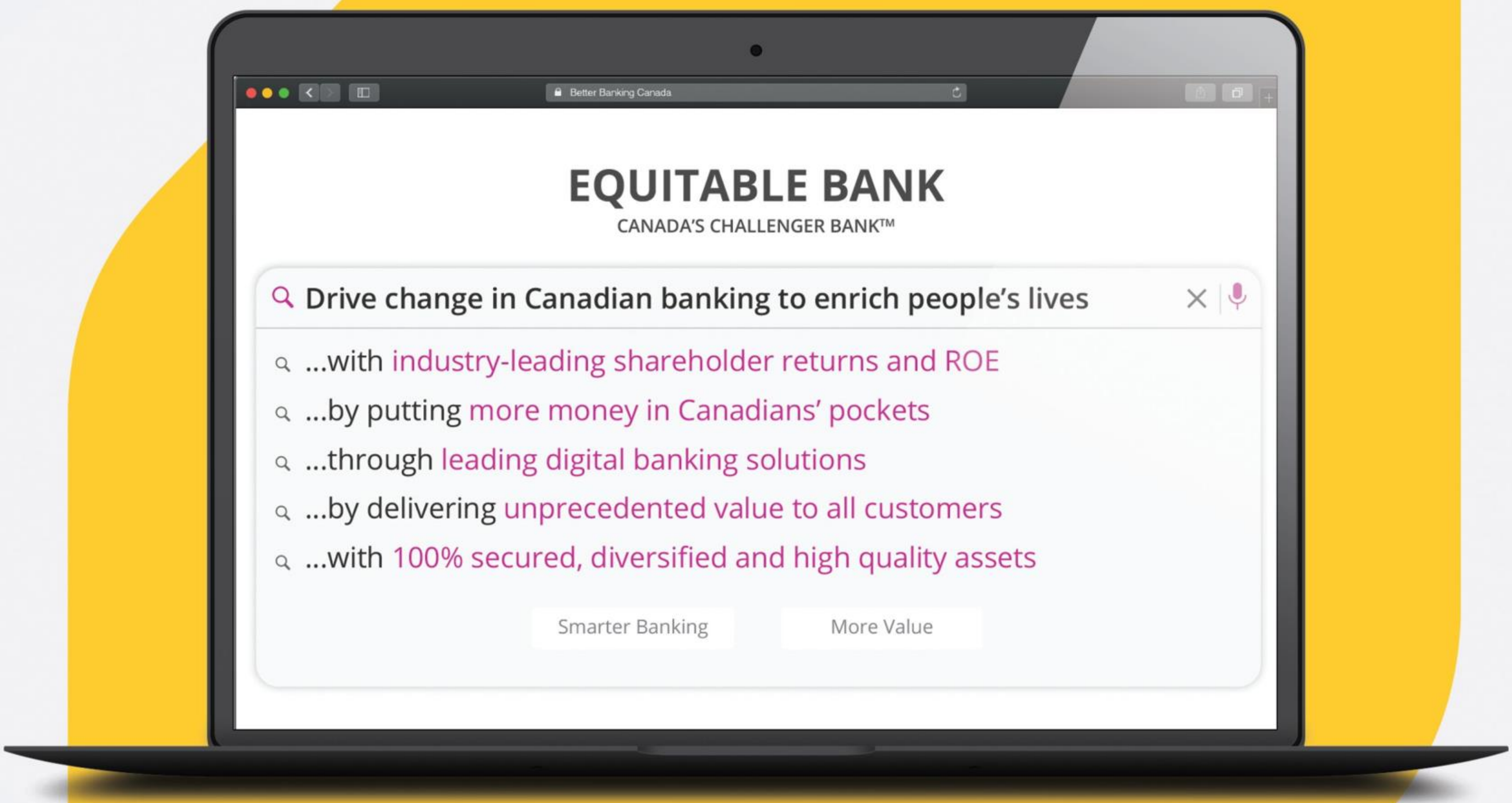
EQUITABLE
CANADA'S CHALLENGER BANK™

First Quarter Report 2021
For the three months ended March 31, 2021

TSX.EQB | EQB.PR.C



Equitable Bank | EQ Bank

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Management's discussion and analysis of financial condition and results of operations

For the three months ended March 31, 2021

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 Bank) for the three months (quarter) ended March 31, 2021. This MD&A should be read in conjunction with the Bank's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2021, together with accompanying notes, which have been prepared in accordance with International Accounting Standard (IAS) 34. This MD&A should also be read in conjunction with the Bank's audited consolidated financial statements for the year ended December 31, 2020, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at May 4, 2021. The Bank's continuous disclosure materials, including interim filings, annual MD&A and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Bank's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

Cautionary note regarding forward-looking statements

Statements made by the Bank in the sections of this report including those entitled “Business Overview”, “Economic and business outlook”, “Financial results summary”, “Provision for credit losses”, “Credit quality and allowance for credit losses”, “Liquidity investments and equity securities”, “Deposits”, “Capital management – Equitable Bank”, “Risk Management”, and 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 Bank’s objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Bank’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”, “outlook”, “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”, “will likely” 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 actual results, level of activity, closing of transactions, performance or achievements of the Bank 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 including, without limitation, impacts as a result of COVID-19, 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 Bank’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 Bank and the Canadian economy.

Although the Bank 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 Bank in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its loan business, a continuation of the current level of economic uncertainty that affects real estate market conditions including, without limitation, impacts as a result of COVID-19, 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 actualresults and future events could differ materially from those anticipated in such statements.

Select financial and other highlights					
As at or for the three months ended	**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
Operating results ($ thousands)					
Net interest income	**133,966**	131,117	2%	120,151	11%
Non-interest income	**16,204**	20,833	(22%)	4,694	245%
Revenue	**150,170**	151,950	(1%)	124,845	20%
Non-interest expenses	**57,317**	55,348	4%	54,180	6%
Pre-provision pre-tax income(1)	**92,853**	96,602	(4%)	70,665	31%
Provisions for credit losses	**(772)**	103	(850%)	35,687	(102%)
Income tax expense	**24,431**	25,075	(3%)	9,008	171%
Net income	**69,194**	71,424	(3%)	25,970	166%
Operating performance					
Earnings per share – basic ($)	**4.02**	4.17	(4%)	1.48	172%
Earnings per share – diluted ($)	**3.97**	4.13	(4%)	1.46	172%
Return on equity (%)(1)	**17.1**	18.2	(1.1%)	7.2	9.9%
Efficiency ratio (%)(1)(2)	**38.2**	36.4	1.8%	43.4	(5.2%)
YTD Operating leverage (%)(1)	**14.5**	4.7	9.8%	(6.3%)	20.8%
Net interest margin (%)(1)	**1.77**	1.74	0.03%	1.71	0.06%
Select balance sheet and other information ($ millions)					
Total assets	**31,355**	30,746	2%	29,154	8%
Assets under management(1)	**36,742**	35,936	2%	33,936	8%
Loans receivable	**28,892**	28,272	2%	26,781	8%
Loans under management(1)	**34,174**	33,347	2%	31,496	9%
Total deposits	**17,427**	16,376	6%	15,475	13%
Total EQ Bank deposits	**5,798**	4,556	27%	2,707	114%
Total other deposits	**11,629**	11,820	(2%)	12,768	(9%)
Total risk-weighted assets	**10,911**	10,426	5%	9,916	10%
Common shareholders' equity	**1,660**	1,575	5%	1,378	20%
Credit quality (%)					
Provisions for credit losses – rate(1)	**(0.01)**	0.001	(0.01%)	0.54	(0.55%)
Net impaired loans as a % of total loan assets	**0.36**	0.42	(0.06%)	0.47	(0.11%)
Allowance for credit losses as a % of total loan assets	**0.22**	0.23	(0.01%)	0.26	(0.04%)
Common share information					
Common share price – close ($)	**126.20**	101.00	25%	58.07	117%
Book value per common share ($)(1)	**97.86**	93.35	5%	82.00	19%
Common shares outstanding	**16,958,586**	16,874,074	1%	16,807,317	1%
Common share market capitalization ($ millions)	**2,140**	1,704	26%	976	119%
Dividends declared per:					
Common share ($)	**0.37**	0.37	-%	0.37	-%
Preferred share ($)	**0.37**	0.37	-%	0.37	-%
Dividend yield – common shares (%)(1)	**1.2**	1.6	(0.4%)	1.6	(0.4%)
Capital ratios and leverage ratio (%)(1)					
Common Equity Tier 1 ratio	**14.5**	14.6	(0.1%)	13.5	1.0%
Tier 1 capital ratio	**15.2**	15.3	(0.1%)	14.3	0.9%
Total capital ratio	**15.6**	15.8	(0.2%)	14.7	0.9%
Leverage ratio	**5.1**	5.1	-%	4.7	0.4%
Business information					
Employees – full-time equivalent	**968**	925	5%	885	9%
Revenue per full-time equivalent ($ thousands)(1)	**155**	164	(5%)	141	10%
EQ Bank customers	**201,887**	173,399	16%	105,004	92%

(1) See Non-GAAP financial measures section of this MD&A. (2) Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.

Select financial highlights

	2021	2020				2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Operating results ($ thousands)								
Net interest income	**133,966**	131,117	127,431	118,707	120,151	124,827	118,147	114,322
Non-interest income	**16,204**	20,833	21,277	12,623	4,694	9,353	9,702	8,473
Revenue	**150,170**	151,950	148,708	131,330	124,845	134,180	127,849	122,795
Non-interest expenses	**57,317**	55,348	53,065	51,647	54,180	54,477	50,489	48,496
Pre-provision pre-tax income	**92,853**	96,602	95,643	79,683	70,665	79,703	77,360	74,299
Provision for credit losses	**(772)**	103	(2,357)	8,847	35,687	3,917	3,463	1,386
Income tax expense	**24,431**	25,075	24,072	18,534	9,008	19,932	18,955	18,891
Net income	**69,194**	71,424	73,928	52,482	25,970	55,854	54,942	54,022
Operating performance								
Earnings per share – basic ($)	**4.02**	4.17	4.33	3.06	1.48	3.27	3.22	3.17
Earnings per share – diluted ($)	**3.97**	4.13	4.30	3.05	1.46	3.21	3.18	3.15
Return on equity (%)	**17.1**	18.2	19.8	14.7	7.2	15.9	16.2	16.8
Efficiency ratio (%)	**38.2**	36.4	35.7	39.2	43.4	40.6	39.5	39.5
YTD Operating leverage (%)	**14.5**	4.7	2.2	(2.7)	(6.3)	(1.4)	(3.1)	0.9
Net interest margin (%)	**1.77**	1.74	1.69	1.64	1.71	1.78	1.75	1.76
Select balance sheet and other information ($ millions)								
Total assets	**31,355**	30,746	30,447	29,957	29,154	28,392	27,545	26,361
Assets under management	**36,742**	35,936	35,511	34,662	33,936	33,005	32,334	30,909
Loans receivable	**28,892**	28,272	27,592	27,709	26,781	26,608	25,960	24,868
Loans under management	**34,174**	33,347	32,551	32,331	31,496	31,123	30,641	29,321
Total deposits	**17,427**	16,376	16,373	15,636	15,475	15,232	14,904	14,532
Total EQ Bank deposits	**5,798**	4,556	4,319	3,288	2,707	2,667	2,516	2,251
Total other deposits	**11,629**	11,820	12,054	12,349	12,768	12,565	12,388	12,281
Total risk-weighted assets	**10,911**	10,426	10,180	9,936	9,916	9,761	9,586	9,373
Common shareholders' equity	**1,660**	1,575	1,501	1,427	1,378	1,395	1,339	1,287
Credit quality (%)								
Provision for credit losses – rate	**(0.01)**	0.001	(0.03)	0.13	0.54	0.06	0.05	0.02
Net impaired loans as a % of total loan assets	**0.36**	0.42	0.33	0.54	0.47	0.44	0.47	0.42
Allowance for credit losses as a % of total assets	**0.22**	0.23	0.25	0.27	0.26	0.14	0.13	0.13
Common share information								
Common share price – close ($)	**126.20**	101.00	75.09	71.39	58.07	109.35	103.81	72.59
Book value per common share ($)	**97.86**	93.35	89.25	84.89	82.00	83.06	79.97	77.22
Common shares outstanding	**16,958,586**	16,874,074	16,822,244	16,807,317	16,807,317	16,797,593	16,743,253	16,666,896
Common share market capitalization ($ millions)	**2,140**	1,704	1,263	1,200	976	1,837	1,738	1,210
Dividends declared per:								
Common share ($)	**0.37**	0.37	0.37	0.37	0.37	0.35	0.33	0.31
Preferred share ($)	**0.37**	0.37	0.37	0.37	0.37	0.37	0.40	0.40
Dividend yield – common shares (%)	**1.2%**	1.6%	1.9%	2.3%	1.6%	1.3%	1.5%	1.8%
Capital ratios and leverage ratio (%)								
Common Equity Tier 1 ratio	**14.5**	14.6	14.3	14.0	13.5	13.6	13.3	13.1
Tier 1 capital ratio	**15.2**	15.3	15.0	14.7	14.3	14.4	14.1	13.9
Total capital ratio	**15.6**	15.8	15.5	15.2	14.7	14.7	14.4	14.2
Leverage ratio	**5.1**	5.1	4.9	4.8	4.7	4.9	4.8	4.9

Business overview

Equitable Group Inc. (TSX: EQB and EQB.PR.C) operates through its wholly owned subsidiary, Equitable Bank.

Equitable Bank, Canada's Challenger Bank™, has grown to become the country's eighth largest independent Schedule I bank measured by market capitalization by continuing to challenge itself to building better banking systems for Canadians in ways that truly enrich people's lives. Equitable is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI) and serves over 272,000 Canadians with assets under management of approximately $37 billion. Equitable is one of nine publicly traded banks included in the S&P/TSX Composite Index, and is a member of the S&P/TSX Dividend Aristocrats, S&P/TSX Small Cap, S&P Canada BMI, and MSCI Small Cap (Canada) Indices.

The Bank serves Canadians through two business lines: Personal Banking and Commercial Banking. For more details on our business lines and products, please refer to the Overview and Outlook section in our 2020 MD&A.

Our strategy is to provide exceptional service and clear value to select segments of Canadian consumers and businesses, particularly ones where we can improve the banking experience or achieve a sustainable competitive advantage. As a challenger bank, we rethink conventional approaches to banking, going above and beyond traditional banks to serve our customers and stay nimble to be able to act on new opportunities. By maintaining a focused, efficient level of service delivery, we are able to truly differentiate ourselves in the market.

That differentiation is garnering attention, with EQ Bank being named the #1 Bank in Canada on the Forbes World's Best Banks 2021 list on April 13, 2021.

While the physical realities brought about by COVID-19 have accelerated a consumer shift towards digital banking, we've capitalized on being one of the few medium-size banks in Canada with enough scale to continue to make meaningful strategic investments. Much of that investment is in our leading-edge technology platforms, to allow us to grow our deposit base and affording us opportunities to introduce other new products and services, such as joint accounts, TFSAs and RSPs, all of which were launched in 2020.

These investments in our core systems allow us to collaborate with fintechs and other partners to deliver a broader range of services to Canadian consumers. We adopted a fintech mindset early on and the relationships we have built with market leaders like Wise, Borrowell, Ratehub, Nesto, Flinks, and others have become cornerstones for reaching new customers.

Another differentiating factor in the Bank's business model when compared to other challenger banks around the world is our ability to consistently and profitably deploy the deposits we gather. By operating with an integrated balance sheet and lending across a growing range of personal and commercial asset categories, our strategy involves continuing to diversify our assets in order to extend our growth and achieve our corporate objectives. Diversification provides the added benefit of reducing the risk profile of our business.

