NOTICE TO READER

This notice accompanies and should be read in conjunction with Equitable Group Inc.'s Audited Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 (the "Financial Statements") filed via SEDAR with Canadian securities regulatory authorities. The Independent Auditors' Report on the Financial Statements has been amended to add "Chartered Professional Accountants, Licensed Public Accountants". There are no changes to the Financial Statements.


EQUITABLE

CANADA'S CHALLENGER BANK™

Fourth Quarter Report 2018

For the three and twelve months ended December 31, 2018



Equitable Group Inc.

TSX.EQB | EQB.PR.C

EQUITABLE GROUP INC.

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

For the three months and year ended December 31, 2018

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and year ended December 31, 2018. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 22-24 in the section "Fourth Quarter Overview" of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 28, 2019. 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.

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments ("IFRS 9") issued by the International Accounting Standards Board ("IASB"), which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). Please refer to Notes 3 and 5 to the annual consolidated financial statements for a summary of the Company's accounting policies as it relates to IFRS 9 and the transitional impact of IFRS 9 on January 1, 2018. We restated the opening retained earnings balance on January 1, 2018 to reflect the impact of the new requirements but did not restate the comparative periods, as permitted by the standard. Therefore, the provision and allowance for credit losses and related ratios for 2018 periods are not directly comparable to prior-year periods.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "2018 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Deposits", "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, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the "Bank"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total Assets Under Management[1] of over $29 billion. We serve retail and commercial customers across Canada with a range of savings solutions and lending products, offered under the Equitable Bank and *EQ Bank* brands. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

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

Equitable's strategy is to provide exceptional service and clear value to select segments of Canadian consumers. We concentrate on segments of the market in which we can improve the banking experience or achieve a sustainable competitive advantage. As *Canada's Challenger Bank™*, we rethink conventional approaches to banking, go above and beyond traditional banks in serving our customers, stay nimble so that we can act on new opportunities, and maintain a focused, efficient service delivery method. Equitable operates with a highly efficient branchless banking model that allows us to pay higher deposit rates to our customers.

We are excited about our future. As one of a few medium-size banks in Canada with enough scale to make meaningful strategic investments, we are well positioned to innovate and deliver a better banking experience for our customers. Our leading-edge technology platform positions us for success in a competitive, consumer, and regulatory landscape that is changing rapidly. Our *EQ Bank* platform is built on Temenos' core banking system and a highly flexible middle tier on which we have layered award-winning interfaces that are available to our customers as an app on their mobile devices. We are in the midst of migrating this technology to the cloud. When we complete the migration, we will be the first bank in Canada to host its core banking system in the cloud, giving us the advantage of enormous scalability, reduced costs in the long run, and the agility to change our products and services quickly. Through *EQ Bank,* we plan to reach more consumers and to grow both our brand awareness and deposit volumes. This platform will also expand the possibilities for our business by giving us the option to introduce new products and services through this innovative digital channel over time.

We are also building our systems to ensure that we can leverage our middle tier to provide and consume secure Application Programming Interfaces ("APIs"). This approach will allow us to collaborate with fintechs and other partners to deliver a broader range of services to Canadian consumers. We embraced fintech early and have seen the relationships we have built with market leaders such as Ratehub, Wealthsimple, Borrowell, and others, be a driving force in reaching new customers in our markets.

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

A differentiating factor in Equitable's business model, compared with many other Challenger Banks around the world, is that we are able to consistently and profitably deploy the deposits we gather into a growing range of asset categories. We operate an integrated balance sheet. Historically, we concentrated on mortgage lending to certain single family and commercial borrower segments, and have become a market leader in many of these businesses. Our entrepreneurial spirit also drives us to adapt to changing market conditions and find creative opportunities to expand our franchise. In 2018, we diversified by introducing a reverse mortgage product for Canadian seniors, launching a Cash Surrender Value ("CSV") Line of Credit, offering secured financing solutions to specialty lenders, and negotiating the acquisition of Bennington Financial Corp. ("Bennington"), an equipment leasing company. Equitable's asset growth is enabled by our extensive partnerships with Canada's mortgage brokers, mortgage bankers, leasing brokers, and financial planners who provide independent professional advice to their clients. The success of our model is evident in our results: the Bank has generated an average Return on Shareholders' Equity[(1)] ("ROE") of 17.0% over the past decade.

OPEN BANKING

In January of 2019, the Department of Finance released a consultation paper titled "*A Review into the Merits of Open Banking*". Open Banking is a framework that enables consumers and businesses to easily share access to their financial data with more than one financial institution or fintech, using secure online technology. Currently, access to this information is controlled by each individual financial institution. Open Banking, which has been adopted in other countries already, has the potential to give Canadians greater access to services available in the digital economy that they can use to better manage their financial affairs.

We support this initiative as it will enhance competition in the financial services marketplace, and in turn bring more transparency and choice to Canadian consumers. We believe that a move towards Open Banking will benefit agile and technology-forward banks such as Equitable. For more information on our views on Opening Banking please refer to our website at www.equitablebank.ca/open-banking.

Our Bank is laying the groundwork to provide valuable services to our customers that are enabled by the implementation of Open Banking in Canada. Specifically, we envision a future where *EQ Bank* can serve as a financial hub for our customers by hosting an ecosystem of best-of-breed financial services and leveraging our bank-grade security and stability. Our ecosystem will be developed through partnerships with fintechs, brokerages, and other business partners. Given both our Challenger Bank culture and our agile and scalable technology infrastructure, *EQ Bank* is in a unique position to innovate and create a better banking experience for Canadians when Open Banking arrives in Canada.

What A Challenger Bank Means To Us	How We Achieve It
Service – A People's Champion	• We deliver on our promise of exceptional service • We make our customers and partners priority number one • We are responsive and act quickly
Solutions – Better Banking	• We strive to offer new approaches that bring more value • We offer competitive terms and upfront pricing • We simplify to make things easy, flexible, and convenient
Integrity – No Kidding	• We are honest in our relationships • We go beyond what is asked and expected, to create the best possibilities • We respect and value each other's differences and uniqueness

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

Our goal is to build a better bank. A bank that tells its customers exactly what they are getting, in language that makes sense. A bank that puts its customers first.

We have set ambitious long-term goals for Equitable. We intend to accomplish them by focusing on five strategic priorities over the next fiscal year.

Long-Term Objectives

2019 Strategic Priorities

- Grow our existing businesses with better service and innovation
- Further diversify through our leasing, reverse mortgage, and CSV loan businesses
- Expand and enhance *EQ Bank*
- Pursue AIRB and improve the sophistication of our capital management
- Enhance our capabilities through technology and people

FOCUS – BENNINGTON FINANCIAL CORP ACQUISITION

On January 1, 2019, the Bank acquired Bennington, a privately owned company serving the brokered equipment leasing market in Canada with a portfolio of approximately $440 million in assets, managed by a team of 125 professionals. This all-cash transaction (valued at $46 million or 6.8 times Bennington's earnings) furthers Equitable's aspirations as *Canada's Challenger Bank™* by providing entry into an adjacent market through a business that is a proven performer with a strong, broker-led distribution model.

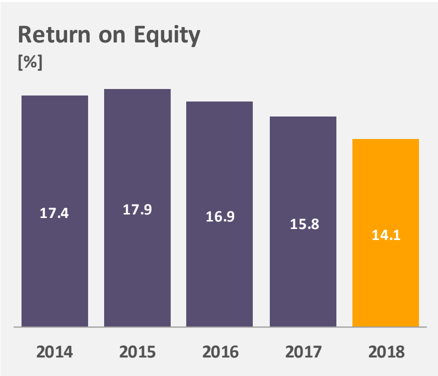
Bennington was founded in Oakville, Ontario in 1996 and has developed a strong market position in non-prime equipment leasing. Bennington finances a wide range of assets with a focus on transportation, construction, and food service equipment, has long-tenured relationships with professional leasing brokers throughout Canada, and employs a proven approach to adjudication with emphasis on lease structure, security, and remarketability.

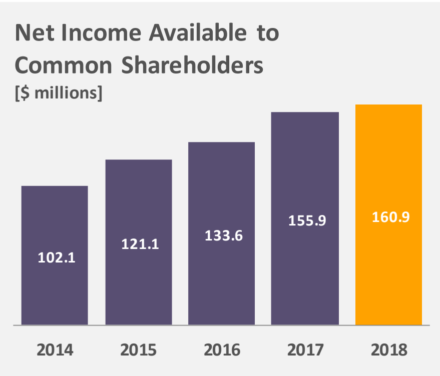
Equitable's strategy is to enhance Bennington's competitive position in the equipment financing market using Equitable's *Challenger Bank™* platform and access to cost-effective funding sources. These capacities will enable Bennington to increase its participation in higher-quality credit segments, grow its asset base, and lend on larger value leases, thereby fulfilling its vision of being an innovative leader in Canada's equipment financing industry.

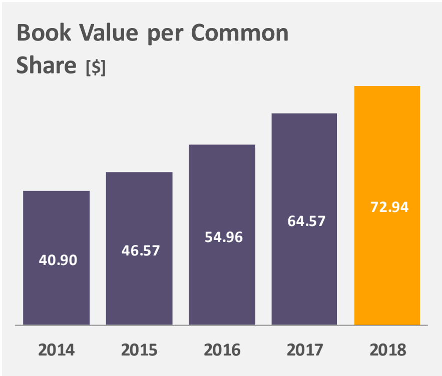
RESULTS

Our value creation strategies have allowed Equitable to generate an average ROE of 16.4% over the past five years. We have achieved steady earnings growth over that period, culminating in all-time record annual earnings in 2018. We accomplished this performance because of our disciplined approach to deploying capital, asset growth opportunities, and low level of credit losses. In the most recent two years, ROE has been lower than the Bank's long-term average due to the costs associated with funding market disruptions in 2017 and the investments we are making in key strategic initiatives.

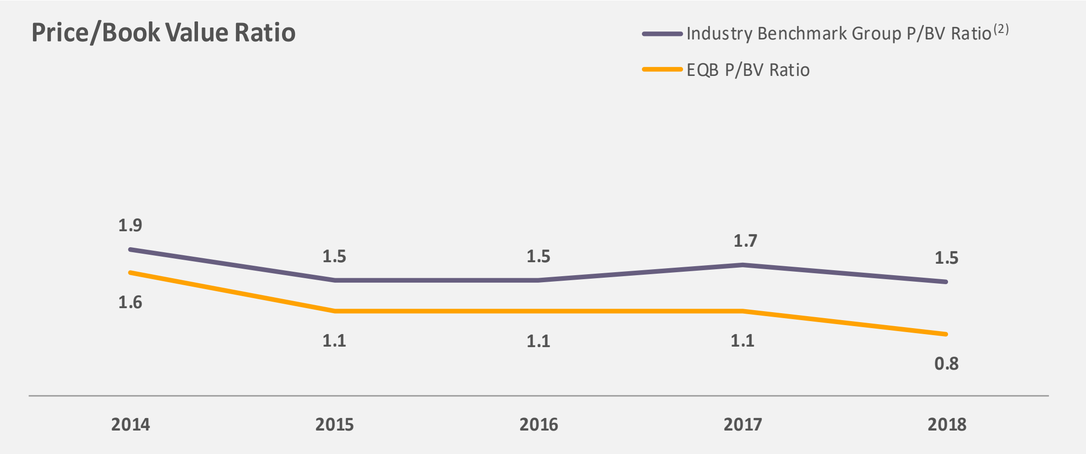
Our earnings growth has allowed us to increase common share dividends twelve times over the past five years. At the same time, in light of the business opportunities that our strategy creates, we continued to retain the vast majority of our earnings in order to build our capital base and fuel future growth. On the basis of this approach, we have grown Equitable's book value per common share[1] by 78% over the same five-year period.







Our Total Shareholder Return[1] was 25% over the past 5 years, as the price to current book value ratio ("P/BV") of our shares decreased over that period despite strong business fundamentals and financial results. Based on this metric, Equitable's stock trades at a 47% discount relative to the industry benchmark, offering investors a significant value proposition in the event that our P/BV multiple reverts to historical norms.



(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

Our values define how we conduct ourselves in the market and with each other. Our culture has evolved over time and has helped us foster these common values, guiding the way we think and work, and ultimately paving a better way forward as *Canada's Challenger Bank*TM.

Articulated values are common at many companies, but they are difficult to live by. We work relentlessly to ensure that they are a living embodiment of how we approach each interaction we have with the world around us. To this end, everyone's performance appraisal includes an assessment of their approach to our values. We believe in empowering our people so that we can increase our agility. Respect and integrity form part of the foundation of our values and service is our keystone. These values are what makes Equitable a satisfying place to work.

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. Building upon these capabilities is a strategic priority for us in 2019 and over the long-term.

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.

Leading Technology Platform
Enabled by a state-of-the-art global banking platform, we have created a digital nervous system that positions us to offer Canadians a better banking experience. Our core systems are scalable and flexible. We have also organized our data in a single data warehouse so that key information is accessible and useful to both our customers and Equitable. Finally, our customer facing interfaces are designed to be user-centric and intuitive.

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.

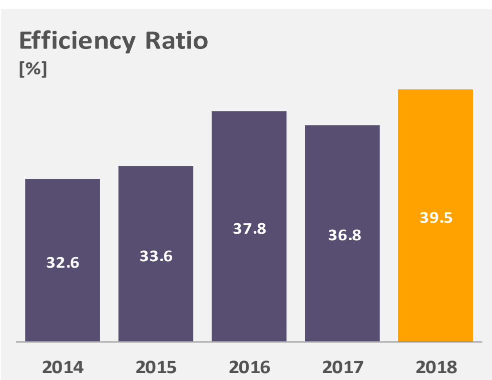
Capital Management Framework

Strong capital base allows us to pursue our growth objectives while returning capital to shareholders

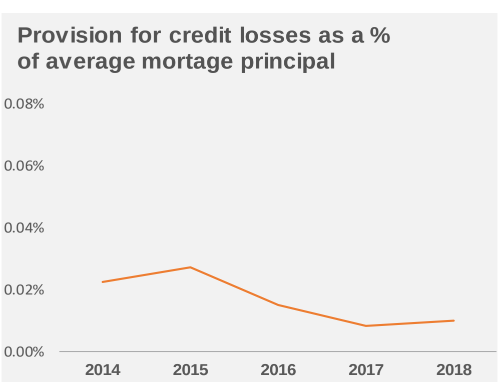
Capital Deployment

- **Maintain target Common Equity Tier [1] and Leverage Ratios**
- **Find attractive assets within existing markets; deploy to highest ROE opportunities first**
- **Consistently grow dividends**
- **Invest in growth and diversification initiatives that meet return thresholds**
- **Return excess capital to shareholders if we cannot deploy it prudently**

National Distribution Presence
Our innovative *EQ Bank* digital platform provides us with a proprietary distribution option for our deposit products through which we can reach consumers in all provinces except Québec. We also reach savers and borrowers across Canada through independent deposit brokers, mortgage brokers, leasing brokers, and other business partners.



Efficient Operations
Equitable is the most efficient Schedule I Bank in Canada[2], 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[1].



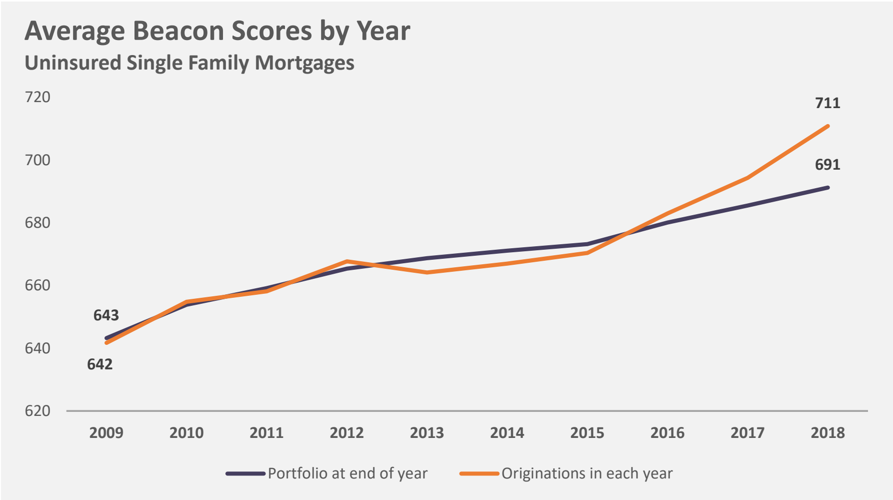
Rigorous Risk Management Standards
We have a mature risk management framework that guides all of our activities. The philosophy that underpins our approach is that we operate within a strict risk appetite and we will not stretch that appetite in order to achieve our growth objectives. We regularly analyze our performance across various key risk performance indicators and take action quickly if results begin to move outside of our tolerance levels. Our rigorous framework, along with broadly positive Canadian economic conditions, has resulted in an average provision for credit losses – rate[1] of just 0.02% over the past five years.

[1] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[2] *As measured by the Efficiency Ratio and for the fiscal year 2018.*

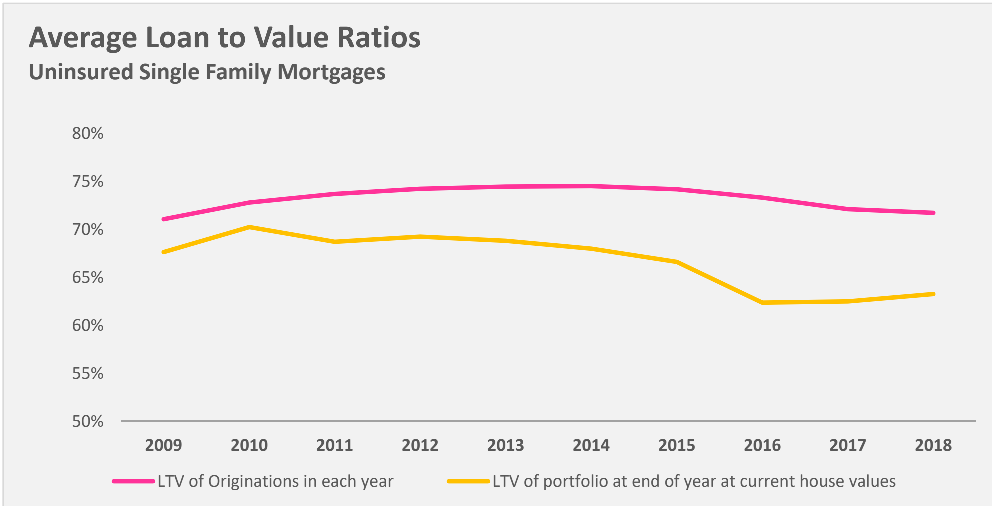
FOCUS – SINGLE FAMILY RISK MANAGEMENT

We manage the risks associated with underwriting uninsured single family mortgages carefully. Our approach gives us confidence in the quality of our mortgage portfolio, as our processes are designed to effectively underwrite through the peaks and troughs of economic cycles. This confidence is supported by our use of regular credit stress tests, and robust loss modelling for expected credit losses using a decade of performance data. We invest heavily in analysis of our customers' ability to repay, as our model is focused on keeping defaults low supported by good collateral to control losses.

Concerns over increasing levels of mortgage indebtedness and the quality of lending activity has led to a number of changes in mortgage rules in recent years both in the insured, over 80% loan-to-value ("LTV") part of the market, and in the uninsured space. Research produced by the Bank of Canada and others clearly indicates that these rules, combined with other changes in local markets, have reduced the proportion of mortgage borrowers that are highly indebted when measured by debt to income ratios and slowed mortgage credit growth. The net impact of these changes has been to reduce systemic risk in the housing finance system. While regulatory change has likely slowed the rate of growth of our single family business, it has contributed to an improving quality of our mortgage book over the last decade. A clear demonstration of this improved quality is the average credit score on our borrowers which has increased by over 48 points over the past ten years. Using our own internal models, an improvement of beacon score from 643 to 691 indicates a forecasted 35% reduction in probability of default for an individual mortgage in the following 12 month period.



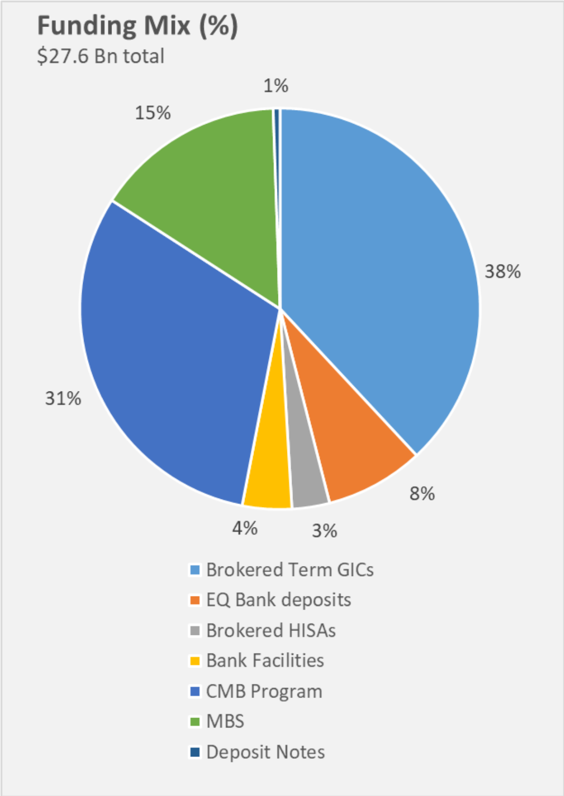
In the event of default, our losses are mitigated by the ability to realize on the collateral value. Losses will be lower on properties where the mortgage loan amount is smaller relative to the value of the underlying property (the LTV ratio). The average LTV ratio on our portfolio has reduced when compared to historical levels as illustrated below.



Our analysis of mortgage default data, over the last decade, clearly demonstrates that changes in local unemployment is by far the most important driver of mortgage delinquency and default. As a result of this insight, and in order to manage our risk, we overwhelmingly prefer to lend in larger urban centres that have diversified employment bases. Large urban centres tend to have employment opportunity spread across a wide range of activities including the traditionally stable sectors of healthcare, government, education and professional services, while smaller centres have the risk of higher rates of unemployment associated with the closure of a single large employer or the impacts of a downturn in the price of a single commodity.

