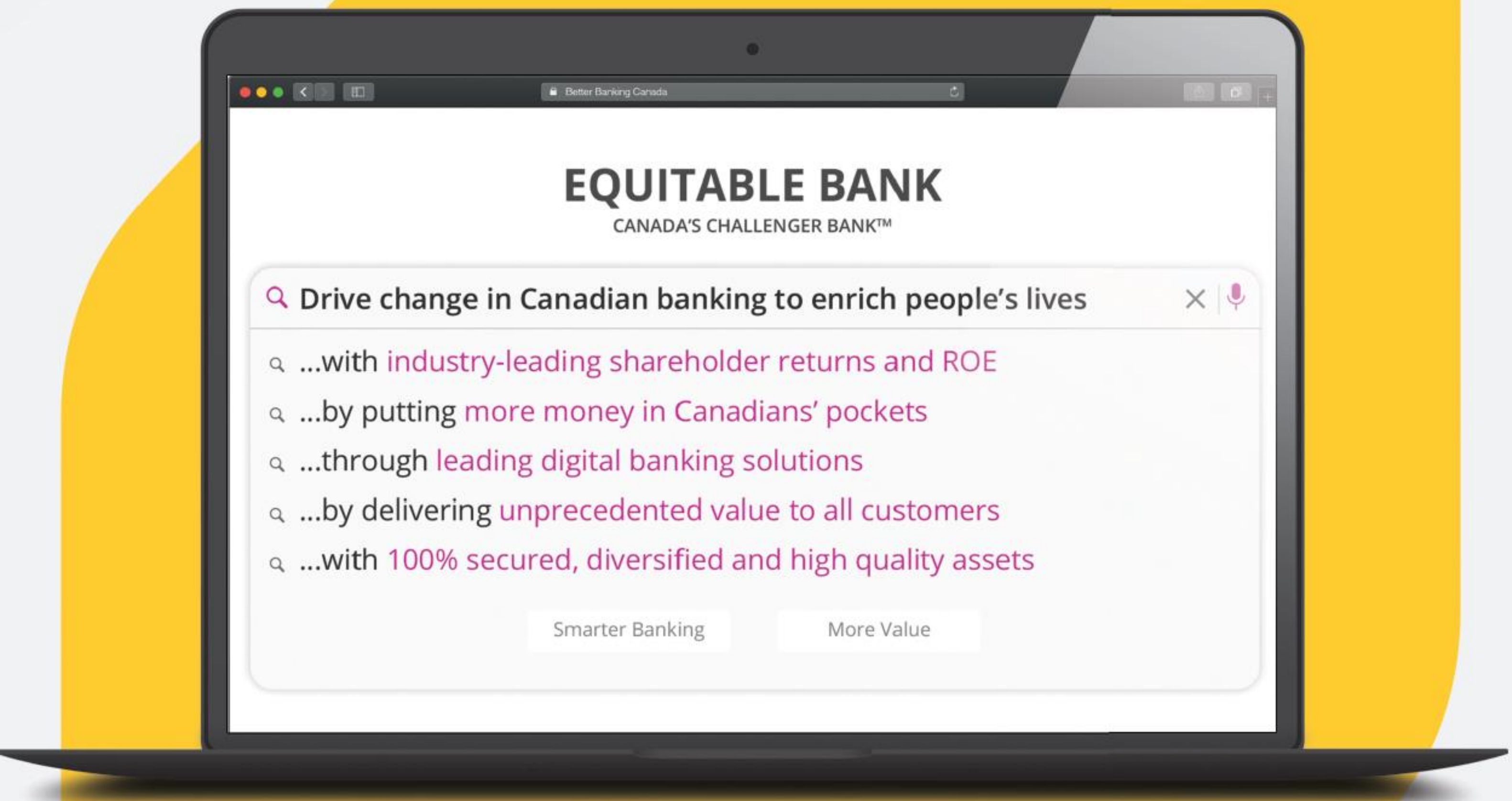
EQUITABLE
CANADA'S CHALLENGER BANK™

Second Quarter Report
For the three and six months ended June 30, 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 and six months ended June 30, 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) and six months ended June 30, 2021. This MD&A should be read in conjunction with the Bank's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 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 July 28, 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					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Operating results ($ thousands)								
Net interest income	**141,839**	133,966	6%	118,707	19%	**275,805**	238,858	15%
Non-interest income	**16,935**	16,204	5%	12,623	34%	**33,139**	17,317	91%
Revenue	**158,774**	150,170	6%	131,330	21%	**308,944**	256,175	21%
Non-interest expenses	**64,990**	57,317	13%	51,467	26%	**122,307**	105,647	16%
Pre-provision pre-tax income(1)	**93,784**	92,853	1%	79,863	17%	**186,637**	150,528	24%
Provision for credit losses	**(1,982)**	(772)	157%	8,847	(122%)	**(2,754)**	44,534	(106%)
Income tax expense	**24,965**	24,431	2%	18,534	35%	**49,396**	27,542	79%
Net income	**70,801**	69,194	2%	52,482	35%	**139,995**	78,452	78%
Operating performance								
Earnings per share – basic ($)	**4.11**	4.02	2%	3.06	34%	**8.13**	4.54	79%
Earnings per share – diluted ($)	**4.05**	3.97	2%	3.05	33%	**8.02**	4.50	78%
Return on equity (%)(1)	**16.5**	17.1	(0.6%)	14.7	1.8%	**16.8**	10.9	5.9%
Efficiency ratio (%)(1)(2)	**40.9**	38.2	2.7%	39.2	1.7%	**39.6**	41.2	(1.6%)
YTD Operating leverage (%)(1)	**4.8**	14.5	(9.7%)	(2.7)	7.5%	**4.8**	(2.7)	7.5%
Net interest margin (%)(1)	**1.81**	1.77	0.04%	1.64	0.17%	**1.79**	1.68	0.11%
Select balance sheet and other information ($ millions)								
Total assets	**32,342**	31,355	3%	29,957	8%			