The foundation of the Bank's successes rest with the teams and individuals who contribute their own challenger mindsets to their everyday work. With nearly 1,000 employees across Canada, Equitable's inclusive, welcoming, and pride-inducing workplace has earned it the honour of being recognized as one of the top 50 organizations on this year's Best Workplaces™ in Canada List; a remarkable achievement in a year where companies have been challenged to maintain connection and engagement during often difficult times.

Economic and business outlook

As Canada's Challenger Bank™, we are well positioned to grow. We expect our strategy to continue delivering above average service and value to our customers, partners and shareholders. The forecasts in this section are based on assumptions from sources we consider reliable – the Bank leverages Moody's Analytics for information on general economic indicators in its models. Like other banks, we may not consistently realize our financial performance goals if business or competitive conditions, the regulatory environment, the housing market, the economic impact of COVID-19, funding availability, capacity in securitization markets, or general economic conditions differ from expectations. We will, however, continue to drive positive change in the banking industry every year, regardless of the broader environment and in keeping with our challenger bank ethos.

Economic outlook

While positive sentiment and drivers have improved so far in 2021, Canada continues to experience uncertainty over economic recovery due to the timing of COVID-19 vaccine delivery, combined with ongoing business and provincial lockdowns. The Bank of Canada announced on April 21, 2021 that it expects Canada's real GDP to grow by 6.5% in 2021, before moderating to 3.75% in 2022 and 3.25% in 2023. The unemployment rate is expected to improve and stabilize by year-end. While bond yields are likely to rise with improvement in economic conditions, we expect the Bank of Canada overnight rate to remain at the current level until later into 2022.

Important trends that we expect will continue to contribute to our business growth include urbanization and acceleration of immigration over coming years, including the commitment from the Government of Canada to welcome more than 400,000 newcomers annually to Canada in 2021 to 2023. We also expect to see continued strong growth in the reverse mortgage market, with the increasing demographics that qualify for these decumulation solutions, and Canadian's strong desire to remain in their homes and expand retirement savings options, which has broadened during the COVID-19 global pandemic. In the recent quarter, new reverse mortgage funding growth gained momentum. Leveraging Equitable's leadership position in the mortgage broker channel to promote our differentiated approach to the solution, we expanded our share of the market. Our approach to the reverse mortgage solution is one of equity preservation. We deliver this through competitive rates and features and share the view that it appeals to a larger audience of Canadian advisors and clients. As well, the team is evolving fast the Bank's approach to supporting clients who prefer to work directly with Equitable. Prospective clients are conducting online research and value having options. As a result of this momentum, we have doubled our reverse mortgage growth expectations for 2021.

While the pandemic has led some Canadians to move to smaller communities further from traditional larger centres of employment to take advantage of the ability to work from home, we view the currently high pace of this shift as temporary. Large urban centres will continue to provide diversity of economic opportunity which bodes well for employment and for our Bank as we continue to believe that there is higher credit risk in small, single-industry towns. High levels of immigration will create demand for our products and unlock greater potential for our digital banking platform.

These trends will generally contribute to higher demand in the residential housing market. We remain positive on the outlook of the real estate market for the remainder of 2021. Moody's Analytics forecasts the House Price Index to rise by at least 2% which we believe is conservative based on current market activity.

Business outlook

The momentum Equitable generated at the end of 2020 has carried into the first quarter of 2021 with strong origination levels across both the Personal and Commercial Bank business segments. Total loan principal has now increased to $28.8 billion, +2% quarter-over-quarter and +8% year-over-year. With this momentum, improving economic forecasts, and a growing commitment pipeline, we have increased our growth expectations for 2021.

Personal Banking

For a summary of key portfolio metrics at March 31, 2021, please refer to the table below.

($ billions)		**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
EQ Bank	Deposits	**5.80**	4.56	27%	2.71	114%
Single Family Residential Lending	Prime mortgages	**8.00**	8.17	(2%)	6.78	18%
	Alternative mortgages	**11.26**	11.05	2%	11.65	(3%)
Wealth Decumulation	Reverse mortgages	**0.08**	0.06	44%	0.02	241%
	Cash surrender value loans	**0.03**	0.03	16%	0.005	533%

The table below provides our updated 2021 outlook guidance by portfolio segment.

		Revised 2021 Guidance[1]	Previous 2021 Guidance
EQ Bank	Deposits	**30-50%**	20-30%
Single Family Residential Lending	Prime mortgages	**5-10%**	12-15%
	Alternative mortgages	**12-15%**	5-8%
Wealth Decumulation	Reverse mortgages	**200%+**	100%+
	Cash surrender value loans	**150%+**	

(1) Guidance represents expected growth rate from December 31, 2020 to December 31, 2021.

Commercial Banking

For a summary of key portfolio metrics at March 31, 2021, please refer to the table below.

($ billions)		**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
Business Enterprise Solutions	Loans to entrepreneurs and SMEs[1]	**0.97**	0.94	3%	0.90	7%
Commercial Finance Group	Loans to institutional and corporate investors	**3.53**	3.24	9%	2.84	24%
Multi-Unit Insured[2]	CMHC insured real estate mortgages	**4.07**	3.83	6%	3.69	10%
Specialized Finance	Total loans	**0.26**	0.29	(12%)	0.31	(18%)
Equipment Leasing	Total loans	**0.59**	0.56	5%	0.51	15%

(1) Small or medium-sized enterprises. (2) Insured Multi-unit residential include only on-balance sheet.

The table below provides our updated 2021 outlook guidance by portfolio segment.

		Revised 2021 Guidance[1]	Previous 2021 Guidance
Business Enterprise Solutions	Loans to entrepreneurs and SMEs	**7-10%**	5-8%
Commercial FinanceGroup	Loans to institutional and corporate investors	**20-25%**	12-15%
Multi-unit Insured	CMHC insured real estate mortgages	**Slight Decline[2]**	Flat
Specialized Finance	Total loans	**20-25%**	20-25%
Equipment Leasing	Total loans	**5-8%**	1-4%

(1) Guidance represents expected growth rate from December 31, 2020 to December 31, 2021.
(2) Insured Multi-unit residential volumes are expected to be stable but levels of loan derecogntion are expected to be higher than our previous outlook.

Equitable established medium-term objectives in 2019 to allow the management, the Board, and our shareholders to measure and assess the success of our strategy over time. These targets were adopted in response to investor feedback, to align with broader market practices, and to provide a longer-term view that supplements the annual outlook in our MD&A.

Medium-term objective	3-year objective
ROE	15%-17%
Earnings per share growth	12%-15%
Dividend growth	20%-25%
CET1 ratio	13%-14%

In addition to the medium-term objectives above, we rely on the following key metrics to assess the performance of the business relative to our peers and the effectiveness of our strategy:

- **Loan growth:** We expect total loan growth to be between 8% and 12% in 2021, upgraded from 6-10% earlier in the year, driven by growth in our wider margined uninsured assets.
- **Net Interest Margin (NIM):** NIM for 2021 is expected to remain stable to slightly increase from Q1 levels as we shift our mix of business to uninsured assets and benefit from a reduction in the EQ Bank cost of funds. Quarterly NIM may fluctuate and differ from our expectations due to prepayment income volatility and other factors such as seasonal variations in our liquidity holdings.
- **Non-interest income:** We expect fee and other income to increase from Q1 2021 levels, in line with our portfolio, while gains on securitization activities may rise slightly in Q2 as a result of increased Insured multi-unit residential activity before returning to similar levels generated in Q1 for the remainder of the year. We do not forecast gains or losses on derivative transactions or investments.
- **Provision for credit losses (PCL):** PCLs should remain low or reverse in subsequent quarters, assuming economic forecasts stabilize or improve with the reopening of the Canadian economy and borrower behaviour is consistent with what our credit loss models anticipate. If economic forecasts worsen or our borrowers react more negatively than expected to credit stress, provisions could be elevated in future quarters. The positive impact of government support initiatives, will be the key determinants of the loan losses that we ultimately realize.
- **Efficiency ratio:** We anticipate efficiency to continue in the range of 39-41% in 2021, with potential for certain quarters to be marginally above or below this range as we expand investments for upcoming product launches and as we grow the Bank. This may include new product launches in Q2 and Q3 and investments in advertising to promote our solutions, which generally have the effect of negatively impacting our Efficiency ratio in the short-term as we incur costs upfront in advance of generating the incremental revenues offered by these new products or solutions. 2021 is a transition year with expenses increasing each quarter, but proportionate to expected revenue growth.

As we continue to execute on our strategic plan and follow our vision as Canada's Challenger Bank™, we remain focused on capital management and maintaining a strong control environment to manage risk. Our decisions are guided not just by short-term financial returns but by a longer-term view that protects our depositors and builds value for our shareholders.

Capital

We expect our capital levels to remain above our target range, as long as OSFI maintains restrictions on dividends and buybacks, or in the absence of additional organic or non-organic activities the Bank may undertake.

We continue to advance our AIRB initiative with the objective of transitioning to AIRB by early 2023. We note that setting objectives for obtaining regulatory approval to operate on an AIRB basis includes assumptions outside of the Bank's control, and that unforeseen delays may occur. The benefits of AIRB include improving the sophistication of our risk management, allocating appropriate levels of capital to our risks, and introducing capital methodologies that allows us to compete more effectively across a broader range of assets. AIRB has the potential to have a meaningful impact on our total risk-weighted assets, a further increase in capital from our current levels and related potential economic benefit to the Bank.

On March 11, 2021, OSFI announced an industry consultation on proposed regulatory changes to introduce the final round of Basel III reforms and a new tailored approach to capital and liquidity requirements for smaller, less complex banks. OSFI's proposals are in line with the international standards set by the Basel Committee on Banking Supervision, while reflecting the Canadian market. The new reforms seek to enhance the risk sensitivity and comparability of bank capital requirements. The revised guidelines will be implemented from the beginning of Q1 2023. Although the Bank continues to analyze these final changes, preliminary analysis suggested that the net result will be a capital savings with respect to its uninsured residential portfolio and Commercial portfolio to a lesser extent in the range of $100-$150 million.

Funding

We believe that our current sources of funding – most notably our EQ Bank deposits and access to the broker term market – will be adequate to support our asset growth aspirations. Our deposit balances have grown by 13% over the past 12 months and 6% during the quarter, led by EQ Bank which has more than doubled during since Q1 2020.

Diversification of funding remains a strategic priority to continue lowering our costs and expanding our competitive position and ability to offer better pricing and products to Canadians. During the quarter, we continued our wholesale funding diversification with the issuance of our second deposit note in the past two quarters with a $250 million 4-year fixed rate note which was issued with broad investor participation and was priced at 120 bps over comparable term Government of Canada bonds, the lowest spread of all of our issuances to date. The launch of our covered bond program in the first half of 2021 and first issuance in Europe will further diversify our funding at a lower cost relative to traditional broker deposits.

Risk management

Equitable has a constructive view on the Canadian residential real estate market. We expect credit loss provisions on our loan book to remain low or reverse in 2021 as expectations for credit losses subside, assuming the Canadian economy continues its road to recovery. Mortgage arrears rates in our single-family book are expected to remain low.

Since returning our risk appetite to pre-COVID-19 levels in most regions in Canada in late Q3 2020, we have seen our alternative single family lending increase and have returned to our market leadership role. Our Commercial lending business has also seen strong origination levels over the past 3 months. The tightening of risk parameters in mid-2020 after the onset of the pandemic has strengthened the quality of our portfolio and we anticipate that the mid-term annualized loss rate for the entire Bank, after considering COVID-19 related provisions recorded during Q1 and Q2 2020, to remain in the range of 1 to 2 basis points for our mortgage portfolio and 150 to 200 basis points for our equipment lease portfolio.

On April 8, 2021, OSFI announced the restart of its consultation on the minimum qualifying rate for uninsured residential mortgages and proposed changing it to the higher of the mortgage contract rate plus 200 bps or 5.25% as a minimum floor. Equitable supports OSFIs efforts to increase the stability of the Canadian mortgage market. The Bank continues to analyze the impact of this proposal which will come into force on June 1, 2021, if approved. We do not believe that it will have a material impact to the Bank's current outlook or growth expectations, but do believe that the impact is more likely to be positive than negative, as more borrowers look to Equitable for mortgage solutions that may be less accessible at other banks with the changes.

Generally, we expect changes from policymakers to cool perceived over exuberance in the housing market. Broadly, policy changes intended to prevent a housing bubble are likely to reduce risk in our portfolio and business generally and may create opportunity as we finance the accelerated construction of more affordable property types.

Financial results summary

Performance against strategic priorities

Equitable generated strong Q1 earnings as we successfully worked towards achieving our strategic objectives for 2021 and continued to build our franchise value. These results reflect growth in both our Personal and Commercial portfolios, the effectiveness of our risk-managed underwriting, and continued focus on an efficient operating cost structure. The momentum gained by EQ Bank in 2020 has continued in the first quarter of this year with total customers at nearly 202,000 and deposit balances reaching nearly $5.8 billion, increasing 114% year-over-year and 27% quarter-over-quarter. EQ Bank's acceleration has been fueled by technology updates, a revised product roadmap, and the introduction of new services that add value to Canadians such as the new and innovative EQ Bank Mortgage Marketplace launched in April 2021, that allows customers to shop over 2,000 mortgage products offered by Canadian lenders to get the best rates and features in the market.

- Net income grew by $43.2 million or +166% year-over-year to $69.2 million.
- Diluted EPS reached $3.97 for the quarter, increasing $2.51 or +172% compared to Q1 2020, despite being suppressed by $0.03 per share due to recent rise in stock price and corresponding increase in the number of diluted shares outstanding.
- ROE was 17.1%, exceeding the upper end of our target range of 17%, and despite being suppressed by 1.3% as a result of the additional capital we hold above the mid-point of our target CET1 ratio range.
- Book value per share grew $15.86 or 19% from a year ago and 5% from December 31, 2020 to $97.86.
- CET1 ratio was 14.5% and exceeded the upper end of our target range providing important capacity for future growth, now representing $108 million in excess capital or $6.37 per share above our mid-point target.
- Realized losses remained low at 3 bps of total loan assets or $2.5 million for the quarter compared to $3.3 million in the preceding quarter, and $3.5 million in Q1 2020.

This performance was mainly attributable to growth in both our Personal and Commercial lending segments, widened spreads as a result of higher net prepayment income, improved macroeconomic forecasts that led to a moderate reversal of Stage 1 and 2 allowances for credit losses, and net mark-to-market gains on certain loans, security investments and derivatives compared to a net loss a year ago.

Items of note

There were no items of note for Q1 2021 or Q4 2020. Q1 2020 financial results were impacted by the following items:

- $5.4 million of net mark-to-market losses on certain loans, investments, and derivative positions related to securitization; and
- $1.1 million gain on the resolution of a litigation matter.

Dividends

Common share dividends

On May 4, 2021, the Bank's Board of Directors (the Board) declared a quarterly dividend of $0.37 per common share, payable on June 30, 2021, to common shareholders of record at the close of business on June 15, 2021.

In Q3 2019, Equitable announced its intention to grow its dividend at a rate between 20% and 25% for each of the next five years. The Board put these planned increases on hold because of regulatory guidance from OSFI in March 2020 meant to support the financial and operational resilience of all federally regulated banks. The Bank intends to resume its previously announced dividend increases once regulatory restrictions are lifted.

Preferred share dividends

On May 4, 2021, the Board declared a quarterly dividend of $0.373063 per preferred share, payable on June 30, 2021, to preferred shareholders of record at the close of business on June 15, 2021.