Our preference for lending in large urban centres is supported by an analysis of broader societal changes. Urbanization in Canada has been a persistent feature of our society for over a century as young people move from rural areas to larger centres to seek economic opportunity. Accompanying this internal migration is the impact of immigration from outside Canada. Over 300,000 people come to Canada each year as immigrants and these people have an overwhelming preference for living in the larger and economically vibrant cities. A broad political consensus favours the continuance of this level of immigration. Consistent population growth in the major census metropolitan areas (“CMA”s) and their peripheral municipalities make them attractive markets for the Bank to conduct its lending activities both in terms of new opportunity and to manage risk. While short-term economic shocks would likely lead to house price deflations and rising defaults, the longer-term picture points to strong demand for housing compared to a somewhat constrained supply in these major CMAs and would limit the losses to the Bank.

The Bank has realized average annual losses of less than 4 bps in its single family mortgage book over the last decade. While a severe economic downturn would increase losses, management believes that the Bank’s single family mortgage book would be resilient.



Diversified and 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. 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 also participate in Canada Mortgage and Housing Corporation ("CMHC") programs that allow us to securitize insured mortgages cost-effectively. These and other diversified funding sources, 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.

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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 795 employees (including Bennington), led by a senior management team that has numerous years of relevant experience. We have received platinum level best employer status from AON Hewitt for three consecutive years since 2017. We use the AON Hewitt survey as an objective measure of the progress of our approach to working with our teams.

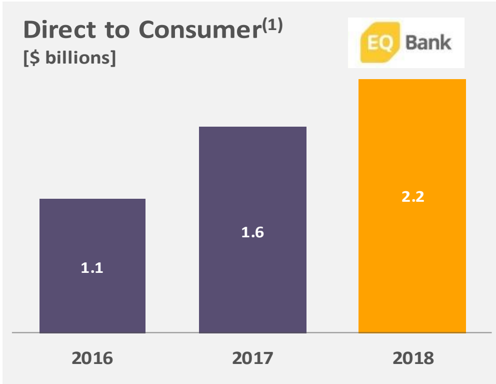
OUR BUSINESS LINES

We organize our operations according to products and target customers:

Deposit Taking:

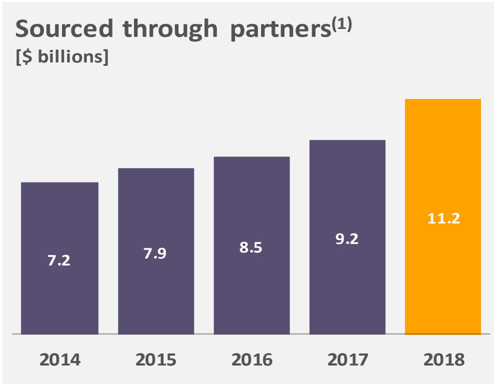
Direct to Consumer: $2.2 billion

We launched *EQ Bank* in 2016 as a means of directly reaching Canadian savers who are looking for an alternative to Canada's big banks. With our *EQ Bank Savings Plus Account*, we offer an everyday high interest rate, convenient features, and a great digital experience. Our flexible technology platform also allowed us to bring to market the most customer friendly Guaranteed Investment Certificate ("GIC") purchase experience in Canada. *EQ Bank* GICs are an important product, offering an attractive long-term investment option to our digital customers. We have plans to leverage this innovative platform to bring more new products and services to Canadian consumers.



Sourced through partners: $11.2 billion

For nearly 50 years, we have offered a suite of safe and secure deposit products through third party agents, investment dealers, and financial planners across the country. Our products include GICs and High Interest Savings Accounts ("HISA"s) designed for Canadian savers looking to build their savings or who have short to medium-term liquidity needs. Responsive service, high rates, and a competitive product offering have been the key factors in our success.



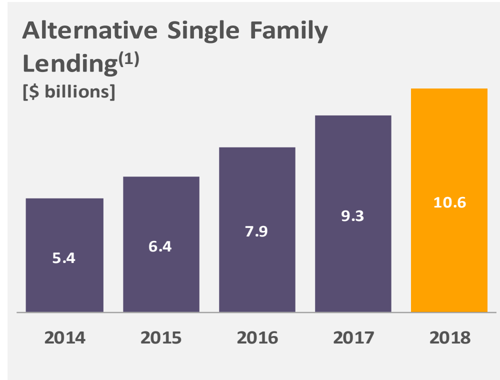
More recently, we have engaged with strategic partners, some of which are participants in the fintech ecosystem, to extend our distribution and reach more consumers with its deposit products. We are encouraged by the success of these partnerships to date and will aim to add additional relationships in the future.

(1) *Represents total principal outstanding.*

Retail Lending:

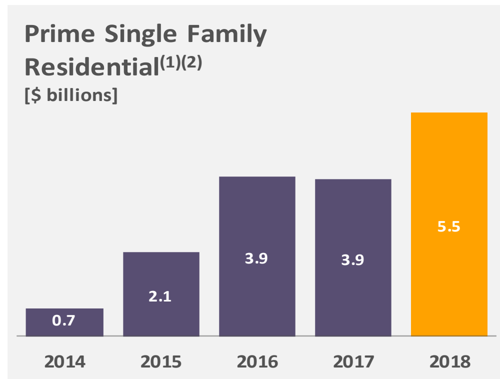
Alternative Single Family Lending: $10.6 billion

Our success in Single Family Lending results from our superior level of service, disciplined approach to credit, and favourable market dynamics. We offer mortgages and Home Equity Lines of Credit ("HELOCs") on residential properties across Canada, distributed through a network of independent mortgage brokers. Our clients include business-for-self, new to Canada, and credit challenged borrowers.



Prime Single Family Residential: $5.5 billion

Our access to low-cost funding, extensive securitization experience, and deep relationships with mortgage brokers have allowed us to build a meaningful Prime Single Family Residential business. Our third party distribution partners supplement our internal originations when market opportunities present themselves.

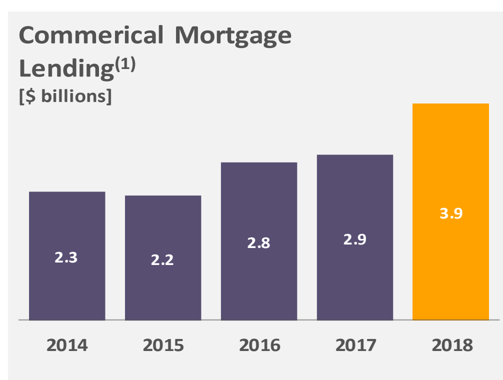


In 2018, we expanded our retail product offerings to include both reverse mortgages and CSV Line of Credit. These products target Canadians in the decumulation phase of their lives who want to unlock their home equity or the cash surrender value of their whole life insurance policies. We believe that both products offer significant long-term growth potential.

Commercial Lending:

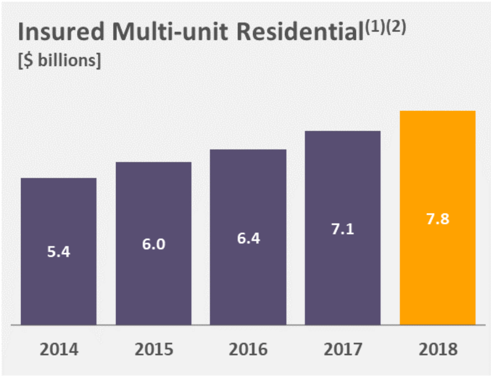
Commercial Mortgage Lending: $3.9 billion

In Commercial Lending, we compete based on service excellence, the breadth and strength of our partnerships, and our in-depth knowledge of the real estate market. Our distribution is through mortgage brokers, mortgage banks, and other financial institutions. We work with our commercial clients, both big and small, to find mortgage solutions for a variety of commercial property types including mixed use, conventional multi-unit residential, shopping plazas, professional offices, and industrial. Our loans generally range from $0.5 million to $25 million.



(1) *Represents total principal outstanding.*
(2) *Includes the principal of Derecognized Mortgages.*

Insured Multi-unit Residential: $7.8 billion
In our Multi-unit Residential business, we serve commercial clients ranging from entrepreneurs to large, publicly traded entities. Our proven capacity to underwrite mortgages on specialized property types, and access to low-cost of funding positions us as a leading player in this space. Though the spreads on this business are typically low, the insured nature of the product makes its ROE, on a capital-adjusted basis, attractive to the Bank.



In 2018, we expanded the range of solutions that we offer Canadian commercial borrowers. We began to offer secured financing solutions to specialty lenders during 2018 and have already implemented several programs. In November, we announced our intention to acquire Bennington, a well-respected equipment leasing company. This acquisition, which closed in January 2019, further diversifies our Commercial Lending portfolio and creates a platform for growth in the small ticket leasing space.

(1) *Represents total principal outstanding.*
(2) *Includes the principal of Derecognized Mortgages.*

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 generated 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 generated 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
Common Equity Tier 1 ("CET1") Ratio	• 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 average loan principal • 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 an annual third-party survey of our employee base that 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)	2018[1]	2017	2016	Change from 2017	
RESULTS OF OPERATIONS					
Net income	**$ 165,626**	$ 160,617	$ 138,330	$ 5,009	3%
Adjusted net income[2]	**172,778**	160,400	138,596	12,378	8%
Net income available to common shareholders	**160,863**	155,854	133,567	5,009	3%
Net interest income	**348,381**	308,362	279,357	40,019	13%
Total revenue	**887,722**	751,488	663,923	136,234	18%
EPS – basic	**9.73**	9.46	8.57	0.27	3%
EPS – diluted	**9.67**	9.39	8.49	0.28	3%
Adjusted EPS – diluted[2]	**10.10**	9.38	8.51	0.72	8%
ROE	**14.1%**	15.8%	16.9%	N/A	(1.7%)
Adjusted ROE[2]	**14.7%**	15.8%	16.9%	N/A	(1.1%)
Return on average assets[2]	**0.7%**	0.8%	0.8%	N/A	(0.1%)
NIM – TEB – total assets[2]	**1.60%**	1.58%	1.64%	N/A	0.02%
Efficiency Ratio – TEB[3]	**39.5%**	36.8%	37.8%	N/A	2.7%
BALANCE SHEET					
Total assets	**25,037,145**	20,634,250	18,973,588	4,402,895	21%
Assets Under Management	**29,410,999**	24,652,969	22,277,769	4,758,030	19%
Mortgages receivable	**23,526,404**	19,298,548	17,783,803	4,227,856	22%
Mortgages Under Management ("MUM")[2]	**27,800,546**	23,233,420	21,004,013	4,567,126	20%
Shareholders' equity	**1,280,027**	1,138,117	977,150	141,910	12%
CREDIT QUALITY					
Provision for credit losses	**2,083**	1,543	2,445	540	35%
Provision for credit losses – rate	**0.01%**	0.01%	0.02%	N/A	-%
Net impaired mortgages as a % of total mortgage assets[4]	**0.16%**	0.12%	0.21%	N/A	0.04%
Allowance for credit losses as a % of total mortgage assets	**0.11%**	0.17%	0.19%	N/A	(0.06%)
SHARE CAPITAL					
Common shares outstanding	**16,554,018**	16,503,437	16,460,142	50,581	0%
Book value per common share[5]	**72.94**	64.57	54.96	8.37	13%
Common share price – close	**59.12**	71.50	60.46	(12.38)	(17%)
Common share market capitalization	**978,674**	1,179,996	995,180	(201,322)	(17%)
Dividends declared per:					
Common share	**1.08**	0.95	0.84	0.13	14%
Preferred share – Series 3	**1.59**	1.59	1.59	-	-%
EQUITABLE BANK CAPITAL RATIOS[2]					
CET1 Ratio	**13.5%**	14.8%	14.0%	N/A	(1.3%)
Tier 1 Capital Ratio	**14.3%**	15.9%	15.1%	N/A	(1.6%)
Total Capital Ratio	**14.5%**	16.3%	16.6%	N/A	(1.8%)
Leverage Ratio	**5.0%**	5.4%	5.1%	N/A	(0.4%)

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

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

(3) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*

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

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

2018 HIGHLIGHTS

PERFORMANCE AGAINST 2018 STRATEGIC PRIORITIES

We delivered on our strategic priorities in 2018, demonstrating the sound fundamentals of our strategy and our franchise. Assets grew above expectations in all of our businesses, margins were stable, and credit losses were low. We also launched several new products and announced the acquisition of an equipment leasing company.

EPS was an all-time record despite $3.9 million of fair value losses on certain preferred share investments and $5.9 million of deferred cost write-down related to our secured backstop funding facility. Adjusted EPS and ROE were $10.10 and 14.7%, respectively. Reported EPS was $9.67 and reported ROE was 14.1%.

The accomplishments of 2018, coupled with ongoing investments in our business, lay the foundation for more success in future years.

Strategic Objectives for 2018	Accomplishments
Grow our existing businesses through superior service	• Grew our Alternative Single Family assets by 14% • Expanded our Commercial Lending portfolio by 31% and achieved record originations of $2.0 billion • Increased brokered GIC principal by $2.1 billion or 25% from a year ago • Recognized as best alternative lender in 5 categories in the Mortgage Professionals 12th annual broker survey
Build *EQ Bank* into Canada's leading digital banking platform	• Grew *EQ Bank* deposit balances to almost $2.2 billion, an increase of 34% from last year • Launched *EQ Bank* GICs with the most consumer friendly purchase experience in Canada • *EQ Bank Savings Plus Account* recognized as the Best Savings Account by ratesupermarket.ca
Leverage our capabilities and balance sheet to diversify into adjacent markets	• Launched a reverse mortgage product and refined our offering in response to market feedback • Introduced a CSV Line of Credit product, giving Canadians aged 50 and up another way to fund their retirement • Began to fund specialty lenders operating in attractive markets, further diversifying our Commercial Lending operations • Reached an agreement to acquire Bennington, a profitable and growing company servicing the brokered equipment leasing market in Canada • Incorporated Equitable Trust, a new trust company subsidiary and issuer of deposits, to pursue our business diversification strategy • Established a strategic partnership with Wealthsimple, allowing us to reach new savers in our deposit markets • Invested in a Portag3 Ventures fund, furthering our role as *Canada's Challenger Bank*™ by supporting the fintech ecosystem and building strategic partnerships

Strategic Objectives for 2018	Accomplishments
Maintain a disciplined approach to capital management and a low risk profile	• Maintained an average LTV ratio of 65% on our uninsured residential mortgage portfolio, compared to 64% in 2017 • Recorded a provision for credit losses[1] of $2.1 million or 1 bp of average loan balances, consistent with 2017 levels • Reported a CET1 Ratio of 13.5%, which remained ahead of regulatory minimum and most competitive benchmarks
Strengthen our key capabilities	• Launched myEquitable, a mortgage servicing portal that provides Equitable Bank customers online access to their mortgage details and information • Enhanced Equitable Bank's *EQB Evolution Suite*™, making it easier for borrowers to switch their Prime mortgages from other lenders to Equitable • Introduced a creditor life insurance option through a partnership with a major insurance company to add even more value to our mortgage customers • Rebranded Equitable to highlight our focus on top-tier service, commitment to innovation, and novel approach to banking as *Canada's Challenger Bank*™ • Received Canada's Best Employer Platinum Award for 2019 by AON Hewitt for the third consecutive year

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

ITEMS OF NOTE

Our 2018 financial results were impacted by the following items, on a pre-tax basis:

- $22.0 million of costs incurred as a result of liquidity management actions taken in 2017. These costs include a $5.9 million write-down of unamortized up-front costs associated with the reduction in the size of the Bank's secured backstop funding facility; and
- $3.9 million of mark-to-market losses on certain preferred share investments. These losses occurred on non-viability contingent capital preferred shares issued by Canadian banks, which are highly rated and do not represent a meaningful credit loss risk. IFRS 9 requires losses on these specific shares to be recorded through the Statement of Income rather than Other Comprehensive Income, a treatment different from what we apply to other preferred share investments.

Our 2017 financial results were impacted by the following items, on a pre-tax basis:

- $25.1 million of liquidity management 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 realized losses from preferred share sales.

DIVIDENDS

On February 28, 2019 the Company's Board of Directors declared a quarterly dividend of $0.30 per common share, payable on March 29, 2019, to common shareholders of record at the close of business on March 15, 2019. This dividend represents a 15% increase over dividends declared in February 2018.

On February 28, 2019, the Company's Board of Directors reinstated Equitable's common share Dividend Reinvestment Plan ("DRIP"). Participation in the plan is optional under the terms of the plan. Shareholders may elect to reinvest their cash dividends to purchase additional common shares at a 3% discount to the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. Common shares issued through the DRIP are from the Company's treasury. The Company maintains the right to suspend the DRIP in future periods.

In addition, on February 28, 2019, the Company's Board of Directors declared a quarterly dividend of $0.396875 per preferred share, payable on March 29, 2019, to preferred shareholders of record at the close of business on March 15, 2019.

BUSINESS OUTLOOK

Equitable believes that our strategy, including our disciplined approach to capital allocation, will continue to deliver value to shareholders and protect the money that depositors have trusted to the Bank. Our asset quality remains high and our diversified business model presents profitable growth opportunities. We expect our underlying business to deliver earnings growth in the range of 15% to 17% in 2019 due to loan growth, higher margins, and our Bennington acquisition. This growth excludes a provision related to the Bennington acquisition that Equitable will record through its Consolidated Income Statement in Q1 2019. ROE should be approximately 15%; a high rate of return but below our 10-year average of 17.0% due to investments that we are making in key strategic initiatives.

The acquisition of Bennington will be immediately accretive to our earnings in the range of $0.35 to $0.40 per share, excluding the acquisition related IFRS 9 provision. IFRS 9 requires the Bank to record an allowance for credit losses on all performing leases acquired, *immediately after* the leases come on to the Bank's Consolidated Balance Sheet. We will establish the allowance by recording an incremental provision of approximately $7 million through the Bank's income statement. This accounting provision does not change the Bank's view on the quality of the underlying business or the acquired lease portfolio.

The backstop liquidity facility that we obtained from a syndicate of Canada's big-6 banks in 2017 matures in June 2019. We reduced the size of the facility from $2 billion to $850 million in Q2 2018 because of stability in the funding markets and other actions that we took to reinforce our liquidity profile. In advance of the June maturity, our management and Board have been working with other stakeholders to determine the optimal contingent liquidity risk management strategy for Equitable, and we will likely reduce the facility size further in 2019.

Asset Growth

The Bank has historically operated lending businesses that span a wide spectrum of secured real estate assets. In 2019, with the acquisition of Bennington, we have diversified the Bank into the attractive equipment finance market. Our diversified asset base improves our 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 the addition of Bennington, we expect that AUM[(1)] will grow at a rate between 8% and 10% in 2019. We describe our growth expectations for individual asset categories in detail below.

(1) *When discussing performance of our businesses, we generally refer to Assets Under Management ("AUM") rather than balance sheet assets because some of our securitized mortgages have been derecognized. In the opinion of management, AUM is a better indicator of the performance of our franchise.*

Summary of Expectations for Asset Growth for 2019

Portfolio	Expectations[1]	Rationale and Assumptions[1]
Forecasting near-term asset growth remains more challenging than usual given ongoing changes in regulatory, competitive, or market conditions. The outlook and comments below reflect our current views and are subject to change over time.		
Alternative Single Family	• Assets grow at year-over-year rates between 9% and 11%	• Overall housing market activity will be consistent and prices will be up slightly as compared with 2018 • Employment is stable and overall economic growth remains positive • Originations will be higher than in 2018 due to market share gains and housing market sales volumes • Our current sources of funding continue to deliver sufficient volumes to profitably support this level of growth
Commercial	• Assets grow at year-over-year rates between 8% and 10%	• The market continues to present quality opportunities and if competition does not intensify • Originations are just below the record levels achieved in 2018, while attrition rates are slightly higher
Equipment Leasing	• Assets grow at year-over-year rates between 9% and 11% • The portfolio is approximately $440 million at the beginning of calendar 2019	• The overall economy and the financing markets will grow modestly • Originations will grow as we leverage our lower cost and more flexible funding base • We gain share as we continue to provide the broker community with the highest level of service
Prime Single Family	• Assets grow at year-over-year rates between 30% and 40% for the first three quarters • Growth rates slow to approximately 10% in Q4	• The economy and housing market perform as indicated above for Alternative Single Family • Recently originated Prime mortgages will not contribute meaningfully to near-term profitability due to their narrow spreads • We do not source significant volumes through third-parties as we did in 2018 • Management may adjust origination levels during the year depending on the profitability of the Prime mortgage business
CMHC Multi-Unit Residential (“Multi”)	• Balance sheet assets and MUM grow at rates in the mid-single digits	• We will use 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 Bank may not realize the expected asset growth rates indicated in the table above if business or competitive conditions, funding availability, the regulatory environment, the housing market, or general economic conditions change, or if any of the other assumptions outlined in the table do not materialize in the amount or within the timeframes specified.

Revenue

Management believes that Net Interest Income (“NII”) for 2019 will increase at year-over-year rates between 25% and 30%, as a result of the addition of Bennington, other asset growth, and a reduction in the backstop funding facility costs. Net Interest Margin (“NIM”) should increase partly as a function of consolidating the higher margin Bennington lease portfolio in our results. 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 2019

Driver	Expectations	Rationale and Assumptions
NIM: **Core Lending**	• Will be in the range of 2.55% to 2.60%	• NIM will benefit from the full-year effect of having reduced our backstop facility in 2018 and reducing it further in 2019; we estimate that costs will be down approximately $13-15 million year-over-year • Spreads on Single Family and Commercial originations and renewals will be in-line with the NIM of the existing portfolios • The 2018 B-20 changes and rising interest rates will cause early discharges and prepayment income to remain low • Bennington margins will average approximately 7% in 2019. Margins through the year will slowly increase as the business benefits from Equitable's lower cost of funds.
NIM: **Securitization Financing**	• Will be in the range of 18 bps to 20 bps	• Margins on new and renewed Multis will be consistent with recent levels • Prime Single Family margins will remain low during 2019 due to the competitive environment
NIM: **Total**	• Will be in the range of 1.65% to 1.70%	• NIM benefits from lower backstop facility costs and Bennington • NIM is higher because of the shift in product mix towards our higher margin Core Lending portfolio
Income from NHA-MBS Successor Issuer Rights	• Will be approximately $0.5 to $0.8 million per quarter	• The assets underlying this revenue stream continue to amortize as expected through 2020

Non-Interest Expenses

In 2019, we anticipate that non-interest expenses will increase at year-over-year rates between 30% and 35% as we continue to make investments that build the Bank's franchise and reinforce our high level of customer service. Nearly half of this increase is the result of adding Bennington operating expenses to Equitable's cost base in 2019. In addition, we expect to incur approximately $6 million of non-recurring expenses to migrate part of our technology infrastructure to a cloud-based platform and upgrade our core banking systems. The remainder of our expense base will increase at a rate in-line with the growth rate of our assets.