Assets under management(1)	**37,928**	36,742	3%	34,662	9%			
Loans receivable	**29,893**	28,892	3%	27,709	8%			
Loans under management(1)	**35,373**	34,174	4%	32,331	9%			
Total deposits	**18,413**	17,427	6%	15,636	18%			
Total EQ Bank deposits	**6,531**	5,798	13%	3,288	99%			
Total other deposits	**11,882**	11,629	2%	12,349	(4%)			
Total risk-weighted assets(1)	**11,461**	10,911	5%	9,936	15%			
Common shareholders' equity	**1,730**	1,660	4%	1,427	21%			
Credit quality (%)								
Provision for credit losses – rate(1)	**(0.03)**	(0.01)	(0.02%)	0.13	(0.16%)	**(0.02)**	0.33	(0.35%)
Net impaired loans as a % of total loan assets	**0.41**	0.36	0.05%	0.54	(0.13%)			
Allowance for credit losses as a % of total loan assets	**0.19**	0.22	(0.03%)	0.27	(0.08%)			
Common share information								
Common share price – close ($)	**133.03**	126.20	5%	71.39	86%			
Book value per common share ($)(1)	**101.94**	97.86	4%	84.89	20%			
Common shares outstanding	**16,966,407**	16,958,586	-%	16,807,317	1%			
Common share market capitalization ($ millions)	**2,257**	2,140	5%	1,200	88%			
Dividends declared per:								
Common share ($)	**0.37**	0.37	-%	0.37	-%	**0.74**	0.74	-%
Preferred share ($)	**0.37**	0.37	-%	0.37	-%	**0.74**	0.74	-%
Dividend yield – common shares (%)(1)	**1.1**	1.2	(0.1%)	2.3	(1.2%)	**1.2**	1.9	(0.7%)
Capital ratios and leverage ratio (%)(1)								
Common equity tier 1 ratio	**14.4**	14.5	(0.1%)	14.0	0.4%			
Tier 1 capital ratio	**15.0**	15.2	(0.2%)	14.7	0.3%			
Total capital ratio	**15.4**	15.6	(0.2%)	15.2	0.2%			
Leverage ratio	**5.2**	5.1	0.1%	4.8	0.4%			
Business information								
Employees – full time equivalent	**1,047**	968	8%	880	19%			
Revenue per full time equivalent ($ thousands)(1)	**152**	155	(1.9%)	149	2.0%			
EQ Bank customers	**221,945**	201,887	10%	123,971	79%			

