

Note 3 – Significant Accounting Policies

The following note describes the Company's significant accounting policies. These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Financial instruments:

The Company's consolidated balance sheet consists primarily of financial instruments and the majority of net income is derived from income and expenses, as well as gains and losses related to the respective financial instruments.

Financial instrument assets include cash and cash equivalents, restricted cash, securities purchased under reverse repurchase agreements, investments, mortgages receivable – core lending, mortgages receivable – securitization financing, securitization retained interests and derivative financial instruments. Financial instrument liabilities include deposits, securitization liabilities, obligations under repurchase agreements, bank facilities, accounts payable, debentures and derivative financial instruments.

(i) Classification of financial assets and liabilities

Financial assets and liabilities are initially recorded at fair value in the consolidated balance sheets. Subsequent to initial recognition financial assets and liabilities are measured at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments.

Financial instruments at fair value through income

Financial instruments are classified in this category if they are held for trading or designated by management under the fair value option. They are carried at fair value and any related realized and unrealized gains and losses are recognized in the consolidated statements of income.

Classified as held for trading

An instrument is classified as held for trading if it is acquired principally for the purposes of selling or repurchasing in the near term or if it is a derivative (except for a derivative that is a designated and effective hedging instrument in an accounting hedge). Upon initial recognition, transaction costs are expensed as incurred.

Designated as at fair value through income

Instruments designated as at fair value through income must meet one of the following criteria: (a) the designation eliminates or significantly reduces a measurement or recognition inconsistency; (b) a group of financial assets or liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or (c) the instrument contains one or more embedded derivatives unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract; or (ii) it is clear with little or no analysis that separation is prohibited.

Held to maturity

Held to maturity financial assets are non-derivative financial assets and are classified in this category if management has the intent and ability to hold the instrument to maturity. Held to maturity financial assets are recognized initially at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less allowance for credit losses.

Available for sale

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the categories described above. They are initially recognized at fair value plus any directly attributable incremental transaction costs. Subsequent to initial recognition, available for sale financial assets are measured at fair value. Gains and losses arising from changes in fair value are recognized in Other comprehensive income ("OCI"), net of income taxes. When the instrument is derecognized, the cumulative gain or loss in OCI is transferred to income.

Financial liabilities

Financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost, except for liabilities designated as at fair value through income.

(ii) Determination of fair value

When a financial instrument is initially recognized, its fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent to initial recognition, for financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which maximize use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques. See Note 5 for the valuation methods and assumptions used to estimate fair values of financial instruments.

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Company has transferred its rights to receive future cash flows of the financial asset, or it retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients and either:
- the Company has transferred substantially all the risks and rewards of ownership of the financial asset; or
- the Company has neither retained nor transferred substantially all the risks and rewards of ownership in the financial asset, but has transferred control of the asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability in the consolidated balance sheets. On derecognition of a financial asset the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in the consolidated statements of income.

If the transfer of assets does not meet the criteria for derecognition, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received upon the transfer in the consolidated balance sheets.

The derecognition criteria is also applied to the transfer of part of an asset, rather than a whole, or to a group of similar financial assets in their entirety, when applicable. When it is applied to part of an asset, the part comprises of specifically identified cash flows, a fully proportionate share of the asset, or a fully proportionate share of a specifically identified cash flow from the asset.

Financial liabilities

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheets when the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions.

(v) Risks associated with financial instruments

The use of financial instruments exposes the Company to credit risk, interest rate risk, and liquidity risk. A discussion on how these risks and other risks are managed can be found in the Risk Management section of Company's December 31, 2017 Management's Discussion and Analysis and Note 4 to these consolidated financial statements.

(b) Interest:

Interest income and interest expense for all financial instruments not designated as at fair value through income are recognized in income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash flow payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, management estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of deposits with regulated financial institutions and highly liquid short-term investments, including government guaranteed investments and other money market instruments, whose term to maturity at the date of purchase is less than three months and are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. Interest earned on cash and cash equivalents is included in Interest income – other in the consolidated statements of income.

(d) Investments:

Investments are accounted for at settlement date and initially measured at fair value plus, in the case of investments not at fair value through income, incremental direct transaction costs, and subsequently accounted for depending upon their classification as either available for sale, held for trading, held to maturity or fair value through income.

Investments that are designated as available for sale, are reported on the consolidated balance sheets at fair value. Unrealized gains and losses, net of income taxes, are reported in OCI, until the investment is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to Other income in the consolidated statements of income. Available for sale investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive.

Investments designated as held for trading or as at fair value through income are reported at fair value on the consolidated balance sheets, with unrealized gains and losses, reported in the consolidated statements of income.

Held to maturity investments are recorded at amortized cost, net of impairment losses on the consolidated balance sheets.

Investments are assessed for impairment at the end of each reporting period, or more frequently, if events or changes in circumstances indicate the existence of objective evidence of impairment. Investments that are designated as available for sale are assessed for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset. Loss events include default or delinquency of the debtor, indications that the issuer of a security will enter bankruptcy, significant deterioration of credit quality, the disappearance of an active market for security or observable data indicating that there is a measurable decrease in the estimated cash flows from the assets.

For available for sale securities that are considered to be impaired, the cumulative loss in OCI is transferred to Other income. Fair value increases in available for sale debt securities that are objectively related to an event occurring after impairment loss was recognized are recorded as reversals of impairment loss in Other income. Impairment losses on available for sale equity instruments are not subsequently reversed through net income.

For held to maturity investments that are determined to be impaired, the write-down to net realizable value (i.e. present value of estimated future cash flows discounted using the original effective interest rate) is reported in Other income in the consolidated statements of income. For held to maturity securities, where an impairment loss subsequently reverses, the carrying amount of the instrument is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Interest income and dividends earned, net of amortization of premiums and discounts, are included in Interest income – investments in the consolidated statements of income. Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for the equity securities. The fair values of investments are generally based on quoted market prices.

(e) Securities purchased under reverse repurchase agreements:

Securities purchased under reverse repurchase agreements represent purchases of Government of Canada guaranteed debt securities and are treated as collateralized lending transactions as they represent the purchase of securities with a simultaneous agreement to sell them back at a specified price on a specified future date, which is generally short term. These receivables in respect of the amount advanced are classified as loans and receivables and are held at amortized cost plus accrued interest on the consolidated balance sheets. The interest income related to these investments is recorded on an accrual basis using the effective interest method and is included in Interest income – investments in the consolidated statements of income.

(f) Mortgages receivable:

Classification

(i) Mortgages receivable classified as loans and receivables

Mortgages are initially recognized at fair value and subsequently measured at amortized cost, plus accrued interest, using the effective interest rate method, and are reported net of unamortized origination fees, commitment income, premiums or discounts and an allowance for credit losses. Net fees relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income – mortgages in the consolidated statements of income.

(ii) Mortgages designated as at fair value through income

Certain mortgages designated as at fair value through income are carried at fair value with changes in fair value included in Interest Income – mortgages in the consolidated statements of income. Net fees relating to mortgage origination are recognized in income as incurred, and are included in Interest income – mortgages in the consolidated statements of income.

(iii) Mortgages classified as held for trading

Certain mortgages held for securitization and classified as held for trading are carried at fair value with changes in fair value included in Other income – gains on securitization and income from securitization retained interests in the consolidated statements of income. Net fees relating to mortgage origination are expensed as incurred and are included in Other income – gains on securitization activities and income from securitization retained interests in the consolidated statements of income.

Impairments

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

When an impaired mortgage is identified, an individual allowance is recorded to reduce the carrying value of the mortgage to its net realizable amount, measured on the basis of expected future cash flows, and discounted at the mortgage's effective interest rate. The impairment is reflected in the consolidated statements of income in the years in which the impairment is recognized. When a mortgage is classified as impaired, interest income continues to be accrued using the effective interest rate method and may be partially or fully offset by an increase in the allowance for credit losses.

A mortgage is no longer considered impaired when all past due amounts including interest have been recovered and it is determined that the principal and interest are fully collectible, at which time the individual allowance is reversed.

Mortgage losses are recorded when proceeds expected from realization of the security are less than the carrying amount of the mortgage. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses.

Foreclosed assets retained in settlement of an impaired loan and held for sale are accounted for at fair value less estimated cost to sell at the date of foreclosure. Any difference between the carrying value of the mortgage before foreclosure and the estimated realizable value of the asset is recorded as a loss in the consolidated statements of income.

For any subsequent change in fair value, gains and losses are recognized in fees and other income in the consolidated statements of income.

(g) Allowance for credit losses:

Allowance for credit losses on mortgage assets requires management's judgment in making assumptions and estimations when calculating allowances on both individually and collectively assessed mortgages.

Individual allowance

At each reporting date, the Company assesses whether objective evidence of impairment exists for individual mortgage assets. For mortgages assessed as impaired, an individual allowance is recorded, measured as the difference between the mortgage's carrying amount and the present value of estimated future cash flows discounted at the mortgage's original effective interest rate. The calculation of the estimated future cash flows of the mortgage reflects management's judgement relating to the timing of future cash flow amounts that can be reasonably expected from the borrowers and/or guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated costs of realization.

Collective allowance

The Company maintains a collective allowance in order to cover any impairment in the existing portfolio for mortgages that have not yet been individually identified as impaired. If there is no objective evidence of impairment for an individual loan, whether significant or not, the loan is included in a group of assets with similar credit risk characteristics and collectively assessed for losses incurred but not identified. The level of the allowance for each group of assets depends upon security and mortgage type, internal risk ratings, geographic location, loan-to-value ratio, and other relevant factors. Loss assumptions may be adjusted over time based on current observable data and economic conditions. The collective allowance may also be adjusted for management's judgement as to whether current economic conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that calculated by the model.