Strategic Objectives for 2021	Q1 Accomplishments
Grow market share in core assets through superior customer experience	• Grew our Personal loan business by 5% over the prior year, driven by 18% growth in our Prime single family portfolio • Improved conversion ratios based on people, process, and systems optimization • Increased our Commercial loan business year-over-year by 14%, led by growth in our conventional commercial and insured multi-unit residential portfolios
Grow adjacent asset volumes through expanded distribution	• Tripled our decumulation assets to over $115 million, led by reverse mortgages where we have built a robust pipeline and materially increased our direct to consumer business • Expanded our CSV lines of credit offering to qualifying Sun Life insurance policy holders and expanded distribution across multiple MGA partners • Partnered with Coast Capital to offer our reverse mortgage product to its eligible members • Grew our equipment leasing portfolio by $78 million or 15% year-over-year
Build stronger direct customer relationships via enhanced digitization to drive excellent customer experience	• Grew our EQ Bank deposits to $5.8 billion, more than twice the balance from a year ago • Expanded our EQ Bank depositor base year-over-year by 92% to nearly 202,000 customers with 28,000 customers signing up in Q1 2021, in part due to newly launched products (TFSAs, RSPs, joint savings accounts) and our digital customer referral program • Launched EQ Bank Mortgage Marketplace, a new digital platform that allows our customers to shop over 2,000 mortgage products offered by Canadian lenders • EQ Bank named Canada's #1 Bank on the Forbes World's Best Banks 2021 list • Added 3 more currencies in the quarter to our innovative and cost-effective international money transfer service, bringing the total number of currencies offered to 40 • Experienced a substantial increase in customer engagement measured by use of services each month and the number of products held by each customer
Issue covered bonds	• Submitted the Bank's issuer application to CMHC, positioning it for an inaugural covered bond issuance of approximately €250-€300 million in Europe in Q2 2021
Complete AIRB model recalibration and validation	• Continued to perform stress tests on our AIRB models as we advance towards the implementation of the program in early 2023 • Reported a CET1 Ratio of 14.5%, up from last year by 100 bps and above the top end of our target range

Financial review – earnings

Table 1: Income statement highlights

($000s, except per share amounts)	For the three months ended				
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Net income	**69,194**	71,424	(3%)	25,970	166%
EPS – diluted ($)	**3.97**	4.13	(4%)	1.46	172%
Revenue	**150,170**	151,950	(1%)	124,845	20%
Provision for credit losses	**(772)**	103	(850%)	35,687	(102%)
Non-interest expenses	**57,317**	55,348	4%	54,180	6%

Net interest income

Net interest income (NII) is the main driver of the Bank's profitability. Table 2 details the Bank's NII by product and portfolio.

Table 2: Net interest income

($000s, except percentages)	For the three months ended					
	31-Mar-21		31-Dec-20		31-Mar-20	
	Revenue/ Expense	**Average rate(1)**	Revenue/ Expense	Average rate(1)	Revenue/ Expense	Average rate(1)
Revenues derived from:						
Cash and equivalents	**4,188**	**0.92%**	5,019	0.99%	7,067	1.90%
Equity securities	**1,331**	**4.15%**	1,453	4.85%	1,368	4.46%
Alternative single family mortgages	**120,350**	**4.39%**	126,420	4.56%	140,441	4.91%
Prime single family mortgages	**39,745**	**1.97%**	40,643	2.00%	40,764	2.40%
Decumulation loans	**962**	**3.92%**	779	4.10%	352	5.46%
Total Personal loans	**161,057**	**3.37%**	167,842	3.48%	181,557	3.98%
Conventional commercial loans	**62,602**	**5.38%**	59,563	5.53%	59,116	5.90%
Equipment leases	**13,808**	**10.18%**	14,261	10.76%	13,508	11.06%
Insured multi-unit residential mortgages	**24,848**	**2.52%**	27,054	2.75%	27,582	2.94%
Total Commercial loans	**101,258**	**4.43%**	100,878	4.60%	100,206	4.86%
Average interest earning assets	**267,834**	**3.55%**	275,192	3.65%	290,198	4.13%
Expenses related to:						
Deposits	**77,599**	**1.88%**	82,434	2.03%	99,378	2.62%
Secured backstop funding facility(2)	**-**	**N/A**	626	N/A	617	N/A
Securitization liabilities	**55,892**	**1.91%**	60,435	2.05%	67,021	2.50%
Others	**377**	**0.81%**	580	0.74%	3,031	2.45%
Average interest bearing liabilities	**133,868**	**1.89%**	144,075	2.03%	170,047	2.58%
Net interest income and margin	**133,966**	**1.77%**	131,117	1.74%	120,151	1.71%

(1) Average rates are calculated based on the daily average balances outstanding during the period. (2) Since its establishment in June 2017, there have been no draws on the secured backstop funding facility. The facility was effectively terminated on December 11, 2020.

Q1 2021 v Q1 2020

NII was up 11% primarily due to growth in average asset balances of 8% and a 6 bp increase in NIM.

Table 3(a): Factors affecting Q1 2021 vs Q1 2020 NIM

	Impact (in bps)	Drivers of change
Business mix	(2)	• Mix shift towards lower spread Prime mortgages • Increase in the relative size of our low yielding liquidity portfolio • Funding mix shift towards EQ Bank deposits which were offered at a higher rate compared to term deposits originated in latter part of 2020 and in Q1 2021 *offset in part by:* • Growth in our higher spread commercial mortgages
Prepayment income	5	• Higher levels of early discharge within the Personal loan portfolio
Other	3	• FV adjustments and other • Cost savings from the termination of our secured backstop funding facility in Q4 2020
Change in Total NIM	6	

Q1 2021 v Q4 2020

NII increased 2% driven by a 2% increase in average asset balances and a 3 bp increase in NIM.

Table 3(b): Factors affecting Q1 2021 vs Q4 2020 NIM

	Impact (in bps)	Drivers of change
Business mix	5	• Asset mix shift toward our high yielding Conventional commercial mortgages due to strong originations since Dec 2020 • Decrease in the relative size of our low yielding cash and equivalents
Rates/spread(1)	(4)	• Lower yield on our equity investments • Decline in mortgage spreads as higher yielding loans roll-off the portfolio
Prepayment income	(2)	• Reduced levels of early discharge within Single family and Insured multi-unit residential mortgages
Other	4	• Lower net costs on bulk insurance of $687 million of Alternative single family mortgages in Q2 2020 • Cost savings on our secured backstop funding facility that was terminated in Q4 2020
Change in Total NIM	3	

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

Non-interest income

Table 4: Non-interest income

($000s)				For the three months ended	
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Fees and other income	**5,575**	5,711	(2%)	6,723	(17%)
Net (loss) gain on loans and investments	**(1,461)**	2,732	(153%)	(8,531)	83%
Securitization activities:					
Gains on securitization and income from retained interests	**4,592**	11,640	(61%)	3,299	39%
Fair value gains on derivative financial instruments	**7,498**	750	900%	3,203	134%
Total	**16,204**	20,833	(22%)	4,694	245%

Q1 2021 v Q1 2020

Non-interest income increased compared to the prior year, mainly due to:

- Lower net mark-to-market losses on certain loans and security investments;
- Higher unrealized fair value gains on derivative financial instruments related to securitization activities; and
- An increase in gains on securitization and income from retained interests, due to higher derecognition volumes and a higher gain on sale margin;

Offset by:

- A decline in fees and other income driven by the resolution of a litigation matter in Q1 2020, resulting in a $1.1 million net recovery.

Q1 2021 v Q4 2020

Non-interest income decreased from the preceding quarter primarily as a result of:

- Lower gains on securitization and income from retained interests, due to lower derecognition volumes and a decrease in gain on sale margin; and
- Net mark-to-market losses on certain loans and security investments compared to gains in the preceding quarter;

Offset by:

- Higher net unrealized fair value gains on derivative positions associated with securitization activities.

Non-interest expenses

Table 5: Non-interest expenses and efficiency ratio

($000s, except percentages and FTE)				For the three months ended	
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Compensation and benefits	**28,973**	28,448	2%	26,895	8%
Technology and system costs	**9,917**	9,353	6%	9,491	4%
Product costs	**6,178**	5,845	6%	5,094	21%
Regulatory, legal and professional fees	**4,531**	4,872	(7%)	5,157	(12%)
Marketing and corporate expenses	**3,933**	4,094	(4%)	4,745	(17%)
Premises	**3,785**	2,736	38%	2,798	35%
Total	**57,317**	55,348	4%	54,180	6%
Efficiency ratio	**38.2%**	36.4%	1.8%	43.4%	(5.2%)
Full-time employee (FTE) − period average	**948**	912	4%	879	8%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Our Efficiency ratio for the quarter was 38.2%, a difference of 180 bps from 36.4% in the preceding quarter, however it improved by 5.2% year-over-year. The increase over the past quarter is primarily attributed to the decrease in non-interest income as a result of lower gains on securitization activities.

Q1 2021 v Q1 2020

Total non-interest expenses increased primarily because of:

- An increase in compensation and benefits costs which resulted from several factors including 8% growth in our FTE and annual inflationary salary adjustments;
- Higher product costs due to amortization of investments for projects completed over the past 12 months, increased transaction costs driven by a higher deposit base, and incentive costs associated with the EQ bank customer referral program launched in Q2 2020; and
- Higher premises costs as we accelerated amortization of certain leasehold improvements associated with certain office leases terminated early given the current work from home environment and plan for the office move in 2023;

Offset by:

- Lower legal expenses compared to a year ago due to fees incurred in the Q1 2020 litigation settlement discussed above; and
- A decrease in corporate expenses because of efforts to curtail spending during the pandemic.

Q1 2021 v Q4 2020

Total expenses increased compared with the preceding quarter primarily due to:

- An increase in premises costs as a result of accelerated leasehold improvement amortization as explained above;
- Higher technology and system costs primarily for support and maintenance of our core banking systems; and
- Higher compensation and benefits costs that resulted from headcount growth, a seasonal increase in benefit costs, and annual inflationary salary adjustments.

Provisions for credit losses (PCL)

Table 6: Provisions for credit losses

($000s, except percentages)					**For the three months ended**
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Stage 1 and 2 (recovery) provision	**(3,094)**	(2,785)	(11%)	31,061	(110%)
Stage 3 provision	**2,322**	2,888	(20%)	4,626	(50%)
Total	**(772)**	103	(850%)	35,687	(102%)
PCL – rate	**(0.01%)**	0.001%	(0.01%)	0.54%	(0.55%)

The Provision for Credit Losses represents the addition to our Allowance for Credit Losses (ACL), net of any recoveries, during the period. The ACL is the reserve set aside on our balance sheet to absorb future expected losses and is discussed in detail in the Credit Quality and Allowance for Credit Losses section of the MD&A below.

Q1 2021 v Q1 2020

In the first quarter of 2020, we increased our allowances for loans categorized as Stage 1 and Stage 2 (performing loans) by $31.1 million in light of a COVID-19 driven deterioration in macroeconomic forecasts, resulting in elevated Stage 1 and 2 provisions in our income statement. We have been closely monitoring the changes in macroeconomic forecasts and the credit quality of our loan portfolio to assess the sufficiency of our Stage 1 and 2 provisions at each subsequent reporting period. Since Q3 2020, these forecasts have continuously improved, despite the high level of economic uncertainty that persists.

As a result, we have released a portion of these allowances through the income statement, as deemed appropriate given our excepted loss modeling, including a provision reversal of $3.1 million during Q1 2021. Further details about changes in macroeconomic forecasts and the credit quality of our loan portfolio are provided in the Credit Quality and Allowance for Credit Losses section of this MD&A.

Stage 3 provisions – those related to impaired loans – were down by $2.3 million over a year ago primarily due to lower levels of reserves required on our impaired mortgages and a reduced level of net impaired lease formations.

Q1 2021 v Q4 2020

During the quarter, the reversal of Stage 1 and 2 provisions exceeded provisions for Stage 3 loans, resulting in a net reversal through the income statement for the quarter. Stage 3 PCL reduced by $0.6 million during the quarter, driven by lower impaired mortgage balances and lower non-performing lease formations.

Financial review – balance sheet

Table 7: Balance sheet highlights

($000s, except percentages)	**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
Total assets	**31,354,537**	30,746,318	2%	29,153,879	8%
Loan principal – Personal	**19,375,939**	19,306,186	0%	18,456,396	5%
Loan principal – Commercial	**9,410,787**	8,851,167	6%	8,257,416	14%
Deposit principal	**17,426,816**	16,376,011	6%	15,474,853	13%
EQ Bank deposit principal	**5,797,651**	4,555,606	27%	2,707,183	114%
Total liquid assets as a % of total assets(1)	**10.2%**	9.5%	0.7%	7.8%	2.4%

(1) See Non-GAAP financial measures section of this MD&A.

Total assets increased by $2.2 billion or 8% from last year driven by growth in both our Personal and Commercial lending businesses.

Total loan principal

Our strategy is to maintain a diverse portfolio of loan assets to optimize our ROE and maintain credit risk at an acceptable level. Table 8 presents our loan principal by lending business and Table 9 provides continuity schedules for our on-balance sheet loan assets.

Table 8: Loan principal by lending business

($000s)	**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
Personal Lending					
Alternative single family mortgages	**11,257,582**	11,050,456	2%	11,646,720	(3%)
Prime single family mortgages	**8,003,269**	8,170,752	(2%)	6,780,160	18%
Decumulation loans	**115,088**	84,978	35%	29,516	290%
Total Personal – on Balance Sheet	**19,375,939**	19,306,186	0%	18,456,396	5%
Commercial Lending					
Conventional commercial loans	**4,755,189**	4,466,513	6%	4,057,343	17%
Equipment leases	**589,456**	558,987	5%	511,191	15%
Insured multi-unit residential mortgages	**4,066,142**	3,825,667	6%	3,688,882	10%
Total Commercial – on Balance Sheet	**9,410,787**	8,851,167	6%	8,257,416	14%
Total Loans – on Balance Sheet	**28,786,726**	28,157,353	2%	26,713,812	8%
Insured multi-unit residential mortgages – derecognized	**5,386,980**	5,189,264	4%	4,782,246	13%
Total Loans – off Balance Sheet	**5,386,980**	5,189,264	4%	4,782,246	13%
Total Loans Under Management	**34,173,706**	33,346,617	2%	31,496,058	9%

Table 9: On-balance sheet loan principal and continuity schedule

($000s, except percentages)	**As at or for the three months ended March 31, 2021**		
	Personal	**Commercial**	**Total**
Q4 2020 closing balance	**19,306,186**	**8,851,167**	**28,157,353**
Originations	**1,340,994**	**1,380,414**	**2,721,408**
Derecognition	**-**	**(257,164)**	**(257,164)**
Net repayments	**(1,271,241)**	**(563,630)**	**(1,834,871)**
Q1 2021 closing balance	**19,375,939**	**9,410,787**	**28,786,726**
% Change from Q4 2020	**0%**	**6%**	**2%**
% Change from Q1 2020	**5%**	**14%**	**8%**
Net repayments percentage(1)	**6.6%**	**6.4%**	**6.5%**
($000s, except percentages)	As at or for the three months ended March 31, 2020		
	Personal	Commercial	Total
Q4 2019 closing balance	18,250,574	8,259,779	26,510,353
Originations	1,050,494	905,728	1,956,222
Derecognition	-	(211,533)	(211,533)
Net repayments	(844,672)	(696,558)	(1,541,230)
Q1 2020 closing balance	18,456,396	8,257,416	26,713,812
% Change from Q4 2019	1%	(0%)	1%
Net repayments percentage(1)	4.6%	8.4%	5.8%

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

Q1 2021 v Q1 2020

Total on-balance sheet loan principal increased by $2.1 billion year-over-year, driven by growth in both our Personal and Commercial segments.

Within our Personal lending segment, Prime single family loans were the primary driver of growth, growing $1.2 billion or 18% over the prior year. This success was the result of our strategic decision to provide liquidity to the Canadian economy through support of the Prime insured mortgage market by continuing to build our internal origination business and supplementing it with mortgages sourced through third parties. We generated $1.3 billion internally and added an additional $1.5 billion from third parties over the past twelve months.