(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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Operating results ($ thousands)								
Net interest income	**141,839**	133,966	131,117	127,431	118,707	120,151	124,827	118,147
Non-interest income	**16,935**	16,204	20,833	21,277	12,623	4,694	9,353	9,702
Revenue	**158,774**	150,170	151,950	148,708	131,330	124,845	134,180	127,849
Non-interest expenses	**64,990**	57,317	55,348	53,065	51,467	54,180	54,477	50,489
Pre-provision pre-tax income	**93,784**	92,853	96,602	95,643	79,863	70,665	79,703	77,360
Provision for credit losses	**(1,982)**	(772)	103	(2,357)	8,847	35,687	3,917	3,463
Income taxes	**24,965**	24,431	25,075	24,072	18,534	9,008	19,932	18,955
Net income	**70,801**	69,194	71,424	73,928	52,482	25,970	55,854	54,942
Operating performance								
Earnings per share – basic ($)	**4.11**	4.02	4.17	4.33	3.06	1.48	3.27	3.22
Earnings per share – diluted ($)	**4.05**	3.97	4.13	4.30	3.05	1.46	3.21	3.18
Return on equity (%)	**16.5**	17.1	18.2	19.8	14.7	7.2	15.9	16.2
Efficiency ratio (%)	**40.9**	38.2	36.4	35.7	39.2	43.4	40.6	39.5
YTD Operating leverage (%)	**4.8**	14.5	4.7	2.2	(2.7)	(6.3)	(1.4)	(3.1)
Net interest margin (%)	**1.81**	1.77	1.74	1.69	1.64	1.71	1.78	1.75
Select balance sheet and other information ($millions)								
Total assets	**32,342**	31,355	30,746	30,447	29,957	29,154	28,392	27,545
Assets under management	**37,928**	36,742	35,936	35,511	34,662	33,936	33,005	32,334
Loans receivable	**29,893**	28,892	28,272	27,592	27,709	26,781	26,608	25,960
Loans under management	**35,373**	34,174	33,347	32,551	32,331	31,496	31,123	30,641
Total deposits	**18,413**	17,427	16,376	16,373	15,636	15,475	15,232	14,904
Total EQ Bank deposits	**6,531**	5,798	4,556	4,319	3,288	2,707	2,667	2,516
Total other deposits	**11,882**	11,629	11,820	12,054	12,349	12,768	12,565	12,388
Total risk-weighted assets	**11,461**	10,911	10,426	10,180	9,936	9,916	9,761	9,586
Common shareholders' equity	**1,730**	1,660	1,575	1,501	1,427	1,378	1,395	1,339
Credit quality (%)								
Provision for credit losses – rate	**(0.03)**	(0.01)	0.001	(0.03)	0.13	0.54	0.06	0.05
Net impaired loans as a % of total loan assets	**0.41**	0.36	0.42	0.33	0.54	0.47	0.44	0.47
Allowance for credit losses as a % of total loan assets	**0.19**	0.22	0.23	0.25	0.27	0.26	0.14	0.13
Common share information								
Common share price – close ($)	**133.03**	126.20	101.00	75.09	71.39	58.07	109.35	103.81
Book value per common share ($)	**101.94**	97.86	93.35	89.25	84.89	82.00	83.06	79.97
Common shares outstanding	**16,966,407**	16,958,586	16,874,074	16,822,244	16,807,317	16,807,317	16,797,593	16,743,253
Common share market capitalization ($ millions)	**2,257**	2,140	1,704	1,263	1,200	976	1,837	1,738
Dividends declared per:								
Common share ($)	**0.37**	0.37	0.37	0.37	0.37	0.37	0.35	0.33
Preferred share ($)	**0.37**	0.37	0.37	0.37	0.37	0.37	0.37	0.40
Dividend yield – common shares (%)	**1.1**	1.2	1.6	1.9	2.3	1.6	1.3	1.5
Capital ratios and leverage ratio (%)								
Common Equity Tier 1 ratio	**14.4**	14.5	14.6	14.3	14.0	13.5	13.6	13.3
Tier 1 capital ratio	**15.0**	15.2	15.3	15.0	14.7	14.3	14.4	14.1
Total capital ratio	**15.4**	15.6	15.8	15.5	15.2	14.7	14.7	14.4
Leverage ratio	**5.2**	5.1	5.1	4.9	4.8	4.7	4.9	4.8