(h) Securitizations:

In the normal course of business, the Company securitizes insured residential mortgages through the Government of Canada's National Housing Act ("NHA"), Mortgage Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs, which are facilitated by Canada Mortgage and Housing Corporation ("CMHC"). The Company securitizes the mortgages through the creation of MBS and the ultimate sale of MBS to third party investors or through the CMB program.

The Company also securitizes uninsured residential mortgages by entering into an agreement to sell these mortgages into a program sponsored by another major Schedule I Canadian bank.

Securitized mortgages and securitization liabilities

Sales of MBS that do not qualify for derecognition result in the related mortgages being classified as Mortgages receivable – securitization financing on the consolidated balance sheet, which are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts and insurance costs. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income mortgages – securitization financing in the consolidated statements of income.

Sale of uninsured residential mortgages do not qualify for derecognition and are classified as Mortgages receivable – core lending on the consolidated balance sheets, and are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in Interest income mortgages – core lending in the consolidated statements of income.

In addition, these transactions are considered secured financing and result in the recognition of securitization liabilities. Securitization liabilities are recorded at amortized cost, plus accrued interest, and are reported net of any unamortized premiums or discounts and transaction costs incurred in obtaining the secured financing. Interest expense is allocated over the expected term of borrowing by applying the effective interest rate to the carrying amount of the liability.

Securitization retained interest and servicing liability

In certain securitization transactions that qualify for derecognition, the Company has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. The securitization retained interests are classified as available for sale securities in the consolidated balance sheets and are carried at fair value with changes in fair value reported in OCI, net of income taxes. The servicing liability is reported as part of Other liabilities. During the life of the securitization, as cash is received, the retained interests and the servicing liability are amortized and recognized in the consolidated statements of income under Gains on securitization activities and income from securitization retained interests.

Gains on securitization

When an asset is derecognized, the related mortgages are removed from the consolidated balance sheets and a gain or loss is recognized in the consolidated statements of income under Other income – gains on securitization activities and income from securitization retained interests.

(i) Derivative financial instruments:

The Company uses derivative financial instruments primarily to manage exposure to interest rate risk. Derivative instruments that are typically used are interest rate swaps and, bond forwards and total return swaps. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Bond forwards are used to hedge interest rate exposures resulting from changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the NHA MBS and CMB program, and the date of securitization. Total return swaps are used to hedge the risk of changes in future cash flows related to the Company's Restricted share unit ("RSU") and Deferred share unit ("DSU") plan. The Company also uses total return swaps to hedge the reinvestment risk between the amortizing MBS and the bullet CMB related to its CMB activities.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when the following conditions are met:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined contract is not held for trading or designated at fair value through income.

Separated embedded derivatives are presented with other derivative assets and liabilities in the consolidated balance sheets.

Cash flow hedges

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the amount of future cash flows being hedged.

The Company's cash flow hedges include hedges of anticipated highly probable cash flows on fixed rate liabilities arising from accounting for securitization transactions as secured financing under IAS 39, Financial Instruments: Recognition and Measurement. The Company enters into bond forwards (including certain embedded derivatives) to hedge this cash flow risk and applies hedge accounting to these derivative financial instruments. The Company also enters into interest rate swaps to hedge future cash flows related to its floating rate liabilities. To the extent that changes in the fair value of the derivative do not exceed the changes in the fair value of the hedged item they are recorded in OCI, net of tax. The cumulative amounts deferred in Accumulated Other Comprehensive Income ("AOCI") are reclassified to Interest expense – securitization liabilities in the consolidated statements of income.

The Company's cash flow hedges also include Total return equity swap contracts ("TRS") used to hedge the risk of changes in future cash flows related to its RSU plan. The value of RSUs or PSUs issued is linked to the price of the Company's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the consolidated balance sheets and the effective portion of the changes in fair values of these TRS is recorded in OCI, net of tax. The cumulative amounts deferred in AOCI are reclassified to Non-interest expense – compensation and benefits in the consolidated statements of income, over the vesting period of the RSUs or PSUs.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. The change in the fair value of the hedging item will be recorded on the consolidated balance sheets under AOCI as either deferred gains or losses during the hedge term only to the extent of the effective portion of the hedges. Any ineffectiveness in the hedging relationship is included in Other income – gains on securitization activities and income from securitization retained interests in the consolidated statements of income as it occurs.

For cash flow hedges that are discontinued before the end of the original hedge term and for which the designated hedge cash flows are probable of occurring, the unrealized gain or loss recorded in OCI is amortized to Gains on securitization activities and income from securitization retained interests, in the consolidated statements of income.

The Company also uses TRSs to hedge the risk of changes in future cash flows related to its DSU plan and the Company has not applied hedge accounting to these derivative instruments. The value of the DSU is linked to the price of the Company's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the consolidated balance sheets and changes in fair value of these TRSs being recorded in Non-interest expense – compensation and benefits in the consolidated statements of income for the period in which the changes occur.

Fair value hedges

The Company enters into interest rate swap agreements to manage interest rate exposures on fixed rate deposits used to fund floating rate mortgages. The fair values of these interest rate swap agreements are included in Other assets and/or Other liabilities with changes in fair value recorded in Interest expense – deposits. Changes in the fair value of deposits attributable to the hedged risks are also included in Interest expense – deposits. For most hedging relationships, the Company has applied hedge accounting.

The Company also enters into interest rate swap agreements to manage interest rate exposures on fixed rate securitization liabilities. The fair value of these interest rate swap agreements is included in Other assets and/or Other liabilities with changes in fair value recorded in Other income – gains on securitization activities and income from securitization retained interests. Changes in fair value of the securitization liability attributable to the hedged risk, is also included in Other income – gains on securitization activities and income from securitization retained interests. The Company applies hedge accounting to these derivatives.

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instrument, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged asset or liability. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation.

The Company enters into bond forwards to manage interest rate exposures for certain mortgage commitments and funded mortgages until the date they are securitized. The fair values of these bond forwards are included in Other assets and/or Other liabilities with changes in fair value recorded in Other income – gains on securitization activities and income from securitization retained interests. Changes in fair value of mortgages and mortgage commitments are also included in Other income – gains on securitization activities and income from securitization retained interests. The Company does not apply hedge accounting to these derivative instruments.

The Company's hedging activities are transacted with approved counterparties, which are limited to Canadian chartered banks, their subsidiaries and other financial intermediaries.

(j) Compensation plans:

The Company offers several benefit programs to eligible employees. These benefits include a deferred profit sharing plan, employee stock purchase plan, annual bonuses, and compensation in the form of share-based payments.

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Deferred profit sharing plan ("DPSP")

The Company has a DPSP under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions are recognized as an expense in income when they are due in respect of service rendered before the end of the reporting period.

(iii) Stock-based compensation

Stock option plan:

The Company has a stock option plan for eligible employees of Equitable Bank. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares or the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the date the options were granted. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant, which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized on a straight-line basis over the vesting period of the options granted as compensation expense with a corresponding increase in Contributed surplus. The awards are delivered in tranches; each tranche is considered a separate award and is valued and amortized separately. Expected forfeitures are factored into determining the stock option expense and the estimates are periodically adjusted in the event of actual forfeitures or for changes in expectations. The Contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in Contributed surplus is reclassified to capital stock. Compensation expense related to the stock-based compensation plan is included in Non-interest expense – compensation and benefits in the consolidated statements of income.

RSU plan:

The Company has an RSU plan and may grant RSUs and/or Performance Share Units ("PSUs") to eligible employees on an annual basis. The expense related to the award of these units is included in Non-interest expense – compensation and benefits in the consolidated statements of income over the vesting period and any corresponding liability is included in Other liabilities in the consolidated balance sheets. Since each RSU or PSU represents a notional common share, any changes in unit value and re-invested notional dividend amounts are recognized in the consolidated statements of income. Each RSU or PSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting. The value of PSUs may be increased or decreased up to 25%, based on the Company's relative total shareholder return compared to a defined peer group of financial institutions in Canada, and the incremental expense or recovery on those shares is recorded when the Company can reliably estimate the actual payout.

DSU plan:

The Company has a DSU plan for Directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in Other liabilities in the consolidated balance sheets. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Company. The change in the obligation attributable to the change in stock price of Equitable Group Inc. and dividends paid on common shares is recognized in Non-interest expense – compensation and benefits in the consolidated statements of income for the period in which the changes occur. The redemption value of each DSU is the volume-weighted average trading price of the common shares of Equitable Group Inc. on the TSX for the five trading days immediately prior to the redemption date.

Employee stock purchase ("ESP") plan:

The Company has an ESP plan for its employees. Under this plan, employees have the option of directing a portion of their gross salary towards the purchase of the Company's common shares. The Company matches a fixed portion of employee share purchases up to specified maximum. Employer contributions are recognized in Non-interest expense – compensation and benefits in the period incurred.

(k) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income except to the extent that it relates to items recognized directly in OCI or equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities represent the amount of tax applicable to temporary differences between the carrying amounts of the assets and liabilities and their values for tax purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the years that include the date of enactment or substantive enactment.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, usually in respect of income taxes levied by the same tax authority on the same taxable entity, and the Company intends to settle current tax liabilities and assets on a net basis or settle the tax assets and liabilities simultaneously.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off the deferred tax assets and liabilities related to income taxes levied by the same tax authority on either the same taxable entity; or different taxable entities, but the entities intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously for each future period in which these differences reverse.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

(l) Capital assets:

Capital assets are carried at cost less accumulated depreciation. Depreciation is calculated using a declining balance method over the estimated useful lives of the assets at the following annual rates as this most closely reflects the pattern of consumption of the future economic benefits:

Capital asset categories	Rate of depreciation
Furniture, fixtures and office equipment	20%
Computer hardware and software	30%

Leasehold improvements are depreciated on a straight-line basis over the lesser of the lease term and the estimated useful life of the asset.