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 will be between 40% and 42% next year. This Efficiency Ratio is higher than our historical average due to the effect of our strategic initiative investments and our Bennington acquisition. The Bennington business is more labour intensive due to its smaller ticket nature and operates with an Efficiency Ratio in the range of 50% to 55%.

Capital

On January 1, 2019, the Bank added approximately $440 million in commercial equipment leases to the Bank's portfolio through the acquisition of Bennington. As a result, we expect our CET1 Ratio to decline by approximately 0.7% immediately following the closing of the deal. This level of capital is at the lower end of our operating range, but we are confident that we can rebuild it organically over the course of 2019 while still growing our existing business, and our capital ratios remain above regulatory standards and the levels of the other eight publicly listed Schedule I banks in Canada.

We continue to advance our AIRB initiative with the objective of operationalizing the program by the end of 2020. The benefits of AIRB include improving the sophistication of our risk management, allocating appropriate levels of capital to our risks, and introducing a methodology that allows us to compete more effectively across a broader range of assets. Our initial analysis indicates that AIRB will have a meaningful impact on our total risk-weighted assets and a potential economic benefit to the bank.

Funding

We believe that our current sources of funding – most notably brokered term deposits and *EQ Bank* – will be adequate to support our asset growth in 2019. Our deposit balances have grown steadily since the middle of 2017 and we believe this trend will continue for the foreseeable future, even with what we expect to be a heightened level of competition in the deposit market. We have also taken actions to strengthen our liquidity position such as increasing the size of our liquidity portfolio, reducing our exposure to brokered demand deposits, and extending the duration of our deposit base.

Management will continue to look for opportunities to diversify the Bank's funding profile for risk management purposes. For example, we applied to OSFI seeking approval to incorporate a new trust company subsidiary and received an order to commence business on December 19, 2018. This new subsidiary will further the Company's ability to pursue its business diversification strategy and will also create a new issuer of deposits that are eligible for insurance through the CDIC. These and other new funding sources may eventually be required to deliver on the Company's longer-term growth aspirations.

Credit Quality

Management consistently manages credit risk through the application of our prudent lending practices. As a result, we expect our arrears rates and credit loss provisions in our mortgage book to be low in 2019, assuming that Canadian economic conditions stay within the range of broad market expectations. If actual economic conditions are worse than market expectations, losses and arrears on our mortgage portfolio may increase, but should still remain within our risk tolerance.

Recent economic data supports our view that risk in the Canadian residential real estate market has moderated since 2017. Most major urban centres are demonstrating moderate price stability as well as balanced supply and demand dynamics. Nonetheless, we believe that risks still exist and we are actively monitoring market activity. Our prudent risk appetite and approach to lending should allow us to effectively manage through any negative changes in market conditions. For example, Equitable's low LTV ratios on its uninsured mortgages are designed to protect the Bank in the event of a softening real estate market and escalating borrower defaults caused by higher levels of unemployment. The weighted average LTV ratio of 65% on our uninsured residential mortgage portfolio at year end 2018 offers us protection against a significant decrease in house prices.

Our overall arrears and Provision for Credit Losses will increase as the result of our Bennington acquisition. The equipment leasing business has a higher risk profile than does the mortgage business, and as a result leasing assets have higher yields and margins. We expect Bennington related provisions to be between $10 million and $12 million in 2019, which represents approximately 2% of our leasing assets. This level of loss is within our risk appetite and the ROEs on the business exceed our thresholds. This expectation does not include the estimated $7 million Bennington related IFRS 9 provision that we will record in Q1 immediately after the assets are put on our books.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2018[1]	2017	Change	
Net income	$ 165,626	$ 160,617	$ 5,009	3%
EPS – diluted	9.67	9.39	0.28	3%
Adjusted EPS – diluted	10.10	9.38	0.72	8%
Net interest income	348,381	308,362	40,019	13%
Provision for credit losses	2,083	1,543	540	35%
Non-interest expenses	149,363	129,030	20,333	16%

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

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

	2018[1]			2017		
($ THOUSANDS, EXCEPT PERCENTAGES)	Average balance	Revenue/ Expense	Average rate[2]	Average balance	Revenue/ Expense	Average rate[2]
Core Lending:						
Revenues derived from:						
Mortgages	$ 13,171,813	$ 637,318	4.84%	$ 11,418,518	$ 516,564	4.52%
Liquidity investments	899,088	12,001	1.33%	824,140	7,412	0.90%
Equity securities – TEB[3]	134,615	7,733	5.74%	100,709	5,959	5.92%
	14,205,516	657,052	4.63%	12,343,367	529,935	4.29%
Expenses related to:						
Deposits and bank facilities	11,402,103	265,744	2.33%	9,549,045	193,333	2.02%
Secured backstop funding facility[4]	-	20,853	N/A	-	12,139	N/A
Debentures	-	-	N/A	51,895	3,079	5.93%
Securitization liabilities	1,521,136	34,882	2.29%	1,673,675	29,759	1.78%
	12,923,239	321,479	2.49%	11,274,615	238,310	2.11%
Net interest income – TEB		335,573	2.36%		291,625	2.36%
Taxable Equivalent Basis – adjustment		(2,092)			(1,643)	
Core lending		$ 333,481			$ 289,982	
Securitization Financing:						
Revenues derived from:						
Mortgages	$ 7,461,788	$ 199,032	2.67%	$ 6,942,697	$ 178,329	2.57%
Liquidity investments	229,860	6,071	2.64%	275,195	3,841	1.40%
	7,691,648	205,103	2.67%	7,217,892	182,170	2.52%
Expenses related to:						
Securitization liabilities	6,315,300	156,984	2.49%	6,044,095	145,161	2.40%
Deposits and secured funding facility	1,241,420	33,219	2.68%	1,026,012	18,629	1.82%
	7,556,720	190,203	2.52%	7,070,107	163,790	2.32%
Securitization financing		$ 14,900	0.19%		$ 18,380	0.25%
Total interest earning assets – TEB	$ 21,897,164	$ 350,473	1.60%	$ 19,561,259	$ 310,005	1.58%

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to the prior year.*
(2) *Average rates are calculated based on the daily average balances outstanding during the year.*
(3) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(4) *Since its establishment in June 2017, there have been no draws on the secured backstop funding facility.*

NII was up 13% year over year due to growth in average assets of both Core Lending and Securitization Financing and a 2 bp increase in total NIM. The increase in our overall NIM was largely the result of a mix shift towards our higher yielding Core Lending assets.

Table 4: Factors affecting 2018 v 2017 NIM

	Impact (in bps)	Drivers of change
Core Lending NIM:		
Liquidity management actions initiated in Q2 2017	3	• Lower net insurance premium amortization related to the $892 million of Alternative Single Family mortgages insured in May 2017, *partly offset by:* • Higher fees associated with our secured backstop funding facility
Rates/spreads[1]	4	• Higher spreads on Commercial originations
Funding mix	(1)	• Mix shift towards brokered GICs and *EQ Bank* deposits
Mortgage prepayment income	(6)	• Reduced levels of early discharges in Single Family Lending
Change in Core Lending NIM	-	
Securitization Financing NIM:		
Rates/spreads[1]	(6)	• Increase in the cost of deposits used to fund mortgages on a temporary basis prior to securitization • Growth in the relative size of our lower spread Prime Single Family portfolio
Mortgage prepayment income	(1)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary year to year
Asset mix	1	• Reduction in the relative size of our lower yielding liquidity investments
Change in Securitization NIM	(6)	
Change in Total NIM[2]	2	

[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)	2018[1]	2017	Change	
Stage 3 provision (individual provision under IAS 39)	**$ 1,868**	$ 1,543	$ 325	21%
Stage 1 and 2 provision (collective provision under IAS 39)	**215**	-	215	N/A
Provision for credit losses	**$ 2,083**	$ 1,543	$ 540	35%
Provision for credit losses – rate	**0.01%**	0.01%	N/A	-%
Allowance for credit losses	**$ 25,298**	$ 33,354	$ (8,056)	(24%)

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

The credit quality of our mortgage portfolio remained strong in 2018. Our provision for credit losses during the year was $2.1 million, $0.5 million higher than in 2017. The provision for credit losses in the current year was calculated using the methodology applicable under IFRS 9, which replaces the guidance in IAS 39.

Relative to average mortgage principal outstanding during the year, the provision for credit losses was 1 bp, consistent with 2017 levels and our recent loss experience. Based on our normal extensive review of mortgage assets and credit allowances, management concluded that this level of provision would maintain allowances at an appropriate level.

The provision for credit losses represents management's best estimate of changes in required allowance during the year. The amount of provision may vary from year to year based on impaired loan balances, the credit quality of our unimpaired loans, estimates of the likely credit losses on all loans, and both current and forward looking economic conditions. The provision does not represent the aggregate amount that we have reserved to absorb losses: the aggregate amount of reserves is represented by the allowance for credit losses on our consolidated balance sheet. The allowance was $25.3 million or 11 bps of our total mortgage assets at December 31, 2018, which is in excess of our 10 year average annual loss rate of 5 bps. The allowance decreased year over year by $8.1 million, mainly as a result of our IFRS 9 implementation on January 1, 2018. This reduction is supported by our extensive credit loss scenario modelling and third-party economic forecasts.

OTHER INCOME

Table 6: Other income

($ THOUSANDS)		2018[(1)]		2017		Change	
Fees and other income:							
Fees and other income	**$**	**16,725**	$	19,116	$	(2,391)	(13%)
Income from successor issuer activities		**4,504**		9,186		(4,682)	(51%)
Net loss on investments		**(3,855)**		(888)		(2,967)	(334%)
Securitization activities:							
Gains on securitization and income from retained interests		**10,279**		13,317		(3,038)	(23%)
Fair value gains on derivative financial instruments		**6**		295		(289)	(98%)
Total	**$**	**27,659**	$	41,026	$	(13,367)	(33%)

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

Other income decreased compared with 2017, mainly due to:

- Reduced Income from successor issuer activities, representing income earned from certain Maple Bank assets and which is expected to be recurring on a diminishing basis through 2020;
- A decrease in Gains on securitization and income from retained interests, driven by a lower volume of securitization transactions that qualify for derecognition and a lower gain on sale margin;
- Mark-to-market losses on our preferred share investments; and
- Lower Fees and other income, mainly resulting from a decrease in gains recorded on certain investments acquired from Maple Bank, a change in the amortization period and categorization of certain fees, and a loss on the sale of foreclosed assets.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)		2018[(1)]		2017		Change	
Compensation and benefits	**$**	**77,062**	$	65,206	$	11,856	18%
Technology and system costs		**22,647**		21,037		1,610	8%
Marketing and corporate expenses		**15,997**		13,128		2,869	22%
Regulatory, legal, and professional fees		**13,949**		11,042		2,907	26%
Product costs		**13,082**		12,286		796	6%
Premises		**6,626**		6,331		295	5%
Total non-interest expenses	**$**	**149,363**	$	129,030	$	20,333	16%
Efficiency Ratio – TEB		**39.5%**		36.8%		N/A	2.7%
Full-time employee ("FTE") – period average		**631**		573		58	10%

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

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. Even though overall expenses grew more slowly than our assets this year, our Efficiency Ratio increased to 39.5% from 36.8% mainly due to the decline in Other income describe above.

Total non-interest expenses increased primarily due to:

- Higher Compensation and benefits costs, resulting from several factors including a 10% increase in FTE, annual inflationary adjustments, and year-end performance payouts;
- Growth in Regulatory, legal, and professional fees, mainly driven by an increase in CDIC's standard premium rates, higher deposit balances, and business growth;
- Higher Marketing expenditures to promote the Bank and its products, and in support of our corporate rebranding;
- An increase in Technology and system costs, primarily in relation to the maintenance and enhancement of our core banking systems and a $0.7 million write-off of certain system development costs;
- Higher Corporate expenses because of a capital tax recovery that occurred last year; and
- Higher Product costs, largely due to an increase in amortization for capitalized product development investments.

INCOME TAXES

Our statutory income tax rate in 2018 increased by 0.1% to 26.6%. Our effective income tax rate decreased in 2018 by 0.3% to 26.3% from 26.6% a year ago due to higher tax-exempt dividend income earned from our preferred share investments and other adjustments.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	2018[1]	2017	Change	
Total assets	**$ 25,037,145**	$ 20,634,250	$ 4,402,895	21%
Mortgage principal – Core Lending	**14,476,845**	12,291,564	2,185,281	18%
Mortgage principal – Securitization Financing	**8,949,847**	6,923,137	2,026,710	29%
Deposit principal	**13,522,012**	11,024,720	2,497,292	23%
Total liquid assets as a % of total assets[2]	**5.6%**	7.2%	N/A	(1.6%)

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to the prior year.*
(2) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets in order to optimize our ROE while reducing our credit risk. The following table provides mortgage principal continuity schedules by lending portfolio for 2018 and 2017:

Table 9: Mortgage principal continuity schedule

2018[1] ($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
2017 closing balance	**$ 9,341,819**	**$ 2,949,745**	**$ 12,291,564**	**$ 6,923,137**	**$ 19,214,701**	**$ 4,018,719**	**$ 10,941,856**
Originations	**3,460,246**	**2,025,176**	**5,485,422**	**3,481,497**	**8,966,919**	**-**	**3,481,497**
Derecognition	**-**	**-**	**-**	**(976,085)**	**(976,085)**	**976,085**	**-**
Net repayments	**(2,196,557)**	**(1,103,584)**	**(3,300,141)**	**(478,702)**	**(3,778,843)**	**(620,950)**	**(1,099,652)**
2018 closing balance	**$ 10,605,508**	**$ 3,871,337**	**$ 14,476,845**	**$ 8,949,847**	**$ 23,426,692**	**$ 4,373,854**	**$ 13,323,701**
% Change from 2017	**14%**	**31%**	**18%**	**29%**	**22%**	**9%**	**22%**
Net repayments percentage[4]	**23.5%**	**37.4%**	**26.8%**	**6.9%**	**19.7%**	**15.5%**	**10.0%**

2017 ($ THOUSANDS, EXCEPT PERCENTAGES)	Single Family Lending	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
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[4]	28.5%	42.4%	32.2%	11.5%	24.0%	12.7%	11.9%

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to the prior year.*
(2) *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.*
(3) *Securitization Financing MUM includes Securitization Financing balance sheet assets and Derecognized Mortgage Principal.*
(4) *Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.*

Total MUM increased by $4.6 billion or 20% compared to a year ago, driven by growth in both our Core Lending and Securitization Financing businesses.

Within Core Lending, both the Alternative Single Family and Commercial Lending portfolios grew due to strong origination volume and lower attrition levels over the past 12 months. Commercial Lending achieved record originations in 2018, reflecting our strategic decision to deploy additional capital into this business and demonstrating our continued success in growing the breadth and depth of our relationships with brokers and business partners. The Single Family portfolio benefited from renewal rates that were almost ten percentage points higher than in 2017.

Securitization Financing MUM, which includes $4.4 billion of derecognized mortgage principal, is more reflective of the performance of our underlying securitization business than are assets reported on the consolidated balance sheet. Securitization Financing MUM increased primarily due to strong Multi and Prime mortgage originations and relatively low attrition levels. The growth in Prime originations was largely driven by mortgages sourced through third-parties and growth in mortgages originated internally.

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 real estate 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.

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

Table 10: Mortgage credit metrics

($ THOUSANDS, EXCEPT PERCENTAGES)	**2018[(1)]**	2017	Change	
Provision for credit losses	**$ 2,083**	$ 1,543	$ 540	35%
Provision for credit losses – rate	**0.01%**	0.01%	N/A	-%
Gross impaired mortgage assets[(2)]	**38,931**	23,953	14,978	63%
Net impaired mortgage assets[(3)]	**37,405**	22,489	14,916	66%
Net impaired mortgage assets as a % of total mortgage assets	**0.16%**	0.12%	N/A	0.04%
Allowance for credit losses	**25,298**	33,354	(8,056)	(24%)
Allowance for credit losses as a % of total mortgage assets	**0.11%**	0.17%	N/A	(0.06%)
Allowances for credit losses as a % of gross impaired mortgage assets	**65%**	139%	N/A	(74%)

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

(2) *Under IFRS 9, mortgages are reassessed and deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days or more. Under IAS 39, uninsured mortgages were deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears over 90 days; Insured mortgages were deemed to be impaired when payment is contractually past due 365 days. Impaired mortgages at December 31, 2018 includes $4.8 million of insured mortgages that were between 90 and 365 days past due which would have been deemed not impaired under IAS 39.*

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

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

- Our provision for credit losses increased in dollars terms but remained low. Relative to average mortgage principal, it was consistent with 2017 levels.

- Impaired loan balances are still low but grew mainly due to our Alternative Single Family portfolio and the addition of $4.8 million of insured mortgages that were between 90 and 365 days past due, a change necessitated by the adoption of IFRS 9. Under IAS 39, insured mortgages were only deemed to be impaired when payment was 365 days contractually past due. The increase in Impaired loans balances in Single Family was not significantly concentrated in any geographical location.
- The allowance for credit losses decreased year-over-year in dollar terms and as a percentage of total mortgage assets, primarily because of an $8.5 million transitional adjustment on the adoption of IFRS 9 on January 1, 2018. The allowance for credit losses remains sufficient in the opinion of management.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management believes that funding markets are currently stable and that the Company holds sufficient liquid assets. We maintain liquid asset balances at a level 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 testing. Even with this liquidity risk management framework, a significant or protracted disruption to funding markets could require the Company to take further liquidity protection measures, as we did in Q2 2017. Please refer to the Risk Management section of this document for more detail on the Company's Liquidity and Funding Risk policies and procedures.

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 11: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGES)	2018[1]	2017	Change	
Eligible deposits with regulated financial institutions[2]	**$ 472,488**	$ 660,444	$ (187,956)	(28%)
Debt securities	**55,336**	-	55,336	N/A
Government issued or guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**250,000**	-	250,000	N/A
Mortgages held in the form of debt securities guaranteed by Government of Canada[3], net of obligations under repurchase agreement	**502,015**	725,220	(223,205)	(31%)
Liquid assets held for regulatory purposes	**1,279,839**	1,385,664	(105,825)	(8%)
Other deposits with regulated financial institutions	**4,755**	486	4,269	878%
Equity securities[4]	**121,998**	93,279	28,719	31%
Total liquid assets	**$ 1,406,592**	$ 1,479,429	$ (72,837)	(5%)
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**5.1%**	6.7%	N/A	(1.6%)
Total liquid assets as a % of total assets	**5.6%**	7.2%	N/A	(1.6%)

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

(2) *Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held with major Canadian financial institutions and excludes $6.9 million (December 31, 2017 – $20.4 million) of restricted cash held as collateral with third parties for the Company's interest rate swap transactions and $320.2 million (December 31, 2017 – $345.6 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

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

(4) *Equity securities include publicly traded common and preferred shares and exclude privately held investments.*

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

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

Liquid asset balances were $1.4 billion at year end, down $72.8 million from last year. This lower level of liquid asset holdings reflects primarily our more cautious stance at the end of 2017 after funding market events earlier that year and our expected cash flow needs in the coming quarter.

OTHER ASSETS

Please refer to Note 14 to our 2018 audited annual consolidated financial statements for details of our Other assets balances at December 31, 2018 and 2017.

Other assets increased by 52% or $50.8 million to $147.7 million mainly due to:

- $51.6 million increase in Prepaid expenses and other, the majority of which related to escrowed funds for the acquisition of Bennington on January 1, 2019;
- $8.2 million increase in Intangible assets, mainly due to project-related investments that we made over the past twelve months;
- $5.2 million increase in the fair value of outstanding derivative financial instruments; and
- $2.8 million of income tax installments;

Offset by:

- $13.8 million decrease in Deferred costs – Contingent liquidity facility as a result of amortization recorded during the past four quarters and a $5.9 million write-down that was recorded in Q2 2018 when we reduced the size of the underlying facility; and
- $2.7 million decrease in receivables related to securitization activities.

DEPOSITS

Equitable Bank is a federally regulated deposit taking institution and offers deposits eligible for CDIC insurance to savers across Canada. 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. We source deposits primarily through a national distribution network of third party deposit agents, financial advisors, and strategic distribution partners. In 2016, we launched *EQ Bank*, a digital first banking platform that further diversifies our funding sources and builds direct relationships with Canadian savers. *EQ Bank* is a key strategic pillar for us as *Canada's Challenger Bank*™.

Table 12: Deposit principal

($ THOUSANDS)	2018[1]	2017	Change	
Brokered deposits:				
Term	$ **10,345,979**	$ 8,291,682	$ 2,054,297	25%
Demand	**679,147**	955,456	(276,309)	(29%)
	11,025,126	9,247,138	1,777,988	19%
EQ Bank deposits:				
Term	**753,687**	-	753,687	N/A
Demand	**1,434,494**	1,627,582	(193,088)	(12%)
	2,188,181	1,627,582	560,599	34%
Strategic partnerships	**158,705**	-	158,705	N/A
Deposit notes	**150,000**	150,000	-	-%
Total	$ **13,522,012**	$ 11,024,720	$ 2,497,292	23%

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

Total deposit principal was up by $2.5 billion or 23% over 2017, just above the growth rate of our mortgage portfolio. A significant portion of this growth was in brokered 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* platform, which grew its deposits to $2.2 billion. Growth in *EQ Bank* deposit principal was driven by the addition of approximately 22,000 customers and the GIC product that was introduced in early March. We expect to continue growing our customer base and balances as we enhance the platform, maintain a highly competitive deposit rate, and provide superior service.

As part of strengthening the stability of our funding position, the Bank has entered into strategic partnerships such as the one announced in 2018 with Wealthsimple. These relationships demonstrate the success of our fintech partnership strategy and have allowed us to reach new customers across Canada. The deposits obtained through these channels are reported as “Strategic partnerships” and grew to $159 million during the year.

Brokered demand deposits decreased in 2018 as we deemphasized the growth of this product and instead focused on growing *EQ Bank* and deposits obtained through strategic partnerships. We will continue to offer brokered demand deposits with a competitive rate, but have taken steps aimed at reducing overall balances and encouraging account stability. These efforts include lowering the interest rate offered and introducing a 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. The Securitization liability was $9.2 billion at the end of December 31, 2018, up $1.7 billion or 22% from last year. The increase is largely due to growth of our Prime Single Family assets. Our securitization liability also included $810 million (December 31, 2017 - $687 million) of securitizations through a funding program which is sponsored by a major Canadian Schedule I Bank and provides Equitable with a source of matched funding for qualifying uninsured single family mortgages.