Alternative single family loan principal was down by 3% due to lower originations in Q2 and Q3, in response to our reduced risk appetite at the onset of the COVID-19 pandemic. Based on the resilience of the housing market in the latter half of the year, we steadily and cautiously increased our risk appetite and in Q4, our originations returned to pre-pandemic levels. Attrition levels over the past twelve months have been in-line with historical averages but above the rates experienced in 2018 and early 2019.

Our Commercial lending segment grew by 14% year-over-year, mainly due to conventional commercial loan growth. Conventional Commercial grew by $698 million or 17% due to strong originations in the multi-unit residential construction sector and more favourable competitive conditions. The Insured multi-unit residential business line also added $377 million of mortgage principal to the Commercial book as a result of record originations driven by higher demand in the multi-unit residential sector. Equipment leases grew by $78 million or 15% primarily because of high originations in the logistics and transportation sector.

Q1 2021 v Q4 2020

Total on-balance sheet loan principal increased by $629 million from the preceding quarter mainly because of strong originations and lower attrition levels within our Conventional commercial and Insured multi-unit residential product lines and the addition of $207 million of Alternative single family loans.

Credit quality and allowance for credit losses

There are several aspects of our risk management approach and existing loan portfolios that have and will continue to help mitigate the effects of the pandemic on our credit losses. We remain well reserved for credit losses with allowances as a percentage of total loan assets equaling 22 bps at quarter-end compared to 26 bps a year ago.

Our general approach to lending is sound and we have modest exposure to higher risk lending markets:

- We focus our lending in urban and suburban markets that have diversified employment bases and more liquid real estate markets. We also do not have any direct lending exposure to companies that operate in the oil and gas industry. This approach results in lower risk as it reduces both the probability that our borrowers will default and our loss in the event that they do.
- Our commercial lending businesses, including leasing, are diversified across industries and geographies. Our commercial business has defined asset-class exposure limits and focus on assets that we believe will be resilient through an economic cycle such as multi-unit residential and mixed-use properties. These segments now make up 60% of our Commercial loan portfolio while categories such as hotels and shopping centres comprise 0.4% and 3.6% of our Commercial loans or 0.1% and 1.2% of the total loan portfolio, respectively.
- We expect that Alberta will continue to experience a deeper and more prolonged economic decline than other provinces because of its higher exposure to the energy industry. Our uninsured Personal loans in Alberta total $783 million or only 2% of our assets. Our uninsured commercial loans in Alberta total $466 million or only 1% of our assets, down from $514 million last quarter, primarily consisting of multi-unit residential and mixed-use loans. Further, the vast majority of these loans are mortgage loans secured by real estate in Edmonton and Calgary, cities with broader economic foundations than other parts of the province.

- We require a cash security deposit on most of our higher risk leases and in some cases require additional real assets to be pledged. For example, we may place a mortgage on real estate owned by our lessees.

The vast majority of loans have protection beyond a borrower's ability to repay:

- Our underwriting focuses foremost on a borrower's ability to repay a loan. The average Beacon score of our Alternative single family residential borrowers was 705 at March 31, 2021, up from 692 just two years ago (3 points higher quarter-over quarter and 10 points higher year-over-year). Similarly, the average Beacon score of our small business mortgage borrowers was 740. These higher creditscores are indicative of our borrowers' positive repayment histories and lower propensity to default under normal economic conditions.
- 55% of our loans under management are insured against credit losses, ultimately with thebacking of the Government of Canada.
- Almost 100% of our loan portfolio is secured. Our uninsured mortgage loans are supported by first-position claims on real estate and our leases by first position claims on equipment, sowe have a real asset with tangible value behind almost every loan, even if those assets decline in value from pre-COVID-19 levels.
- If the prices of the assets securing our mortgage loans decline, we are further protected by the low LTVs at which we lend. The average LTV on our uninsured residential mortgage portfolio was 61% at March 31, 2021.
- Further to this collateral, almost all of our uninsured commercial mortgage borrowers and the majority of our lessees are backed by personal and/or corporate covenants. In our mortgage business, our due diligence on borrowers and guarantors involves assessing their financial capacity.

With the onset of the pandemic, we believed that there may have been an elevated level of risk in the hospitality, retail, and personal services segments of our equipment business. Although this segment did experience higher loss rates, those rates were only marginally higher. This segment remains a small portion of our equipment leasing portfolio at only 19% of our lease assets. In the broader equipment leasing portfolio, mitigating the risk of loss is the fact that almost 60% of our leasing assets are in transportation related industries.

Allowance for Credit Losses

Our total allowance for credit losses declined by $6.2 million or 9% year-over-year and $3.3 million or 5% over the preceding quarter due to a decrease in allowances at all stages.

Stage 1 and 2 allowances declined primarily because of continued improvement in forward-looking macroeconomic factors. In the first half of 2020, we had increased allowances to reflect the deterioration in our macroeconomic outlook as a result of the onset of COVID-19. IFRS 9 requires us to estimate future losses taking into account macroeconomic forecasts. Our loss estimates and macroeconomic scenarios attempt to factor in the wide range of Government support programs for Canadian individuals and businesses that we believe will mitigate our losses, though modelling those unprecedented actions is inherently difficult.

Table 10: Allowance for credit losses

($000s, except percentages)	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Allowance for credit losses – Stage 1 and 2	**59,539**	62,633	(5%)	62,906	(5%)
Allowance for credit losses – total	**62,907**	66,177	(5%)	69,086	(9%)
Allowance for credit losses – total as a % of total loan assets	**0.22%**	0.23%	(0.01%)	0.26%	(0.04%)
Allowance for credit losses – total as a % of uninsured loan assets	**0.41%**	0.45%	(0.04%)	0.45%	(0.04%)
Allowances for credit losses – total as a % of gross impaired	**58%**	54%	4%	52%	6%

The movement in Stage 1 and 2 allowances is a function of changes in both the probability that loans will default and the expected loss rates on loans. During the quarter, the decrease in the probability of default was primarily driven by improving macroeconomic variables, triggering a shift of $1.1 billion of loans from Stage 2 back to Stage 1. This shift caused a decrease in allowances due to the fact that Stage 1 allowances are based on expected losses *over the next 12 months* of a loan, while Stage 2 allowances are based on expected losses *over the projected life of a loan*. The improvement in macroeconomic variables also reduced our allowances by decreasing expected loss rates on our Stage 1 loans, offset in part by an increase in loss rates on our Stage 2 loans. The chart below provides allowance metrics that illustrate these stage migration and loss rate dynamics:

Table 11: Stage 1 and 2 loan credit metrics

(Percentages)	31-Mar-21	31-Dec-20	30-Sep-20	30- Jun-20	31- Mar-20
Stage 1 – proportion of loan assets[(1)]	**87.7%**	83.6%	77.3%	65.0%	75.0%
Stage 1 – effective allowance rate[(2)]	**0.14%**	0.15%	0.16%	0.16%	0.14%
Stage 2 – proportion of loan assets	**11.9%**	15.9%	22.4%	34.5%	24.5%
Stage 2 – effective allowance rate	**0.67%**	0.59%	0.50%	0.41%	0.54%

(1) Stage 1 and 2 percentages do not equal 100%: loans in stage 3 account for the difference and are not included in this table.
(2) The effective allowance rate equals the total allowance for loans in the stage divided by the period end loan balances in that stage.

In Q1 2021, Stage 1 and 2 allowances against our uninsured personal loans, uninsured commercial loans and equipment leases declined by $0.4 million, $1.4 million, and $1.3 million respectively.

Table 12: Stage 1 and 2 allowance for credit losses by lending business

($000s, except bps)	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Uninsured personal loans – stage 1 and 2 allowances	**17,711**	18,121	(2%)	17,374	2%
as a % of uninsured personal loans (bps)	***17***	*18*	*(1)*	*16*	*1*
Uninsured commercial loans – stage 1 and 2 allowances	**23,813**	25,253	(6%)	25,403	(6%)
as a % of uninsured commercial loans (bps)	***52***	*58*	*(6)*	*66*	*(14)*
Equipment leases – stage 1 and 2 allowances	**17,983**	19,240	(7%)	20,116	(11%)
as a % of equipment leases (bps)	***305***	*363*	*(58)*	*420*	*(115)*
Insured personal and commercial loans – stage 1 and 2 allowances	**32**	19	68%	13	146%
as a % of insured personal and commercial loans (bps)	***0.02***	*0.01*	*0.01*	*0.01*	-
Total loans – stage 1 and 2 allowances	**59,539**	62,633	(5%)	62,906	(5%)
as a % of total loans (bps)	***21***	*22*	*(1)*	*24*	*(3)*

We obtain macroeconomic forecasts from Moody's Analytics and use the in our credit loss modelling. Generally, macroeconomic forecasts have improved across all significant factors since Q2 2020 and have caused our Expected Credit Losses (ECL) to decrease since then. We have compared these forecasts to those of other Canadian economists, and the estimates that we used appear to be in line with market consensus. For a summary of key forecast assumptions for each scenario, please refer to Notes 7(e) to the Q1 2021 interim consolidated financial statements.

Table 13: Expected future credit losses by macroeconomic scenario

($000s, except percentages)	Base Case	Upside Scenario	Slower Growth	Moderate Recession	Protracted Slump
Weighting for financial statement ECL calculation (%)	**50**	**15**	**20**	**10**	**5**
Expected credit losses if each scenario weighted 100%	**54,468**	**44,311**	**62,950**	**78,350**	**104,641**
Difference vs. financial statement ECL	**(5,071)**	**(15,228)**	**3,411**	**18,811**	**45,102**

Stage 3 allowances relate to impaired loans and were down by $2.8 million from a year ago. Stage 3 allowances are determined loan-by-loan and we believe that they are adequate at the end of Q1 2021. Stage 3 allowances on our mortgages are generally supported by up-to-date, independent property appraisals.

Taking into account all known information and acknowledging the high level of uncertainty inherent in current economic forecasts and our experienced credit judgement, we believe that the total allowance for credit losses represents a reasonable estimate of future losses. Our estimates are subject to uncertainty and actual losses may differ materially if one or more of the underlying assumptions do not materialize as expected, including the expected impact of Government support programs. Actual losses may also differ from our estimates due to the weightings we apply to the underlying economic scenarios.

Impaired Loans

Impaired loans at the end of the quarter were $108.6 million, down $24.8 million from a year ago and $12.9 million from the preceding quarter.

The improvement in impaired loans over the past 12 months reflects the discharge of a $39.3 million commercial loan in Vancouver without a loss and an $8.9 million loan in Manitoba that returned to performing status, offset in part by the addition of two impaired commercial loans of $15.0 million and $10.6 million, respectively, that had an LTV of 41% and 34%. As a result, we do not expect a loss on these loans. The remaining variance reflects net reduction in impaired equipment leases of $5.0 million.

Impaired loans reduced compared to the prior quarter mainly due to net reduction in our single family mortgages.

At the end of Q1 2021, the Bank no longer had any customers on deferral due to COVID-19.

Table 14: Impaired loan metrics

($000s, except percentages)	**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
Gross impaired loan assets	**108,639**	121,548	(11%)	133,466	(19%)
Net impaired loan assets	**105,271**	118,004	(11%)	127,286	(17%)
Net impaired loan assets as a % of total loan assets	**0.36%**	0.42%	(0.06%)	0.47%	(0.11%)

Liquidity investments and equity securities

Retail and securitization funding markets continue to be liquid and efficient and have been further supported by significant programs announced by the Bank of Canada and CMHC.

We maintain liquid asset balances at a level that we believe is sufficient for the Bank to meet its upcoming obligations even through periods of disruption in financial markets, including the current COVID-19 pandemic. 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 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 Bank to take further liquidity protection measures. Please refer to the Risk Management section of this document for more detail on the Bank'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 liquid equity securities (99% of which are investment grade preferred shares) to yield tax-preferred dividend income. We have the ability to liquidate this portfolio in the event of financial stress.

Table 15: Liquid assets

($000s, except percentages)	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Eligible deposits with regulated financial institutions[1]	**588,013**	553,554	6%	737,220	(20%)
Debt securities	**293,757**	301,674	(3%)	132,042	122%
Government of Canada issued or guaranteed debt instruments:					
Investments purchased under reverse repurchase agreements	**350,037**	450,203	(22%)	499,966	(30%)
Loans and investments held in the form of debt securities[2], net of obligations under repurchase agreements	**1,838,459**	1,488,124	24%	814,551	126%
Liquid assets held for regulatory purposes	**3,070,266**	2,793,555	10%	2,183,779	41%
Other deposits with regulated financial institutions[3]	**8,254**	4,188	97%	115	7077%
Equity securities[4]	**118,578**	112,447	5%	86,437	37%
Total liquid assets	**3,197,098**	2,910,190	10%	2,270,331	41%
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**9.8%**	9.1%	0.7%	7.5%	2.3%
Total liquid assets as a % of total assets	**10.2%**	9.5%	0.7%	7.8%	2.4%

(1) Eligible deposits with regulated financial institutions represents deposits of Bank which are held at major Canadian financial institutions and excludes $11.1 million (December 31, 2020 – $28.7 million, March 31, 2020 – $44.0 million) of restricted cash held as collateral with third parties for the Bank's interest rate swap transactions and $521.5 million (December 31, 2020 – $475.4 million, March 31, 2020 – $346.4 million) of cash held in trust accounts and deposits held with banks as collateral for the Bank's securitization activities. (2) Loans held in the form of debt securities represent loans securitized and retained by the Bank and are reported in our Loans receivable balances. Investments held in the form of debt securities refer to MBS securities that we purchase from third parties and the values reported represent the fair market value of the associated MBS securities. (3) Other deposits with regulated financial institutions are deposits held by Equitable Group Inc. (4) Equity securities are 99% investment grade publicly traded preferred shares and 1% publicly traded common shares.

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio (LCR)[1]. At March 31, 2021, our LCR was well in excess of the regulatory minimum of 100%.

Liquid assets were $3.2 billion at Q1 2021, up $927 million and $287 million from Q1 and Q4 2020, respectively. The current level of liquid assets reflects measures taken to strengthen the Bank's liquidity position in light of COVID-19 related uncertainties, higher levels of required liquidity as a result of growth in demand deposits, and anticipated cash needs for upcoming quarters.

Deposits

Our deposits provide a reliable and diversified base of funding that can be effectively matched against loan maturities.

Table 16: Deposit principal

($000s)	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Brokered deposits:					
Term	**9,395,250**	9,647,939	(3%)	11,278,428	(17%)
Demand	**647,418**	675,358	(4%)	523,974	24%
	10,042,668	10,323,297	(3%)	11,802,402	(15%)
EQ Bank deposits:					
Term	**590,795**	962,170	(39%)	861,540	(31%)
Demand	**5,206,856**	3,593,436	45%	1,845,643	182%
	5,797,651	4,555,606	27%	2,707,183	114%
Strategic partnerships	**533,631**	692,785	(23%)	610,141	(13%)
Deposit notes	**1,052,866**	804,323	31%	355,127	196%
Total	**17,426,816**	16,376,011	6%	15,474,853	13%

(1) See Non-GAAP financial measures section of this MD&A.

Our deposits provide a reliable and diversified base of funding that can be effectively matched against loan maturities.

Total deposit principal increased $2.0 billion or 13% compared to a year ago and $1.1 billion or 6% from the preceding quarter.