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted appropriately.

(m) Intangible assets:

Intangible assets are comprised of system and software development costs. An intangible asset is recognized only when its cost can be reliably measured and includes all directly attributable costs necessary to create the asset to be capable of operating in the manner intended by management. Research costs are expensed and eligible development costs are capitalized. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any, in the consolidated balance sheets. The company's intangible assets have a definite life and are amortized on a straight-line basis over their useful lives, ranging from 3 to 10 years. Amortization expenses are included in Non-interest expenses – other in the consolidated statements of income.

Intangible assets, including those under development are assessed for indicators of impairment at each reporting period. If there's an indication that impairment exists, the Company performs an impairment test by comparing the carrying amount of the intangible asset to its recoverable amount. If the recoverable amount is less than its carrying amount, the carrying amount is written down to its recoverable amount and an impairment loss is recognized in the consolidated statements of income.

(n) Leases:

Operating leases

Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the property is available for use. Free rent periods are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis.

(o) Deposits:

Deposits are comprised of GICs, High Interest Savings Accounts ("HISA") and institutional deposit notes. Deposits, with the exception of those designated as at fair value through income, are recorded on the consolidated balance sheets at amortized cost plus accrued interest, using the effective interest rate method. Deferred deposit agent commissions are accounted for as a component of deposits with the amortization of these commissions, with the exception of commissions relating to deposits designated as at fair value through income, which are expensed as incurred, and are calculated on an effective yield basis as a component of interest expense.

(p) Obligations under repurchase agreements:

Investments sold under repurchase agreements represent sales of Government of Canada guaranteed debt securities by the Company effected with a simultaneous agreement to purchase the assets back at a specified price on a specified future date, which is generally short term. Repurchase agreements are treated as borrowings and are carried at amortized cost, plus accrued interest, using the effective interest rate method, recorded in the consolidated balance sheets at the respective prices at which the investments were originally sold plus accrued interest. Interest expense relating to repurchase agreements is recorded in Interest expense – other in the consolidated statements of income.

(q) Bank facilities and debentures:

Bank facilities and debentures are recorded in the consolidated balance sheets at amortized cost using the effective interest rate method.

(r) Share capital:

Issuance costs

Incremental costs directly attributable to the issuance of an equity instrument are deducted from the initial measurement of the equity instruments and is presented net of tax.

(s) Fees:

Other income includes ancillary fees related to the administration of the mortgage portfolio. These fees are accrued and recognized as the related services are rendered.

(t) Earnings per share:

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the year. Net income available to common shareholders is determined by deducting the dividend entitlements of preferred shareholders from net income. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share calculations is determined using the treasury stock method. Under this method, stock options which exercise price is less than the average market price of the Company's common shares are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the year. The incremental number of common shares issued under stock options and repurchased from proceeds is included in the calculation of diluted earnings per share.

(u) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

(v) Future accounting changes:

(i) Financial Instruments (IFRS 9)

On July 24, 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 ('transition date'). It replaces IAS 39 and covers three broad topics: Classification and Measurement, Impairment and Hedging.

On June 21, 2016, OSFI issued its final guideline on IFRS 9 Financial Instruments and Disclosures. The guideline provides guidance to Federally Regulated Entities on the application of IFRS 9, including the implementation of the expected credit loss framework under IFRS 9. The guideline is consistent with the Basel Committee on Banking Supervision ('BCBS') guidance on credit risk and accounting for expected credit losses, issued on December 18, 2015, which sets out supervisory expectations on sound credit risk practices associated with the implementation of expected credit loss accounting models. The OSFI guideline is effective January 1, 2018 for the Company, and is consistent with the adoption date for IFRS 9.

Governance

The adoption of IFRS 9 is a significant initiative for the Company involving substantial finance, risk management, and technology resources. The project was managed through a strong governance framework and a robust implementation plan. The governance structure included an Executive Steering Committee (EC) comprised of senior levels of management from risk management and finance and with representation from technology and project management. A communication plan was established and regular updates were provided to the EC and the Audit Committee on key decisions. IFRS 9 review sessions were also held at various levels within the Company, including the Board. The EC was responsible for the overall implementation of IFRS 9 ensuring integration throughout the Company and providing executive review and approval of key decisions made during the transition process.

As part of the implementation of IFRS 9, the Company has established an Allowance Committee to provide oversight to the IFRS 9 impairment process and ensure that appropriate validations and controls exist over new key processes and significant areas of judgement. The Company has also revised its accounting policies and procedures, amended its internal control documents and developed new risk models and associated methodologies within risk management.

Transition impact

The new impairment and classification and measurement requirements will be applied by adjusting the Company's consolidated Balance Sheet on January 1, 2018, the date of initial application, with no restatement of comparative period financial information.

Based on preliminary estimates, the adoption of IFRS 9 is expected to increase the shareholders' equity as at January 1, 2018 by approximately $6,800, net of taxes, which is primarily due to the decrease in allowances for impairment losses in accordance with the new impairment requirements. The Company will continue to revise, refine and validate the impairment models and related process controls leading up to the March 31, 2018 reporting.

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9:

Classification and Measurement

IFRS 9 introduces a new principle-based approach to classification and measurement for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. All financial assets, including hybrid contracts are now classified as at amortized cost, fair value through the consolidated statement of income or fair value through OCI at initial recognition. These categories replace the existing IAS 39 classifications of Fair value through consolidated statement of income, available for sale, loans and receivables, and held to maturity.

Equity instruments are measured at fair value through the consolidated statement of income. However, the Company may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to the consolidated statement of income, while recognizing dividend income in the consolidated statement of income. This designation is also available to non-trading equity instrument holdings on date of transition.

In addition, the Company may, at initial recognition, irrevocably elect to designate a financial asset as fair value through the consolidated statement of income, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets on date of transition.

On transition date, the Company has the option to make a one-time irrevocable reassessment to fair value through the consolidated statement of income to its financial assets and liabilities, subject to meeting the qualification criteria.

The classification and measurement of financial liabilities remain largely unchanged under IFRS 9, except for financial liabilities measured at fair value through the consolidated statement of income when classified as held for trading or designated using the fair value option. This exception does not apply to the Company.

The Company has defined its significant business models and has assessed the cash flow characteristics for all financial assets under the scope of IFRS 9. This has resulted in certain differences in the classification of financials assets when compared to IAS 39. The significant changes include the following:

- Approximately $105,000 of Securitization retained interests previously classified as AFS are expected to be classified as at amortized cost.
- Approximately $151,000 of Mortgages – Core Lending previously classified as Loans and receivables are expected to be classified as at fair value through the consolidated statement of income.
- Approximately $35,000 of Investments previously classified as AFS are expected to be classified as at fair value through the consolidated statement of income.

As a result of the changes in the classification of financials assets, the shareholders' equity is expected to increase by $700.

Impairment

IFRS 9 introduces a forward-looking 'expected credit loss' (ECL) model which differs significantly from the 'incurred loss' model in IAS 39. The application of IFRS 9 ECL will have a significant change in the Company's allowance methodology. The key elements of the new ECL methodology are described below:

Scope

The standard introduces a new single model for the measurement of impairment losses on all financial instruments including loans and debt securities measured at amortized cost or at fair value through OCI.

ECL under IFRS 9 are 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 a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts.

ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Company developed new methodologies and models taking into account the relative size, quality and complexity of the portfolios.

Under IFRS 9, credit loss allowances will be measured at each reporting date according to a three stage expected credit loss as follows:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a *significant increase in credit risk ('SICR')* since origination and are not credit impaired. The 12 month ECL represents the portion of life time ECL that are expected to occur based on default events that are possible within 12 months after the reporting date.

Stage 2 – When a financial asset experiences a SICR since origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the PD occurring over the remaining lifetime of the financial asset.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses for such loans.

Stage 1 and Stage 2 ECL effectively replace the collective allowance for loans not yet identified as impaired under IAS 39 and Stage 3 ECL effectively replaces the individual allowance under IAS 39.

Key drivers of ECL

The calculation of ECL requires a high level of judgement, which could have a significant impact on the level of ECL allowance and be the cause of increased volatility in the consolidated statement of income. Some of the key areas requiring a high level of judgement are:

Assessment of SICR

The assessment of SICR is a new concept under IFRS 9 and will require significant judgement. To assess whether the credit risk on a financial asset has increased significantly since origination, the Company compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators used in the Company's risk management processes. At each reporting date, the Company will individually assess the financial assets to determine whether there is a change in credit risk. This assessment is symmetrical in nature, and if the credit risk decreases after having increased significantly previously such that the increase in credit risk since inception no longer is significant, the asset would be moved back to stage 1.

The Company will assess the SICR at least quarterly and if any of the following criteria indicates a significant increase in credit risk, the instrument will be moved from Stage 1 to Stage 2:

- Absolute or percentage change in lifetime PD relative to initial recognition. The exact thresholds will differ by product and businesses
- 30 days past due rebuttable presumption under IFRS 9, requiring loans to migrate to Stage 2 from Stage 1 if they are past due for 30 days
- Any other qualitative factors as necessary, to better reflect the positions which may have significantly increased due to an increase in credit risk

The movements between stage 2 and stage 3 are based on whether financial assets are credit impaired as at the reporting date.

Macroeconomic factors, forward looking information ('FLI') and multiple scenarios

Macroeconomic factors and forward looking indicators are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant change in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The estimation and application of macroeconomic factors and FLI's requires significant judgement.

In preparing the various risk models as well as calculating ECL, the Company will use relevant macroeconomic variables that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used will have forecasts of the relevant macroeconomic variables, including unemployment rates, gross domestic product, residential and commercial real estate prices and credit scores.

The Company will use five scenarios that will be probability weighted to calculate the estimated credit losses in Stage 1 and Stage 2 ECL. These scenarios are probability weighted according to the Company's best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weighted scenarios will be updated at least on a quarterly basis. The Company has used the same probability weighted macroeconomic scenarios in the assessment of SICR.