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 enrich people's lives. Equitable is regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI) and serves close to 300,000 Canadians with assets under management of over $37.9 billion. Equitable is one of nine publicly traded banks included in the S&P/TSX Composite Index. It 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 annual 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 differentiate ourselves in the market.

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

With the physical realities brought about by COVID-19 accelerating a consumer shift towards digital banking, we have capitalized on our position as one of the few medium-size banks in Canada with enough scale to continue to make meaningful strategic investments in digital capabilities. Investment in our leading-edge technology platforms have allowed us to grow our deposit base and afforded us opportunities to introduce other new products and services, such as US Dollar accounts, Mortgage Marketplace, joint accounts, TFSAs and RSPs, all of which were launched in 2020 and 2021.

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 several years ago and our relationships 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 rests with the teams and individuals who contribute their own challenger mindsets to their everyday work. With over 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 when companies have been challenged to maintain connection and engagement because of remote work.

Economic and business outlook

Economic outlook

The Bank of Canada announced on July 14, 2021 that it expects Canada's real GDP to grow by 6.0% in 2021, down slightly from its forecast of 6.5% in April. A key factor was the extended impact of COVID-19 lockdowns in the first half of 2021. By comparison, Moody's Analytics project real GDP growth of 4.1%.

The unemployment rate fell to 7.8% in June, but remains above the 7.5% rate reported for March 2021. Current employment levels reflect the impact of job levels remaining about a half a million below pre-pandemic levels. The unemployment rate is expected to improve and stabilize by year-end.

Moving into 2022, the Bank of Canada now expects real GDP growth of 4.6%, up from 3.75%. 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.

Immigration levels in the first five months of 2021 have been reported at almost 109,000, up 30% from 84,000 for the same period in 2020. Government support for immigration remains strong and we expect this to continue to have a positive impact on our business over the medium term.

We expect to see continued strong growth in the reverse mortgage market, with an increasing demographic that qualifies for these decumulation solutions. Canadians' strong desire to remain in their homes and expand retirement savings options are driving increasing demand for our products.

While COVID-19 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 lower credit risk in large and economically diversified cities. 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. Our outlook of the real estate market for the remainder of 2021 remains positive. Moody's Analytics forecasts the House Price Index to rise by at least 4% in 2021 up from a 2% 2021 forecast published last quarter.

Further, we expect the Commercial Property Index growth rate to be 5.8% over the next 12 months, down from expectations in March 2021.

Business outlook

Equitable has carried its positive momentum from Q1 into the second quarter of 2021. In particular, EQ Bank has grown its customer base by 79% over the last 12 months to nearly 222,000, a significant advancement that has been driven by technology upgrades and the introduction of new products and services such as the recently launched EQ Bank US Dollar Account. Over the past year, our product roadmap has resulted in an increase in average products per customer of 44% and enabled digital transactions to grow by 101% year over year, leading to strong and growing customer engagement. In turn, deposit balances have nearly doubled to over $6.5 billion since Q2 2020. We expect this to result in continued steady growth and improving customer lifetime value which now stands at more than 10 times the cost of customer acquisition.

Equitable has delivered strong origination levels across both the Personal and Commercial Bank business segments. Total loan principal increased by $1.0 billion during the quarter to $29.8 billion, 3% higher quarter over quarter and 8% better year over year. With this momentum, improving economic forecasts, and a growing commitment pipeline, we have renewed confidence in our growth expectations for 2021.