Capital management – Equitable Bank

On March 27, 2020, OSFI announced several actions to address operational issues stemming from the economic impact of COVID-19 including the introduction of a transitional arrangement for expected credit loss provisioning on capital. This transitional arrangement results in a portion of allowances that would otherwise be included in Tier 2 capital of the Bank to be included in CET1 capital. The adjustment is equal to the increase in Stage 1 and Stage 2 allowances relative to December 31, 2019. This increase is tax-effected and subject to a scaling factor that will decrease over time. The scaling factor is set at 50% for 2021 and will decline to 25% for 2022.

We believe that Equitable Bank's current level of capital and earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Equitable Bank's Capital Ratios at the end of Q1 2021 exceeded regulatory minimums and were above the top end of our target range. Our CET1 ratio slightly decreased by 10 bps from the preceding quarter as growth in risk-weighted assets outpaced capital growth. Our CET1 ratio increased by 100 bps over the prior year mainly due to earnings' retention over the past twelve months, unrealized gains on our preferred share investments, and reduced risk density as a result of portfolio insurance we obtained on $687 million of Alternative single family mortgages in Q2 2020.

Canadian banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established Leverage Ratio targets on a confidential and institution-by-institution basis. Equitable Bank's Leverage Ratio was 5.1% at the end of Q1 2021 and the Bank was fully compliant with its regulatory requirements. Leverage Ratio was higher than the prior year due to capital growth.

As part of our capital management process, we stress test the loan portfolio on a regular basis to understand the potential impact of extreme but plausible adverse economic scenarios. We use these tests to analyze the impact that an increase in unemployment, rising interest rates, a decline in real estate prices, and other factors could have on our financial position. In light of COVID-19, we also run a variety of financial and capital stress tests to ensure we are positioned to manage through any of the potential scenarios that may transpire.

Based on the results of the stress tests performed to date, we have determined that even in the most adverse scenario analyzed, the Bank has sufficient capital to absorb potential losses without impairing the viability of the institution and that we would remain profitable in each year of the testing horizon.

Table 17: Capital measures of Equitable Bank

($000s, except percentages)	**31-Mar-21**	31-Dec-20	Change	31-Mar-20	Change
Total risk-weighted assets (RWA)	**10,911,018**	10,426,077	5%	9,916,286	10%
Common Equity Tier 1 Capital:					
Common shares	**216,541**	215,536	0%	214,418	1%
Contributed surplus	**8,813**	9,184	(4%)	8,496	4%
Retained earnings	**1,448,144**	1,386,197	4%	1,210,047	20%
Accumulated other comprehensive loss (AOCI)(1)	**(12,219)**	(19,009)	36%	(36,781)	67%
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(77,052)**	(66,448)	(16%)	(55,380)	(39%)
Common Equity Tier 1 Capital	**1,584,227**	1,525,460	4%	1,340,800	18%
Additional Tier 1 capital:					
Non-cumulative preferred shares	**72,554**	72,554	-%	72,554	-%
Tier 1 Capital	**1,656,781**	1,598,014	4%	1,413,354	17%
Tier 2 Capital:					
Eligible Stage 1 and 2 allowance	**59,538**	62,633	(5%)	62,906	(5%)
Less: Transitional adjustment in response to COVID-19	**(10,233)**	(15,873)	36%	(16,125)	N/A
Tier 2 Capital	**49,305**	46,760	5%	46,781	5%
Total Capital	**1,706,086**	1,644,774	4%	1,460,135	17%
Capital ratios and Leverage ratio:					
CET1 ratio	**14.5%**	14.6%	(0.1%)	13.5%	1.0%
Tier 1 capital ratio	**15.2%**	15.3%	(0.1%)	14.3%	0.9%
Total capital ratio	**15.6%**	15.8%	(0.2%)	14.7%	0.9%
Leverage ratio	**5.1%**	5.1%	0.0%	4.7%	0.4%

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

Accounting policy changes

The Bank's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Bank in the Q1 2021 interim consolidated financial statements are the same as those applied by the Bank as at and for the year ended December 31, 2020. Please refer to Note 3 to the interim consolidated financial statements for further discussion.

Critical accounting estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, 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 periods. Estimates and underlying assumptions are reviewed by management on an ongoing basis.

The critical estimates and judgments utilized in preparing the Bank's consolidated financial statements affect the assessment of the allowance for credit losses on loans, impairment of other financial instruments, impairment of goodwill, 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. These estimates and judgements have been made taking into consideration the economic impact of the COVID-19 pandemic and the significant economic volatility and uncertainty it has created. Actual results could differ materially 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 and the impact of COVID-19

The 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 measurement of ECL considers the incorporation of forward-looking macroeconomic variables and probability weightings of macroeconomic scenarios, which requires significant judgement. Management also exercises significant experienced 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 ECL.

As a result of the COVID-19 pandemic, the macroeconomic environment has experienced significant volatility and uncertainty. This has resulted in a direct impact on the forward-looking macroeconomic variables which management uses as part of its underlying assumptions for calculating the ECL. Management has used the latest forward-looking macroeconomic variables provided by Moody's Analytics economic forecasting services for calculating the ECL.

Recognizing the continued economic uncertainty the Bank is operating in, management has applied the same probability-weights to the macroeconomic scenarios as at December 31, 2020 and has also exercised its judgment in determining the amount of the ECL by considering reasonable and supportable information that was not already incorporated in the ECL modelling process.

Refer to Notes 2(d) and 7(d) to (f) to the Q1 2021 interim consolidated financial statements for further discussion.

Off-balance sheet activities

The Bank engages in certain financial transactions that, for accounting purposes, are not recorded on its interim consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital, and funding management purposes. These include certain securitization transactions, the commitments the Bank makes to fund its pipeline of loan originations, and letters of credit issued in the normal course of business (see Note 22 to the Bank's 2020 annual audited consolidated financial statements in the Bank's 2020 MD&A).

Securitization of financial assets

Certain securitization transactions qualify for derecognition when the Bank has transferred substantially all of the risks and rewards and control associated with the securitized assets. The outstanding securitized loan principal that qualified for derecognition totalled $5.4 billion at March 31, 2021 (December 31, 2020 – $5.2 billion, March 31, 2020 – $4.8 billion). The securitization liabilities associated with these transferred assets were approximately $5.4 billion at March 31, 2021 (December 31, 2020 – $5.2 billion, March 31, 2020 – $4.8 billion). The securitization retained interests recorded with respect to certain securitization transactions were $187.9 million at March 31, 2021 (December 31, 2020 – $184.8 million, March 31, 2020 – $145.9 million) and the associated servicing liability was $36.1 million at March 31, 2021 (December 31, 2020 – $35.1 million, March 31, 2020 – $28.4 million).

Commitments and letters of credit

The Bank provides commitments to extend credit to our borrowers. The Bank had outstanding commitments to fund $2.9 billion of loans in the ordinary course of business at March 31, 2021 (December 31, 2020 – $2.6 billion, March 31, 2020 – $2.0 billion).

The Bank also issues letters of credit which represent assurances that it will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $28.2 million were outstanding at March 31, 2021 (December 31, 2020 – $29.6 million, March 31, 2020 – $26.6 million), none of which were drawn upon.

Related party transactions

Certain of the Bank's key management personnel have transacted with it and/or invested in its deposits, and/or the Series 3 preferred shares in the ordinary course of business, on market terms and conditions. See Note 23 to the audited consolidated financial statements for further details.

Risk management

The Bank 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 Bank. Many of these risk factors are beyond the Bank's direct control. The Board plays an active role in monitoring the Bank's key risks and in determining the policies, practices, controls and other mechanisms that are best suited to manage these risks.

For a detailed discussion of our approach to risk management and the risks that affect the Bank, including risk associated with COVID-19, please refer to the section entitled Risk Management in the Bank's 2020 Annual Report which is available on SEDAR at www.sedar.com.

Credit risk

Credit risk is defined as the possibility that the Bank will not receive the full value of amounts and recovery costs owed to it if counterparties fail to honour their obligations to the Bank. Credit risk arises principally from the Bank's lending activities and our investment in debt and equity securities. The Bank's exposure to credit risk is monitored by senior management, the Enterprise Risk Management Committee, as well as the Risk and Capital Committee of the Board, which also undertakes the approval and monitoring of the Bank's investment and lending policies.

The Bank's primary lending business is providing first mortgages on real estate located across Canada. The Bank also provides other forms of secured financing which mainly include equipment leasing. For information related to the credit quality of the portfolio, see the section entitled "Credit quality and allowance for credit losses" of this MD&A.

The Bank invests in corporate bonds to diversify its liquidity holdings and to generate higher returns. These investments also expose the Bank 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 this credit risk, the Bank 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 Bank's corporate bond portfolio at March 31, 2021 (December 31, 2020 – 100%, March 31, 2020 – 100%).

We also invest in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 38% or $45 million of the total equity securities portfolio at March 31, 2021, compared to 41% or $35 million a year ago. Preferred share securities rated P-3 or higher comprised 98% of the total equity securities portfolio at the end of Q1 2021.

Table 18: 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**
Loans receivable:			
Loans risk rating	**0 – 3**	**4 – 5**	**6 – 8**

We have assessed the credit quality of the Bank's assets as at March 31, 2021 on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories.

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

Table 19: Credit quality analysis

($000s)				**March 31, 2021**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans receivable:				
Low risk	**13,957,924**	**790,680**	**-**	**14,748,604**
Standard risk	**11,079,178**	**2,470,707**	**-**	**13,549,885**
High risk	**365,976**	**181,820**	**-**	**547,796**
Impaired	**-**	**-**	**108,639**	**108,639**
Total	**25,403,078**	**3,443,207**	**108,639**	**28,954,924**
Less allowance	**(36,255)**	**(23,105)**	**(3,368)**	**(62,728)**
	25,366,823	**3,420,102**	**105,271**	**28,892,196**
Loans commitments:				
Low risk	**454,268**	**216**	**-**	**454,484**
Standard risk	**927,746**	**211,912**	**-**	**1,139,658**
High risk	**6,039**	**298**	**-**	**6,337**
Total	**1,388,053**	**212,426**	**-**	**1,600,479**
Less allowance	**(146)**	**(33)**	**-**	**(179)**
	1,387,907	**212,393**	**-**	**1,600,300**

Liquidity and funding risk

Liquidity and Funding risk is defined as the possibility that we will be unable to generate sufficient funds in a timely manner and at a reasonable price to meet our financial obligations as they come due. These financial obligations mainly arise from the redemption or maturity of deposits, the maturity of mortgage-backed securities and commitments to extend credit. Redemption rates are affected by many factors, including the level of consumer confidence in the Bank. Funding and Liquidity Risk may also be affected if an unduly large proportion of our deposit-taking business involves a single person, organization or group of related persons/organizations or a single geographic area.

We have a low tolerance for liquidity and funding risk and adhere to a Liquidity and Funding Risk Mgmt. policy that requires us to maintain a pool of high-quality liquid assets. We closely monitor our liquidity position on a daily basis and ensure that the level of liquid resources held, together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and properly discharge our other financial obligations. Despite these precautions, there is a risk that a disruption in funding markets may be so severe or prolonged that the Bank may need to take further actions to protect its liquidity position, which may even include curtailing lending activity or drawing on its Government managed funding programs.

Market risk

Market Risk consists of Interest rate, Equity price and Foreign currency rate risks. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Bank's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Bank's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Bank as at March 31, 2021, see Note 18 to the interim consolidated financial statements.

The Bank closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Bank's economic value of shareholders' equity (EVE) and its NII. The table below illustrates the results of management's sensitivity modelling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on NII during the 12-month period following March 31, 2021. 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 20: Net interest income shock

($000s, except percentages)	Increase in interest rates	Decrease in interest rates[(1)]
100 basis point shift		
Impact on net interest income	**21,740**	**1,114**
Impact on EVE	**(17,835)**	**(13,977)**
EVE impact as a % of common shareholders' equity	**(1.1%)**	**(0.8%)**
200 basis point shift		
Impact on net interest income	**40,173**	**1,113**
Impact on EVE	**(38,445)**	**(17,877)**
EVE impact as a % of common shareholders' equity	**(2.3%)**	**(1.1%)**

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

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

Foreign currency rate risk is defined as the risk of loss resulting from changes in currency exchange rates arising from the exposure of Bank's debt products denominated in foreign currency. We mitigate this risk through hedging, using foreign exchange derivatives.

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

Share information

At May 4, 2021, the Bank had 16,959,761 common shares and 2,978,100 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 640,597 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $51.4 million.

Normal course issuer bid (NCIB)

During Q1 2021, Equitable purchased and cancelled 11,700 preferred shares at an average price of $25.01. As at March 31, 2021, Equitable has purchased aggregate preferred shares of 15,000 at an average price of $24.99. No common shares have been purchased and cancelled under the NCIB.

Responsibilities of management and the board of directors

We are responsible for the information disclosed in this MD&A and the accompanying interim consolidated financial statements. The Bank has in place appropriate information systems and procedures to ensure that information used internally by us and disclosed externally is materially complete and reliable.

In addition, the Bank's Audit Committee, on behalf of the Board, performs an oversight role with respect to all public financial disclosures made by the Bank and has reviewed and approved this MD&A and the accompanying interim consolidated financial statements and accompanying notes.

Changes in internal control over financial reporting

There were no changes in the Bank's internal control over financial reporting that occurred during the first quarter of 2021 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Non-Generally Accepted Accounting Principles (GAAP) financial measures

We use a variety of financial measures to evaluate the Bank's performance. In addition to GAAP prescribed measures, we use certain non-GAAP measures that it believes provide useful information to investors regarding the Bank'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:

- **Assets under management (AUM):** is the sum of total assets reported on the consolidated balance sheet and loan principal derecognized but still managed by the Bank.

($000s)	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Total assets on the consolidated balance sheet	**31,354,537**	30,746,318	2%	29,153,879	8%
Loan principal derecognized	**5,386,980**	5,189,264	4%	4,782,246	13%
Assets under management	**36,741,517**	35,935,582	2%	33,936,125	8%

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

($000s)	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Shareholders' equity	**1,731,779**	1,647,702	5%	1,450,701	19%
Preferred shares	**(72,194)**	(72,477)	0%	(72,557)	1%
Common shareholders' equity	**1,659,585**	1,575,225	5%	1,378,144	20%
Common shares outstanding	**16,958,586**	16,874,074	1%	16,807,317	1%
Book value per common share	**97.86**	93.35	5%	82.00	19%

- **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. 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 derivativesand secured financing transactions to reflect credit and other risks.

  A detailed calculation of all Capital ratios can be found in Table 17 of this MD&A.

- **Dividend yield:** is calculated on an annualized basis and is defined as dividend per common share divided by average of daily closing price per common share for the period.

- **Economic value of shareholders' equity (EVE):** is a calculation of the present value of the Bank'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 Bank's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by revenue. A lower efficiency ratio reflects a more efficient cost structure.

($000s, except percentages)					For the three months ended
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Non-interest expenses	**57,317**	55,348	4%	54,180	6%
Revenue	**150,170**	151,950	(1%)	124,845	20%
Efficiency ratio	**38.2%**	36.4%	1.8%	43.4%	(5.2%)

- **Liquid assets:** is a measure of the Bank's cash or assets that can be readily converted into cash, which are held for the purposes of funding loans, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 15 of this MD&A.

- **Liquidity coverage ratio (LCR):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Bank's ability to meet its liquidity needs for a 30 calendar day liquidity stress scenario. It is equal to high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.

- **Loans under management (LUM):** is the sum of loan principal reported on the consolidated balance sheet and loan principal derecognized but still managed by the Bank. A detailed calculation can be found in Table 8 of this MD&A.

- **Net interest margin (NIM):** this profitability measure is calculated on an annualized basis by dividing net interest income by the average total interest earning assets for the period. A detailed calculation can be found in Tables 2 of this MD&A.

- **Operating leverage:** is the growth rate in revenue less the growth rate in non-interest expenses.

- **Pre-provision pre-tax income:** is the difference between revenue and non-interest expenses.