Experienced credit judgement

The Company's ECL allowance methodology, in line with OSFI guidelines, requires the Company to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Default and write-off

IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Company does not expect to rebut the presumption in IFRS 9. The policy on the write-off of loans remains unchanged.

As a result of the new methodology adopted, the allowances are expected to decrease, and the opening shareholders' equity is expected to increase by approximately $6,100.

Regulatory developments

On March 29, 2017, the BCBS issued the Pillar 3 disclosure requirements – consolidated and enhanced framework which builds on the revisions to the Pillar 3 disclosure published by the Committee in January 2015.

On March 29, 2017, the BCBS issued standard *"Regulatory treatment of accounting provisions – interim approach and transitional arrangements"*. In the standard, the BCBS clarified that it will retain its current treatment of provisions under both Standardized Approach and Advanced Internal Ratings Based frameworks during an interim period. Further, the BCBS allows local jurisdictions the option to choose whether to apply a transitional arrangement for the impact of IFRS 9 on regulatory capital.

On November 29, 2017, OSFI issued the final version of the CAR Guideline for implementation in Q1-2018. The revisions related primarily to the capital treatment of allowances as a result of the adoption of IFRS 9 and, based on the estimated capital impact provided by institutions, OSFI has determined that transitioning (or phase-in) of the impact of IFRS 9 is not warranted.

Hedging

IFRS 9 aligns hedge accounting more closely with risk management activities of the Company. IFRS 9 does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it is expected to provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

As permitted by the IFRS 9 hedge accounting guidance, the Company has elected not to adopt the new hedge accounting requirements and instead will retain the IAS 39 hedge accounting requirements. However, the Company will adopt the new hedge accounting disclosure requirements under the amendments to IFRS 7 for the annual accounting period beginning January 1, 2018.

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

On May 28, 2014 the IASB issued IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine how much and when revenue is to be recognized from contracts with customers, except for revenues arising from items such as financial instruments, insurance contracts and leases, which are excluded from the scope of the standard. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized from contracts with customers.

The Company will adopt IFRS 15 on January 1, 2018. The Company does not expect a material impact from the adoption of IFRS 15 as majority of the Company's revenue includes interest income from financial instruments which are not within the scope of the standard.

(iii) Leases (IFRS 16)

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

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

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found in the Risk Management section of the Company's MD&A on pages 54 to 65.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

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

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Debentures

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

(vii) Derivatives

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

($ 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 December 31, 2017 and December 31, 2016. The tables do not include assets and liabilities that are not financial instruments.

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[1]:							
bond forwards	346	-	-	-	-	346	346
interest rate swaps	10,198	-	-	-	-	10,198	10,198
total return swaps	2,283	-	-	-	-	2,283	2,283
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[1]:							
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] *Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships (See Note 10).*

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

2016	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 444,179	$ -	$ -	$ -	$ -	$ 444,179	$ 444,179
Restricted cash	247,878	-	-	-	-	247,878	247,878
Securities purchased under reverse repurchase agreements	-	-	-	-	199,401	199,401	199,401
Investments	308	-	2,499	132,911	1,000	136,718	136,718
Mortgages receivable – Core Lending	-	47,283	-	-	10,631,169	10,678,452	10,737,431
Mortgages receivable – Securitization Financing	25,196	-	-	-	7,080,155	7,105,351	7,185,403
Securitization retained interests	-	-	-	88,782	-	88,782	88,782
Other assets:							
Derivative financial instruments:							
interest rate swaps	3,673	-	-	-	-	3,673	3,673
total return swaps	1,042	-	-	-	-	1,042	1,042
bond forwards	456	-	-	-	-	456	456
Mortgage commitments	48	-	-	-	-	48	48
Other	-	-	-	-	12,320	12,320	12,320
Total financial assets	$ 722,780	$ 47,283	$ 2,499	$ 221,693	$ 17,924,045	$18,918,300	$19,057,331
Financial liabilities:							
Deposits	$ -	$ 43,863	$ -	$ -	$ 9,719,219	$ 9,763,082	$ 9,761,039
Securitization liabilities	-	-	-	-	7,762,632	7,762,632	7,811,834
Obligations under repurchase agreements	-	-	-	-	112,488	112,488	112,488
Other liabilities:							
Derivative financial instruments:							
interest rate swaps	158	-	-	-	-	158	158
bond forwards	113	-	-	-	-	113	113
Other	-	-	-	-	183,602	183,602	183,602
Bank Facilities	-	-	-	-	50,000	50,000	50,000
Debentures	-	-	-	-	65,000	65,000	65,363
Total financial liabilities	$ 271	$ 43,863	$ -	$ -	$ 17,892,941	$17,937,075	$17,984,597

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

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

The following table presents the fair value hierarchy of all financial instruments carried at fair value and not carried at fair value in the consolidated balance sheets:

				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:				
bond forwards	-	346	-	346
interest rate swaps	-	10,198	-	10,198
total return swaps	-	1,294	989	2,283
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:				
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

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

				2016
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 444,179	$ -	$ -	$ 444,179
Restricted cash	247,878	-	-	247,878
Securities purchased under reverse repurchase agreements	-	199,401	-	199,401
Investments	111,176	2,499	23,043	136,718
Mortgages receivable – Core Lending	-	47,283	10,690,148	10,737,431
Mortgages receivable – Securitization Financing	-	25,196	7,160,207	7,185,403
Securitization retained interests	-	88,782	-	88,782
Other assets:				
Derivative financial instruments :				
bond forwards	-	456	-	456
interest rate swaps	-	3,673	-	3,673
total return swaps	-	326	716	1,042
Mortgage Commitments	-	-	48	48
Other	-	12,320	-	12,320
Total financial assets	$ 803,233	$ 379,936	$ 17,874,162	$ 19,057,331
Financial liabilities:				
Deposits[(1)]	$ -	$ 9,761,039	$ -	$ 9,761,039
Securitization liabilities	-	1,414,907	6,396,927	7,811,834
Obligations under repurchase agreements	-	112,488	-	112,488
Other liabilities:				
Derivative financial instruments :				
bond forwards	-	113	-	113
interest rate swaps	-	158	-	158
Others	-	183,602	-	183,602
Bank facilities	-	50,000	-	50,000
Debentures	-	65,363	-	65,363
Total financial liabilities	$ -	$ 11,587,670	$ 6,396,927	$ 17,984,597

(1) *Prior year comparatives have been reclassified to align with the current year classifications.*

Note 6 – Cash and Cash Equivalents and Restricted Cash

	2017	2016
Deposits with regulated financial institutions	**$ 660,930**	$ 444,179
Cash and cash equivalents	**$ 660,930**	$ 444,179
Restricted cash – securitization	**$ 345,595**	$ 231,872
Restricted cash – interest rate swaps	**19,939**	15,505
Restricted cash – other programs	**504**	501
Restricted cash	**$ 366,038**	$ 247,878

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

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

Restricted cash – interest rate swaps represent deposits held as collateral by third parties for the Company's interest rate swap transactions. The terms and conditions of these arrangements with counterparties are governed by the International Swaps and Derivatives Association, Inc. (ISDA) agreements.

Restricted cash – other programs represent deposits held as collateral in connection with our Home Equity line of credit and deposit programs. These balances may be drawn upon only in the event of insufficient cash flows from the underlying programs.

Note 7 – Investments

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

						2017	2016
	Maturities						
	Within 1 year	**Over 1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**With no specific maturity**	**Total**	Total
Equity securities – preferred shares	**$ -**	**$ -**	**$ -**	**$ -**	**$ 92,893**	**$ 92,893**	$ 110,697
Equity securities – common shares	**-**	**-**	**-**	**-**	**386**	**386**	480
Debt securities – successor issuer rights	**7,429**	**4,476**	**-**	**-**	**-**	**11,905**	-
Debt securities guaranteed by Government of Canada	**-**	**-**	**-**	**-**	**-**	**-**	22,042
Debt securities – corporate debt	**-**	**-**	**-**	**-**	**-**	**-**	1,000
Canada Housing Trust re-investment accounts[1]	**-**	**2,258**	**-**	**-**	**-**	**2,258**	2,499
	$ 7,429	**$ 6,734**	**$ -**	**$ -**	**$ 93,279**	**$ 107,442**	$ 136,718

[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 available for sale investments recorded in accumulated other comprehensive income (loss) are as follows:

	2017	2016
Equity securities – preferred shares	**$ (11,255)**	$ (28,251)
Equity securities – common shares	**1**	53
Debt securities – successor issuer rights	**(126)**	(94)
	$ (11,380)	$ (28,292)

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

Note 8 – Mortgages Receivable

(a) Mortgages receivable:

2017	Gross amount	Allowance for credit losses: Individual	Allowance for credit losses: Collective	Allowance for credit losses: 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

2016	Gross amount	Allowance for credit losses: Individual	Allowance for credit losses: Collective	Allowance for credit losses: Total	Net amount
Mortgages – Core Lending	$ 10,678,733	$ 1,389	$ 31,890	$ 33,279	$ 10,645,454
Mortgages – Securitization Financing	7,093,828	-	-	-	7,093,828
Accrued interest	45,668	1,147	-	1,147	44,521
	$ 17,818,229	$ 2,536	$ 31,890	$ 34,426	$ 17,783,803

Mortgages – Securitization Financing include mortgages classified as held for trading that are carried at fair value with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at December 31, 2017, amount outstanding on these mortgages is $59,522 (December 31, 2016 – $25,318), and the fair value adjustment is ($403) (December 31, 2016 – ($122)).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in Interest income – Mortgages – Core Lending. As at December 31, 2017, amount outstanding on these mortgages was $12,742 (December 31, 2016 – $46,451) and the fair value adjustment was $66 (December 31, 2016 – $832).