BANK FACILITIES

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, 2017 - $600 million). At December 31, 2018, the balance outstanding on these facilities was $290 million (December 31, 2017 - $129 million). Our use of these facilities is a function of our Prime Single Family and Multi activity levels, the timing of mortgage securitizations and sales, and 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, 2018 or 2017.

In Q2 2018, the Company reduced the size of its secured backstop funding facility obtained from a syndicate of the big-6 Canadian banks from $2.0 billion to $850 million. 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 been made on this facility.

Details related to the Company’s bank facilities can be found in Note 18 to our 2018 audited consolidated financial statements.

OTHER LIABILITIES AND DEFERRED INCOME TAXES

Please refer to Notes 16(b) and 17 to our 2018 audited consolidated financial statements for a detailed breakdown of Net deferred income tax liabilities and Other liabilities, respectively, as at December 31, 2018 and December 31, 2017.

Other liabilities and Net deferred income tax liabilities, on an aggregate basis, declined by $14.8 million or 6% primarily due to:

- $25.0 million decrease in Accounts payable and accrued liabilities, mainly related to obligations associated with our Maple Assets; and
- $7.0 million decrease in Income tax payable;

Offset by:

- $6.8 million increase in Deferred tax liability;
- $5.9 million increase in Mortgage realty taxes due to timing of collections relative to remittances;
- $3.2 million increase in fair value of Derivative financial instruments; and
- $1.3 million increase in Securitized mortgage servicing liability.

Contractual obligations by year of maturity are outlined in Table 28 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Company's operations during 2018.

SHAREHOLDERS' EQUITY

Total shareholders' equity increased $142 million or 12% to $1.3 billion at December 31, 2018, from $1.1 billion a year ago. The increase reflects the earnings retained by the Company, net of dividends paid, and fair value losses on our preferred share holdings. The adoption of IFRS 9 on January 1, 2018 also added $5.5 million and $1.4 million to retained earnings and accumulated other comprehensive income.

At December 31, 2018, the Company had 16,554,018 common shares and 3,000,000 Series 3 preferred shares issued and outstanding (December 31, 2017 - 16,503,437 common shares and 3,000,000 Series 3 preferred shares).

During 2018, 121,159 options were granted. In addition, 50,581 stock options were exercised that contributed $1.8 million to common share capital. At December 31, 2018, there were 671,332 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $35.3 million. For additional information on outstanding stock options and their associated exercise prices, please refer to Note 20(a) to the 2018 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"). 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 target Capital Ratios: those being a CET1 Ratio of 7.0%, a Tier 1 Capital Ratio of 8.5%, and a Total Capital Ratio of 10.5%. 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").

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, 2018 exceeded the regulatory minimums and were ahead of most competitive benchmarks. Despite our strategy of retaining the vast majority of our earnings, our Capital Ratios were down from last year, primarily due to asset growth in our higher risk-weighted Commercial Lending business and growth in our mortgage commitment pipeline. Our Capital Ratios were also negatively impacted by

$9.2 million of after-tax mark-to-market losses on our preferred share portfolio recognized through Accumulated other comprehensive loss.

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 5.0% at December 31, 2018 and the Bank remains fully compliant with its regulatory requirements. Our Leverage Ratio decreased relative to 2017 as our assets grew more quickly than our capital during the year.

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

Table 13: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	**2018[1]**	2017
Risk-weighted assets ("RWA")	**$ 8,802,891**	$ 7,035,380
Common Equity Tier 1 Capital:		
Common shares	**203,270**	200,990
Contributed surplus	**8,127**	7,104
Retained earnings	**1,011,052**	861,862
Accumulated other comprehensive income/(loss) ("AOCI")[2]	**(17,565)**	(8,748)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(20,684)**	(17,046)
Common Equity Tier 1 Capital	**1,184,200**	1,044,162
Additional Tier 1 capital:		
Non-cumulative preferred shares	**72,554**	72,554
Tier 1 Capital	**1,256,754**	1,116,716
Tier 2 Capital:		
Eligible Stage 1 and 2 allowance (collective allowance under IAS 39)	**23,772**	31,890
Tier 2 Capital	**23,772**	31,890
Total Capital	**$ 1,280,526**	$ 1,148,606
Capital Ratios:		
CET1 Ratio	**13.5%**	14.8%
Tier 1 Capital Ratio	**14.3%**	15.9%
Total Capital Ratio	**14.5%**	16.3%
Leverage Ratio	**5.0%**	5.4%

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

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

Table 14: Risk-weighted assets of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)		2018[1] Amounts	Risk Weighting		Risk-weighted Amounts
On balance sheet:					
Cash and cash equivalents	$	799,586	17%	$	135,935
Securities purchased under reverse repurchase agreements		250,000	-%		-
Investments		193,399	78%		150,364
Mortgage receivables – Core Lending:					
Single Family Lending Services		10,641,129	31%		3,316,785
Commercial Lending Services		3,873,968	95%		3,682,328
Mortgage receivables – Securitization Financing		9,035,079	2%		156,136
Securitization retained interests		115,331	100%		115,331
Other assets		147,671	78%		114,908
Total Equitable Bank assets subject to risk rating		25,056,163			7,671,787
Less: Eligible Stage 1 and 2 allowance		(23,772)			-
Total Equitable Bank assets		25,032,391			7,671,787
Off-balance sheet:					
Loan commitments					446,688
Derivatives					39,091
Total credit risk					8,157,566
Operational risk[2]					645,325
Total				$	8,802,891

($ THOUSANDS, EXCEPT PERCENTAGES)		2017 Amounts	Risk Weighting		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[2]					570,388
Total				$	7,035,380

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

(2) *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 15: Summary of quarterly results

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2018[1] Q4	2018[1] Q3	2018[1] Q2	2018[1] Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
RESULTS OF OPERATIONS								
Net income	**$ 40,116**	$ 47,806	$ 37,537	$ 40,167	$ 40,446	$ 37,869	$ 38,909	$ 43,393
Adjusted net income	**45,535**	45,662	41,510	40,071	40,807	36,772	38,882	43,939
Net income available to common shareholders	**38,926**	46,615	36,346	38,976	39,256	36,678	37,718	42,202
Net interest income	**94,591**	93,024	79,496	81,270	79,697	71,964	78,349	78,352
Total revenue	**239,568**	232,410	214,958	200,786	197,648	189,290	183,025	181,525
EPS – basic[2]	**2.35**	2.82	2.20	2.36	2.38	2.23	2.29	2.56
EPS – diluted[2]	**2.33**	2.80	2.19	2.34	2.36	2.21	2.28	2.54
Adjusted EPS - diluted[2]	**2.66**	2.67	2.43	2.34	2.38	2.15	2.27	2.59
ROE	**12.9%**	15.9%	13.0%	14.5%	14.9%	14.4%	15.6%	18.4%
Adjusted ROE	**14.7%**	15.2%	14.4%	14.5%	15.0%	14.0%	15.6%	18.7%
Return on average assets	**0.7%**	0.8%	0.7%	0.8%	0.8%	0.8%	0.8%	0.9%
NIM – TEB:								
Total Assets	**1.62%**	1.69%	1.51%	1.58%	1.59%	1.47%	1.63%	1.66%
Core Lending	**2.44%**	2.47%	2.21%	2.31%	2.33%	2.17%	2.41%	2.55%
Securitization Financing	**0.17%**	0.23%	0.17%	0.22%	0.24%	0.25%	0.30%	0.22%
Efficiency Ratio – TEB	**41.4%**	36.3%	42.9%	37.7%	37.3%	37.4%	39.2%	33.2%
MORTGAGE ORIGINATIONS								
Single Family Lending Services	**932,646**	996,277	921,889	609,434	850,617	1,098,725	938,591	835,780
Commercial Lending Services	**567,565**	561,612	471,531	424,468	359,479	380,442	201,789	379,996
Core Lending	**1,500,211**	1,557,889	1,393,420	1,033,902	1,210,096	1,479,167	1,140,380	1,215,776
Securitization Financing	**1,592,796**	827,631	631,800	429,270	457,702	492,905	486,621	409,264
Total originations	**3,093,007**	2,385,520	2,025,220	1,463,172	1,667,798	1,972,072	1,627,001	1,625,040
BALANCE SHEET								
Total assets	**25,037,145**	23,147,614	21,944,721	21,054,763	20,634,250	20,221,205	19,795,986	19,300,418
Assets Under Management	**29,410,999**	27,495,398	26,142,735	25,259,152	24,652,969	24,274,172	23,641,546	22,959,080
Mortgages receivable	**23,526,404**	21,671,338	20,455,377	19,676,690	19,298,548	18,787,348	18,263,623	18,164,958
MUM	**27,800,546**	25,935,686	24,568,457	23,794,216	23,233,420	22,753,938	22,013,453	21,743,431
Shareholders' equity	**1,280,027**	1,259,875	1,212,952	1,181,472	1,138,117	1,098,325	1,060,852	1,023,702
Liquid assets	**1,406,592**	1,439,394	1,782,905	1,775,459	1,479,429	1,459,711	1,570,532	1,153,174
CREDIT QUALITY								
Provision for credit losses	**628**	517	168	770	387	40	378	738
Provision for credit losses – rate	**0.01%**	0.01%	0.003%	0.02%	0.01%	0.001%	0.01%	0.02%
Net impaired mortgages as a % of total mortgage assets	**0.16%**	0.16%	0.13%	0.13%	0.12%	0.13%	0.16%	0.21%
Allowance for credit losses as a % of total mortgage assets	**0.11%**	0.11%	0.12%	0.13%	0.17%	0.18%	0.19%	0.19%

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

(2) *Annual EPS may not equal the sum of quarterly EPS as a result of rounding and the computation of in the money options for the year versus the quarter.*

Table 15: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2018[(1)] Q4	Q3	Q2	Q1	2017 Q4	Q3	Q2	Q1
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,553,212**	16,528,351	16,517,020	16,507,603	16,486,677	16,478,314	16,477,456	16,464,170
Weighted average diluted	**16,672,512**	16,654,209	16,603,186	16,629,832	16,625,927	16,570,256	16,567,699	16,614,221
Book value per common share	**72.94**	71.73	69.03	67.14	64.57	62.25	59.98	57.73
Common share price – close	**59.12**	68.87	59.56	53.68	71.50	56.00	59.48	69.37
Common share market capitalization	**978,674**	1,140,013	983,968	886,538	1,179,996	922,826	980,091	1,142,881
Dividends declared per:[(2)]								
Common share	**0.28**	0.27	0.27	0.26	0.25	0.24	0.23	0.23
Preferred share – Series 3	**0.40**	0.40	0.40	0.40	0.40	0.40	0.40	0.40
EQUITABLE BANK CAPITAL RATIOS								
CET1 Ratio	**13.5%**	13.8%	14.3%	14.7%	14.8%	14.8%	14.8%	13.9%
Tier 1 Capital Ratio	**14.3%**	14.7%	15.3%	15.7%	15.9%	15.8%	15.9%	15.0%
Total Capital Ratio	**14.5%**	15.0%	15.6%	16.0%	16.3%	17.2%	17.4%	16.4%
Leverage Ratio	**5.0%**	5.3%	5.4%	5.5%	5.4%	5.3%	5.3%	5.3%

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

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

FOURTH QUARTER OVERVIEW

Equitable continued to perform well in Q4 2018 and established a sound foundation for 2019. The growth of our assets and the credit quality of our mortgage book exceeded our expectations in Q4 and we are optimistic about the year ahead. Earnings were negatively impacted by $7.4 million of valuation losses in our preferred share portfolio and on derivative hedges. Adjusted EPS for the quarter was $2.66, $0.01 below Q3 2018 and $0.28 higher than Q4 2017. Reported EPS for the quarter was $2.33 compared to $2.80 in Q3 2018 and $2.36 in the same period of last year.

ITEMS OF NOTE

Q4 2018 financial results were impacted by the following items, on a pre-tax basis:

- $3.8 million of mark-to-market losses on certain of our preferred shares; and
- $3.6 million of fair value losses on derivative financial instruments related to securitization activities.

Q3 2018 financial results were impacted by the following item, on a pre-tax basis:

- $2.8 million of fair value gains on derivative financial instruments related to securitization activities.

Q4 2017 financial results were impacted by the following item, on a pre-tax basis:

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

NET INTEREST INCOME

The table below details the Company's NII and NIM for the three months ended December 31, 2018, with comparisons to the prior quarter and the corresponding quarter of the prior year, by product and portfolio.

Table 16: Net interest income

	Three months ended					
	Dec 31, 2018[1]		Sep 30, 2018[1]		Dec 31, 2017	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Revenue/ Expense**	**Average rate**	Revenue/ Expense	Average rate	Revenue/ Expense	Average rate
Core Lending:						
Revenues derived from:						
Mortgages	**$ 175,905**	**4.99%**	$ 164,775	4.89%	$ 139,630	4.62%
Liquidity investments	**3,331**	**1.56%**	3,475	1.50%	2,322	1.05%
Equity securities – TEB	**2,204**	**5.96%**	2,058	5.61%	1,300	5.39%
	181,440	**4.81%**	170,308	4.68%	143,252	4.38%
Expenses related to:						
Deposits and bank facilities	**77,017**	**2.52%**	69,909	2.38%	53,471	2.07%
Secured backstop funding facility	**2,273**	**N/A**	2,289	N/A	5,336	N/A
Debentures	**-**	**N/A**	-	N/A	229	7.22%
Securitization liabilities	**10,384**	**2.60%**	8,757	2.32%	8,449	2.00%
	89,674	**2.60%**	80,955	2.44%	67,485	2.24%
Net interest income – TEB	**91,766**	**2.44%**	89,353	2.47%	75,767	2.33%
Taxable Equivalent Basis – adjustment	**(589)**		(577)		(360)	
Core Lending	**$ 91,177**		$ 88,776		$ 75,407	
Securitization Financing:						
Revenues derived from:						
Mortgages	**$ 57,392**	**2.77%**	$ 50,701	2.69%	$ 44,849	2.60%
Liquidity investments	**1,793**	**3.01%**	1,504	3.01%	1,405	1.88%
	59,185	**2.78%**	52,205	2.70%	46,254	2.57%
Expenses related to:						
Securitization liabilities	**45,514**	**2.57%**	38,824	2.49%	36,512	2.46%
Deposits and secured funding facility	**10,257**	**3.06%**	9,133	2.58%	5,452	2.03%
	55,771	**2.65%**	47,957	2.50%	41,964	2.39%
Securitization Financing	**$ 3,414**	**0.17%**	$ 4,248	0.23%	$ 4,290	0.24%
Total interest earning assets – TEB	**$ 95,180**	**1.62%**	$ 93,601	1.69%	$ 80,057	1.59%

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

Q4 2018 v Q4 2017

NII grew 19% from the same quarter of last year as a result of a 16% increase in our average asset balances and a 3 bp increase in our overall NIM. The increase in Total NIM was largely due to lower liquidity management costs during the quarter.

Table 17(a): Factors affecting Q4 2018 v Q4 2017 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Liquidity management actions initiated in Q2 2017	16	• Lower fees associated with our downsized secured backstop funding facility • Lower net insurance premium amortization related to the $892 million of Alternative Single Family mortgages insured in May 2017
Asset mix	6	• Shift towards our higher yielding Commercial portfolio • Increase in the relative size of our higher yielding equity investments
Rates/spread[(1)]	(7)	• Lower spreads within our Single Family portfolio, partly due to the maturity of loans originated in 2017with wider spreads, *offset to some extent by:* • Higher spreads on Commercial Lending originations
Mortgage prepayment income	(4)	• Reduced levels of early discharges in Single Family portfolio
Change in Core Lending NIM	11	
Securitization Financing NIM:		
Rates/spreads[(1)]	(5)	• Increase in the cost of deposits used to fund mortgages on a temporary basis prior to securitization • Growth in the relative size of our lower spread Prime Single Family portfolio
Mortgage prepayment income	(2)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Change in Securitization NIM	(7)	
Change in Total NIM[(2)]	3	

(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 2018 v Q3 2018

NII increased 2% from last quarter driven by 6% growth in average assets and despite a 7 bp decrease in Total NIM. The decrease in our overall NIM was a result of a mix shift towards our lower margin Securitization Financing business and lower NIMs in both our Core Lending and Securitization Financing businesses.

Table 17(b): Factors affecting Q4 2018 v Q3 2018 NIM

	Impact (in bps)	**Drivers of change**
Core Lending NIM:		
Rates/spreads[1]	(3)	• Lower spreads within our Single Family portfolio as mortgage rates increased more slowly than the cost of funds • Maturity of two large and unusually wide spread mortgages in the Commercial portfolio
Funding mix	(1)	• Growth of higher rate brokered GICs
Mortgage prepayment income	(1)	• Reduced levels of early discharges in our Single Family portfolio
Asset mix	2	• Decrease in the relative level of our low yielding liquidity investments
Change in Core Lending NIM	(3)	
Securitization Financing NIM:		
Rates/spreads[1]	(6)	• Increase in the cost of deposits used to fund mortgages on a temporary basis prior to securitization
Mortgage prepayment income	(2)	• Mortgage prepayment income on larger multi-unit residential mortgages is inherently volatile and the impact on NIM can vary quarter to quarter
Funding mix	2	• Lower volume of mortgages funded with higher cost deposits prior to securitization
Change in Securitization NIM	(6)	
Change in Total NIM[2]	(7)	

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

PROVISION FOR CREDIT LOSSES

Table 18: Provision for credit losses

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Sep 30, 2018[1]	Change	Dec 31, 2017	Change
Stage 3 provision (individual provision under IAS 39)	**$ 557**	$ 267	109%	$ 387	44%
Stage 1 and 2 provision (collective provision under IAS 39)	**71**	250	(72%)	-	N/A
Provision for credit losses	**$ 628**	$ 517	21%	$ 387	62%
Provision for credit losses – rate	**0.01%**	0.01%	-%	0.01%	-%
Allowance for credit losses	**$ 25,298**	$ 24,930	1%	$ 33,354	(24%)

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

The Company's provision for credit losses was $0.6 million in the quarter, up $0.1 million from the prior quarter and $0.2 million above the same period of last year. Relative to average mortgage principal outstanding during the period, the provision for credit losses was 1 bp, consistent with recent averages. Based on our normal extensive review of mortgage assets and credit allowances, management concluded that this level of provision would maintain allowances at an appropriate level.

OTHER INCOME

Table 19: Other income

($ THOUSANDS)			Three months ended			
		Dec 31, 2018[(1)]	Sep 30, 2018[(1)]	Change	Dec 31, 2017	Change
Fees and other income						
Fees and other income	**$**	**3,776**	$ 3,798	(1%)	$ 4,389	(14%)
Income from successor issuer activities		**686**	1,045	(34%)	1,764	(61%)
Net (loss) gain on investments		**(3,754)**	131	(2,966%)	-	N/A
Securitization activities:						
Gains on securitization and income from retained interests		**2,442**	2,716	(10%)	2,840	(14%)
Fair value (losses) gains on derivative financial instruments		**(3,618)**	2,784	(230%)	(491)	(637%)
Total	**$**	**(468)**	$ 10,474	(104%)	$ 8,502	(106%)

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

Q4 2018 v Q4 2017

Other income was down $9.0 million or 106% compared with Q4 2017, mainly because of:

- Fair value losses on our investments in certain preferred shares;
- Higher fair value losses on derivative financial instruments related to securitization activities;
- Reduced Income from successor issuer activities, representing income earned from certain Maple Assets and which is expected to be recurring on a diminishing basis through 2020; and
- A decrease in Fees and other income, primarily because of a change in the amortization period and categorization of certain fees.

Q4 2018 v Q3 2018

Other income decreased $10.9 million or 104% due to the same reasons cited above when comparing to Q4 2017.

NON-INTEREST EXPENSES

Table 20: Non-interest expenses and Efficiency Ratio

	Three months ended				
($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	**Dec 31, 2018[(1)]**	Sep 30, 2018[(1)]	Change	Dec 31, 2017	Change
Compensation and benefits	**$ 20,021**	$ 19,406	3%	$ 15,821	27%
Technology and system costs	**5,858**	6,137	(5%)	5,490	7%
Regulatory, legal and professional fees	**4,303**	3,780	14%	3,538	22%
Marketing and corporate expenses	**3,830**	3,509	9%	3,501	9%
Product costs	**3,372**	3,278	3%	3,110	8%
Premises	**1,849**	1,687	10%	1,613	15%
Total non-interest expenses	**$ 39,233**	$ 37,797	4%	$ 33,073	19%
Efficiency Ratio – TEB	**41.4%**	36.3%	5.1%	37.3%	4.1%
Full-time employee ("FTE") – period average	**665**	640	4%	586	13%

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

Q4 2018 v Q4 2017

Our Efficiency Ratio increased to 41.4% from 37.3% a year ago as growth in expenses outpaced the increase in our net revenue. The growth of our revenue was muted by $7.4 million of fair value losses that were recorded in Q4 2018. Excluding these losses, our Efficiency Ratio would have been 38.4%.

Total non-interest expenses increased $6.2, mainly because of:

- Higher Compensation and benefits costs, which were largely the result of a 13% increase in FTE, annual salary adjustments, and incentive payouts; and
- Growth in Regulatory, legal and professional fees driven by an increase in CDIC's standard premium rates, higher deposit balances, and business growth.

Q4 2018 v Q3 2018

Expenses were up by $1.4 million, primarily because of:

- An increase in Compensation and benefit costs due to FTE growth; and
- Higher Regulatory, legal and professional fees in part due to services rendered in relation to the Bennington acquisition and the incorporation of Equitable Trust.

INCOME TAXES

Q4 2018 v Q4 2017

The Company's effective income tax rate in the quarter was 26.0%, unchanged from Q4 2017.

Q4 2018 v Q3 2018

Our effective income tax rate for the quarter decreased by 0.7% compared to 26.7% in the preceding quarter, primarily because of higher tax-exempt dividend income and other adjustments.