We continue to see strength in volumes and spreads in the alternative single family residential market with low interest rates expected to continue into 2022, and an expected neutral to positive impact of recently approved changes to the minimum qualifying rate for uninsured and insured residential mortgages. We believe in our ability to achieve our 2021 guidance.

Also significant, is our positive outlook for the reverse mortgage market leveraging Equitable's leadership position in the mortgage broker channel to promote our differentiated approach. We continue to expand our share of the market, including our channel strategy and marketing efforts to increase our brand awareness. Our reverse mortgage portfolio has grown 51% since March 2021 to $127 million. We view the reverse mortgage market as one with significant potential and intend to continue the market's development through channel and product innovation.

Personal Banking

For a summary of key portfolio metrics at June 30, 2021 and 2021 guidance please refer to the table below.

($ billions)		**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change	**2021 Guidance[1]**
EQ Bank	Deposits	**6.53**	5.80	13%	3.29	99%	**30-50%**
Single Family Residential Lending	Prime mortgages	**7.88**	8.00	(2%)	7.56	4%	**5-10%**
	Alternative mortgages	**12.06**	11.26	7%	11.40	6%	**12-15%**
Wealth Decumulation	Reverse mortgages	**0.13**	0.08	51%	0.03	273%	**200%+**
	Cash surrender value loans	**0.04**	0.03	21%	0.01	180%	**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 June 30, 2021 and 2021 guidance please refer to the table below.

($ billions)		**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change	**2021 Guidance[1]**
Business Enterprise Solutions	Loans to entrepreneurs and SMEs[2]	**1.01**	0.97	5%	0.93	9%	**7-10%**
Commercial Finance Group	Loans to institutional & corporate investors	**3.54**	3.53	0%	3.10	14%	**20-25%**
Multi-Unit Insured[3]	CMHC insured real estate mortgages	**4.14**	4.07	2%	3.80	9%	**Slight Decline**
Specialized Finance	Total loans	**0.36**	0.26	39%	0.27	31%	**20-25%**
Equipment Leasing	Total loans	**0.64**	0.59	9%	0.52	24%	**5-8%**

(1) Guidance represents expected growth rate from December 31, 2020 to December 31, 2021. (2) Small or medium-sized enterprises. (3) Insured Multi-unit residential include only on-balance sheet.

Equitable has established the following medium-term objectives:

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

Additional key metrics outlook

- **Loan growth:** We expect total loan growth to be between 8% and 12% in 2021 driven by growth in our wider margined uninsured assets.
- **Net Interest Margin (NIM):** NIM for the remainder of 2021 is expected to be relatively consistent with Q2 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 Q2 2021 levels, in line with our portfolio, while gains on securitization activities may decline slightly in Q3 and Q4 as a result of tightening margins in the Insured multi-unit residential market. 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 continue to 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 timing of withdrawal of government support programs and the impact of COVID-19 variants of concern will be some of the key determinants of the loan losses that we ultimately realize.
- **Efficiency ratio:** We anticipate efficiency to continue in the range of 39-41% overall 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. Compared to 2020 when we curtailed spending at the onset of the pandemic, 2021 is a transition year with higher relative investments in the business. We expect expense growth in Q3 and Q4 to be in the low single digits relative to Q2 2021 and 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 are encouraged by OSFI's announcement on June 17, 2021 that it would increase the level of the Domestic Stability Buffer to 2.5% of total risk-weighted assets effective October 31, 2021. Although this increase will not have a direct effect on our Capital Ratios, it is a sign that OSFI sees improvements in the financial markets and that capital distribution restrictions may be lifting in the near future.

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.

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 total bank deposit balances have grown by 18% over the past 12 months and 6% during the quarter, led by EQ Bank which has almost doubled since Q2 2020.

Diversification of funding remains a strategic priority to continue lowering our costs, to expand our competitive position and augment our ability to offer better pricing and products to Canadians. During the quarter, we continued our wholesale funding diversification by raising an additional $150 million as a "re-opening" of our previous issuance of a $200 million deposit note maturing September 2023. The new issuance was priced at 90 bps over comparable term Government of Canada bonds, the lowest spread of all of our issuances to date.