Included in Mortgages – Core Lending are commercial loans of $202,843 (December 31, 2016 – $30,721) 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:

	2017	2016
Net loss in fair values for mortgages held for trading included in Gains on securitization activities and income from securitization retained interests	$ (281)	$ (328)
Net loss in fair values for mortgages designated as at fair value through income and recognized in interest income – Mortgages – Core Lending	$ (766)	$ (755)

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

	2017	2016
Mortgages – Core Lending	$ 5,395,412	$ 4,749,000
Mortgages – Securitization Financing	754,494	760,188
	$ 6,149,906	$ 5,509,188

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

(b) Impaired and past due mortgages:

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

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

			2017	2016
	Gross	**Individual allowance**	**Net**	Net
Mortgages – Core Lending	**$ 22,388**	**$ 621**	**$ 21,767**	$ 36,236
Mortgages – Core Lending – Insured	**-**	**-**	**-**	479
Mortgages – Securitization Financing – Insured	**689**	**-**	**689**	-
Accrued Interest	**876**	**843**	**33**	114
	$ 23,953	**$ 1,464**	**$ 22,489**	$ 36,829

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

				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**

				2016
	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

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

(c) Allowance for credit losses:

			2017
	Individual allowance	**Collective allowance**	**Total**
Balance, beginning of year	**$ 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 year	**$ 1,464**	**$ 31,890**	**$ 33,354**

			2016
	Individual allowance	Collective allowance	Total
Balance, beginning of year	$ 1,326	$ 31,890	$ 33,216
Provision for credit losses	2,445	-	2,445
Realized losses	(1,298)	-	(1,298)
Recoveries	63	-	63
Balance, end of year	$ 2,536	$ 31,890	$ 34,426

Note 9 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. In accordance with Note 3(a) (iii) and 3(h), transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities.

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

Obligations under repurchase agreements

Obligations under repurchase agreements are transactions in which the Company sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Company continues to recognize the securities in their entirety on the consolidated balance sheets because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognized as a financial asset and the obligation to pay the repurchase price is recognized as a financial liability.

Securitizations

The Company securitizes insured residential mortgages by selling its issued MBS to third party investors including a CMHC sponsored trust (Canada Housing Trust – "CHT") under the CMB program. The Company may also retain certain issued MBS as part of its liquidity management strategy, as well as to manage interest rate risk associated with the Company's participation in the CMB program. The CHT periodically issues CMB, which are guaranteed by the government, and sells them to third party investors. Proceeds from the CMB issuances are used by the CHT to purchase MBS from eligible MBS issuers who participate in the issuance of a particular CMB series.

Most of these securitization transactions do not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets or it neither transfers nor retains substantially all the risks and rewards and retains control in the asset. A key risk associated with transferred mortgages to which the Company remains exposed after the transfer in such securitization transactions is the prepayment risk. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and are accounted for as secured financing transactions, with the mortgages transferred pledged as collateral for these securitization liabilities.

The Company's securitization activities include selling uninsured mortgages by entering into an agreement with another Schedule I bank and participating in a securitization program sponsored by that bank. Under this agreement, the Company sells the mortgages to the program and they remain in the program until maturity. The bank that sponsors the securitization program retains all of the refinancing risks related to the program. The sale of these mortgages does not qualify for derecognition as the Company continues to be exposed to substantially all of the risks and rewards associated with the transferred assets. As a result, the mortgages continue to be recognized on the consolidated balance sheets at amortized cost and the proceeds received are recognized under securitization liabilities. The mortgages transferred are pledged as collateral for these securitization liabilities.

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

i) MBS securitizations

For MBS securitization liabilities, principal payments collected from the underlying mortgages are passed on to the MBS investors, reducing the amount of the liability outstanding on a monthly basis. Interest on the MBS securitization liability is calculated at the MBS coupon rate and is paid monthly to the MBS investors.

ii) CMB securitizations

As part of a CMB transaction, the Company may enter into total return swaps with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by the Company. For transactions that fail derecognition, these swaps are not recognized on the Company's consolidated balance sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Company's consolidated statements of income. As at December 31, 2017, the notional amount of these swaps was $3,225,326 (2016 – $1,887,430).

CMB securitization liabilities are non-amortizing bond liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to CHT are transferred to CHT on a monthly basis where they are held and invested in eligible investments until the maturity of the bond. To the extent that these eligible investments are not the Company's own issued MBS, the investments are recorded on the Company's consolidated balance sheets under Investments – Canada Housing Trust re-investment accounts. Interest on the CMB securitization liabilities is calculated at the CMB coupon rate and is paid to the CMB holders on a semi-annual basis.

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

		2017		2016
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**$ 8,819,311**	**$ 452,001**	$ 8,486,532	$ 112,488
Carrying amount of associated liability	**7,566,742**	**452,001**	7,762,632	112,488
Carrying value, net position	**$ 1,252,569**	**$ -**	$ 723,900	$ -
Fair value of assets	**$ 8,741,820**	**$ 452,001**	$ 8,567,106	$ 112,488
Fair value of associated liability	**7,552,335**	**452,001**	7,811,749	112,488
Fair value, net position	**$ 1,189,485**	**$ -**	$ 755,357	$ -

The carrying amount of assets includes securitized assets that were retained by the Company and not transferred to third parties of $1,185,216 (December 31, 2016 – $650,959). The fair value of these assets are $1,166,518 (December 31, 2016 – $644,768).

The carrying amount of assets excludes mortgages held for securitization of $343,366 (December 31, 2016 – $463,996).

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

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

	MBS Liabilities	CMB Liabilities	Other Securitization Liabilities	Total Liabilities
2018	**$ 790,348**	**$ 42,300**	**$ 227,613**	**$ 1,060,261**
2019	**923,933**	**-**	**203,852**	**1,127,785**
2020	**1,007,512**	**509,341**	**149,403**	**1,666,256**
2021	**1,095,036**	**641,732**	**82,345**	**1,819,113**
2022	**364,376**	**407,252**	**22,611**	**794,239**
Thereafter	**1,006,307**	**126,510**	**-**	**1,132,817**
	$ 5,187,512	**$ 1,727,135**	**$ 685,824**	**$ 7,600,471**

Securitization liabilities include $63,549 (December 31, 2016 – $24,634) of liabilities designated in qualifying fair value interest rate hedging relationships and fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the date of designation and the fair value adjustment as at December 31, 2017 is $(1,197) (December 31, 2016 – $(747)).

The impact of changes in fair value for securitization liabilities designated in qualifying fair value interest rate hedging relationships that are fair valued through income are as follows:

	2017	2016
Fair value gain recognized in income	**$ 1,197**	$ 747

(b) Transfers that are derecognized in their entirety:

Certain securitization transactions undertaken by the Company result in the Company derecognizing the transferred assets in their entirety. This is the case where the Company has securitized and sold pools of residential mortgages with no prepayment option to third parties. The Company does not retain substantially all the risks and rewards of ownership and transfers control over the assets. The Company retains some continuing involvement in the transaction which is represented by the retained interests and the associated servicing liabilities.

The Company also achieves derecognition on the securitization and sale of certain pools of residential mortgages with a prepayment option. In these transactions, the Company securitizes and sells pools of residential mortgages and then engages in a transaction to transfer its rights in the excess interest spread and/or any prepayment risk, thereby transferring substantially all the risks and rewards of ownership in the asset and derecognizing the asset in its entirety.

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

	2017	2016
Mortgages securitized and sold	**$ 1,134,266**	$ 1,328,487
Carrying value of Securitization retained interests	**41,152**	44,031
Carrying value of Securitized mortgage servicing liability	**9,127**	12,565
Gains on mortgages securitized and sold	**10,633**	8,135
Income from securitization activities and retained interests	**2,979**	537

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

During the year, the Company entered into transactions to transfer substantially all of the residual risks and rewards of securitized prepayable multi-residential mortgages to third parties. As a result, the Company derecognized $149,049 (2016 – $748,077) of multi-residential mortgages and recorded a gain on sale of $431 (2016 – $1,645) included in Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

The expected undiscounted cash flows payable to the MBS holders on the Company's securitization activities and transfers that are derecognized in their entirety are as follows:

	MBS Liabilities
2018	$ 662,343
2019	624,844
2020	658,726
2021	541,075
2022	785,427
Thereafter	1,052,949
	$ 4,325,364

Note 10 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

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

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

The Company hedges the risk of changes in future cash flows related to its floating rate securitization liabilities by entering into interest rate swaps. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

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

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

Fair value hedges

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

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

(b) Other derivatives:

Total return swaps

As part of its CMB activities, the Company may assume reinvestment risk between the amortizing MBS and the bullet CMB for securitized mortgages which are derecognized. The Company assumes this risk by entering into total return swaps with highly rated counterparties and exchanging the cash flows of the CMB for those of the MBS transferred to CHT. These swaps are recognized on the Company's consolidated balances sheets and fair valued through the Company's consolidated statements of income.