TOTAL MORTGAGE PRINCIPAL

The following table provides quarterly mortgage principal continuity schedules by lending business for Q4 2018 and Q4 2017:

Table 21: Mortgage principal continuity schedule

	Three months ended December 31, 2018[1]												
($ THOUSANDS, EXCEPT PERCENTAGES)		Single Family Lending		Commercial Lending		Total Core Lending		Securitization Financing		Total Mortgage Principal		Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
Q3 2018 closing balance	$	10,227,299	$	3,628,951	$	13,856,250	$	7,731,652	$	21,587,902	$	4,347,784	$ 12,079,436
Originations		932,646		567,565		1,500,211		1,592,796		3,093,007		-	1,592,796
Derecognition		-		-		-		(300,696)		(300,696)		300,696	-
Net repayments		(554,437)		(325,179)		(879,616)		(73,905)		(953,521)		(274,626)	(348,531)
Q4 2018 closing balance	$	10,605,508	$	3,871,337	$	14,476,845	$	8,949,847	$	23,426,692	$	4,373,854	$ 13,323,701
% Change from Q3 2018		4%		7%		4%		16%		9%		1%	10%
% Change from Q4 2017		14%		31%		18%		29%		22%		9%	22%
Net repayments percentage[4]		5.4%		9.0%		6.3%		1.0%		4.4%		14.5%	5.8%

	Three months ended December 31, 2017												
($ THOUSANDS, EXCEPT PERCENTAGES)		Single Family Lending		Commercial Lending		Total Core Lending		Securitization Financing		Total Mortgage Principal		Derecognized Mortgage Principal[2]	Securitization Financing MUM[3]
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
Derecognition		-		-		-		(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[4]		6.2%		9.2%		6.9%		2.0%		5.1%		5.6%	3.3%

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

(2) *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.*

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

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

Q4 2018 v Q4 2017

Please refer to pages 26-27 of this document for a discussion of our year-over-year portfolio growth.

Q4 2018 v Q3 2018

Total MUM increased by 7% because of growth in both our Core Lending and Securitization Financing portfolios.

Core Lending balances continued to grow due to high originations levels, including a quarter of record originations for Commercial, and low attrition levels in Single family.

Securitization Financing also grew as a result of a record level of Prime mortgage originations, much of which was sourced through a third-party originator in the quarter.

Table 22: Unaudited interim consolidated statements of income

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended Dec 31, 2018[(1)]	Sep 30, 2018[(1)]	Dec 31, 2017
Interest income:			
Mortgages – Core Lending	**$ 175,905**	$ 164,775	$ 139,630
Mortgages – Securitization Financing	**57,392**	50,701	44,849
Investments	**1,825**	1,496	939
Other	**4,914**	4,964	3,728
	240,036	221,936	189,146
Interest expense:			
Deposits	**84,433**	76,666	56,255
Securitization liabilities	**55,898**	47,581	44,961
Bank facilities	**3,557**	3,423	6,970
Debentures	**-**	-	229
Other	**1,557**	1,242	1,034
	145,445	128,912	109,449
Net interest income	**94,591**	93,024	79,697
Provision for credit losses	**628**	517	387
Net interest income after provision for credit losses	**93,963**	92,507	79,310
Other income:			
Fees and other income	**4,462**	4,843	6,153
Net (loss) gain on investments	**(3,754)**	131	-
(Losses) gains on securitization activities and income from securitization retained interests	**(1,176)**	5,500	2,349
	(468)	10,474	8,502
Net interest and other income	**93,495**	102,981	87,812
Non-interest expenses:			
Compensation and benefits	**20,021**	19,406	15,821
Other	**19,212**	18,391	17,252
	39,233	37,797	33,073
Income before income taxes	**54,262**	65,184	54,739
Income taxes			
Current	**10,526**	17,124	10,360
Deferred	**3,620**	254	3,933
	14,146	17,378	14,293
Net income	**$ 40,116**	$ 47,806	$ 40,446
Dividends on preferred shares	**1,190**	1,191	1,190
Net income available to common shareholders	**$ 38,926**	$ 46,615	$ 39,256
Earnings per share			
Basic	**$ 2.35**	$ 2.82	$ 2.38
Diluted	**$ 2.33**	$ 2.80	$ 2.36

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

Table 23: Unaudited interim consolidated statements of comprehensive income

($ THOUSANDS)	Three months ended Dec 31, 2018[(1)]	Sep 30, 2018[(1)]	Dec 31, 2017
Net income	**$ 40,116**	$ 47,806	$ 40,446
Other comprehensive income – items that will be reclassified subsequently to income:			
Debt instruments at Fair Value through Other Comprehensive Income/Available for sale:			
Net unrealized gains (losses) from change in fair value	**67**	(4)	3,812
Reclassification of net losses to income	**-**	17	-
Other comprehensive income – items that will not be reclassified subsequently to income:			
Equity instruments designated at Fair Value through Other Comprehensive Income:			
Net unrealized (losses) gains from change in fair value	**(15,108)**	831	N/A
Reclassification of net losses to retained earnings	**3**	14	N/A
	(15,038)	858	3,812
Income tax recovery (expense)	**3,990**	(228)	(1,002)
	(11,048)	630	2,810
Cash flow hedges:			
Net unrealized (losses) gains from change in fair value	**(5,535)**	3,533	939
Reclassification of net losses (gains) to income	**844**	(4)	(211)
	(4,691)	3,529	728
Income tax recovery (expense)	**1,244**	(936)	(193)
	(3,447)	2,593	535
Total other comprehensive (loss) income	**(14,495)**	3,223	3,345
Total comprehensive income	**$ 25,621**	$ 51,029	$ 43,791

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

Table 24: Unaudited interim consolidated statements of cash flows

($ THOUSANDS)	Dec 31, 2018[(1)]	Sep 30, 2018[(1)]	Dec 31, 2017
	Three months ended		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period	**$ 40,116**	$ 47,806	$ 40,446
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	**11,668**	(416)	(5,047)
Amortization of premiums/discounts on investments	**1,419**	1,873	3,682
Amortization of capital assets and intangible costs	**2,264**	2,431	2,362
Provision for credit losses	**628**	517	387
Securitization losses (gains)	**2,436**	(5,500)	(1,842)
Stock-based compensation	**334**	321	325
Income taxes	**14,146**	17,378	14,293
Securitization retained interests	**7,726**	7,055	6,529
Changes in operating assets and liabilities:			
Restricted cash	**32,186**	(11,998)	31,327
Securities purchased under reverse repurchase agreements	**(250,000)**	-	-
Mortgages receivable, net of securitizations	**(1,881,516)**	(1,214,589)	(517,881)
Other assets	**(48,956)**	(3,138)	(2,663)
Deposits	**634,861**	544,511	523,979
Securitization liabilities	**1,059,515**	591,449	(164,989)
Obligations under repurchase agreements	**42,981**	96,101	135,914
Bank facilities	**116,457**	(77,297)	(64,783)
Other liabilities	**14,768**	(5,733)	25,915
Income taxes paid	**(11,480)**	(15,485)	(31,844)
Cash flows used in operating activities	**(210,447)**	(24,714)	(3,890)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common shares	**26**	1,229	989
Redemption of debentures	**-**	-	(65,000)
Dividends paid on preferred shares	**(1,190)**	(1,191)	(1,190)
Dividends paid on common shares	**(4,464)**	(4,461)	-
Cash flows used in financing activities	**(5,628)**	(4,423)	(65,201)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	**(55,291)**	(4,847)	(24)
Proceeds on sale or redemption of investments	**193**	-	5,957
Net change in Canada Housing Trust re-investment accounts	**(83)**	(12)	2
Purchase of capital assets and system development costs	**(7,453)**	(3,740)	(228)
Cash flows (used in)/from investing activities	**(62,634)**	(8,599)	5,707
Net decrease in cash and cash equivalents	**(278,709)**	(37,736)	(63,384)
Cash and cash equivalents, beginning of period	**755,952**	793,688	724,314
Cash and cash equivalents, end of period	**$ 477,243**	$ 755,952	$ 660,930
Cash flows from operating activities include:			
Interest received	**$ 240,814**	$ 210,403	$ 241,477
Interest paid	**(171,740)**	(67,545)	(108,345)
Dividends received	**1,736**	1,517	(1,138)

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

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 2018 annual consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2017 except for the adoption of IFRS 9 and IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), effective January 1, 2018. The transitional impact of adopting IFRS 15 was immaterial given that the majority of revenues generated by the Company are interest income from financial instruments which are not within the scope of the standard. Please refer to Notes 5 and 3 to the audited consolidated financial statements for the transitional impact of adopting IFRS 9 and a summary of the Company's other significant accounting policies.

FUTURE ACCOUNTING POLICIES

IFRS 16 Leases ("IFRS 16") is mandatorily effective for annual periods beginning on or after January 1, 2019. The Company has completed its evaluation of the estimated impact of IFRS 16 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. With the exception of adoption of new accounting standards as explained in Note 3 to the audited consolidated financial statements, 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 the 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.

Allowance for credit losses under IFRS 9:

The expected credit loss ("ECL") model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgement to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgement in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgements directly impact the measurement of ECLs.

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, 7, 11, 12, 13, 14 and 17 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 23 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 totalled $4.4 billion at December 31, 2018 (December 31, 2017 – $4.0 billion). The securitization liabilities associated with these transferred assets are approximately $4.4 billion (December 31, 2017 – $4.0 billion). The securitization retained interest recorded with respect to these securitization transactions was $115.3 million (December 31, 2017 – $104.4 million) and the associated servicing liability was $26.8 million at December 31, 2018 (December 31, 2017 – $25.6 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.5 billion of mortgages and investments in the ordinary course of business at December 31, 2018 (December 31, 2017 – $1.2 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 $15.5 million were outstanding at December 31, 2018 (December 31, 2017 – $10.2 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have invested in deposits, and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 24 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 2018 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 Framework ("RAF"). The Company's ERM and RAF 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 RAF 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 RAF, 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 ongoing periodic reports from the Company's Enterprise Risk Management ("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 is responsible for 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: The RCC oversees the Company's ALCO, which identifies the liquidity as well as the 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 monitor the organizations activities and 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 Legal and Regulatory risk; this includes 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 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 LTV ratio 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.

In 2018, the Bank started to diversify into adjacent businesses (i.e., the offering of reverse mortgages to qualifying homeowners – which will enable them to convert a portion of their home equity into cash on a tax-free basis while remaining in their principal residence). Through its Commercial Lending platform, Equitable is now also diversifying into 'Specialized Finance' – with a focus on 'Lend to Lender' arrangements and Equipment Lease/Finance transactions. Also, starting in Q1 2019, the Bank commenced offering lines of credit to individuals aged over fifty, secured against the CSV of the borrower's participating whole life insurance policy. Adding new products and diversifying is an important means to reduce risk if executed effectively. The Company follows established change management policies and procedures to ensure the successful implementation of these offerings.

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 invests in corporate bonds to diversify its liquidity holdings and to generate higher returns. However, such investments expose the Company to credit risk, should the issuer of these securities be unable to make timely interest 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 BBB- and higher (which is considered "low risk") comprised 100% of the Company's corporate bond portfolio at December 31, 2018 (December 31, 2017 - nil).

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 these securities be unable to make timely 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(low) and higher (which is considered "low risk") comprised 42.8% of the Company's preferred share equity securities portfolio at December 31, 2018, compared to 41.7% a year earlier. Securities rated P-4 (mid) or higher (which is considered "standard risk") represent 99.2% of the preferred share portfolio at the end of December 2018 (December 31, 2017 – 100%).

The Company's rating scale for the credit quality of our counterparties is based on both internal and external credit grading systems. Table 25 below maps these 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, including corporate bonds, 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 likelihood of default.

Equitable assigns economic and regulatory capital for our counterparty credit exposures in accordance with OSFI's CAR Guideline, which is based on standards issued by the 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 RAF 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 25: 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, 2018 and 2017, on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories. The table below provides the gross carrying amount of all financial assets classified as debt instruments in accordance with IFRS 9, for which a loss allowance is calculated, including contractual amounts of undrawn loan commitments, based on the Company's credit risk exposure rating scale.

Table 26: Credit quality analysis

				2018(1)
($ THOUSANDS)	Stage1	Stage2	Stage3	Total
Mortgages receivable:				
Low risk	$ 10,755,321	$ 686,403	$ -	$ 11,441,724
Standard risk	8,337,306	3,415,099	-	11,752,405
High risk	122,818	195,824	-	318,642
Impaired	-	-	38,931	38,931
Total	$ 19,215,445	$ 4,297,326	$ 38,931	$ 23,551,702
Less allowance	(14,491)	(9,141)	(1,526)	(25,158)
	$ 19,200,954	$ 4,288,185	$ 37,405	$ 23,526,544

($ THOUSANDS)	Stage1	Stage2	Stage3	2018(1) Total
Mortgage commitments:				
Low risk	$ 114,825	$ -	$ -	$ 114,825
Standard risk	638,894	249,144	-	888,038
High risk	-	-	-	-
Total	$ 753,719	$ 249,144	$ -	$ 1,002,863
Less allowance	(105)	(35)	-	(140)
	$ 753,614	$ 249,109	$ -	$ 1,002,723

($ THOUSANDS)	Neither past due nor impaired Low risk	Standard risk	High risk	Past due but not impaired	Individually impaired	Allowances	2017 Total
Cash and cash equivalents	$ 660,930	$ -	$ -	$ -	$ -	$ -	$ 660,930
Restricted cash	366,038	-	-	-	-	-	366,038
Investments:							
Debt securities(2)	-	-	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) *Effective January 1, 2018, the amounts have been prepared in accordance with IFRS 9. Prior year comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to the prior year.*
(2) *Includes debt securities guaranteed by Government of Canada, corporate debt and successor issuer rights.*

The following table sets out the credit analysis for financial assets measured at FVTPL and for equity securities measured at FVOCI.

($ THOUSANDS)	2018
Mortgage receivables	
Low risk	$ 122,456
Standard risk	121,398
Carrying amount	$ 243,854
Equity securities	
Low risk	$ 54,463
Standard risk	66,065
High risk	10,902
Carrying amount	$ 131,430

Cash and cash equivalents

The Company held cash and cash equivalents of $477.2 million as at December 31, 2018. The cash and cash equivalents are held with financial institutions that are rated at least A- to AAA, based on S&P ratings.

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, 2018 was $49 million (December 31, 2017 – $33 million). At December 31, 2018, the appraised values of collateral held for mortgages considered past due but not impaired, as determined when the mortgages were originated, was $77 million (December 31, 2017 –$75 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, 2018 amounted to $1.4 million (December 31, 2017 – $2.3 million) and are included in Other assets (Note 14) 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 required it to post increased collateral in the event of a credit rating downgrade of Equitable Bank.

The contractual amount outstanding on financial assets that were written off during the year amounted to $2.8 million (December 31, 2017 - $3.0 million). These amounts are still subject to enforcement activity.

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 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, 2018, no individual borrower represented more than $138 million (December 31, 2017 – $153.6 million) or 1.04% (December 31, 2017 – 1.42%) of uninsured mortgage principal outstanding. See Tables 12 and 13 of our Q4 2018 unaudited 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 RAF, the Board defines the Company's liquidity and funding risk tolerance as 'low', and also reviews and approves the limits to measure and control this risk. These limits are articulated via our Board-approved Liquidity and Funding Risk Management Policy – which is updated annually, at a minimum. This Policy requires us 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. We also adhere to the OSFI's Liquidity Adequacy Requirement ("LAR") Guideline, which provides the framework within which OSFI assesses whether a federally-regulated financial institution maintains adequate liquidity. Our liquidity position and adherence to the requirements are monitored on a daily basis by Senior Management. Key metrics are also reported monthly to the ALCO and, quarterly, both to the ERM Committee and the RCC of the Board. Any exceptions to established Policy or regulatory limits are reported immediately to the ALCO or to the Board, as applicable. Both as at December 31, 2018 and the date of this MD&A, we were in full compliance with the Liquidity and Funding Risk Management Policy, as well as all related regulatory requirements.

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 and an OSFI-mandated Comprehensive Recovery Plan, which outlines actions to be undertaken to address the outflow of funds in the event of a funding or liquidity crisis.

Table 27: Assets held for liquidity protection

($THOUSANDS EXCEPT PERCENTAGES)	**Policy minimum**	**2018**	2017
Liquidity assets held for regulatory purposes		**$ 1,263,835**	$ 1,369,132
Liquidity assets as a % of minimum required policy liquidity[(1)]	**100%**	**203%**	237%

[(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 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. 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. As at December 31, 2018, 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 2018, the Bank received approval of the Minister of Finance (Canada) for letters patent to incorporate a trust company under the Trust and Loan Companies Act (Canada) and, on December 19, 2018, received the "Order to Commence and Carry on Business" from OSFI. The new wholly-owned trust subsidiary is expected to provide an additional source of funding diversification for the Bank as it will be a new issuer of deposits that is eligible for CDIC insurance coverage.

In Q2 2017, we implemented a $2 billion contingent funding facility with a consortium of Canada's six largest banks with a scheduled maturity in June 2019. This committed facility was put in place to mitigate potential liquidity risks resulting from market conditions at the time. In June 2018, we reduced this to $850 million as we had successfully enhanced our liquidity management efforts by increasing the size of our liquid asset portfolio, extending the average term of our GIC book, improving the functionality and brand profile of our *EQ Bank* platform, and reducing our exposure to more volatile brokered HISAs.

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

Table 28: Contractual obligations

($ THOUSANDS)	Total	Payments due by period Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Deposits principal and interest[1]	**$ 11,883,749**	**$ 5,840,580**	**$ 4,367,562**	**$ 1,675,359**	**$ 248**
Securitization liabilities principal and interest[1]	**9,902,121**	**1,766,246**	**4,292,701**	**2,789,897**	**1,053,277**
Bank facilities principal and interest[1]	**290,437**	**290,437**	**-**	**-**	**-**
Other liabilities[1]	**164,144**	**143,994**	**10,272**	**5,845**	**4,033**
Total 2018 contractual obligations	**$ 22,240,451**	**$ 8,041,257**	**$ 8,670,535**	**$ 4,471,101**	**$ 1,057,558**
Total 2017 contractual obligations	$ 16,515,484	$ 5,411,767	$ 6,435,480	$ 3,481,474	$ 1,186,763

[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 23 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2018 and 2017.

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, 2018, see Note 26 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 ("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, 2018. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 29: Net interest income shock

($ THOUSANDS EXCEPT PERCENTAGES)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	$ 10,183	$ (5,860)
Impact on EVE	(5,238)	12,236
EVE impact as a % of common shareholders' equity	(0.4%)	1.0%
200 basis point shift		
Impact on net interest income	$ 20,439	$ (2,189)
Impact on EVE	(9,839)	43,391
EVE impact as a % of common shareholders' equity	(0.8%)	3.6%

(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 assigned to the ALCO by the RCC of the Board. The ALCO manages the Company's securities portfolio in accordance with its *'Marketable Securities 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 RAF, 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 conduct 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 a Company-wide basis. These tools 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.

  Our approach to Fraud Risk management has been to:

  - Utilize established Operational Risk Management tools as well as specific fraud related tools and processes to support the identification, assessment, measurement and mitigation of fraud risk;
  - Establish the reporting and monitoring processes to support the approach; and
  - Establish a culture of risk awareness and understanding throughout all Business Units within the organization so that fraud risk and its associated implications are considered in all significant decisions.

  We have processes to keep our fraud controls relevant, agile, and current to accommodate new products, new channels and evolving fraud trends. The existing fraud risk management program utilizes proactive measures to deter, prevent and detect fraud, rather than solely relying upon reactive measures. Our fraud risk management 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 regulatory changes, tightening mortgage qualification criteria, and changing 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 implemented 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.

- **Technology and Cyber Security:** With our enhanced use of the internet and mobile technologies as a branchless bank, 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, complex, and potentially damaging. Third party service providers that we use may also be subject to these risks which can increase our risk of potential attack. We continually assess the performance of third-party suppliers against industry standards. In addition, we have limited control over the safety of our clients' personal devices that may be used to conduct transactions. To manage these risks, our defense systems are designed as an integral part of both our existing Equitable Bank infrastructure, and our new architecture and development for our digital banking platform.

  We view cyber risk as a key component of Operational Risk and the Company 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.

  Our 'Cyber Security Policy' and 'Information and IT Security Policy' establish the requirements and set out the overall framework for managing cyber and information security related risks across the Company. These include developing and implementing the appropriate activities to detect, respond to and contain the impact of cyber security threats, along with implementing the appropriate safeguards to ensure the delivery of critical infrastructure services.

  Also, KRI's have been established to measure, monitor, and report this risk to the Board on a regular, periodic basis. Furthermore, we also have an established IT Roadmap with the objective of continuously improving the strength of our practices and capabilities.

  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.

Equitable Bank 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.

- **Natural Disaster Risk:** With respect to natural disasters, such as from earthquakes, overland flooding, etc., we consider this to be a component of Operational risk and conduct stress testing for this risk at periodic intervals to determine its potential impact on the Company's assets in certain geographical regions, which are prone to such disasters. Based on the results of these stress tests, refinements are made to our RAF, where considered appropriate and prudent.