- **Provision for credit losses (PCL) – 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.

($000s, except percentages)	For the three months ended				
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Provision for credit losses	**(772)**	103	(850%)	35,687	(102%)
Divided by: average loan principal	**28,472,040**	27,822,176	2%	26,612,083	7%
Provision for credit losses – rate	**(0.01%)**	0.001%	(0.01%)	0.54%	(0.55%)

- **Return on 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.

($000s, except percentages)	For the three months ended				
	31-Mar-21	31-Dec-20	Change	31-Mar-20	Change
Net income available to common shareholders	**68,080**	70,304	(3%)	24,851	174%
Weighted average common equity outstanding	**1,617,447**	1,537,914	5%	1,386,574	17%
Return on equity	**17.1%**	18.2%	(1.1%)	7.2%	9.9%

- **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.

- **Revenue per full-time equivalent:** is calculated as revenue for the period divided by the number of full-time employees as at the end of that period.

Consolidated balance sheets (unaudited)

($000s) As at	Note	**March 31, 2021**	December 31, 2020	March 31, 2020
Assets:				
Cash and cash equivalents		**596,267**	557,743	737,335
Restricted cash		**532,693**	504,039	390,398
Securities purchased under reverse repurchase agreements		**350,037**	450,203	499,966
Investments	6	**611,718**	589,876	410,639
Loans – Personal	7,8	**19,507,100**	19,445,386	18,552,216
Loans – Commercial	7,8	**9,384,917**	8,826,182	8,229,032
Securitization retained interests		**187,866**	184,844	145,850
Other assets	9	**183,939**	188,045	188,443
		31,354,537	30,746,318	29,153,879
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	10	**17,609,846**	16,585,043	15,695,407
Securitization liabilities	8	**11,731,668**	11,991,964	10,777,497
Obligations under repurchase agreements	8	**-**	251,877	429,347
Deferred tax liabilities	11	**63,269**	60,880	48,117
Other liabilities	12	**217,975**	208,852	252,822
Bank facilities	13	**-**	-	499,988
		29,622,758	29,098,616	$27,703,178
Shareholders' equity:				
Preferred shares	14	**72,194**	72,477	72,557
Common shares	14	**224,397**	218,166	213,701
Contributed surplus	15	**7,722**	8,092	7,405
Retained earnings		**1,449,715**	1,387,919	1,212,125
Accumulated other comprehensive loss		**(22,249)**	(38,952)	(55,087)
		1,731,779	1,647,702	1,450,701
		31,354,537	30,746,318	29,153,879

See accompanying notes to the consolidated financial statements.

Consolidated statements of income (unaudited)

($000s, except per share amounts) Three month period ended	Note	**March 31, 2021**	March 31, 2020
Interest income:			
Loans – Personal		**161,057**	181,557
Loans – Commercial		**101,258**	100,206
Investments		**2,899**	2,488
Other		**2,620**	5,947
		267,834	290,198
Interest expense:			
Deposits		**77,785**	101,820
Securitization liabilities		**55,892**	67,021
Bank facilities		**191**	1,206
		133,868	170,047
Net interest income		**133,966**	120,151
Non-interest income:			
Fees and other income		**5,575**	6,723
Net loss on loans and investments		**(1,461)**	(8,531)
Gains on securitization activities and income from securitization retained interests	8	**12,090**	6,502
		16,204	4,694
Revenue		**150,170**	124,845
Provision for credit losses		**(772)**	35,687
Revenue after provision for credit losses		**150,942**	89,158
Non-interest expenses:			
Compensation and benefits		**28,973**	26,895
Other		**28,344**	27,285
		57,317	54,180
Income before income taxes		**93,625**	34,978
Income taxes:			
Current		**22,042**	15,580
Deferred		**2,389**	(6,572)
		24,431	9,008
Net income		**69,194**	25,970
Dividends on preferred shares		**1,114**	1,119
Net income available to common shareholders		**68,080**	24,851
Earnings per share:	16		
Basic		**4.02**	1.48
Diluted		**3.97**	1.46

See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income (unaudited)

($000s) Three month period ended	**March 31, 2021**	March 31, 2020
Net income	**69,194**	25,970
Other comprehensive income – items that will be reclassified subsequently to income:		
Debt instruments at Fair Value through Other Comprehensive Income:		
Net unrealized losses from change in fair value	**(1,658)**	(825)
Reclassification of net losses (gains) to income	**1,139**	(668)
Other comprehensive income – items that will not be reclassified subsequently to income:		
Equity instruments designated at Fair Value through Other Comprehensive Income:		
Net unrealized gains (losses) from change in fair value	**9,728**	(22,908)
	9,209	(24,401)
Income tax (expense) recovery	**(2,418)**	6,447
	6,791	(17,954)
Cash flow hedges:		
Net unrealized gains (losses) from change in fair value	**13,910**	(28,061)
Reclassification of net (gains) losses to income	**(465)**	2,855
	13,445	(25,206)
Income tax (expense) recovery	**(3,533)**	6,659
	9,912	(18,547)
Total other comprehensive income (loss)	**16,703**	(36,501)
Total comprehensive income (loss)	**85,897**	(10,531)

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in shareholders' equity (unaudited)

($000s)								March 31, 2021
					Accumulated other comprehensive income (loss)			
	Preferred Shares	Common Shares	Contributed Surplus	Retained Earnings	Cash Flow Hedges	Financial Instruments at FVOCI	Total	Total
Balance, beginning of period	**72,477**	**218,166**	**8,092**	**1,387,919**	**(19,943)**	**(19,009)**	**(38,952)**	**1,647,702**
Net Income	**-**	**-**	**-**	**69,194**	**-**	**-**	**-**	**69,194**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**9,912**	**6,791**	**16,703**	**16,703**
Exercise of stock options	**-**	**5,226**	**-**	**-**	**-**	**-**	**-**	**5,226**
Purchase of treasury preferred shares	**(283)**	**-**	**-**	**-**	**-**	**-**	**-**	**(283)**
Net loss on cancellation of treasury preferred shares	**-**	**-**	**-**	**(10)**	**-**	**-**	**-**	**(10)**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,114)**	**-**	**-**	**-**	**(1,114)**
Common shares	**-**	**-**	**-**	**(6,274)**	**-**	**-**	**-**	**(6,274)**
Stock-based compensation	**-**	**-**	**635**	**-**	**-**	**-**	**-**	**635**
Transfer relating to the exercise of stock options	**-**	**1,005**	**(1,005)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**72,194**	**224,397**	**7,722**	**1,449,715**	**(10,031)**	**(12,218)**	**(22,249)**	**1,731,779**
($000s)								March 31, 2020
Balance, beginning of period	72,557	213,277	6,973	1,193,493	241	(18,827)	(18,586)	1,467,714
Net Income	-	-	-	25,970	-	-	-	25,970
Other comprehensive loss, net of tax	-	-	-	-	(18,547)	(17,954)	(36,501)	(36,501)
Exercise of stock options	-	357	-	-	-	-	-	357
Dividends:								
Preferred shares	-	-	-	(1,119)	-	-	-	(1,119)
Common shares	-	-	-	(6,219)	-	-	-	(6,219)
Stock-based compensation	-	-	499	-	-	-	-	499
Transfer relating to the exercise of stock options	-	67	(67)	-	-	-	-	-
Balance, end of period	72,557	213,701	7,405	1,212,125	(18,306)	(36,781)	(55,087)	1,450,701

See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows (unaudited)

($000s) Three month period ended	**March 31, 2021**	March 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**69,194**	25,970
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**(7,390)**	13,362
Amortization of premiums/discount on investments	**18**	309
Amortization of capital assets and intangible costs	**7,337**	5,231
Provision for credit losses	**(772)**	35,687
Securitization gains	**(4,178)**	(2,767)
Stock-based compensation	**635**	499
Income taxes	**24,431**	9,008
Securitization retained interests	**10,679**	8,480
Changes in operating assets and liabilities:		
Restricted cash	**(28,654)**	72,594
Securities purchased under reverse repurchase agreements	**100,166**	(349,897)
Loans receivable, net of securitizations	**(647,107)**	(205,567)
Other assets	**5,907**	(2,470)
Deposits	**1,028,166**	235,874
Securitization liabilities	**(260,329)**	66,119
Obligations under repurchase agreements	**(251,877)**	(77,697)
Bank facilities	**-**	499,988
Other liabilities	**35,578**	21,860
Income taxes paid	**(17,225)**	(37,499)
Cash flows from operating activities	**64,579**	319,084
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	**5,226**	357
Dividends paid on preferred shares	**(1,114)**	(1,119)
Dividends paid on common shares	**(6,274)**	(6,219)
Cash flows used in financing activities	**(2,162)**	(6,981)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(31,307)**	(115,962)
Proceeds on sale or redemption of investments	**16,355**	62,181
Net change in Canada Housing Trust re-investment accounts	**(425)**	(23,670)
Purchase of capital assets and system development costs	**(8,516)**	(6,170)
Cash flows used in investing activities	**(23,893)**	(83,621)
Net increase in cash and cash equivalents	**38,524**	228,482
Cash and cash equivalents, beginning of period	**557,743**	508,853
Cash and cash equivalents, end of period	**596,267**	737,335
Cash flows from operating activities include:		
Interest received	**338,505**	280,309
Interest paid	**(139,957)**	(143,095)
Dividends received	**1,482**	1,554

See accompanying notes to the consolidated financial statements.

Notes to consolidated financial statements

($000s, except per share amounts)

Note 1 – Reporting Entity

Equitable Group Inc. (the Bank) was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, Equitable Bank. The Bank 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 and its subsidiaries offer savings and lending products to personal and commercial customers across Canada.

Note 2 – Basis of Preparation

(a) Statement of compliance

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Bank's 2020 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Bank's Board of Directors (the Board) on May 4, 2021. Basis of measurement

(b) Basis of measurement

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

(c) Functional currency

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

(d) Use of estimates and accounting judgements 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 judgements utilized in preparing the Bank's consolidated financial statements affect the assessment of the allowance for credit losses on loans, 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 judgements, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been made taking into consideration the economic impact of the COVID-19 pandemic and the significant economic volatility and uncertainty it has created. Actual results could differ materially 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 experienced credit judgement in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of ECL. The measurement of ECL considers the incorporation of forward-looking macroeconomic variables and probability weightings of macroeconomic scenarios, which requires significant judgement. Management also exercises significant experienced credit judgement in determining the amount of ECL 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 ECL.

As a result of the COVID-19 pandemic, the macroeconomic environment has experienced significant volatility and uncertainty. This has resulted in a direct impact on the forward-looking macroeconomic variables which management uses as part of its underlying assumptions for calculating ECL. Management has used the latest forward-looking macroeconomic variables provided by Moody's Analytics economic forecasting services for calculating ECL.

Please refer to note 7(d).

(e) Consolidation

The interim consolidated financial statements as at and for the three months ended March 31, 2021 and March 31, 2020 include the assets, liabilities, and results of operations of the Bank and its subsidiaries, after the elimination of intercompany transactions and balances. The Bank 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 significant accounting policies applied by the Bank in these interim consolidated financial statements are the same as those applied by the Bank as at and for the year ended December 31, 2020 as described in Note 3 of the audited consolidated financial statements in the Bank's 2020 Annual Report.

Future accounting policies:

There are no significant updates to future accounting developments subsequent to the disclosure in Note 3 of the audited consolidated financial statements in the Bank's 2020 Annual Report.

Note 4 – Risk Management

The Bank, 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 Bank. Many of these risk factors are beyond the Bank's direct control. The use of financial instruments exposes the Bank to credit risk, liquidity risk and market risk.

A discussion of the Bank's risk exposures and how it manages those risks can be found in the Risk Management section of the Management's Discussion & Analysis of the Bank's 2020 Annual Report and the 2021 first quarter report.

Note 5 – Financial Instruments

The Bank's business activities result in a Consolidated Balance Sheets that consist primarily of financial instruments. The majority of the Bank'snet 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) Loans receivable

The estimated fair value of loans receivable is determined using a discounted cash flow calculation and the market interest rates offered for loans 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.

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at March 31, 2021 and December 31, 2020. The tables do not include assets and liabilities that are not financial instruments.

($000s)						March 31, 2021
	FVTPL – Mandatorily	**FVOCI – Debt instruments**	**FVOCI – Equity instruments**	**Amortized cost**	**Total carrying value**	**Fair value**
Financial assets:						
Cash and cash equivalents	**-**	**-**	**-**	**596,267**	**596,267**	**596,267**
Restricted cash	**-**	**-**	**-**	**532,693**	**532,693**	**532,693**
Securities purchased under reverse repurchase agreements	**-**			**350,037**	**350,037**	**350,037**
Investments	**154,703**	**198,001**	**91,284**	**167,730**	**611,718**	**613,755**
Loans – Personal	**-**	**-**	**-**	**19,507,100**	**19,507,100**	**19,566,371**
Loans – Commercial[1]	**90,340**	**-**	**-**	**8,724,698**	**8,815,038**	**8,892,830**
Securitization retained interests	**-**	**-**	**-**	**187,866**	**187,866**	**188,437**
Other assets:						
Derivative financial instruments[2]:						
Interest rate swaps	**22,649**	**-**	**-**	**-**	**22,649**	**22,649**
Total return swaps	**12,624**	**-**	**-**	**-**	**12,624**	**12,624**
Bond forwards	**2,530**	**-**	**-**	**-**	**2,530**	**2,530**
Other	**-**	**-**	**-**	**9,206**	**9,206**	**9,206**
Total financial assets	**282,846**	**198,001**	**91,284**	**30,075,597**	**30,647,728**	**30,787,399**
Financial liabilities:						
Deposits	**-**	**-**	**-**	**17,609,846**	**17,609,846**	**17,683,528**
Securitization liabilities	**-**	**-**	**-**	**11,731,668**	**11,731,668**	**11,917,116**
Other liabilities:						
Derivative financial instruments[2]:						
Interest rate swaps	**13,655**	**-**	**-**	**-**	**13,655**	**13,655**
Total return swaps	**6,984**			**-**	**6,984**	**6,984**
Bond forwards	**299**	**-**	**-**	**-**	**299**	**299**
Foreign exchange forwards	**251**				**251**	**251**
Loan commitments	**35**	**-**	**-**	**-**	**35**	**35**
Other	**-**	**-**	**-**	**195,138**	**195,138**	**195,138**
Total financial liabilities	**21,224**	**-**	**-**	**29,536,652**	**29,557,876**	**29,817,006**

(1) Loans – Commercial does not include $569,879 (December 31, 2020 - $538,156) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9. (2) Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

($000s)						December 31, 2020
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	-	-	-	557,743	557,743	557,743
Restricted cash	-	-	-	504,039	504,039	504,039
Securities purchased under reverse repurchase agreements	-	-	-	450,203	450,203	450,203
Investments	152,482	174,646	87,339	175,409	589,876	591,908
Loans – Personal	-	-	-	19,445,386	19,445,386	19,610,189
Loans – Commercial[1]	125,205	-	-	8,162,821	8,288,026	8,438,945
Securitization retained interests	-	-	-	184,844	184,844	189,380
Other assets:						
Derivative financial instruments[2]:						
Interest rate swaps	22,081	-	-	-	22,081	22,081
Total return swaps	4,889	-	-	-	4,889	4,889
Other	-			13,242	13,242	13,242
Total financial assets	304,657	174,646	87,339	29,493,687	30,060,329	30,382,619
Financial liabilities:						
Deposits	-	-	-	16,585,043	16,585,043	16,712,440
Securitization liabilities	-	-	-	11,991,964	11,991,964	12,294,592
Obligations under repurchase agreements	-	-	-	251,877	251,877	251,877
Other liabilities:						
Derivative financial instruments[2]:						
Interest rate swaps	30,098	-	-	-	30,098	30,098
Total return swaps	17,192	-	-	-	17,192	17,192
Bond forwards	1,253	-	-	-	1,253	1,253
Foreign exchange forwards	709	-	-	-	709	709
Loan commitments	25	-	-	-	25	25
Other	-	-	-	159,158	159,158	159,158
Total financial liabilities	49,277	-	-	28,988,042	29,037,319	29,467,344