We are excited about the recent CMHC approval of our covered bond program announced on July 27, 2021. The Bank has been working hard on this critical ingredient to diversifying our funding, with lower costs than GICs. With approval complete, we will be strategic about timing for next steps, with the first issuance likely to be early fall in Europe.

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 further in the second half of 2021 as expectations for credit losses subside, assuming the Canadian economy continues on its path to recovery. Mortgage arrears rates in our Personal Bank and Commercial Bank are expected to remain low.

We expect mid-term annualized loss rates for the Bank to be 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 June 1st, OSFI's updated policy for the minimum qualifying rate for uninsured residential mortgages became effective at the higher of the mortgage contract rate plus 200 bps or 5.25% as a minimum floor. We are supportive of these changes and we believe we can continue to achieve our growth targets.

Financial results summary

Performance against strategic priorities

Early in 2021, we set an ambitious growth agenda for 2021 and matched it with strong execution in Q2. Equitable reported record second quarter earnings and increased digital engagement. Strong earnings for the quarter were a function of growth in our loan portfolios, an improving macro-economic environment, the effectiveness of our risk-managed underwriting, and maintenance of an efficient operating cost structure.

EQ Bank's significant advancement has been boosted by technology updates, a revised product roadmap, and the introduction of new products that add value to Canadians such as the EQ Bank US Dollar account that was launched in early June.

- Net income grew by $18.3 million or 35% year over year to $70.8 million.
- Diluted EPS was $4.05, a second quarter record, an increase of $1.00 or 33% compared to Q2 2020, and was suppressed by $0.09 per share due to the rise in the number of diluted shares outstanding over the past 12 months.
- ROE was 16.5%, closer to the top end of our target range, and despite being suppressed by 1.1% as a result of the additional capital we hold above the mid-point of our target CET1 ratio range.
- Book value per share grew $17.05 or 20% from a year ago and 4% from March 31, 2021 to $101.94.
- CET1 ratio was 14.4%, and exceeded the upper end of our target range, representing approximately $100 million in excess capital or nearly $6 per share above mid point of our target range..
- Realized losses remained low at 6 bps of total loan assets or $4.1 million for the quarter compared to $2.5 million in the preceding quarter, and $4.2 million in Q2 2020.

Our earnings growth over the prior year was mainly attributable to growth in in our Conventional commercial and Alternative Single family lending segments, widened spreads driven by lower funding costs and higher net prepayment income, improved macroeconomic forecasts that led to a moderate reversal of Stage 1 and 2 allowances for credit losses, and higher gains on securitization activities.

Items of note

There were no items of note for Q2 2021 or Q1 2021.

Q2 2020 financial results were impacted by the following item:

- $4.4 million of net mark-to-market gains on certain loans, investments, and derivative positions related to securitization.

PROPOSED TWO-FOR-ONE STOCK SPLIT

On July 28, 2021, the Bank's Board of Directors (the Board) approved management's proposal to implement a two-for-one stock split of the issued and outstanding common shares of the Bank to make stock ownership more accessible for investors. The Bank intends to use the push-out method whereby common shareholders receive additional or replacement security certificates. The proposal is subject to shareholder and regulatory approval. Further details on the proposal and key dates for shareholders will be included in the special shareholder meeting announcement in August 2021.

DIVIDENDS

Common share dividends

On July 28, 2021, the Board declared a quarterly dividend of $0.37 per common share, payable on September 30, 2021, to common shareholders of record at the close of business on September 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 July 28, 2021, the Board declared a quarterly dividend of $0.373063 per preferred share, payable on September 30, 2021, to preferred shareholders of record at the close of business on September 15, 2021.