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 RAF, 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. 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 RAF, 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, 2019, the Company had 16,560,515 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 664,835 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $35.0 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, 2018. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our Internal Control over Financial Reporting framework 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 Controls over Financial Reporting as of December 31, 2018 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 Controls over Financial Reporting were effective as of December 31, 2018.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“GAAP”) FINANCIAL MEASURES

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

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

Reconciliation of Adjusted net income

				Years ended	
($ THOUSANDS)	**Dec 31, 2018[1]**	Dec 31, 2017	Change	Dec 31, 2016	Change
Net income	**$ 165,626**	$ 160,617	3%	$ 138,330	20%
Adjustments on an after-tax basis:					
Backstop funding facility deferred cost write-down	**4,323**	-	N/A	-	N/A
Fair value adjustments related to preferred shares and derivatives	**2,829**	(217)	1,404%	266	964%
Adjusted net income	**$ 172,778**	$ 160,400	8%	$ 138,596	25%

				Three months ended	
($ THOUSANDS)	**Dec 31, 2018[1]**	Sep 30, 2018[1]	Change	Dec 31, 2017	Change
Net income	**$ 40,116**	$ 47,806	(16%)	$ 40,446	(1%)
Adjustments on an after-tax basis:					
Fair value adjustments related to preferred shares and derivatives	**5,419**	(2,144)	N/A	361	1,401%
Adjusted net income	**$ 45,535**	$ 45,662	0%	$ 40,807	12%

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

Reconciliation of Adjusted EPS – diluted

($ PER SHARE AMOUNTS)					Years ended	
	Dec 31, 2018[(1)]	Dec 31, 2017	Change		Dec 31, 2016	Change
EPS – diluted	**$ 9.67**	$	9.39	3%	$ 8.49	14%
Adjustments on an after-tax basis:						
Backstop funding facility deferred cost write-down	**0.26**	-	N/A		-	N/A
Fair value adjustments related to preferred shares and derivatives	**0.17**	(0.01)	1,800%		0.02	750%
Adjusted EPS – diluted	**$ 10.10**	$ 9.38	8%		$ 8.51	19%

($ PER SHARE AMOUNTS)				Three months ended	
	Dec 31, 2018[(1)]	Sep 30, 2018[(1)]	Change	Dec 31, 2017	Change
EPS – diluted	**$ 2.33**	$ 2.80	(17%)	$ 2.36	0%
Adjustments on an after-tax basis:					
Fair value adjustments related to preferred shares and derivatives	**0.33**	(0.13)	354%	0.02	1,550%
Adjusted EPS – diluted	**$ 2.66**	$ 2.67	0%	$ 2.38	12%

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

Reconciliation of Adjusted Return on shareholders' equity

($ THOUSANDS, EXCEPT PERCENTAGES)				Years ended	
	Dec 31, 2018[(1)]	Dec 31, 2017	Change	Dec 31, 2016	Change
Net income available to common shareholders	**$ 160,863**	$ 155,854	3%	$ 133,567	20%
Adjustments on an after-tax basis:					
Backstop funding facility deferred cost write-down	**4,323**	-	N/A	-	N/A
Fair value adjustments related to preferred shares and derivatives	**2,829**	(217)	1,404%	266	964%
Adjusted income available to common shareholders	**168,015**	155,637	8%	133,833	26%
Adjusted weighted average common equity[(2)]	**1,143,427**	984,759	16%	789,772	45%
Adjusted return on shareholders' equity	**14.7%**	15.8%	(1.1%)	16.9%	(2.2%)

($ THOUSANDS, EXCEPT PERCENTAGES)				Three months ended	
	Dec 31, 2018[(1)]	Sep 30, 2018[(1)]	Change	Dec 31, 2017	Change
Net income available to common shareholders	**$ 38,926**	$ 46,615	(16%)	$ 39,256	(1%)
Adjustments on an after-tax basis:					
Fair value adjustments related to preferred shares and derivatives	**5,419**	(2,144)	353%	361	1,401%
Adjusted income available to common shareholders	**44,345**	44,471	0%	39,617	12%
Adjusted weighted average common equity[(2)]	**1,200,093**	1,162,468	3%	1,045,649	15%
Adjusted return on shareholders' equity	**14.7%**	15.2%	(0.5%)	15.0%	(0.3%)

(1) *Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. Prior year period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, current year disclosures are not directly comparable to prior year periods.*
(2) *Adjusted weighted average common equity is weighted average common equity adjusted for the after-tax impact of the items listed above.*

- **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)	2018[(1)]	2017	Change	2016	Change
Total assets on the consolidated balance sheet	$ 25,037,145	$ 20,634,250	21%	$ 18,973,588	32%
Mortgage principal derecognized	4,373,854	4,018,719	9%	3,304,181	32%
Assets Under Management	$ 29,410,999	$ 24,652,969	19%	$ 22,277,769	32%

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

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

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	2018[(1)]	2017	Change	2016	Change
Shareholders' equity	$ 1,280,027	$ 1,138,117	12%	$ 977,150	31%
Preferred shares	(72,557)	(72,557)	-%	(72,557)	-%
Common shareholders' equity	$ 1,207,470	$ 1,065,560	13%	$ 904,593	33%
Common shares outstanding	16,554,018	16,503,437	0%	16,460,142	1%
Book value per common share	$ 72.94	$ 64.57	13%	$ 54.96	33%

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

- **Capital ratios:**
  - **CET1 Ratio:** this key measure of capital strength is defined as CET1 Capital as a percentage of total RWA. This ratio is calculated for the Bank in accordance with the guidelines issued by OSFI. CET1 Capital is defined as shareholders' equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income.
  - **Tier 1 and Total Capital Ratios:** these adequacy ratios are calculated for the Bank, in accordance with the guidelines issued by OSFI by dividing Tier 1 or Total Capital by total RWA. Tier 1 Capital is calculated by adding non-cumulative preferred shares to CET1 Capital. Tier 2 Capital is equal to the sum of the Bank's eligible Stage 1 and 2 allowance (collective allowance under IAS 39) and subordinated debentures. Total Capital equals to Tier 1 plus Tier 2 Capital.
  - **Leverage Ratio:** this measure is calculated by dividing Tier 1 Capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 Capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.

  The Capital ratios are calculated 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 13 of this MD&A.

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

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

					Years ended
($ THOUSANDS, EXCEPT PERCENTAGES)	Dec 31, 2018[(1)]	Dec 31, 2017	Change	Dec 31, 2016	Change
Non-interest expenses	$ 149,363	$ 129,030	16%	$ 116,539	28%
Net revenue	378,132	351,031	8%	308,463	23%
Efficiency Ratio	39.5%	36.8%	2.7%	37.8%	1.7%

($ THOUSANDS, EXCEPT PERCENTAGES)		Dec 31, 2018[(1)]		Sep 30, 2018[(1)]	Change		Dec 31, 2017	Change
							Three months ended	
Non-interest expenses	**$**	**39,233**	$	37,797	4%	$	33,073	19%
Net revenue		**94,712**		104,075	(9%)		88,559	7%
Efficiency Ratio		**41.4%**		36.3%	5.1%		37.3%	4.1%

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

- **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 11 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)		2018[(1)]		2017	Change		2016	Change
Mortgage principal – recognized on the consolidated balance sheet	**$**	**23,426,692**	$	19,214,701	22%	$	17,699,832	32%
Mortgage principal – derecognized		**4,373,854**		4,018,719	9%		3,304,181	32%
Mortgages Under Management	**$**	**27,800,546**	$	23,233,420	20%	$	21,004,013	32%

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

- **Net interest margin ("NIM"):** this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total interest earning assets for the period. A detailed calculation can be found in Table 3 and Table 16 of this MD&A.
- **Net revenue:** is calculated as the sum of net interest income, other income, and the TEB adjustment.

($ THOUSANDS)		Dec 31, 2018[(1)]		Dec 31, 2017	Change		Dec 31, 2016	Change
							Years ended	
Net interest income	**$**	**348,381**	$	308,362	13%	$	279,357	25%
Other income		**27,659**		41,026	(33%)		26,458	5%
TEB adjustment		**2,092**		1,643	27%		2,648	(21%)
Net revenue	**$**	**378,132**	$	351,031	8%	$	308,463	23%

($ THOUSANDS)		Dec 31, 2018[(1)]		Sep 30, 2018[(1)]	Change		Dec 31, 2017	Change
							Three months ended	
Net interest income	**$**	**94,591**	$	93,024	2%	$	79,697	19%
Other income		**(468)**		10,474	(104%)		8,502	(106%)
TEB adjustment		**589**		577	2%		360	64%
Net revenue	**$**	**94,712**	$	104,075	(9%)	$	88,559	7%

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

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

					Years ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Dec 31, 2017	Change	Dec 31, 2016	Change
Provision for credit losses	**$ 2,083**	$ 1,543	35%	$ 2,445	(15%)
Divided by: average mortgage principal	**21,320,697**	18,457,267	16%	16,167,140	32%
Provision for credit losses – rate	**0.01%**	0.01%	-%	0.02%	(0.01%)

					Three months ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Sep 30, 2018[1]	Change	Dec 31, 2017	Change
Provision for credit losses	**$ 628**	$ 517	21%	$ 387	62%
Divided by: average mortgage principal	**22,507,297**	20,979,173	7%	18,957,836	19%
Provision for credit losses – rate	**0.01%**	0.01%	-%	0.01%	-%

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

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

					Year ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Dec 31, 2017	Change	Dec 31, 2016	Change
Net income	**$ 165,626**	$ 160,617	3%	$ 138,330	20%
Average total assets	**22,239,188**	19,775,794	12%	17,301,263	29%
Return on average assets	**0.7%**	0.8%	(0.1%)	0.8%	(0.1%)

					Three months ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Sep 30, 2018[1]	Change	Dec 31, 2017	Change
Net income	**$ 40,116**	$ 47,806	(16%)	$ 40,446	(1%)
Average total assets	**24,068,090**	22,490,018	7%	20,423,464	18%
Return on average assets	**0.7%**	0.8%	(0.1%)	0.8%	(0.1%)

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

- **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.

					Years ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Dec 31, 2017	Change	Dec 31, 2016	Change
Net income available to common shareholders	**$ 160,863**	$ 155,854	3%	$ 133,567	20%
Weighted average common equity outstanding	**1,139,851**	984,867	16%	789,639	44%
Return on shareholders' equity	**14.1%**	15.8%	(1.7%)	16.9%	(2.8%)

					Three months ended
($ THOUSANDS, EXCEPT PERCENTAGES)	**Dec 31, 2018[1]**	Sep 30, 2018[1]	Change	Dec 31, 2017	Change
Net income available to common shareholders	**$ 38,926**	$ 46,615	(16%)	$ 39,256	(1%)
Weighted average common equity outstanding	**1,197,384**	1,163,540	3%	1,045,469	15%
Return on shareholders' equity	**12.9%**	15.9%	(3.0%)	14.9%	(2.0%)

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

- **Risk-weighted assets ("RWA"):** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline. A detailed calculation can be found in Table 14 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 21 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, 2018, September 30, 2018 and December 31, 2017, the TEB adjustment was $0.6 million, $0.6 million and $0.4 million. For the year ended December 31, 2018, the TEB adjustment was $2.1 million as compared to $1.6 million for 2017.
- **Total shareholder return:** is defined as total return of stock to an investor including stock appreciation and dividends.

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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

February 28, 2019

Tim Wilson

Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equitable Group Inc.

Opinion

We have audited the consolidated financial statements of Equitable Group Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon and the Management's Discussion and Analysis, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Abhimanyu Verma.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 28, 2019

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31	Note		2018[1]		2017
Assets					
Cash and cash equivalents	7	$	**477,243**	$	660,930
Restricted cash	7		**327,097**		366,038
Securities purchased under reverse repurchase agreements	8		**250,000**		-
Investments	9		**193,399**		107,442
Mortgages receivable – Core Lending	10,11		**14,491,325**		12,304,741
Mortgages receivable – Securitization Financing	10,11		**9,035,079**		6,993,807
Securitization retained interests	11		**115,331**		104,429
Other assets	14		**147,671**		96,863
		$	**25,037,145**	$	20,634,250
Liabilities and Shareholders' Equity					
Liabilities:					
Deposits	15	$	**13,668,521**	$	11,114,313
Securitization liabilities	11		**9,236,045**		7,565,545
Obligations under repurchase agreements	11		**342,010**		452,001
Deferred tax liabilities	16		**42,610**		35,802
Other liabilities	17		**177,961**		199,601
Bank facilities	18		**289,971**		128,871
			23,757,118		19,496,133
Shareholders' Equity:					
Preferred shares	19		**72,557**		72,557
Common shares	19		**200,792**		198,660
Contributed surplus	20		**7,035**		6,012
Retained earnings			**1,014,559**		866,109
Accumulated other comprehensive loss			**(14,916)**		(5,221)
			1,280,027		1,138,117
		$	**25,037,145**	$	20,634,250

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (see Notes 3 and 5).*

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*	**2018[1]**	2017
Interest income:			
Mortgages – Core Lending		**$ 637,318**	$ 516,564
Mortgages – Securitization Financing		**199,032**	178,329
Investments		**5,867**	4,502
Other		**17,846**	11,067
		860,063	710,462
Interest expense:			
Deposits		**290,991**	204,894
Securitization liabilities	*11*	**191,866**	174,920
Bank facilities		**24,242**	15,997
Debentures		**-**	3,079
Other		**4,583**	3,210
		511,682	402,100
Net interest income		**348,381**	308,362
Provision for credit losses	*10*	**2,083**	1,543
Net interest income after provision for credit losses		**346,298**	306,819
Other income:			
Fees and other income		**21,229**	28,302
Net loss on investments		**(3,855)**	(888)
Gains on securitization activities and income from securitization retained interests	*11*	**10,285**	13,612
		27,659	41,026
Net interest and other income		**373,957**	347,845
Non-interest expenses:			
Compensation and benefits		**77,062**	65,206
Other		**72,301**	63,824
		149,363	129,030
Income before income taxes		**224,594**	218,815
Income taxes:	*16*		
Current		**54,374**	50,220
Deferred		**4,594**	7,978
		58,968	58,198
Net income		**$ 165,626**	$ 160,617
Dividends on preferred shares		**4,763**	4,763
Net income available to common shareholders		**$ 160,863**	$ 155,854
Earnings per share	*21*		
Basic		**$ 9.73**	$ 9.46
Diluted		**$ 9.67**	$ 9.39

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (see Notes 3 and 5).*

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	Note	2018[1]	2017
Net income		**$ 165,626**	$ 160,617
Other comprehensive income – items that will be reclassified subsequently to income			
Debt instruments at Fair Value through Other Comprehensive Income/Available for sale:			
Net unrealized gains from change in fair value		**37**	15,647
Reclassification of net losses to income		**17**	412
Other comprehensive income – items that will not be reclassified subsequently to income			
Equity instruments designated at Fair Value through Other Comprehensive Income:			
Net unrealized losses from change in fair value		**(14,505)**	N/A
Reclassification of net losses to retained earnings		**11**	N/A
		(14,440)	16,059
Income tax recovery/(expense)		**3,831**	(4,223)
		(10,609)	11,836
Cash flow hedges:	*12*		
Net unrealized (losses)/gains from change in fair value		**(2,971)**	6,272
Reclassification of net losses to income		**2,285**	1,875
		(686)	8,147
Income tax recovery/(expense)		**182**	(2,221)
		(504)	5,926
Total other comprehensive (loss)/income		**(11,113)**	17,762
Total comprehensive income		**$ 154,513**	$ 178,379

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (see Notes 3 and 5).*

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

					Accumulated other comprehensive income (loss)			2018
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Financial instruments at FVOCI[1]	Total	Total
Balance, beginning of year	$ 72,557	$ 198,660	$ 6,012	$ 866,109	$ 3,153	$ (8,374)	$ (5,221)	$ 1,138,117
Cumulative effect of adopting IFRS 9[2]	-	-	-	5,450	-	1,418	1,418	6,868
Restated balance as at January 1, 2018	72,557	198,660	6,012	871,559	3,153	(6,956)	(3,803)	1,144,985
Net income	-	-	-	165,626	-	-	-	165,626
Transfer of losses on sale of equity instruments	-	-	-	(9)	-	9	9	-
Other comprehensive loss, net of tax	-	-	-	-	(504)	(10,618)	(11,122)	(11,122)
Exercise of stock options	-	1,780	-	-	-	-	-	1,780
Dividends:								
Preferred shares	-	-	-	(4,763)	-	-	-	(4,763)
Common shares	-	-	-	(17,854)	-	-	-	(17,854)
Stock-based compensation	-	-	1,375	-	-	-	-	1,375
Transfer relating to the exercise of stock options	-	352	(352)	-	-	-	-	-
Balance, end of year	$ 72,557	$ 200,792	$ 7,035	$ 1,014,559	$ 2,649	$ (17,565)	$ (14,916)	$ 1,280,027

					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 loss, net of tax	-	-	-	-	5,926	11,836	17,762	17,762
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

(1) *Current year balance is classified as at FVOCI for debt and equity instruments, however, balance at the beginning of the year is classified as Available for Sale under IAS 39.*
(2) *The total adjustment of $6,868 is net of tax. The total adjustment gross of tax is $9,418 (see Note 5 – Transition to IFRS 9).*

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2018[1]	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 165,626**	$ 160,617
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**7,532**	(3,058)
Amortization of premiums/discount on investments	**7,829**	11,241
Amortization of capital assets and intangible costs	**9,454**	8,878
Provision for credit losses	**2,083**	1,543
Securitization gains	**(9,025)**	(10,633)
Net loss on sale or redemption of investments	**-**	888
Stock-based compensation	**1,375**	1,282
Income taxes	**58,968**	58,198
Securitization retained interests	**28,481**	24,617
Changes in operating assets and liabilities:		
Restricted cash	**38,941**	(118,160)
Securities purchased under reverse repurchase agreements	**(250,000)**	199,401
Mortgages receivable, net of securitizations	**(4,248,509)**	(1,547,374)
Other assets	**(36,838)**	(15,360)
Deposits	**2,544,335**	1,361,660
Securitization liabilities	**1,670,057**	(195,890)
Obligations under repurchase agreements	**(109,991)**	339,513
Bank facilities	**161,100**	78,871
Other liabilities	**(11,111)**	(2,466)
Income taxes paid	**(60,663)**	(80,174)
Cash flows (used in)/from operating activities	**(30,356)**	273,594
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	**1,780**	1,726
Redemption of debentures	**-**	(65,000)
Dividends paid on preferred shares	**(4,763)**	(4,763)
Dividends paid on common shares	**(17,343)**	(14,977)
Cash flows used in financing activities	**(20,326)**	(83,014)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(112,760)**	(40,486)
Proceeds on sale or redemption of investments	**238**	76,176
Net change in Canada Housing Trust re-investment accounts	**(57)**	241
Purchase of capital assets and system development costs	**(20,426)**	(9,760)
Cash flows (used in)/from investing activities	**(133,005)**	26,171
Net (decrease)/increase in cash and cash equivalents	**(183,687)**	216,751
Cash and cash equivalents, beginning of year	**660,930**	444,179
Cash and cash equivalents, end of year	**$ 477,243**	$ 660,930
Cash flows from operating activities include:		
Interest received	**$ 842,060**	$ 704,813
Interest paid	**(383,522)**	(354,727)
Dividends received	**5,827**	4,567

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (see Notes 3 and 5).*

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 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, 2019.

(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 profit and loss and fair value through other comprehensive income.

(c) Functional currency

The functional currency of the Company and its subsidiaries is Canadian dollars, which is also the presentation currency of the 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, impairment of other financial instruments, 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.

In making estimates and judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. With the exception of adoption of new accounting standards as explained in Note 3, 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.

Allowance for credit losses under IFRS 9

The expected credit loss ("ECL") model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgement to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgement in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgements directly impact the measurement of ECLs.

(e) Consolidation

The consolidated financial statements as at and for the twelve months ended December 31, 2018 and December 31, 2017 include the assets, liabilities and results of operations of the Company and its subsidiaries, after the elimination of intercompany transactions and balances. The Company has control of its subsidiaries as it is exposed to and has rights to variable returns from its involvement with the subsidiaries and it has the ability to affect those returns through its power over their relevant activities.

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, except for changes to the accounting for financial instruments resulting from the adoption of *IFRS 9, Financial Instruments* and revenue recognition from the adoption of *IFRS 15, Revenue from contracts with customers*. As a result, the Company changed its accounting policies as outlined below, effective January 1, 2018.

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, accounts payable, bank facilities and derivative financial instruments.

Changes in accounting policies

IFRS 9

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

Classification, measurement and impairment of financial assets on adoption of IFRS 9, effective January 1, 2018:

(a) Classification and measurement of financial assets

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

(i) Debt Instruments

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

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

Business model assessment

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

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

Cash flow characteristics assessment

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

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

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

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

Debt instruments measured at AMC

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

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

Debt instruments measured at FVOCI

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

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

Debt instruments measured at FVTPL

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

(ii) Equity instruments

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

(iii) Financial assets and liabilities designated at FVTPL

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

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

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

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

(b) Impairment

Scope

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

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

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

Expected credit loss ("ECL") impairment model

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

Measurement of ECL

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

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

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

Details of these statistical parameters/inputs are as follows:

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

Forward-looking information ("FLI")

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

Macroeconomic factors

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

Multiple forward-looking scenarios

The Company determines ECL using five probability-weighted forward-looking scenarios obtained on a periodic basis from an external third party. These scenarios include a 'base-case' scenario which represents the most likely outcome and four additional scenarios representing more optimistic and more pessimistic outcomes. These additional scenarios are designed to capture material non-linearity of potential credit losses in portfolios.

Assessment of significant increase in credit risk

The determination of whether the ECL on a financial instrument is calculated on a twelve month period or lifetime basis is dependent on the stage the financial asset falls into at the reporting date. A financial instrument moves across stages based on an increase or decrease in its risk of default at the reporting date compared to its risk of default at initial recognition, as measured by changes to borrower level information and macroeconomic outlook.

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

Modified financial assets

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

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

Definition of default

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

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

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

(c) Investments

Investments are accounted for at settlement date and initially measured at fair value and subsequently measured depending upon their classification as follows:

- Debt investment securities classified as at AMC; these investments are subsequently measured at amortized cost using the effective interest method;
- Debt securities classified as at FVOCI; these investments are subsequently measured at fair value, with the fair value changes recorded in other comprehensive income and moved to profit or loss on derecognition;
- Equity investment securities classified as at FVTPL; these investments are subsequently measured at fair value, with the fair value changes recorded in profit or loss;
- Equity investment securities designated as at FVOCI; these investments are subsequently measured at fair value, with the fair value changes recorded in other comprehensive income and moved to retained earnings on derecognition.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method; and
- ACL and reversals.

When a debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is classified from OCI to profit or loss.

The Company elects to present changes in the fair value of certain investments in equity instruments that are not held for trading, through OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss, unless they clearly represent a recovery of part of the cost of investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of the investment.

(d) Mortgages receivable

Classification and measurement

(i) Mortgages receivable measured at amortized cost

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 expected 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 measured as at FVTPL

Certain mortgages measured as at FVTPL 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.

IFRS 15

There is no material impact on the Company's financial statements from the adoption of IFRS 15 as majority of the Company's revenue includes interest income from financial instruments which do not fall within the scope of this standard. The following Fee income accounting policy has been modified to align with IFRS 15.

(a) Fees

Other income includes some ancillary fees related to the administration of the mortgage portfolio. These fees are measured based on the consideration specified in the agreements with customers and are accrued and recognized as the related services are rendered.

Policies applicable under both IFRS 9 and IAS 39

(a) Financial liabilities

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

(b) Determination of fair value of financial instruments

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 6 for the valuation methods and assumptions used to estimate fair values of financial instruments.

(c) Derecognition of financial instruments

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.

(d) 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.