(1) Loans – Commercial does not include $569,879 (December 31, 2020 - $538,156) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9. (2) Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

(b) Fair value hierarchy

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

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:

($000s) **March 31, 2021**	**Level 1**	**Level 2**	**Level 3**	**Total financial assets/financial liabilities at fair value**
Financial assets:				
Investments	**592,985**	**-**	**20,770**	**613,755**
Loans – Personal	**-**	**-**	**19,566,371**	**19,566,371**
Loans – Commercial	**-**	**90,340**	**8,802,490**	**8,892,830**
Securitization retained interests	**-**	**188,437**	**-**	**188,437**
Other assets:				
Derivative financial instruments[1]:				
Interest rate swaps	**-**	**22,649**	**-**	**22,649**
Total return swaps	**-**	**8,430**	**4,194**	**12,624**
Bond forwards	**-**	**2,530**	**-**	**2,530**
Other	**-**	**9,206**	**-**	**9,206**
Total financial assets	**592,985**	**321,592**	**28,393,825**	**29,308,402**
Financial liabilities:				
Deposits	**-**	**17,683,528**	**-**	**17,683,528**
Securitization liabilities	**-**	**11,191,081**	**726,035**	**11,917,116**
Other liabilities:				
Derivative financial instruments[1]:				
Interest rate swaps	**-**	**13,655**	**-**	**13,655**
Total return swaps	**-**	**341**	**6,643**	**6,984**
Bond forwards	**-**	**299**	**-**	**299**
Foreign exchange forwards	**-**	**251**	**-**	**251**
Loan Commitments	**-**	**-**	**35**	**35**
Other	**-**	**195,138**	**-**	**195,138**
Total financial liabilities	**-**	**29,084,293**	**732,713**	**29,817,006**

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

($000s) December 31, 2020	Level 1	Level 2	Level 3	Total financial assets/financial liabilities at fair value
Financial assets:				
Investments	577,636	-	14,272	591,908
Loans – Personal	-	-	19,610,189	19,610,189
Loans – Commercial	-	125,205	8,313,740	8,438,945
Securitization retained interests	-	189,380		189,380
Other assets:				
Derivative financial instruments(1):				
Interest rate swaps	-	22,081	-	22,081
Total return swaps	-	4,605	284	4,889
Other	-	13,242	-	13,242
Total financial assets	577,636	354,513	27,938,485	28,870,634
Financial liabilities:				
Deposits	-	16,712,440	-	16,712,440
Securitization liabilities	-	11,607,776	686,816	12,294,592
Other liabilities:				
Derivative financial instruments(1):				
Interest rate swaps	-	30,098	-	30,098
Total return swaps	-	-	17,192	17,192
Bond forwards	-	1,253	-	1,253
Foreign exchange forwards	-	709	-	709
Loan Commitments	-	-	25	25
Other	-	159,158	-	159,158
Total financial liabilities	-	28,511,434	704,033	29,215,467

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

Note 6 – Investments

Carrying value of investments is as follows:

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
Equity securities measured at FVOCI	**91,284**	87,339	69,444
Equity securities measured at FVTPL	**1,135**	1,165	1,025
Debt securities measured at FVOCI	**153,568**	174,646	93,789
Debt securities measured at FVTPL	**167,730**	151,317	184,055
Debt securities measured at AMC	**198,001**	175,409	62,326
	611,718	589,876	410,639

The Bank 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 period ended March 31, 2021, the Bank earned dividends of $1,090 (March 31, 2020 − $1,143) on these Equity securities. During the period, the Bank sold Equity securities of $5,750 (March 31, 2020 − $nil) and did not recognize any gains or losses (March 31, 2020 − $nil) in Retained earnings.

As at March 31, 2021 the Bank had a commitment to invest $22,757 (March 31, 2020 − $14,295) in certain equity securities measured at FVTPL.

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

($000s)	**March 31, 2021**	March 31, 2020
Equity securities measured at FVOCI	**9,728**	(22,908)
Equity securities measured at FVTPL	**(30)**	(76)
Debt securities measured at FVOCI	**(518)**	(1,493)
Debt securities measured at FVTPL	**(1,378)**	(4,890)

Note 7 – Loans Receivable

(a) Loans receivable

($000s)						**March 31, 2021**
		Allowance for credit losses				
	Gross amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Net amount**
Loans – Personal	**19,526,333**	**12,808**	**4,903**	**1,522**	**19,233**	**19,507,100**
Loans – Commercial	**9,428,591**	**23,593**	**18,235**	**1,846**	**43,674**	**9,384,917**
	28,954,924	**36,401**	**23,138**	**3,368**	**62,907**	**28,892,017**

($000s)						December 31, 2020
		Allowance for credit losses				
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Personal	19,465,192	13,228	4,893	1,685	19,806	19,445,386
Loans – Commercial	8,872,553	22,632	21,880	1,859	46,371	8,826,182
	28,337,745	35,860	26,773	3,544	66,177	28,271,568

($000s)						March 31, 2020
		Allowance for credit losses				
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Personal	18,571,652	7,771	9,603	2,062	19,436	18,552,216
Loans – Commercial	8,278,682	19,710	25,822	4,118	49,650	8,229,032
	26,850,334	27,481	34,425	6,180	69,086	26,781,248

As at March 31, 2021, Loans – Commercial include certain loans measured at FVTPL with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at March 31, 2021, the carrying value of these loans was $89,242 (December 31, 2020 – $59,415, March 31, 2020 – $94,848) and included fair value adjustment of ($785) (December 31, 2020 – $43, March 31, 2020 – $360).

Loans – Commercial also include certain loans measured at FVTPL with changes in fair value included in Non-interest income in the Consolidated Statements of Income. As at March 31, 2021, the carrying amount of these loans was $1,099 (December 31, 2020 – $65,789, March 31, 2020 – $90,217) and included fair value adjustment of ($11) (December 31, 2020 – $21, March 31, 2020 – ($3,271)).

The impact of changes in fair value for loans measured at fair value through income is as follows:

($000s)	**March 31, 2021**	March 31, 2020
Net (losses) gains in fair values for loans measured at FVTPL included in gains onsecuritization activities	**(828)**	1,086
Net losses in fair values for loans measured at FVTPL and recognized in net loss on loans and investments	**(44)**	(3,762)

Loans – Commercial include loans of $225,099 (December 31, 2020 – $230,989, March 31, 2020 – $231,967) invested in certain asset-backed structured entities. The Bank holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Bank 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 these investments. Consequently, the Bank does not control these structured entities and has not consolidated them.

Loans – Commercial also include the Bank's net investment in finance leases of $569,879 (December 31, 2020 – $538,156, March 31, 2020 – $487,364).

At March 31, 2021, the Bank had commitments to fund a total of $2,903,944 (December 31, 2020 − $2,547,278, March 31, 2020 – $2,002,136) loans in the ordinary course of business.

(b) Impaired and past due loans

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

($000s)			**March 31, 2021**	December 31, 2020	March 31, 2020
	Gross[(1)]	**Allowance for credit losses**	**Net**	Net	Net
Loans – Personal	**46,752**	**1,522**	**45,230**	61,018	44,235
Loans – Commercial – Conventional and Insured	**34,355**	**251**	**34,104**	30,208	54,205
Loans – Commercial – Finance Leases	**27,532**	**1,595**	**25,937**	26,778	28,846
	108,639	**3,368**	**105,271**	118,004	127,286

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

($000s)				**March 31, 2021**
	30 − 59 days	**60 − 89 days**	**90 days or more**	**Total**
Loans – Personal	**43,509**	**13,238**	**-**	**56,747**
Loans – Commercial – Conventional and Insured	**865**	**39,320**	**-**	**40,185**
Loans – Commercial – Finance Leases	**7,700**	**4,416**	**-**	**12,116**
	52,074	**56,974**	**-**	**109,048**

($000s)				December 31, 2020
	30 − 59 days	60 − 89 days	90 days or more	Total
Loans – Personal	97,657	29,776	-	127,433
Loans – Commercial – Conventional and Insured	11,014	1,764	-	12,778
Loans – Commercial – Finance Leases	9,142	4,505	-	13,647
	117,813	36,045	-	153,858

(1) Gross balances include loans amounting to $8,061 (December 31, 2020 − $8,873, March 31, 2020 – $6,175) that are insured.

($000s)				March 31, 2020
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Personal	45,153	13,772	-	58,925
Loans – Commercial – Conventional and Insured	7,506	1,666	-	9,172
Loans – Commercial – Finance Leases	19,733	9,464	-	29,197
	72,392	24,902	-	97,294

(c) Allowance for credit losses

($000s)				**March 31, 2021**
	12 months ECL	**Lifetime non-credit impaired**	**Lifetime credit impaired**	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of period	**35,860**	**26,773**	**3,544**	**66,177**
Provision for credit losses:				
Transfers to (from) Stage 1	**2,979**	**(2,451)**	**(528)**	**-**
Transfers to (from) Stage 2	**(1,099)**	**1,422**	**(323)**	**-**
Transfers to (from) Stage 3	**(19)**	**(401)**	**420**	**-**
Re-measurement[(1)]	**(2,609)**	**(1,719)**	**2,753**	**(1,575)**
Originations	**1,624**	**-**	**-**	**1,624**
Discharges	**(335)**	**(486)**	**-**	**(821)**
Write-off	**-**	**-**	**(2,286)**	**(2,286)**
Realized losses	**-**	**-**	**(223)**	**(223)**
Recoveries	**-**	**-**	**11**	**11**
Balance, end of period	**36,401**	**23,138**	**3,368**	**62,907**

($000s)				March 31, 2020
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	20,053	11,792	5,062	36,907
Provision for credit losses:				
Transfers to (from) Stage 1	1,496	(1,155)	(341)	-
Transfers to (from) Stage 2	(1,862)	1,939	(77)	-
Transfers to (from) Stage 3	(19)	(447)	466	-
Re-measurement[(1)]	5,930	23,216	4,578	33,724
Originations	2057	130	-	2,187
Discharges	(174)	(50)	-	(224)
Write-off	-	-	(2,575)	(2,575)
Realized losses	-	-	(948)	(948)
Recoveries	-	-	15	15
Balance, end of period	27,481	35,425	6,180	69,086

The Stage 1 and 2 allowance for credit losses includes allowance on loan commitments amounting to $179 (March 31, 2020 – $139).

(1) Includes movement as a result of significant increase or decrease in credit risk and changes in credit risk due to model inputs/assumptions that did not result in a transfer between stages

(d) Key inputs, assumptions and model techniques

The Bank's allowance for credit losses is estimated using statistical models that involve a 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 variables, specifically the macroeconomic variables to which the ECL models are calibrated, which are closely correlated with the credit losses in the relevantportfolios; and
- Changes to the probability weights assigned to each scenario.

In addition, these elements are also subject to a high degree of judgement which could have a significant impact on the level of ACL recognized. The inputs and models used for calculating ECL may not always capture all characteristics of the market. Qualitative adjustments or overlays may be made by the management for certain portfolios as temporary adjustments in circumstances where the assumptions and/ or modelling techniques do not capture all relevant risk factors.

In considering the assumptions for calculating ECL, the Bank has also considered the significant uncertainty COVID-19 has brought to current economic conditions and outlook. The Bank has applied experienced credit judgement, including consideration of government's assistance programs in the assessment of underling credit deterioration and migration of balances to progressive stages. Utilization of a payment deferral program was not necessarily considered an immediate trigger for a loan to migrate to a progressive stage.

(e) Forward-looking macroeconomic scenarios

The Bank subscribes to Moody's Analytics economic forecasting services and leverages its forward-looking macroeconomic information to model ECL. The Bank considers five macroeconomic scenarios: a base-case scenario, one upside and three downside scenarios. Each macroeconomic scenario is assigned a probability weighting, with the base-case scenario receiving the highest weight. The probability-weighted macroeconomic scenarios are incorporated into both measurement of ECL and assessment of whether thecredit risk of an instrument has increased significantly since its initial recognition.

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

										March 31, 2021
	Base-Case Scenario		**Upside Scenario**		**Downside Scenarios**					
					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 (%)	**8.5**	**7.1**	**8.0**	**6.1**	**8.9**	**7.6**	**9.6**	**8.8**	**10.3**	**10.3**
Real GDP growth rate (%)	**7.2**	**3.1**	**10.2**	**3.5**	**4.4**	**3.1**	**2.2**	**3.0**	**(3.7)**	**3.1**
Home Price Index growth rate (%)	**4.7**	**1.7**	**6.2**	**3.2**	**4.0**	**1.1**	**0.6**	**0.1**	**(2.8)**	**(2.5)**
Commercial Property Index growth rate (%)	**9.2**	**3.4**	**11.2**	**4.3**	**7.5**	**3.1**	**2.4**	**2.8**	**(2.3)**	**(1.2)**
Household income growth rate (%)	**1.2**	**0.3**	**4.1**	**1.2**	**(0.2)**	**0.0**	**(2.5)**	**(0.5)**	**(5.1)**	**(2.0)**

	December 31, 2020									
	Base-Case Scenario		Upside Scenario		Downside Scenarios					
					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 (%)	8.9	7.2	8.4	6.7	9.2	7.9	10.5	9.2	11.3	10.9
Real GDP growth rate (%)	4.1	3.3	6.9	3.5	2.6	2.9	(1.0)	3.3	(6.9)	3.7
Home Price Index growth rate (%)	2.5	2.8	3.5	4.0	2.0	2.5	(1.6)	1.4	(4.9)	(1.2)
Commercial Property Index growth rate (%)	7.6	4.1	10.1	4.8	6.0	3.9	(0.3)	3.9	(5.0)	1.7
Household income growth rate (%)	(1.2)	0.5	0.4	1.4	(1.6)	(0.5)	(2.5)	(1.0)	(4.3)	(2.3)

	March 31, 2020									
	Base-Case Scenario		Upside Scenario		Downside Scenarios					
					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 (%)	7.9	7.5	7.7	6.9	9.2	9.0	10.4	10.6	12.2	12.6
Real GDP growth rate (%)	(2.3)	2.3	(1.1)	3.3	(3.0)	1.7	(3.7)	1.1	(5.8)	(0.1)
Home Price Index growth rate (%)	(3.8)	0.9	(3.1)	1.3	(5.2)	(0.5)	(6.5)	(2.0)	(7.1)	(5.0)
Commercial Property Index growth rate (%)	(2.6)	1.9	(1.5)	2.6	(4.0)	0.7	(5.3)	(0.6)	(7.1)	(3.1)
Household income growth rate (%)	(1.8)	0.4	(1.4)	0.6	(2.5)	(0.1)	(3.3)	(0.6)	(4.1)	(1.5)

(f) Sensitivity of allowance for credit losses

ECL is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, the probability weightings of our five macroeconomic scenarios, and other factors considered when applying experienced credit judgement. Changes in these inputs, assumptions, models, and judgements 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 Bank's ACL using only the base-case scenario and downside scenario instead of the five probability-weighted macroeconomic scenarios for performing loans:

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
ACL – Five probability-weighted macroeconomic scenarios (actual)	**59,539**	62,633	62,906
ACL – Base-case scenario only	**54,468**	57,898	53,245
ACL – Downside scenario 3 only	**104,641**	106,351	125,808
Difference – Actual versus base-case scenario only	**5,071**	4,735	9,661
Difference – Actual versus downside scenario 3 only	**(45,102)**	(43,718)	(62,902)

Impact of staging on ACL

The following table illustrates the impact of staging on the Bank's ACL by comparing the allowance if all performing loans were in Stage 1, with other assumptions held constant, to the actual ACL recorded:

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
ACL – Loans in Stage 1 and Stage 2 (actual)	**59,539**	62,633	62,906
ACL – Assuming all loans in Stage 1	**56,302**	59,395	56,310
Lifetime ACL impact	**3,237**	3,238	6,596

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Bank 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 Bank's continuing involvement. The Bank transfers its financial assets through its securitization activities and sale of assets under repurchase agreements. For further details, refer to Note 10 to the audited consolidated financial statements in the Bank's 2020 Annual Report.