(c) Financial impact of derivatives:

The fair values and notional amounts of derivatives outstanding are as follows:

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

							2017
Derivative instrument and term (years)	**Notional amount**	**Positive current replacement cost[1]**	**Credit equivalent amount[2]**	**Risk-weighted balance[3]**	**Fair value Assets**	**Fair value Liabilities**	**Net[4]**
Cash flow hedges:							
Bond forwards – hedge accounting							
1 or less	**$ 69,300**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (102)**	**$ (102)**
Interest rate swaps – hedge accounting							
1 to 5	**321,069**	**10,198**	**11,804**	**2,361**	**10,198**	**-**	**10,198**
Total return swaps – hedge accounting							
1 or less	**1,629**	**555**	**653**	**130**	**555**	**-**	**555**
1 to 5	**3,459**	**62**	**338**	**68**	**62**	**-**	**62**
Total return swaps – non-hedge accounting							
1 or less	**1,685**	**678**	**779**	**156**	**678**	**-**	**678**
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	**165,000**	**-**	**-**	**-**	**-**	**(98)**	**(98)**
1 to 5	**913,000**	**-**	**4,565**	**913**	**-**	**(8,838)**	**(8,838)**
5 and above	**63,549**	**77**	**1,030**	**361**	**-**	**(1,156)**	**(1,156)**
Interest rate swaps – non-hedge accounting							
1 or less	**40,000**	**-**	**-**	**-**	**-**	**(38)**	**(38)**
5 and above	**1,378**	**81**	**102**	**51**	**81**	**-**	**81**
Bond forwards – non hedge accounting							
1 or less	**75,950**	**448**	**448**	**448**	**448**	**-**	**448**
Other derivatives:							
Total return swaps							
1 to 5	**1,056,665**	**684**	**5,968**	**1,593**	**161**	**-**	**161**
5 and above	**534,254**	**1,193**	**9,207**	**3,538**	**827**	**-**	**827**
	$ 3,246,938	**$ 13,976**	**$ 34,894**	**$ 9,619**	**$ 13,010**	**$ (10,232)**	**$ 2,778**

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

							2016
		Positive current	Credit	Risk-			
	Notional	replacement	equivalent	weighted		Fair value	
Derivative instrument and term (years)	amount	cost[(1)]	amount[(2)]	balance[(3)]	Assets	Liabilities	Net[(4)]
Cash flow hedges:							
Bond forwards – hedge accounting							
1 or less	$ 234,860	$ 916	$ 916	$ 522	$ 263	$ -	$ 263
Interest rate swaps – hedge accounting							
1 to 5	312,418	4,216	5,778	1,156	4,216	-	4,216
Total return swaps – hedge accounting							
1 or less	1,551	-	93	19	-	(46)	(46)
1 to 5	2,777	261	483	97	261	-	261
Total return swaps – non-hedge accounting							
1 or less	1,833	110	220	44	110	-	110
Fair value hedges:							
Interest rate swaps – hedge accounting							
1 or less	100,000	195	695	139	195	-	195
1 to 5	142,000	-	710	142	-	(205)	(205)
5 and above	24,634	-	123	25	-	(738)	(738)
Interest rate swaps – non-hedge accounting							
1 to 5	1,450	48	55	11	48	-	48
Bond forwards – non-hedge accounting							
1 or less	36,850	80	80	80	80	-	80
Other derivatives:							
Total return swaps							
1 to 5	386,511	176	2,109	422	176	-	176
5 and above	174,325	541	3,155	631	541	-	541
	$ 1,419,209	$ 6,543	$ 14,417	$ 3,288	$ 5,890	$ (989)	$ 4,901

(1) *Positive current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments.*
(2) *Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline.*
(3) *Risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.*
(4) *Derivative financial assets are included in Other assets (Note 12) and derivative financial liabilities are included in Other liabilities (Note 15).*

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

Cash flow hedges:

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

	2017	2016
Fair value gains recorded in Other comprehensive income	$ 8,147	$ 6,863
Fair value gains (losses) recorded in income	418	(127)
Losses reclassified from Other comprehensive income to Interest expense – securitization liabilities	(2,126)	(3,145)
Losses reclassified from Other comprehensive income to Interest expense – deposits	(65)	(52)
Gains reclassified from Other comprehensive income to Non-Interest expenses – compensation and benefits	316	210

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

Time period	2017	2016
Less than 1 year	$ 95,439	$ 66,743
1 – 3 years	201,942	110,174
4 – 5 years	78,474	81,072
Greater than 5 years	57,700	69,825
	$ 433,555	$ 327,814

Fair value hedges:

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

	2017	2016
Interest rate swaps – hedge accounting	$ (10,060)	$ (1,001)
Interest rate swaps – non-hedge accounting	(26)	-
Bond forwards	367	318
Changes in fair value recognized in income	$ (9,719)	$ (683)

Note 11 – Offsetting Financial Assets and Financial Liabilities

The disclosures in the table below include financial assets and financial liabilities that may or may not be offset in the consolidated financial statements but are subject to agreements with netting arrangements which covers similar financial instruments irrespective of whether they are offset in the consolidated financial statements. Such agreements include derivative agreements, collateral support agreements and repurchase agreements. Financial instruments include derivatives, securities purchased under reverse repurchase agreements and obligations under repurchase agreements.

The Company's derivative transactions are entered into under ISDA master agreements. In general, amounts owed by each counterparty under an agreement are aggregated into a single net amount being payable by one party to the other. In certain cases all outstanding transactions under an agreement may be terminated and a single net amount including pledges is due or payable in settlement of these transactions.

The Company's securities purchased under reverse repurchase agreements and obligations under repurchase agreements are covered by industry standard master agreements, which include netting provisions.

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

The Company pledges and in certain cases receives collateral in the form of cash or securities in respect of the following transactions:

- derivatives;
- securities purchased under reverse repurchase agreements; and
- obligations under repurchase agreements.

Such collateral is subject to the credit support agreement associated with ISDA agreements, or subject to standard industry terms of repurchase agreements. This means that cash or securities pledged/received as collateral can be sold during the term of the transaction but must be returned when the collateral is no longer required and/or on maturity. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

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

						2017
				Related amounts not offset on the consolidated balance sheets		
Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 10,275	$ (77)	$ 10,198	$ -	$ (9,738)	$ 460
Total return swaps	3,172	(889)	2,283	-	(988)	1,295
	$ 13,447	$ (966)	$ 12,481	$ -	$ (10,726)	$ 1,755

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

						2017
				Related amounts not offset on the consolidated balance sheets		
Types of financial liabilities	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral pledged)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 10,126	$ (77)	$ 10,049	$ -	$ (8,591)	$ 1,458
Total return swaps	889	(889)	-	-	-	-
Obligations under repurchase agreements	452,001	-	452,001	(452,001)	-	-
	$ 463,016	$ (966)	$ 462,050	$ (452,001)	$ (8,591)	$ 1,458

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

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

				Related amounts not offset on the consolidated balance sheets		2016
Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 3,822	$ (149)	$ 3,673	$ -	$ (532)	$ 3,141
Total return swaps	1,218	(176)	1,042	-	(985)	57
Securities purchased under reverse repurchase agreements	199,401	-	199,401	-	(199,401)	-
	$ 204,441	$ (325)	$ 204,116	$ -	$ (200,918)	$ 3,198

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

				Related amounts not offset on the consolidated balance sheets		2016
Types of financial liabilities	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral pledged)	Net amount
Derivatives held for risk management:						
Interest rate swaps	$ 307	$ (149)	$ 158	$ -	$ (158)	$ -
Total return swaps	176	(176)	-	-	-	-
Obligations under repurchase agreements	112,488	-	112,488	(112,488)	-	-
	$ 112,971	$ (325)	$ 112,646	$ (112,488)	$ (158)	$ -

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

Note 12 – Other Assets

	2017	2016
Intangible assets	$ **25,892**	$ 18,998
Property and equipment	**17,717**	20,445
Deferred cost – Contingent liquidity facility	**15,694**	-
Receivable relating to securitization activities	**12,159**	8,998
Prepaid expenses and other	**9,653**	9,945
Real estate owned	**2,252**	7,596
Accrued interest and dividends on non-mortgage assets	**669**	1,626
Derivative financial instruments:		
interest rate swaps	**10,198**	3,673
total return swaps	**2,283**	1,042
bond forwards	**346**	456
Mortgage commitments	**-**	48
	$ **96,863**	$ 72,827

Intangible assets include system and software development costs relating to the Company's information systems.

Property and equipment include leasehold improvements of $8,153 (December 31, 2016 – $11,522) related to an expansion and renovation of the Company's leased head office premises in Toronto.

Deferred cost – contingent liquidity facility include costs incurred by the Company for arranging a $2 billion secured backstop funding facility (refer note 16). These deferred costs are being amortized over a period of twenty four months.

Included in prepaid expenses and other is a net receivable of $3.2 million (2016 – $3.2 million) related to an alleged fraud that was identified in 2011. The Company is currently pursuing a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

Note 13 – Deposits

	2017	2016
Term and other deposits	$ **11,024,720**	$ 9,680,163
Accrued interest	**116,919**	103,362
Deferred deposit agent commissions	**(27,326)**	(20,443)
	$ **11,114,313**	$ 9,763,082

Term and other deposits include $10,723 (2016 – $43,632) of deposits designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – Deposits. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued, and the fair value adjustment as at December 31, 2017 is $29 (2016 – $232).

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

	2017	2016
Fair value gain recognized in income	$ **203**	$ 6

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

Term and other deposits also include $1,030,406 (2016 – $242,000) of deposits designated in qualifying fair value interest rate hedging relationships and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at December 31, 2017 is ($9,799) (2016 – ($93)).