(e) Interest

Interest income and interest expense are recognized in the Consolidated Statements of Income using the effective interest rate method and the rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortized cost of the liability. 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 expected credit losses. Under IFRS 9, for financial assets that become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. 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. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(f) 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.

(g) 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 and measured as 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.

(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 on the Consolidated Balance Sheets, which are measured 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 in the Consolidated Statements of Income.

Sale of uninsured residential mortgages do not qualify for derecognition and are classified as Mortgages receivable on the Consolidated Balance Sheets, and are measured 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 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 measured 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. Under IFRS 9, the securitization retained interest is classified as at AMC, whereas under IAS 39 it is classified as available for sale securities in the Consolidated Balance Sheets and is 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 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 instrument 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, occurring as a result of mismatch in critical terms such as tenor and timing of cash flows between hedging instruments and hedged items, is included in Other income – gains on securitization activities and income from securitization retained interests in the Consolidated Statements of Income as it occurs.

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. Hedge ineffectiveness, if any, are as a result of differences in maturities and prepayment frequency between hedging instruments and hedged items.

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 a 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 internally generated 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 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) 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.

(t) 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.

(u) Write-off

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

Accounting policies applicable prior to January 1, 2018

(a) Classification of financial instruments

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, net of income taxes. When the instrument is derecognized, the cumulative gain or loss in OCI is transferred to income.

(b) 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.

(c) Mortgage 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.

Impairment

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.

(d) 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.

(e) 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.

Future accounting changes

Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). 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. The Company has evaluated the impact of IFRS 16 on its financial statements:

Transition impact

The new right-of-use asset requirements will be applied by adjusting the Company's Consolidated Balance Sheets on January 1, 2019, the date of initial application, with no restatement of comparative period financial information. The cumulative effect of the initial application of IFRS 16 will be adjusted to the opening balance of retained earnings.

Based on the Company's evaluation, the adoption of IFRS 16 is expected to decrease shareholders' equity as at January 1, 2019 by approximately $1,700, which is primarily due to the timing difference between the carrying values of the leased assets being depreciated versus the lease amortization. $13,000 of right-of-use assets and $14,700 of related obligations are expected to be recorded on the Company's Consolidated Balance Sheets as well. The Company will continue to revise and refine the calculations leading up to its March 31, 2019 reporting.

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 48-61.

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

Note 5 – Transition to IFRS 9

(a) Reconciliation of IAS 39 to IFRS 9:

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

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

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

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

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

	Fair value
Assets reclassified from available-for-sale to amortized cost:	
Fair value as at December 31, 2018	**$ 116,405**
Fair value losses that would have been recognized during 2018 in OCI if the financial assets had not been reclassified	**313**

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

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

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

(1) *As a result of adoption of IFRS 9 beginning January 1, 2018, the allowances for credit losses has decreased by $8,470, and increased the opening shareholders’ equity by $6,223, net of tax.*

Note 6 – Financial Instruments

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

(a) Valuation methods and assumptions

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

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

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

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

(ii) Financial instruments classified as at FVOCI and FVTPL

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

(iii) Mortgages receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Derivatives

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

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

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

						December 31, 2018[1]
	FVTPL - Mandatorily	FVOCI - Debt instruments	FVOCI - Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ 477,243	$ 477,243	$ 477,243
Restricted cash	-	-	-	327,097	327,097	327,097
Securities purchased under reverse repurchase agreements	-	-	-	250,000	250,000	250,000
Investments	30,823	58,311	100,607	3,658	193,399	193,399
Mortgages receivable – Core Lending	121,398	-	-	14,369,927	14,491,325	14,466,957
Mortgages receivable – Securitization Financing	122,456	-	-	8,912,623	9,035,079	8,985,215
Securitization retained interests	-	-	-	115,331	115,331	115,048
Other assets:						
Derivative financial instruments[2]:						
Interest rate swaps	16,315	-	-	-	16,315	16,315
Total return swaps	1,704	-	-	-	1,704	1,704
Mortgage commitments	55	-	-	-	55	55
Other	-	-	-	12,983	12,983	12,983
Total financial assets	$ 292,751	$ 58,311	$ 100,607	$ 24,468,862	$ 24,920,531	$ 24,846,016
Financial liabilities:						
Deposits	$ -	$ -	$ -	$ 13,668,521	$ 13,668,521	$ 13,653,490
Securitization liabilities	-	-	-	9,236,045	9,236,045	9,218,609
Obligations under repurchase agreements	-	-	-	342,010	342,010	342,010
Bank facilities	-	-	-	289,971	289,971	289,971
Other liabilities:						
Derivative financial instruments[2]:						
Interest rate swaps	7,265	-	-	-	7,265	7,265
Total return swaps	3,707	-	-	-	3,707	3,707
Bond forwards	2,331	-	-	-	2,331	2,331
Other	-	-	-	164,451	164,451	164,451
Total financial liabilities	$ 13,303	$ -	$ -	$ 23,700,998	$ 23,714,301	$ 23,681,834

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

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

[1] *The amounts for the year ended December 31, 2018 have been prepared and classified in accordance with IFRS 9; prior year amounts have not been restated and have been prepared and classified in accordance with IAS 39.*
[2] *Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.*

(b) Fair value hierarchy

Financial instruments recorded at fair value on the Consolidated Balance Sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

($ 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, whether or not measured at fair value in the Consolidated Balance Sheets, except for certain financial instruments whose carrying amount always approximates their fair values due to their short-term nature:

				December 31, 2018[1]
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	182,015	2,315	9,069	193,399
Mortgages receivable – Core Lending	-	121,398	14,345,559	14,466,957
Mortgages receivable – Securitization Financing	-	122,456	8,862,759	8,985,215
Securitization retained interests	-	115,048	-	115,048
Other assets:				
Derivative financial instruments[2]:				
Interest rate swaps	-	16,315	-	16,315
Total return swaps	-	350	1,354	1,704
Mortgage commitments	-	-	55	55
Other	-	12,983	-	12,983
Total financial assets	$ 182,015	$ 390,865	$ 23,218,796	$ 23,791,676
Financial liabilities:				
Deposits	$ -	$ 13,653,490	$ -	$ 13,653,490
Securitization liabilities	-	1,855,353	7,363,256	9,218,609
Bank facilities	-	289,971	-	289,971
Other liabilities:				
Derivative financial instruments[2]:				
Interest rate swaps	-	7,265	-	7,265
Total return swaps	-	99	3,608	3,707
Bond forwards	-	2,331	-	2,331
Other	-	164,451	-	164,451
Total financial liabilities	$ -	$ 15,972,960	$ 7,366,864	$ 23,339,824

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

				December 31, 2017
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	93,279	2,258	11,905	107,442
Mortgages receivable – Core Lending	-	12,808	12,236,035	12,248,843
Mortgages receivable – Securitization Financing	-	59,119	6,866,535	6,925,654
Securitization retained interests	-	104,429	-	104,429
Other assets:				
Derivative financial instruments[2]:				
Interest rate swaps	-	10,198	-	10,198
Total return swaps	-	1,294	989	2,283
Bond forwards	-	346	-	346
Other	-	11,066	-	11,066
Total financial assets	$ 93,279	$ 201,518	$ 19,115,464	$ 19,410,261
Financial liabilities:				
Deposits	$ -	$ 11,059,918	$ -	$ 11,059,918
Securitization liabilities	-	1,780,117	5,772,219	7,552,336
Bank facilities	-	128,871	-	128,871
Other liabilities:				
Derivative financial instruments[2]:				
Interest rate swaps	-	10,049	-	10,049
Mortgage commitments	-	-	60	60
Other	-	182,249	-	182,249
Total financial liabilities	$ -	$ 13,161,204	$ 5,772,279	$ 18,933,483

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (see Notes 3 and 5).*
(2) *Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.*

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

Note 7 – Cash and Cash Equivalents and Restricted Cash

	2018	2017
Deposits with regulated financial institutions	$ 477,243	$ 660,930
Cash and cash equivalents	$ 477,243	$ 660,930
Restricted cash – securitization	$ 320,234	$ 345,595
Restricted cash – interest rate swaps	6,355	19,939
Restricted cash – other programs	508	504
Restricted cash	$ 327,097	$ 366,038

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 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 8 – Securities Purchased Under Reverse Repurchase Agreements

As at December 31, 2018, the fair value of financial assets accepted as collateral that the Company is permitted to sell or repledge in the absence of default is $249,133 (December 31, 2017 − $nil). The Company is obliged to return equivalent securities at the repurchase date, and the Company did not sell or repledge any of the collateral as at the year ended December 31, 2018.

Note 9 – Investments

Carrying value of investments under IFRS 9 is as follows:

	2018
Equity securities measured at FVOCI	$ 100,607
Equity securities measured at FVTPL	292
Debt securities measured at FVTPL	30,531
Debt securities measured at AMC	3,658
Debt securities measured as at FVOCI	58,311
	$ 193,399

The Company has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for the long term. For the year ended December 31, 2018, the Company earned dividends of $4,671 on these Equity securities. During the year, the Company has sold Equity securities of $238 and recognized net loss of $9 in Retained earnings.

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

Carrying value of investments under IAS 39 is as follows:

		2017
Equity securities – preferred shares	$	92,893
Equity securities – common shares		386
Debt securities – Successor issuer rights		11,905
Canada Housing Trust re-investment accounts[1]		2,258
	$	107,442

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

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

		2018
Equity securities measured at FVOCI	**$**	**(14,495)**
Equity securities measured at FVTPL		**(8)**
Debt securities measured at FVOCI		**55**
Debt securities measured at FVTPL		**(3,855)**

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

		2017
Equity securities – preferred shares	$	(11,255)
Equity securities – common shares		1
Debt securities – Successor issuer rights		(126)
	$	(11,380)

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

Note 10 – Mortgages Receivable

(a) Mortgages receivable

						2018
						IFRS 9
		Allowance for credit losses				
	Gross amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Net amount**
Mortgages – Core Lending	**$ 14,516,623**	**$ 14,596**	**$ 9,176**	**$ 1,526**	**$ 25,298**	**$ 14,491,325**
Mortgages – Securitization Financing	**9,035,079**	**-**	**-**	**-**	**-**	**9,035,079**
	$ 23,551,702	**$ 14,596**	**$ 9,176**	**$ 1,526**	**$ 25,298**	**$ 23,526,404**

					2017
					IAS 39
		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$ 12,299,546	$ 621	$ 31,890	$ 32,511	$ 12,267,035
Mortgages – Securitization Financing	6,982,307	-	-	-	6,982,307
Accrued interest	50,049	843	-	843	49,206
	$ 19,331,902	$ 1,464	$ 31,890	$ 33,354	$ 19,298,548

Mortgages – Securitization Financing include mortgages measured as at FVTPL with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at December 31, 2018, the carrying value of these mortgages is $122,456 (December 31, 2017 – $59,119) and includes fair value adjustment of $1,027 (December 31, 2017 – ($403)).

Mortgages – Core Lending, as at December 31, 2018, include mortgages of $121,398 measured as at FVTPL in accordance with IFRS 9. The changes in the fair value of $774 is included in Interest income – Mortgages – Core Lending. Mortgages – Core Lending, as at December 31, 2017, include mortgages of $12,808 designated as at FVTPL in accordance with IAS 39. The changes in the fair value of $66 is included in Interest income – Mortgages – Core Lending.

Mortgages – Core lending include commercial loans of $181,404 (December 31, 2017 – $202,843) made to 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 measured as at fair value through income is as follows:

	2018	2017
Net gains/(losses) in fair values for mortgages measured as at FVTPL included in gains on securitization activities	**$ 1,430**	$ (281)
Net losses in fair values for mortgages designated as at FVTPL and recognized in interest income – Mortgages – Core Lending	**(1,344)**	(766)

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

(b) Impaired and past due mortgages

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

			2018	2017
			IFRS 9	IAS 39
	Gross	Allowance for credit losses	Net	Net
Mortgages – Core Lending	$ 33,976	$ 1,526	$ 32,450	$ 21,767
Mortgages – Core Lending – Insured	2,663	-	2,663	-
Mortgages – Securitization Financing – Insured	2,292	-	2,292	689
Accrued Interest	-	-	-	33
	$ 38,931	$ 1,526	$ 37,405	$ 22,489

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

				2018
				IFRS 9
	30 – 59 days	60 – 89 days	90 days or more[1]	Total
Mortgages – Core Lending	$ 33,284	$ 18,019	$ -	$ 51,303
Mortgages – Core Lending – Insured	2,069	1,313	-	3,382
Mortgages – Securitization Financing – Insured	3,946	1,855	-	5,801
	$ 39,299	$ 21,187	$ -	$ 60,486

				2017
				IAS 39
	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

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

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

(c) Allowance for credit losses

								2018[1]
								IFRS 9
		12 months ECL		Lifetime non-credit impaired		Lifetime credit impaired		
		Stage 1		Stage 2		Stage 3		Total
Balance, beginning of year	$	13,930	$	9,627	$	1,327	$	24,884
Provision for credit losses:								
Transfers to (from) Stage 1		1,417		(1,203)		(214)		-
Transfers to (from) Stage 2		(917)		1,022		(105)		-
Transfers to (from) Stage 3		(2)		(10)		12		-
Re-measurement[2]		(1,221)		(110)		2,175		844
Originations		1,509		-		-		1,509
Discharges		(120)		(150)		-		(270)
Realized losses		-		-		(1,810)		(1,810)
Recoveries		-		-		141		141
Balance, end of year	$	14,596	$	9,176	$	1,526	$	25,298

[1] *The allowance for credit losses includes allowance on mortgage commitments amounting to $140.*
[2] *Includes changes as a result of significant increase or decrease in credit risk, changes in credit risk due to model inputs and assumptions that did not result in a transfer between stages.*

						2017
						IAS 39
		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

(d) Key inputs, assumptions and model techniques

The Company's allowance for credit losses is estimated using statistical models that involve a large number of inputs and assumptions. The key drivers of changes in ECL include the following:

- Transfers between stages, due to significant changes in credit risk;
- Changes in forward looking macroeconomic conditions, specifically the macroeconomic variables to which the ECL models are calibrated, which are closely correlated with the credit losses in the relevant portfolios;
- Changes to the probability weights assigned to each scenario.

In addition, these elements are also subject to a high degree of judgment which could have a significant impact on the level of ACL recognized.

(e) Forward-looking macroeconomic scenarios

The Company leverages forward-looking macroeconomic information provided by an external party. The Company considers five economic scenarios: a base-case scenario, one upside and three downside scenarios. Each scenario is assigned a probability weighting, with the base-case scenario receiving the highest weight. The probability-weighted scenarios are incorporated into both measurement of ECL and assessment of whether the credit risk of an instrument has increased significantly since its initial recognition.

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

The following table provides the primary macroeconomic variables used in models to estimate ECL on performing loans:

	2018									
	IFRS 9									
					Downside Scenarios					
	Base-Case Scenario		Upside Scenario		Scenario 1		Scenario 2		Scenario 3	
	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years
Unemployment rate %	**5.92**	**6.13**	**5.68**	**5.58**	**5.95**	**6.38**	**6.57**	**7.90**	**6.62**	**9.09**
Real GDP growth rate %	**2.06**	**2.04**	**2.15**	**2.74**	**1.56**	**1.76**	**0.13**	**1.54**	**(0.43)**	**0.50**
Home Price Index growth rate %	**1.98**	**1.29**	**2.33**	**1.55**	**1.43**	**1.14**	**0.65**	**1.13**	**(0.28)**	**0.89**
Commercial Property Index growth rate %	**2.80**	**1.64**	**4.28**	**2.21**	**2.70**	**1.10**	**0.50**	**0.80**	**(0.57)**	**(0.17)**
Household income growth rate %	**0.12**	**0.18**	**0.47**	**0.45**	**0.05**	**0.00**	**(0.54)**	**(0.39)**	**(0.58)**	**(1.04)**

(f) Sensitivity of allowance for credit losses

The ECL is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, the probability weightings of our five scenarios, and other factors considered when applying expert credit judgment. Changes in these inputs, assumptions, models, and judgments would have an impact on the assessment of credit risk and the measurement of ECLs.

Impact of probability-weighting on ACL

The following table presents a comparison of the Company's ACL using only the base-case scenario and downside scenario instead of the five probability-weighted scenarios for performing loans:

	December 31, 2018
ACL – Five probability-weighted scenarios (actual)	**$ 23,772**
ACL – Base-case scenario only	**23,126**
ACL – Downside scenario 3 only	**29,320**
Difference – Actual versus base-case scenario only	**$ 646**
Difference – Actual versus downside scenario 3 only	**(5,548)**

Impact of staging on ACL

The following table illustrates the impact of staging on the Company's ACL by comparing the allowance if all performing loans were in Stage 1 to the actual ACL recorded:

	December 31, 2018
ACL – Loans in Stage 1 and Stage 2 (actual)	**$ 23,772**
ACL – Assuming all loans in Stage 1	**23,389**
Lifetime ACL impact	**$ 383**

Note 11 – Derecognition of financial assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities.

(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.

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

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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, 2018, the notional amount of these swaps was $4,246,053 (December 31, 2017 – $3,225,326).

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 the fair values related to transferred financial assets that are not derecognized in their entirety and the associated liabilities:

	2018		2017	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets[(1)]	**$ 9,365,527**	**$ 342,010**	$ 7,634,095	$ 452,001
Carrying amount of associated liability	**9,236,045**	**342,010**	7,565,545	452,001
Carrying value, net position	**$ 129,482**	**$ -**	$ 68,550	$ -
Fair value of assets	**$ 9,315,515**	**$ 342,010**	$ 7,575,302	$ 452,001
Fair value of associated liability	**9,218,609**	**342,010**	7,552,335	452,001
Fair value, net position	**$ 96,906**	**$ -**	$ 22,967	$ -

(1) *The carrying amount of assets excludes securitized assets that were retained by the Company and not transferred to third parties of $852,564 (December 31, 2017 – $1,185,216). In the prior year, these numbers included assets that were retained and not transferred to third parties and hence prior year comparatives have been readjusted accordingly.*

The carrying amount of assets excludes mortgages held for securitization of $759,507 (December 31, 2017 – $343,366).

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

	MBS Liabilities	**CMB Liabilities**	**Other Securitization Liabilities**	**Total Liabilities**
2019	**$ 1,176,047**	**$ -**	**$ 330,233**	**$ 1,506,280**
2020	**1,253,415**	**509,366**	**244,489**	**2,007,270**
2021	**1,285,365**	**655,427**	**194,327**	**2,135,119**
2022	**581,292**	**422,134**	**27,922**	**1,031,348**
2023	**1,410,628**	**178,663**	**11,110**	**1,600,401**
Thereafter	**946,516**	**57,370**	**437**	**1,004,323**
	$ 6,653,263	**$ 1,822,960**	**$ 808,518**	**$ 9,284,741**

(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.

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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. During the year the Company derecognized $nil (2017 – $149,049) of multi-residential mortgages and recorded a gain on sale of $nil (2017 – $431), which were included in Mortgages securitized and sold and Gains on mortgages securitized and sold respectively.

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

	2018	2017
Mortgages securitized and sold	$ 976,085	$ 1,134,266
Carrying value of Securitization retained interests	38,815	41,152
Carrying value of Securitized mortgage servicing liability	8,462	9,127
Gains on mortgages securitized and sold	9,025	10,633
Income from securitization activities and retained interests	1,260	2,979

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

	MBS Liabilities
2019	$ 655,599
2020	696,238
2021	582,503
2022	828,735
2023	825,410
Thereafter	1,172,734
	$ 4,761,219

Note 12 – 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 and certain deposits used to fund floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps and bond forwards. The Company does not apply hedge accounting to these hedging relationships.

The Company also enters into hedging transactions to manage interest rate exposure on certain fixed rate deposits and certain securitization liabilities, and applies 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 Company has implemented additional hedge accounting disclosure standards in accordance with IFRS 9 related amendments to IFRS 7 *"Financial Instruments: Disclosures"*. Prior year comparatives have not been restated.