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

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

($000s)	**March 31, 2021**		December 31, 2020		March 31, 2020	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**11,678,703**	**-**	11,991,675	251,877	10,850,058	429,347
Carrying amount of associated liability	**11,731,668**	**-**	11,991,964	251,877	10,777,497	429,347
Carrying value, net position	**(52,965)**	**-**	(289)	-	72,561	-
Fair value of assets	**11,782,740**	**-**	12,222,074	251,877	11,085,216	429,347
Fair value of associated liability	**11,917,116**	**-**	12,294,592	251,877	10,983,106	429,347
Fair value, net position	**(134,376)**	**-**	(72,518)	-	102,110	-

The carrying amount of assets includes $28,702 (December 31, 2020 – $39,760, March 31, 2020 – $138,960) of the Bank's net investment in finance leases that were securitized and not derecognized. The carrying value of associated liability includes $23,202 (December 31, 2020 – $32,634, March 31, 2020 – $127,509) of liabilities pertaining to finance leases securitized.

The Bank's outstanding securitization liabilities are as follows:

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
Securitization principal	**11,745,542**	12,013,975	10,818,382
Deferred net discount and issuance costs	**(41,574)**	(42,174)	(69,371)
Accrued interest	**27,700**	20,163	28,486
	11,731,668	11,991,964	10,777,497

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

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

($000s)	**March 30, 2021**	March 31, 2020
Loans securitized and sold	**256,771**	211,533
Carrying value of Securitization retained interests	**13,702**	15,321
Carrying value of Securitized loan servicing liability	**3,342**	2,473
Gains on loans securitized and sold	**4,178**	2,767
Income from securitization activities and retained interests	**7,912**	3,735

Note 9 – Other Assets

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2021
Intangible assets	**77,585**	71,198	57,616
Goodwill	**16,944**	16,944	16,944
Property and equipment	**14,565**	15,324	17,285
Receivable relating to securitization activities	**14,224**	18,108	21,801
Prepaid expenses and other	**10,664**	14,162	10,065
Right-of-use assets	**9,707**	10,708	12,688
Accrued interest and dividends on non-loan assets	**1,517**	3,709	2,536
Real estate owned	**930**	863	1,976
Income taxes receivable	**-**	10,059	13,877
Deferred cost – Contingent liquidity facility	**-**	-	341
Loan commitments	**-**		16
Derivative financial instruments:			
Interest rate swaps	**22,649**	22,081	32,797
Total return swaps	**12,624**	4,889	212
Bond forwards	**2,530**	-	289
	183,939	188,045	188,443

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

The Bank has recognized right-of-use assets for its leased office premises located in Toronto, Oakville, Calgary, Montreal and Vancouver, and for its leased data centres as follows:

($000s)	**March 31, 2021**	March 31, 2020
Carrying amount of right-of-use assets	**9,707**	12,688
Depreciation charge for right-of-use assets	**810**	605
Cash outflows for lease liabilities	**748**	781
Interest expense on lease liabilities	**145**	189

In 2020 the Bank entered into an early termination agreement for some of its leased office premises located in Toronto. These leases were scheduled to expire in December 2025, but will now be early terminated in March 2023. As a result of the early termination, the Bank had derecognized $1,590 of its right-of-use assets, $1,949 of related right-of-use liabilities at December 31, 2020.

Note 10 – Deposits

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
Term and other deposits	**17,426,816**	16,376,011	15,474,853
Accrued interest	**210,760**	235,260	250,832
Deferred deposit agent commissions	**(27,730)**	(26,228)	(30,278)
	17,609,846	16,585,043	15,695,407

Note 11 – Income Taxes

(a) Income tax provision:

($000s)	**March 31, 2021**	March 31, 2020
Current tax expense:	**22,042**	15,580
Deferred tax expense:		
Reversal of temporary differences	**2,389**	(6,578)
Changes in tax rates	**-**	6
	2,389	(6,572)
Total income tax expense	**24,431**	9,008

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:

($000s)	**March 31, 2021**	March 31, 2020
Canadian statutory income tax rate	**26.3%**	26.4%
Increase (decrease) resulting from:		
Tax-exempt income	**(0.4%)**	(1.2%)
Non-deductible expenses and other	**0.2%**	0.5%
Effective income tax rate	**26.1%**	25.7%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
Deferred income tax assets:			
Tax losses	**4,955**	7,455	11,641
Allowance for credit losses	**11,001**	11,452	11,314
Share issue expenses	**4**	5	77
Net loan fees	**915**	372	2,218
Other	**2,853**	2,606	2,706
	19,728	21,890	27,956
Deferred income tax liabilities:			
Securitization activities	**51,944**	51,249	41,372
Leasing activities	**18,056**	19,257	22,832
Deposit agent commissions	**6,286**	6,143	7,708
Intangible costs	**5,155**	3,300	1,724
Other	**1,556**	2,821	2,437
	82,997	82,770	76,073
Net deferred income tax liabilities	**63,269**	60,880	48,117

Note 12 – Other Liabilities

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
Accounts payable and accrued liabilities	**110,666**	68,605	118,105
Loan realty taxes	**38,945**	43,546	42,594
Securitized loan servicing liability	**36,144**	35,060	28,369
Right-of-use liabilities	**10,186**	12,363	14,616
Income taxes payable	**737**	-	-
Unearned revenue	**73**	-	-
Loan commitments	**35**	26	-
Derivative financial instruments:			
Interest rate swaps	**13,655**	30,098	28,346
Total return swaps	**6,984**	17,192	17,646
Bond forwards	**299**	1,253	3,146
Foreign exchange forwards	**251**	709	-
	217,975	208,852	252,822

Note 13 – Bank Facilities

(a) Operating credit facility:

On March 31, 2021, the Bank terminated its $35,000 credit facility with a major Schedule I Canadian bank. The facility was secured by a portion of the Bank's investments in equity securities. There was no outstanding balance on this facility as at December 31, 2020 and as at March 31, 2020.

(b) Secured funding facilities:

The Bank has two credit facilities totaling $600,000 with major Schedule I Canadian banks to finance insured residential loans prior to securitization. The Bank also has access to several liquidity facilities sponsored by the Government of Canada, namely the Bank of Canada's Standing Term Liquidity Facility, Emergency Lending Assistance facility, and Contingent Term Repo Facility, as well as Canada Mortgage and Housing Corporation's Insured Mortgage Purchase Program. As at March 31, 2021, the Bank had an outstanding balance of $nil (December 31, 2020 – $nil, March 31, 2020 – $499,988) on these facilities.

Note 14 – Shareholder's Equity

(a) Normal course issuer bid (NCIB):

On December 21, 2020, the Bank announced that the Toronto Stock Exchange had approved a NCIB pursuant to which the Bank may repurchase for cancellation up to 1,144,245 of its common shares and 297,250 of its Series 3 – 5-year rate reset preferred shares, representing 10% of its public float of each class of shares. The Bank only intends to purchase a maximum of 630,000 common shares under the terms of the NCIB. The actual number of preferred shares purchased under the NCIB and the timing of any such purchases will be at the Bank's discretion. During the three months ended March 31, 2021, the Bank repurchased and cancelled 11,700 Series 3 – 5-year rate reset preferred shares (December 31, 2020 – 3,300, March 31, 2020 – nil) at a volume weighted average price of $25.01 (December 31, 2020 – 24.91, March 31, 2020 – nil). No common shares have been purchased and cancelled under the NCIB.

Note 15 – Stock-based Compensation

(b) Stock-based compensation plan:

Under the Bank's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years and vest over a four-year period. As at March 31, 2021, the maximum number of common shares available for issuance under the plan was 2,000,000. The outstanding options expire on various dates to March 2028. A summary of the Bank's stock option activity and related information for the periods ended March 31, 2021 and March 31, 2020 is as follows:

($000s, except share, per share and stock option amounts)	**March 31, 2021**		March 31, 2020	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**616,324**	**67.32**	577,012	60.75
Granted	**109,960**	**137.91**	102,556	90.96
Exercised	**(84,512)**	**61.84**	(9724)	36.64
Forfeited/cancelled	**-**	**-**	(945)	67.77
Outstanding, end of period	**641,772**	**80.14**	668,899	65.72
Exercisable, end of period	**353,739**	**63.26**	380,711	58.94

Under the fair value-based method of accounting for stock options, the Bank has recorded compensation expense in the amount of $635 (March 31, 2020 – $499) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended March 31, 2021 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

(Percentages, except per share amount and number of years)	**March 31, 2021**	March 31, 2020
Risk-free rate	**0.5%**	1.4%
Expected option life (years)	**4.8**	4.8
Expected volatility	**35.1%**	27.2%
Expected dividends	**2.0%**	1.8%
Weighted average fair value of each option granted	**28.67**	18.91

(c) Other stock based plans:

The Bank has an Employee share purchase (ESP) plan, a Restricted share unit (RSU and PSU) plan for eligible employees, and a Deferred share unit (DSU) plan for Directors. For details on the plans, refer to Note 19 to the audited consolidated financial statements in the Bank's 2020 Annual Report.

Under the DSU plan, the activity for the periods ended March 31, 2021 and March 31, 2020 is as follows:

	March 31, 2021	March 31, 2020
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**68,219**	54,237
Granted	**532**	1,238
Dividend reinvested	**201**	369
Outstanding, end of period	**68,952**	55,844

The liability associated with DSUs outstanding as at March 31, 2021 was $8,676 (March 31, 2020 – $2,917). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the three months ended March 31, 2021 amounted to $77 (March 31, 2020 – $145).

Under the Bank's RSU and PSU plan, the activity for the periods ended March 31, 2021 and March 31, 2020 is as follows:

	March 31, 2021	March 31, 2020
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of period	**84,008**	86,335
Granted	**29,412**	37,068
Dividend reinvested	**332**	831
Vested and paid out	**-**	(260)
Forfeited/cancelled	**(604)**	(994)
Outstanding, end of period	**113,148**	122,980

The liability associated with RSUs and PSUs outstanding as at March 31, 2021 was $6,095 (March 31, 2020 – $2,527). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the three months ended March 31, 2021 amounted to $688 (March 31, 2020 – $1,109).

Note 16 – 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 dilutioneffect of stock options using the treasury stock method.

($000s, except share, per share and stock option amounts)	**March 31, 2021**	March 31, 2020
Earnings per common share − basic:		
Net income	**69,194**	25,970
Dividends on preferred shares	**1,114**	1,119
Net income available to common shareholders	**68,080**	24,851
Weighted average basic number of common shares outstanding	**16,918,040**	16,800,410
Earnings per common share − basic	**4.02**	1.48
Earnings per common share − diluted:		
Net income available to common shareholders	**68,080**	24,851
Weighted average basic number of common shares outstanding	**16,918,040**	16,800,410
Adjustment to weighted average number of common shares outstanding:		
Stock options	**239,092**	188,817
Weighted average diluted number of common shares outstanding	**17,157,132**	16,989,227
Earnings per common share − diluted	**3.97**	1.46

For the period ended March 31, 2021, the calculation of the diluted earnings per share excluded 38,326 (March 31, 2020 − 36,429) average options outstanding with a weighted average exercise price of $135.5 (March 31, 2020 − $93.49) as the exercise price of these options was greater than the average price of the Bank's common shares.

Note 17 – 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. 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).

The Bank's CET1 Ratio was 14.5% as at March 31, 2021, while Tier 1 Capital and Total Capital Ratios were 15.2% and 15.6% respectively. The Bank's Capital Ratios at March 31, 2021 exceeded the regulatory minimums.

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 period, Equitable Bank complied with all internal and external capital requirements.

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

($000s)	**March 31, 2021**	December 31, 2020	March 31, 2020
Common Equity Tier 1 Capital ("CET1"):			
Common shares	**216,541**	215,536	214,418
Contributed surplus	**8,813**	9,184	8,496
Retained earnings	**1,448,144**	1,386,197	1,210,047
Accumulated other comprehensive loss(1)	**(12,219)**	(19,009)	(36,781)
Less: Regulatory adjustments	**(77,052)**	(66,448)	(55,380)
Common Equity Tier 1 Capital	**1,584,227**	1,525,460	1,340,800
Additional Tier 1 Capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,656,781**	1,598,014	1,413,354
Tier 2 Capital:			
Eligible stage 1 and 2 allowance	**59,538**	62,633	62,906
Less: Regulatory adjustments	**(10,233)**	(15,873)	(16,125)
Tier 2 Capital	**49,305**	46,760	46,781
Total Capital	**1,706,086**	1,644,774	1,460,135

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

Note 18 – Interest Rate Sensitivity

The following table shows the Bank's position with regard to interest rate sensitivity of assets, liabilities and equity on thedate of the earlier of contractual maturity or re-pricing date, as at March 31, 2021.

($000s, except percentages)								**March 31, 2021**
	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**
Total assets	**6,450,026**	**2,483,371**	**6,117,284**	**15,050,681**	**14,414,408**	**1,279,358**	**610,090**	**31,354,537**
Total liabilities and shareholders' equity	**-**	**(10,968,874)**	**(5,090,782)**	**(16,059,656)**	**(12,048,434)**	**(948,936)**	**(2,297,511)**	**(31,354,537)**
Off-balance sheet items(3)	**-**	**1,771,994**	**(614,163)**	**1,157,831**	**(1,176,086)**	**18,255**	**-**	**-**
Interest rate sensitivity gap	**6,450,026**	**(6,713,509)**	**412,339**	**148,856**	**1,189,888**	**348,677**	**(1,687,421)**	
Cumulative gap(2)	**6,450,026**	**(263,483)**	**148,856**	**148,856**	**1,338,744**	**1,687,421**	**-**	**-**
Cumulative gas as a percentage of total assets	**20.57%**	**(0.84%)**	**0.47%**	**0.47%**	**4.27%**	**5.38%**	**-%**	**-%**

($000s, except percentages)								December 31, 2020
	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
Cumulative gap(2)(3)	6,348,204	(5,579,154)	(226,988)	542,062	704,313	372,520	(1,618,896)	-
Cumulative gas as a percentage of total assets	20.65%	(2.50%)	1.76%	1.76%	4.05%	5.27%	-%	-%

($000s, except percentages)								March 31, 2020
	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
Cumulative gap(2)(3)	5,973,699	(124,049)	359,597	359,597	1,064,792	1,467,133	-	-
Cumulative gas as a percentage of total assets	20.49%	(0.43%)	1.23%	1.23%	3.65%	5.03%	-%	-%

(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 Bank's interest rate swaps, hedges on funded assets, as well as loan rate commitments that are not specifically hedged. Loan rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.

Shareholder and Corporate Information

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Toronto Stock Exchange Listings
Common Shares: EQB
Preferred Shares: EQB.PR.C

Quarterly Conference Call and Webcast
Wednesday, May 5, 2021,
8:30 a.m. EST
Live: 647.427.7450
Replay: 416.849.0833
(code 6354597)
Archive: www.equitablebank.ca

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Annual Meeting of Shareholders
Wednesday, May 12, 2021
10:00 a.m. EST
via live audio webcast onlineat
https://web.lumiagm. com/260010064