The impact of changes in fair value for deposits designated in qualifying fair value interest rate hedging relationships that are fair valued through income is as follows:

	2017	2016
Fair value gain recognized in income	**$ 9,643**	$ 1,039

Note 14 – Income Taxes

(a) Income tax provision:

	2017	2016
Current tax expense:		
Current year	**$ 49,421**	$ 37,602
Adjustments for prior years	**799**	345
	50,220	37,947
Deferred tax expense:		
Reversal of temporary differences	**8,075**	10,676
Adjustments for prior years	**(113)**	(101)
Changes in tax rates	**16**	(21)
	7,978	10,554
Total income tax expense	**$ 58,198**	$ 48,501

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

	2017	2016
Canadian statutory income tax rate	**26.5%**	26.5%
Increase (decrease) resulting from:		
Tax-exempt income	**(0.5%)**	(1.0%)
Non-deductible expenses and other	**0.6%**	0.5%
Effective income tax rate	**26.6%**	26.0%

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

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	2017	2016
Deferred income tax assets:		
Allowance for credit losses	$ 8,510	$ 8,520
Share issue expenses	647	1,049
Other	1,291	1,349
	10,448	10,918
Deferred income tax liabilities:		
Securitization activities	29,550	24,936
Deposit agent commissions	7,211	5,409
Net origination fees	4,338	13,937
Intangible costs	2,966	3,477
Other	2,185	1,930
	46,250	49,689
Net deferred income tax liabilities	$ 35,802	$ 38,771

Note 15 – Other Liabilities

	2017	2016
Mortgagor realty taxes	$ 52,654	$ 46,963
Accounts payable and accrued liabilities	104,246	114,314
Securitized mortgage servicing liability	25,565	22,972
Derivative financial instruments:		
bond forwards	-	113
interest rate swap	10,049	158
Income taxes payable	7,027	19,945
Mortgage commitments	60	-
	$ 199,601	$ 204,465

Note 16 – Bank Facilities

(a) Operating credit facility:

The Company has a $35,000 credit facility in place with a major Schedule I Canadian Bank. The facility is secured by a portion of the Company's investments in equity securities. There was no outstanding balance as at December 31, 2017 and December 31, 2016.

(b) Secured funding facilities:

The Company has two secured funding facilities totaling $600,000 (December 31, 2016 - $700,000) with major Schedule I Canadian Banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at December 31, 2017 is $128,871 (December 31, 2016 – $50,000).

(c) Contingent liquidity facility:

During the year, the Company obtained a two-year $2.0 billion secured backstop funding facility from a syndicate of Schedule I Canadian banks. The terms of the facility include 0.75% commitment fee, 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 lenders' cost of funds plus 1.25%. Any draws on this facility would be secured by a portfolio of mortgages originated and serviced by the Company. The Company has not made any draws on this facility.

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

Note 17 – Debentures

There were no debentures outstanding as at December 31, 2017 (2016 – $65,000). The Company's $65,000 debentures of series 10, matured in October 2017 and were redeemed by the Company.

2017

Debenture	Interest rate	Issue date	Maturity date	**Outstanding December 31, 2016**	**Issued during the year**	**Repaid during the year**	**Outstanding December 31, 2017**
Series 10	5.40%	2012	October 2017	**$ 65,000**	**$ -**	**$ 65,000**	**$ -**

2016

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2015	Issued during the year	Repaid during the year	Outstanding December 31, 2016
Series 10	5.40%	2012	October 2017	$ 65,000	$ -	$ -	$ 65,000

Note 18 – Shareholders' Equity

(a) Capital stock:

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

Issued and outstanding shares:

	2017			2016		
	Number of shares	**Amount**	**Dividends per share[(1)]**	Number of shares	Amount	Dividends per share[(1)]
Preferred Shares, Series 3	**3,000,000**	**$ 72,557**	**$ 1.59**	3,000,000	$ 72,557	$ 1.59

	2017			2016		
	Number of shares	**Amount**	**Dividends per share[(1)]**	Number of shares	Amount	Dividends per share[(1)]
Common shares:						
Balance, beginning of year	**16,460,142**	**$ 196,608**		15,538,605	$ 143,690	
Shares issued, net of issuance cost	**-**	**-**		809,585	49,333	
Contributions from exercise of stock options	**43,295**	**1,726**		111,952	2,877	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**326**		-	708	
Balance, end of year	**16,503,437**	**$ 198,660**	**$ 0.95**	16,460,142	$ 196,608	$ 0.84

(1) *Dividends per share represent dividends declared by the Company during the year.*

(b) Preferred shares:

Series 3 - 5-year rate reset preferred shares

Holders of Series 3 preferred shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid at a per annum rate of 6.35% per share for an initial period ending September 30, 2019. Thereafter, the dividend rate will reset every five years at a level of 4.78% over the then five-year Government of Canada bond yield. Series 3 preferred shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on September 30, 2019 and on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 3 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 4 (the "Series 4 preferred shares"), subject to certain conditions, on September 30, 2019 and on September 30 every five years thereafter.

Series 4 - floating rate preferred shares

Holders of the Series 4 preferred shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.78%, as and when declared by the Board of Directors. Series 4 preferred shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on (i) September 30, 2024 and on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) $25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2019. Series 4 preferred shares are convertible at the holder's option to non-cumulative 5-year rate reset preferred shares, Series 3 (the "Series 3 preferred shares"), subject to certain conditions, on September 30, 2024 and on September 30 every five years thereafter.

(c) Common shares:

Issuance of common shares

During the year, 43,295 (2016 – 111,952) shares were issued as a result of the exercise of stock options for cash consideration of $1,726 (2016 – $2,877) and $326 (2016 – $708) were transferred from Contributed surplus to Common shares as a result of the stock option exercises. The Company did not issue any additional shares in the current year (2016 – $49,333).

(d) Dividend reinvestment plan:

The Company has a dividend reinvestment plan and participation in the plan is optional. Under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. At the option of the Company, the common shares may be issued from the Company's treasury or acquired from the open market at market price. The Company suspended the plan in 2014 but retains the option to reinstate it in a future period.

(e) Dividend restrictions:

The Company's subsidiary, Equitable Bank, is subject to minimum capital requirements, as prescribed by OSFI under the Bank Act (Canada). The Bank must notify OSFI prior to the declaration of any dividend and must ensure that any such dividend declaration is done in accordance with the provisions of the Bank Act (Canada), and those OSFI guidelines relating to capital adequacy and liquidity.

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

Note 19 – Stock-based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years and vest over a four-year period. As at December 31, 2017, the maximum number of common shares available for issuance under the plan was 1,475,570 (2016 – 1,475,570). The outstanding options expire on various dates to August 2024. A summary of the Company's stock option activity and related information for the years ended December 31, 2017 and 2016 is as follows:

	2017		2016	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**557,467**	**$ 46.03**	540,236	$ 40.12
Granted	**110,060**	**70.93**	136,239	53.15
Exercised	**(43,295)**	**39.86**	(111,952)	25.70
Forfeited/cancelled	**(4,461)**	**57.58**	(7,056)	54.06
Outstanding, end of year	**619,771**	**$ 50.80**	557,467	$ 46.03
Exercisable, end of year	**337,835**	**$ 42.11**	268,751	$ 38.37

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2017:

	Options outstanding		**Options exercisable**
Exercise price	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Number exercisable**
$ 26.01	**7,500**	**0.9**	**7,500**
$ 29.32	**83,494**	**1.2**	**83,494**
$ 27.23	**10,000**	**1.4**	**10,000**
$ 36.11	**90,733**	**2.2**	**90,733**
$ 46.65	**4,500**	**2.9**	**4,500**
$ 52.90	**85,270**	**3.2**	**62,378**
$ 59.98	**92,540**	**4.2**	**44,866**
$ 55.32	**7,500**	**4.9**	**3,750**
$ 53.15	**128,965**	**5.2**	**30,615**
$ 71.68	**104,269**	**6.2**	**-**
$ 55.25	**5,000**	**6.6**	**-**

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $1,282 (2016 – $1,058) related to grants of options under the stock option plan. This amount was credited to Contributed surplus. The fair value of options granted during 2017 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	2017	2016
Risk-free rate	**1.0%**	0.5%
Expected option life (years)	**4.8**	4.8
Expected volatility	**28.6%**	25.9%
Expected dividends	**1.4%**	1.3%
Weighted average fair value of each option granted	**$ 13.3**	$ 9.0

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

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

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

During the year ended December 31, 2017, the Company expensed $803 (2016 – $659) under this plan.

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

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. A director will be credited with additional DSUs whenever a cash dividend is declared by the Company. When an individual ceases to be a Director (the "Separation Date"), the individual may elect up to two separate redemption dates to be paid out the value of the DSUs. The redemption date elected by the participant is a date after the Separation Date and no later than December 15 of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days immediately prior to the redemption date.

In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU Plan, any proportionate adjustment as it considers appropriate to reflect that change. The DSU plan is administered by the Board or a committee thereof.

The Company hedges the risk of change in future cash flows related to the DSU plan. Please refer to Note 10 – Derivative Financial Instruments for further details.

A summary of the Company's DSU activity for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	**32,216**	30,133
Granted	**6,515**	6,666
Dividend Reinvested	**485**	439
Vested	**(6,301)**	(5,022)
Outstanding, end of year	**32,915**	32,216

In 2017, 6,301 (2016 – 5,022) DSUs vested for a total value of $356 (2016 – $101). Compensation expense recorded in 2017, relating to DSUs outstanding during the year amounted to $767 (2016 – $678). The liability associated with DSU's outstanding as at December 31, 2017 was $2,354 (December 31, 2016 – $1,944).

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

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

The Company hedges the risk of change in future cash flows related to the RSU plan. Please refer to Note 10 – Derivative Financial Instruments for further details.

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

A summary of the Company's RSU and PSU activity for the years ended December 31, 2017 and 2016 is as follows:

	2017 Number of RSUs	2016 Number of RSUs
Outstanding, beginning of year	**58,126**	42,861
Granted	**27,686**	33,888
Dividend reinvested	**1,152**	1,021
Vested	**(24,741)**	(16,952)
Forfeited/cancelled	**(5,461)**	(2,692)
Outstanding, end of year	**56,762**	58,126

In 2017, 24,741 RSUs and PSUs (2016 – 16,952 RSUs) vested for a total value of $1,646 (2016 – $1,045). Compensation expense recorded relating to RSUs and PSUs outstanding during the year amounted to $1,970 (2016 – $1,646). The liability associated with RSUs and PSUs outstanding as at December 31, 2017 was $2,109 (2016 – $1,668).