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

								2018
Derivative instrument and term (years)	Notional amount	Average Rate/ Price[1]	Positive current replacement cost[2]	Credit equivalent amount[3]	Risk-weighted balance[4]	Fair value Assets	Liabilities	Net[5]
Cash flow hedges:								
Bond forwards – hedge accounting								
1 or less	$ 69,100	2.72%	$ -	$ -	$ -	$ -	$ (1,143)	$ (1,143)
Interest rate swaps – hedge accounting								
1 to 5	291,739	1.02%	7,488	8,946	1,789	7,488	-	7,488
Total return swaps – hedge accounting								
1 or less	1,410	56.13	80	165	33	80	-	80
1 to 5	4,195	58.96	139	474	95	139	(99)	40
Total return swaps – non-hedge accounting								
1 or less	2,403	N/A	130	274	55	130	-	130
Fair value hedges:								
Interest rate swaps – hedge accounting								
1 or less	160,000	1.68%	-	-	-	-	(899)	(899)
1 to 5	1,395,000	2.30%	8,153	15,129	3,026	8,153	(5,077)	3,076
5 and above	88,548	2.32%	597	1,925	385	597	(1,289)	(692)
Interest rate swaps – non-hedge accounting								
5 and above	1,300	N/A	77	96	19	77	-	77
Bond forwards – non-hedge accounting								
1 or less	66,350	N/A	-	-	-	-	(1,188)	(1,188)
Other derivatives:								
Total return swaps								
1 to 5	1,709,623	N/A	278	8,826	1,765	278	(1,457)	(1,179)
5 and above	856,092	N/A	1,077	13,918	2,784	1,077	(2,151)	(1,074)
	$ 4,645,760		$ 18,019	$ 49,753	$ 9,951	$ 18,019	$ (13,303)	$ 4,716

(1) *Average rate or average price are on initiation of the derivatives, and refer to the average bond forward rate, the average rate on the fixed-leg of an interest rate swap, and the average share price of the total return swap. These rates/prices are applicable to derivatives in hedge accounting relationships only.*

(2) *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.*

(3) *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.*

(4) *Risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.*

(5) *Derivative financial assets are included in Other assets (Note 14) and derivative financial liabilities are included in Other liabilities (Note 17).*

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							2017
					Fair value		
Derivative instrument and term (years)	Notional amount	Positive current replacement cost[1]	Credit equivalent amount[2]	Risk-weighted balance[3]	Assets	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

[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 14) and derivative financial liabilities are included in Other liabilities (Note 17).*

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Cash flow hedges:

The following table presents the effects of cash flow hedges on the Company's Consolidated Statements of Income:

								2018
		Gains/(losses) on hedging instrument		Gains/(losses) on hedged Item		Hedge ineffectiveness recognized in income		Hedging gain or loss recognized in OCI
Cash flow hedges:								
Interest rate risk:								
Bond forwards	$	254	$	(263)	$	74	$	180
Interest rate swaps		(2,710)		2,710		-		(2,710)
Equity price risk:								
Total return swaps		(441)		441		-		(441)
	$	(2,897)	$	2,888	$	74	$	(2,971)

The following table presents the effects of cash flow hedges on the Company's Consolidated Statements of Comprehensive Income on a pre-tax basis:

												2018
									Balance in cash flow hedge AOCI			
		AOCI as at January 1, 2018		Net gains/ (losses) recognized in OCI		Amount reclassified to income as the hedged Item affects income		AOCI as at December 31, 2018		Active hedges		Discontinued hedges
Cash flow hedges:												
Interest rate risk:												
Bond forwards	$	(6,403)	$	180	$	2,036	$	(4,187)	$	(1,130)	$	(3,057)
Interest rate swaps		10,198		(2,710)		-		7,488		7,488		-
Equity price risk:												
Total return swaps		199		(441)		249		7		128		(121)
	$	3,994	$	(2,971)	$	2,285	$	3,308	$	6,486	$	(3,178)

The impact of cash flow hedges on the Company's consolidated financial results for the prior year is as follows:

		2017
Fair value gains recorded in Other comprehensive income	$	8,147
Fair value gains		418
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities		(2,126)
Amounts reclassified from Other comprehensive income to Interest expense – deposits		(65)
Amounts reclassified from Other comprehensive income to Non-Interest expenses – compensation and benefits		316

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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
Less than 1 year	$	95,439
1 – 3 years		201,942
4 – 5 years		78,474
Greater than 5 years		57,700
	$	433,555

Fair value hedges:

The following table presents the effects of fair value hedges on the Company's Consolidated Balance Sheets and the Consolidated Statements of Income:

													2018
	Hedge ineffectiveness						**Carrying amounts for hedged items[1]**				**Accumulated amount of fair value hedge gains/(losses) on the hedged item**		
		Gains/ (losses) on hedging instrument		**Gains/ (losses) on hedged item**		**Total**		**Active hedges**		**Discontinued hedges**		**Active hedges**	**Discontinued hedges**
Fair value hedges:													
Interest rate risk:													
Securitization liabilities	$	**464**	$	**(442)**	$	**22**	$	**(87,794)**	$	**-**	$	**755**	$ **-**
Deposits		**8,696**		**(9,163)**		**(467)**		**(1,529,009)**		**(282,184)**		**(1,682)**	**1,327**
	$	**9,160**	$	**(9,605)**	$	**(445)**	$	**(1,616,803)**	$	**(282,184)**	$	**(927)**	$ **1,327**

[1] Represents the carrying value of hedged items designated in qualifying hedging relationships.

Gains/(losses) due to changes in fair value hedges included in the Company's consolidated financial results for the prior year is as follows:

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

Note 13 – 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.

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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.

The Company pledges and in certain cases receives collateral in the form of cash or securities in respect of the financial instruments. Such collateral is subject to the credit support agreement associated with ISDA agreements, or subject to global master repurchase agreements. Under this agreement, 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.

As of December 31, 2018, the approximate market value of cash and securities collateral pledged by the Company that are subject to credit support agreements was $344,395 (December 31, 2017 – $471,940).

As of December 31, 2018, the approximate market value of cash and securities collateral accepted that may be sold or repledged by the Company was $255,297 (December 31, 2017 – $nil). There was no collateral sold or repledged in 2018 and 2017.

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

						2018
				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	**$ 16,315**	**$ -**	**$ 16,315**	**$ -**	**$ (9,884)**	**$ 6,431**
Total return swaps	**1,704**	**-**	**1,704**	**-**	**(1,556)**	**148**
Securities purchased under reverse repurchase agreements	**250,000**	**-**	**250,000**	**-**	**(250,000)**	**-**
	$ 268,019	**$ -**	**$ 268,019**	**$ -**	**$ (261,440)**	**$ 6,579**

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

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

						2018
				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	**$ 7,265**	**$ -**	**$ 7,265**	**$ -**	**$ (4,105)**	**$ 3,160**
Total return swaps	**3,707**	**-**	**3,707**	**-**	**(1,886)**	**1,821**
Obligations under repurchase agreements	**342,010**	**-**	**342,010**	**(342,010)**	**-**	**-**
	$ 352,982	**$ -**	**$ 352,982**	**$ (342,010)**	**$ (5,991)**	**$ 4,981**

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

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

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

Note 14 – Other Assets

	2018	2017
Prepaid expenses and other	**$ 58,743**	$ 9,653
Intangible assets	**34,068**	25,892
Property and equipment	**17,519**	17,717
Receivable relating to securitization activities	**12,026**	12,159
Income taxes receivable	**2,835**	-
Deferred cost – Contingent liquidity facility	**1,864**	15,694
Real estate owned	**1,368**	2,252
Accrued interest and dividends on non-mortgage assets	**1,174**	669
Derivative financial instruments:		
Interest rate swaps	**16,315**	10,198
Total return swaps	**1,704**	2,283
Bond forwards	**-**	346
Mortgage commitments	**55**	-
	$ 147,671	$ 96,863

Prepaid expenses and other include $46,300 (December 31, 2017 – $nil) relating to funds escrowed for the acquisition of Bennington Financial Services Corp (Refer Note 25). Prepaid expenses and other also include a net of $3,100 (December 31, 2017 – $3,200) 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 in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

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

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

Note 15 – Deposits

	2018	2017
Term and other deposits	$ 13,522,012	$ 11,024,720
Accrued interest	178,028	116,919
Deferred deposit agent commissions	(31,519)	(27,326)
	$ 13,668,521	$ 11,114,313

Term and other deposits include $nil (December 31, 2017 − $10,723) 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, 2018 is $nil (December 31, 2017 – $29).

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

	2018	2017
Fair value gain recognized in income	$ -	$ 203

Note 16 – Income Taxes

(a) Income tax provision:

	2018	2017
Current tax expense:		
Current year	$ 54,776	$ 49,421
Adjustments for prior years	(402)	799
	54,374	50,220
Deferred tax expense:		
Reversal of temporary differences	4,333	8,075
Adjustments for prior years	239	(113)
Changes in tax rates	22	16
	4,594	7,978
Total income tax expense	$ 58,968	$ 58,198

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:

	2018	2017
Canadian statutory income tax rate	26.6%	26.5%
Increase/(decrease) resulting from:		
Tax-exempt income	(0.7%)	(0.5%)
Non-deductible expenses and other	0.4%	0.6%
Effective income tax rate	26.3%	26.6%

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

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	2018	2017
Deferred income tax assets:		
Allowance for credit losses	$ 6,356	$ 8,510
Share issue expenses	198	647
Other	1,436	1,291
	7,990	10,448
Deferred income tax liabilities:		
Securitization activities	33,304	29,550
Deposit agent commissions	8,364	7,211
Net origination fees	4,361	4,338
Intangible costs	2,666	2,966
Other	1,905	2,185
	50,600	46,250
Net deferred income tax liabilities	$ 42,610	$ 35,802

Note 17 – Other Liabilities

	2018	2017
Accounts payable and accrued liabilities	$ 79,242	$ 104,246
Mortgagor realty taxes	58,594	52,654
Securitized mortgage servicing liability	26,822	25,565
Derivative financial instruments :		
Interest rate swaps	7,265	10,049
Total return swaps	3,707	-
Bond forwards	2,331	-
Income taxes payable	-	7,027
Mortgage commitments	-	60
	$ 177,961	$ 199,601

Accounts payable and accrued liabilities include $39,356 (December 31, 2017 - $70,553) relating to obligations associated with the purchase of the Maple portfolio in 2016.

Note 18 – 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, 2018 and December 31, 2017.

(b) Secured funding facilities:

The Company has two credit facilities totaling $600,000 with major Schedule I Canadian banks to finance insured residential mortgages prior to securitization. The balance outstanding on these facilities as at December 31, 2018 is $289,971 (December 31, 2017 – $128,871).

(c) Backstop funding facility:

During the year, the Company reduced the size of its secured backstop funding facility to $850,000 from $2,000,000. The facility was obtained from a syndicate of Schedule I Canadian banks in 2017. 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 lenders' cost of funds plus 1.25%. The Company has not made any draws on this facility since its inception.

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

Note 19 – 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:

			2018			2017
	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

			2018			2017
	Number of shares	**Amount**	**Dividends per share(1)**	Number of shares	Amount	Dividends per share(1)
Common shares:						
Balance, beginning of year	**16,503,437 $**	**198,660**		16,460,142 $	196,608	
Contributions from exercise of stock options	**50,581**	**1,780**		43,295	1,726	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**352**		-	326	
Balance, end of year	**16,554,018 $**	**200,792 $**	**1.08**	16,503,437 $	198,660 $	0.95

(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.

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

(c) Dividend reinvestment plan:

The Company has a dividend reinvestment plan. Participation in the plan is optional and 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.

(d) 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.

Note 20 – 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 five-year period. As at December 31, 2018, the maximum number of common shares available for issuance under the plan was 1,475,570 (December 31, 2017 – 1,475,570). The outstanding options expire on various dates to March 2025. A summary of the Company's stock option activity and related information for the years ended December 31, 2018 and December 31, 2017 is as follows:

	2018		2017	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**619,771**	**$ 50.80**	557,467	$ 46.03
Granted	**121,159**	**55.66**	110,060	70.93
Exercised	**(50,581)**	**35.18**	(43,295)	39.86
Forfeited/cancelled	**(19,017)**	**60.12**	(4,461)	57.58
Outstanding, end of year	**671,332**	**$ 52.59**	619,771	$ 50.80
Exercisable, end of year	**394,903**	**$ 47.67**	337,835	$ 42.11

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

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2018:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 29.32	67,929	0.2	67,929
$ 36.11	85,733	1.2	85,733
$ 46.65	3,000	1.9	3,000
$ 52.90	80,575	2.2	80,575
$ 59.98	87,820	3.2	65,580
$ 55.32	7,500	3.9	5,625
$ 53.15	118,534	4.2	58,667
$ 71.68	98,284	5.2	26,544
$ 55.25	5,000	5.6	1,250
$ 55.66	116,957	6.2	-

Under the fair value-based method of accounting for stock options, the Company recorded compensation expense in the amount of $1,375 (2017 – $1,282) related to grants of options under the stock option plan. This amount was credited to Contributed surplus. The fair value of options granted during 2018 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

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

(b) Employee share purchase 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, the Company expensed $879 (2017 – $803) under this plan.

(c) Deferred share unit 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. Commencing in 2018, Directors can elect, on a one-time annual basis, to receive up to 100% of their annual compensation in the form of DSUs, allocated at each quarter and on a pro-rata basis. 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.

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

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 12 – Derivative Financial Instruments for further details.

A summary of the Company's DSU activity for the years ended December 31, 2018 and December 31, 2017 is as follows:

	2018	2017
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	**32,915**	32,216
Granted	**11,051**	6,515
Dividend Reinvested	**602**	485
Paid out	**(1,871)**	(6,301)
Outstanding, end of year	**42,697**	32,915

During the year, 1,871 (2017 – 6,301) DSUs were paid out for a total value of $121 (2017 – $356), and compensation expense before the impact of hedging amounted to $300 (2017 – $767). The liability associated with DSUs outstanding as at December 31, 2018 was $2,533 (December 31, 2017 – $2,354).

(d) Restricted share unit 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 trading 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 12 – Derivative Financial Instruments for further details.

A summary of the Company's RSU and PSU activity for the years ended December 31, 2018 and December 31, 2017 is as follows:

	2018	2017
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of year	**56,762**	58,126
Granted	**44,021**	27,686
Dividend reinvested	**1,519**	1,152
Vested and paid out	**(31,202)**	(24,741)
Forfeited/cancelled	**(3,920)**	(5,461)
Outstanding, end of year	**67,180**	56,762

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

During the year, 31,202 (2017 – 24,741) RSUs and PSUs were vested and paid out for a total value of $1,944 (2017 – $1,646), and compensation expense before the impact of hedging, amounted to $1,538 (2017 – $1,970). The liability associated with RSUs and PSUs outstanding as at December 31, 2018 was $1,707 (December 31, 2017 – $2,109).

Note 21 – 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.

	2018	2017
Earnings per common share – basic:		
Net income	**$ 165,626**	$ 160,617
Dividends on preferred shares	**4,763**	4,763
Net income available to common shareholders	**$ 160,863**	$ 155,854
Weighted average basic number of common shares outstanding	**16,526,676**	16,476,721
Earnings per common share – basic	**$ 9.73**	$ 9.46
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 160,863**	$ 155,854
Weighted average basic number of common shares outstanding	**16,526,676**	16,476,721
Adjustment to weighted average number of common shares outstanding:		
Stock options	**113,419**	117,771
Weighted average diluted number of common shares outstanding	**16,640,095**	16,594,492
Earnings per common share – diluted	**$ 9.67**	$ 9.39

For the year ended December 31, 2018, the calculation of the diluted earnings per share excluded 159,911 (2017 – 205,939) average options outstanding with a weighted average exercise price of $66.22 (2017 – $62.70) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 22 – 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 pages 31-33 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:

($ THOUSANDS)	2018[1]	2017
Common Equity Tier 1 Capital:		
Common shares	**$ 203,270**	$ 200,990
Contributed surplus	**8,127**	7,104
Retained earnings	**1,011,052**	861,862
Accumulated other comprehensive loss[2]	**(17,565)**	(8,748)
Less: Regulatory adjustments	**(20,684)**	(17,046)
Common Equity Tier 1 Capital	**1,184,200**	1,044,162
Additional Tier 1 capital:		
Non-cumulative preferred shares	**72,554**	72,554
Tier 1 Capital	**1,256,754**	1,116,716
Tier 2 Capital:		
Eligible stage 1 and 2 allowance (collective allowance under IAS 39)	**23,772**	31,890
Tier 2 Capital	**23,772**	31,890
Total Capital	**$ 1,280,526**	$ 1,148,606

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated (see Notes 3 and 5).
(2) 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.

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

Note 23 – Commitments and Contingencies

(a) Lease commitments:

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

	2018	2017
Less than 1 year	**$ 2,561**	$ 2,487
1-5 years	**12,502**	12,256
Greater than 5 years	**2,538**	5,076
	$ 17,601	$ 19,819

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 2018 amounted to $5,183 (2017 – $4,777).

(b) Credit commitments:

As at December 31, 2018, the Company had outstanding commitments to fund $1,544,683 (December 31, 2017 – $1,242,185) of mortgages and investments in the ordinary course of business. Of these commitments, $618,517 (December 31, 2017 – $695,731) are expected to be funded within 1 year and $926,167 (December 31, 2017 – $546,454) after 1 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 $15,483 were outstanding at December 31, 2018 (December 31, 2017 – $10,158).

(c) Contingencies:

In September 2013, the Company entered into an agreement to resolve the litigation related to an alleged fraud committed against it, that was identified in 2011. The net outstanding receivable balance is $3,100 (December 31, 2017 – $3,200) 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 various other 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.

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

Note 24 – 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:

	2018	2017
Short-term employee benefits	$ 3,395	$ 3,441
Post-employment benefits	47	47
Share-based payments	1,810	1,660
	$ 5,252	$ 5,148

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

As at December 31, 2018, key management personnel held 2,215,648 (December 31, 2017 – 2,186,382) common shares and 9,000 (December 31, 2017 – 9,000) preferred shares. These shareholdings include common shares of 2,027,300 (December 31, 2017 – 2,007,268) 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 390,779 (December 31, 2017 – 372,020) options to purchase common shares of the Company at prices ranging from $26.01 to $71.68.

(c) Other transactions:

As at December 31, 2018, deposits of $1,106 (December 31, 2017 – $1,300) were held by key management personnel and related party entities whose controlling shareholders are directors of the Company and trusts beneficially owned by the Directors. These investments were made in the ordinary course of business at terms comparable to those offered to unrelated parties.

Note 25 – Subsequent Events

On January 1, 2019, the Company acquired 100% ownership in Bennington Financial Corp ("Bennington"), a privately owned company serving the brokered equipment leasing market in Canada. The acquisition furthers the Company's goal of broadening its reach as *Canada's Challenger Bank*™ with diversification into adjacent markets that complement its other secured lending businesses and broker-led distribution model. Bennington was founded in Oakville, Ontario in 1996 and has a portfolio of leases managed by a team of 125 professionals. Bennington finances a wide range of assets with a focus on transportation, construction and food service equipment, and has long-tenured relationships with professional leasing brokers throughout Canada.

The Company paid $46,300 in an all cash transaction for the acquisition, and is in the process of carrying out the initial purchase price allocation.

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

Note 26 – 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, 2018.

	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total
Assets:								
Cash and cash equivalents and restricted cash	$ 684,438	$ -	$ -	$ 684,438	$ -	$ -	$ -	$ 684,438
Effective interest rate	*2.15%*	-	-	*2.15%*	-	-	-	*2.15%*
Securities purchased under reverse repurchase agreements	-	250,000	-	250,000	-	-	-	250,000
Effective interest rate	-	*1.70%*	-	*1.70%*	-	-	-	*1.70%*
Investments	16,050	144,596	41,303	201,949	125,706	-	(18,796)	308,859
Effective interest rate	*5.38%*	*2.35%*	*5.34%*	*3.20%*	*4.94%*	-	-	*4.11%*
Mortgage receivable- securitized	1,826,973	264,795	839,922	2,931,690	4,889,628	1,165,763	47,998	9,035,079
Effective interest rate	*3.11%*	*2.90%*	*2.77%*	*2.99%*	*2.95%*	*3.03%*	-	*2.73%*
Mortgage receivable	3,310,214	1,331,614	5,440,889	10,082,717	4,253,644	22,645	132,319	14,491,325
Effective interest rate	*5.76%*	*4.97%*	*4.54%*	*4.99%*	*4.43%*	*3.26%*	-	*4.78%*
Securitized Retained Interest	-	-	-	-	-	-	119,773	119,773
Other assets	-	-	-	-	-	-	147,671	147,671
Total assets	$ 5,837,675	$ 1,991,005	$ 6,322,114	$ 14,150,794	$ 9,268,978	$ 1,188,408	$ 428,965	$ 25,037,145
Liabilities:								
Deposits[2]	$ 179	$ 3,529,044	$ 4,354,692	$ 7,883,915	$ 5,641,393	$ 219	$ 142,994	$ 13,668,521
Effective interest rate	*1.20%*	*2.28%*	*2.25%*	*2.27%*	*2.68%*	*3.33%*	-	*2.42%*
Securitization liabilities	-	2,291,332	1,097,846	3,389,178	4,827,490	995,475	23,902	9,236,045
Effective interest rate	-	*2.78%*	*2.78%*	*2.78%*	*2.89%*	*2.94%*	-	*2.85%*
Bank facilities	-	289,971	-	289,971	-	-	-	289,971
Effective interest rate	-	*3.18%*	-	*3.18%*	-	-	-	*3.18%*
Obligations Under REPO	-	342,010	-	342,010	-	-	-	342,010
Effective interest rate	-	*2.22%*	-	*2.22%*	-	-	-	*2.22%*
Other liabilities and deferred taxes	-	-	-	-	-	-	220,571	220,571
Shareholders' equity	-	-	75,000	75,000	-	-	1,205,027	1,280,027
Total liabilities and shareholders' equity	$ 179	$ 6,452,357	$ 5,527,538	$ 11,980,074	$ 10,468,883	$ 995,694	$ 1,592,494	$ 25,037,145
Off-balance sheet items[3]	$ -	$ (1,866,400)	$ 164,160	$ (1,702,240)	$ 1,643,147	$ 59,093	$ -	$ -
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	$ 5,837,496	$ (6,327,752)	$ 958,736	$ 468,480	$ 443,242	$ 251,807	$ (1,163,529)	$ -
Total assets – 2017	$ 4,376,039	$ 1,224,344	$ 4,902,642	$ 10,503,025	$ 8,579,729	$ 1,232,624	$ 318,872	$ 20,634,250
Total liabilities and shareholders' equity – 2017	$ 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 – 2017	$ -	$ (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 – 2017	$ 4,375,847	$ (5,308,771)	$ 1,027,353	$ 94,429	$ 791,768	$ 213,077	$ (1,099,274)	$ -

(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

Susan Ericksen
Corporate Director

Kishore Kapoor
Corporate Director

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

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

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

Vincenza Sera
Corporate Director

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

OFFICERS

Andrew Moor
President and Chief Executive Officer

Ron Tratch
Senior Vice-President and Chief Risk Officer

Tim Wilson
Senior Vice-President and Chief Financial Officer

Dan Dickinson
Senior Vice-President and Chief Digital Officer

Kimberly Kukulowicz
Senior Vice-President, Marketing and Residential Sales

Brian Leland
Senior Vice-President, Residential Lending

Darren Lorimer
Senior Vice-President, Commercial Lending

Jody Sperling
Senior Vice-President, Human Resources

Aviva Braude
Vice-President, Mortgage Services

Tim Charron
Vice-President and Treasurer

Kasey Chauhan
Vice-President, Commercial Finance Group Origination

Lisa Cinelli
Vice-President and Chief Compliance Officer

Isabelle Farella
Vice-President, Internal Audit

Tamara Malozewski
Vice-President, Finance

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

Mark McPhail
Vice-President, Risk and Capital Analytics

Michael Mignardi
Vice-President and General Counsel

Alex Prokoudine
Vice-President, Capital Markets

Mahima Poddar
Vice-President, Product and Corporate Development

Rajesh Raut
Vice-President and Controller

John Simoes
Vice-President, Financial Planning and Reporting

David Soni
Vice-President, Risk Policy

Nicholas Strube
Vice-President, Treasury

David Yu
Vice-President, Information Technology

SHAREHOLDER AND CORPORATE INFORMATION

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Stock Listings
TSX: EQB and EQB.PR.C

Quarterly Conference Call and Webcast
Friday, March 1, 2019, 10:00 a.m. EST
Live: 647.427.7450
Replay: 416.849.0833 (code 1494226)
Archive: www.equitablebank.ca

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Annual Meeting of Shareholders
Wednesday, May 15, 2019
10:00 a.m. ET
Equitable Bank Tower
30 St. Clair Avenue West
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