Note 20 – Earnings Per Share

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

	2017	2016
Earnings per common share — basic:		
Net income	**$ 160,617**	$ 138,330
Dividends on preferred shares	**4,763**	4,763
Net income available to common shareholders	**$ 155,854**	$ 133,567
Weighted average basic number of common shares outstanding	**16,476,721**	15,591,297
Earnings per common share — basic	**$ 9.46**	$ 8.57
Earnings per common share — diluted:		
Net income available to common shareholders	**$ 155,854**	$ 133,567
Weighted average basic number of common shares outstanding	**16,476,721**	15,591,297
Adjustment to weighted average number of common shares outstanding:		
Stock options	**117,771**	137,691
Weighted average diluted number of common shares outstanding	**16,594,492**	15,728,988
Earnings per common share — diluted	**$ 9.39**	$ 8.49

For the year ended December 31, 2017, the calculation of the diluted earnings per share excluded 205,939 (2016 – 221,169) average options outstanding with a weighted average exercise price of $62.70 (2016 – $56.23) 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 21 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 38-40 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:

	2017	2016
Common Equity Tier 1 Capital ("CET1"):		
Common shares	**$ 200,990**	$ 199,089
Contributed surplus	**7,104**	6,148
Retained earnings	**861,862**	721,117
Accumulated other comprehensive loss[1]	**(8,748)**	(20,210)
Less: Regulatory adjustments	**(17,046)**	(15,037)
Common Equity Tier 1 Capital	**1,044,162**	891,107
Additional Tier 1 capital:		
Non-cumulative preferred shares	**72,554**	72,554
Tier 1 Capital	**1,116,716**	963,661
Tier 2 Capital:		
Collective allowance	**31,890**	31,890
Subordinated debentures	**-**	65,000
Tier 2 Capital	**31,890**	96,890
Total Capital	**$ 1,148,606**	$ 1,060,551

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

Note 22 – Commitments and Contingencies

(a) Lease commitments:

The Company is committed to operating leases for office premises located in Toronto, Calgary, Montreal and Vancouver. The future minimum lease payments under the leases are as follows:

	2017	2016
Less than one year	**$ 2,487**	$ 2,106
One to five years	**12,256**	12,187
Greater than five years	**5,076**	7,512
	$ 19,819	$ 21,805

In addition to these minimum lease payments for premises rental, the Company will pay its share of common area maintenance and realty taxes over the terms of the leases. Lease expense recognized in the consolidated statements of income for 2017 amounted to $4,777 (2016 – $4,477).

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

(b) Credit commitments:

As at December 31, 2017, the Company had outstanding commitments to fund $1,242,185 (2016 – $1,037,929) of mortgages in the ordinary course of business. Of these commitments, $695,731 (2016 – $569,338) are expected to be funded within one year and $546,454 (2016 – $468,591) after one year.

The Company has issued standby letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letter of credits in the amount of $10,158 were outstanding at December 31, 2017 (December 31, 2016 – $5,917), none of which have been drawn upon at that date.

(c) Contingencies:

In September 2013, Equitable entered into an agreement to resolve the litigation related to an alleged fraud that was identified in 2011. The net outstanding receivable balance is $3.2 million (2016 – $3.2 million) and the Company is currently pursuing a claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

The Company is subject to other various claims and litigation arising from time to time in the ordinary course of business. Management has determined that the aggregate liability, if any, which may result from other various outstanding legal proceedings would not be material and no other provisions have been recorded in these consolidated financial statements.

Note 23 – Related Party Transactions

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial or operational decisions. The Company's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. The Company considers the members of the Board of Directors as part of key management personnel.

(a) Key management personnel compensation table:

	2017	2016
Short-term employee benefits	**$ 3,441**	$ 3,334
Post-employment benefits	**47**	46
Share-based payments	**2,079**	1,707
	$ 5,567	$ 5,087

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

As at December 31, 2017, key management personnel held 2,186,382 (2016 – 2,196,242) common shares and 9,000 (2016 – 9,000) preferred shares. These shareholdings include common shares of 2,007,268 (2016 – 2,007,118) that were beneficially owned by the non-management Directors or held by related party entities whose controlling shareholders are Directors of the Company. In addition, key management held 372,020 (2016 – 325,663) options to purchase common shares of the Company at prices ranging from $26.01 to $71.68.

(c) Other transactions:

As at December 31, 2017, deposits of $1,300 (2016 – $572) were held by key management personnel and related party entities. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties.

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

Note 24 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at December 31, 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	Total[(1)]
Assets:								
Cash and cash equivalents and restricted cash	**$ 936,893**	**$ -**	**$ -**	**$ 936,893**	**$ -**	**$ -**	**$ -**	**$ 936,893**
Effective interest rate	*1.35%*	*-*	*-*	*1.35%*	*-*	*-*	*-*	*0.82%*
Investments	**14,550**	**15,291**	**89,505**	**119,346**	**72,264**	**1,370**	**(7,367)**	**185,613**
Effective interest rate	*4.36%*	*2.71%*	*1.96%*	*2.35%*	*5.17%*	*5.11%*	*-*	*3.56%*
Mortgage receivable	**2,701,647**	**1,096,767**	**4,411,254**	**8,209,668**	**3,979,557**	**8,666**	**106,850**	**12,304,741**
Effective interest rate	*4.94%*	*4.79%*	*4.44%*	*4.65%*	*4.25%*	*6.06%*	*-*	*4.48%*
Mortgage receivable – securitized	**722,949**	**112,286**	**401,883**	**1,237,118**	**4,527,908**	**1,222,588**	**6,193**	**6,993,807**
Effective interest rate	*2.72%*	*3.12%*	*2.98%*	*2.84%*	*2.83%*	*3.00%*	*-*	*2.86%*
Securitized Retained Interest	**-**	**-**	**-**	**-**	**-**	**-**	**116,333**	**116,333**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**96,863**	**96,863**
Total assets	**$ 4,376,039**	**$ 1,224,344**	**$ 4,902,642**	**$10,503,025**	**$ 8,579,729**	**$ 1,232,624**	**$ 318,872**	**$ 20,634,250**
Liabilities:								
Deposits[(2)]	**$ 192**	**$ 3,233,188**	**$ 3,353,537**	**$ 6,586,917**	**$ 4,455,614**	**$ -**	**$ 71,782**	**$ 11,114,313**
Effective interest rate	*1.05%*	*1.85%*	*1.81%*	*1.83%*	*2.13%*	*-*	*-*	*1.94%*
Securitization liabilities	**-**	**1,400,146**	**720,846**	**2,120,992**	**4,356,059**	**1,040,650**	**47,844**	**7,565,545**
Effective interest rate	*-*	*2.25%*	*2.78%*	*2.43%*	*2.76%*	*3.00%*	*-*	*2.68%*
Bank facilities	**-**	**128,871**	**-**	**128,871**	**-**	**-**	**-**	**128,871**
Effective interest rate	*-*	*2.14%*	*-*	*2.14%*	*-*	*-*	*-*	*2.14%*
Obligations under REPO	**-**	**452,001**	**-**	**452,001**	**-**	**-**	**-**	**452,001**
Effective interest rate	*-*	*1.35%*	*-*	*1.35%*	*-*	*-*	*-*	*1.35%*
Other liabilities and deferred taxes	**-**	**-**	**-**	**-**	**-**	**-**	**235,403**	**235,403**
Shareholders' equity	**-**	**-**	**-**	**-**	**75,000**	**-**	**1,063,117**	**1,138,117**
Total liabilities and shareholders' equity	**$ 192**	**$ 5,214,206**	**$ 4,074,383**	**$ 9,288,781**	**$ 8,886,673**	**$ 1,040,650**	**$ 1,418,146**	**$ 20,634,250**
Off-balance sheet items[(3)]	**$ -**	**$ (1,318,909)**	**$ 199,094**	**$ (1,119,815)**	**$ 1,098,712**	**$ 21,103**	**$ -**	**$ -**
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	**$ 4,375,847**	**$ (5,308,771)**	**$ 1,027,353**	**$ 94,429**	**$ 791,768**	**$ 213,077**	**$ (1,099,274)**	**$ -**
Total assets – 2016	$ 3,846,314	$ 1,401,890	$ 4,352,320	$ 9,600,524	$ 7,986,379	$ 1,112,048	$ 274,637	$ 18,973,588
Total liabilities and shareholders' equity – 2016	$ 213	$ 4,607,103	$ 4,411,088	$ 9,018,404	$ 8,038,770	$ 654,067	$ 1,262,347	$ 18,973,588
Off-balance sheet items – 2016	$ -	$ (75,864)	$ 118,557	$ 42,693	$ (60,850)	$ 18,157	$ -	$ -
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items – 2016	$ 3,846,101	$ (3,281,077)	$ 59,789	$ 624,813	$ (113,241)	$ 476,138	$ (987,710)	$ -

(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) 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

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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, Residential Sales and Partner Relations

Brian Leland
Senior Vice President, Residential Credit

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 Operations

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

Dan Ruch
Vice President and Chief Compliance Officer

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

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Stock Listings
TSX: EQB and EQB.PR.C

Quarterly Conference Call and Webcast
Thursday, March 1, 2018, 3:00 p.m. EST
Live: 647.427.7450
Replay: 416.849.0833 (code 5476669)
Archive: www.equitablebank.ca

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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

CHALLENGER

2017 ANNUAL REPORT

EQUITABLE

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A LEADING LENDER

Equitable is a leading provider of alternative and conventional mortgages in single family and commercial markets.

A LEADING NAME IN DIGITAL BANKING

EQ Bank is considered one of the world's top digital bank platforms by Financial IT Magazine.

A LEADING CANADIAN EMPLOYER

Equitable is one of Canada's Top Employers, so ranked by AON for two consecutive years.

A LEADING VALUE CREATOR

Equitable uses its status as Canada's Challenger Bank to drive customer service, innovation and consistently strong shareholder returns.

EQUITABLE BANK

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