Strategic Objectives for 2021	Q2 Accomplishments
Grow market share in core assets through superior customer experience	• Grew our Personal loan business year-over-year by 6%, led by growth in Alternative single family portfolio • Increased our Commercial loan business by 12% over a year ago, driven by growth of 14% and 9% within Conventional commercial and Insured multi-unit residential mortgages, respectively • Improvement in funded deals to applications received based on people, process, and systems optimization
Grow adjacent asset volumes through expanded distribution	• Grew our decumulation assets to $165 million, led by reverse mortgages where we have built a robust pipeline and increased our market penetration • Extended our CSV lines of credit offering to qualifying insurance policy holders through our new partnerships with Manulife and Desjardins • Grew our specialized financing business to a record level of $357 million, with $103 million added in the quarter • Increased our equipment leasing portfolio by $125 million or 24% year-over-year
Build stronger direct customer relationships via enhanced digitization to drive excellent customer experience	• Grew our EQ Bank deposits to over $6.5 billion, up 99% from last year • Expanded our EQ Bank depositor base year-over-year by 79% to nearly 222,000 customers with 20,000 customers added in Q2 2021, demonstrating an innovative and smarter banking alternative to Canadian savers who are digitally savvy • Launched EQ Bank US Dollar Accounts in June 2021 • Increased the number of currencies offered through our innovative and cost-effective international money transfer service during the quarter, bringing the total to 45 • Continued to witness an increase in customer engagement measured by use of services each month and the number of products held by each customer
Issue covered bonds	• Successfully received approval from CMHC on July 27, 2021, to launch our $2 billion legislative covered bond program
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

Financial review – earnings

Table 1: Income statement highlights

($000s, except per share amount)	For the three months ended					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Net income	**70,801**	69,194	2%	52,482	35%	**139,995**	78,452	78%
EPS – diluted ($)	**4.05**	3.97	2%	3.05	33%	**8.02**	4.50	78%
Revenue	**158,774**	150,170	6%	131,330	21%	**308,944**	256,175	21%
Provision for credit losses	**(1,982)**	(772)	157%	8,847	(122%)	**(2,754)**	44,534	(106%)
Non-interest expenses	**64,990**	57,317	13%	51,467	26%	**122,307**	105,647	16%

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						For the six months ended			
	30-Jun-21		31-Mar-21		30-Jun-20		**30-Jun-21**		30-Jun-20	
	Revenue/ Expense	**Average rate(1)**	Revenue/ Expense	Average rate(1)	Revenue/ Expense	Average rate(1)	**Revenue/ Expense**	**Average rate(1)**	Revenue/ Expense	Average rate(1)
Revenues derived from:										
Cash and equivalents	**4,563**	**0.95%**	4,188	0.92%	5,131	1.10%	**8,751**	**0.93%**	12,198	1.46%
Equity securities	**1,867**	**5.15%**	1,331	4.15%	1,404	5.52%	**3,198**	**4.68%**	2,772	4.94%
Alternative single family mortgages	**124,831**	**4.32%**	120,350	4.39%	135,863	4.73%	**245,181**	**4.36%**	276,304	4.82%
Prime single family mortgages	**38,187**	**1.91%**	39,745	1.97%	35,704	2.03%	**77,932**	**1.94%**	76,468	2.21%
Decumulation loans	**1,345**	**3.90%**	962	3.92%	452	4.80%	**2,307**	**3.91%**	804	5.07%
Total Personal loans	**164,363**	**3.34%**	161,057	3.37%	172,019	3.71%	**325,420**	**3.36%**	353,576	3.84%
Conventional commercial loans	**62,632**	**5.32%**	62,602	5.38%	58,012	5.60%	**125,234**	**5.35%**	117,128	5.75%
Equipment leases	**15,183**	**10.18%**	13,808	10.18%	13,485	11.18%	**28,991**	**10.18%**	26,993	11.12%
Insured multi-unit residential mortgages	**25,354**	**2.41%**	24,848	2.52%	27,477	2.92%	**50,202**	**2.46%**	55,059	2.93%
Total Commercial loans	**103,169**	**4.33%**	101,258	4.43%	98,974	4.72%	**204,427**	**4.38%**	199,180	4.79%
Average interest earning assets	**273,962**	**3.50%**	267,834	3.55%	277,528	3.84%	**541,796**	**3.53%**	567,726	3.98%
Expenses related to:										
Deposits	**76,603**	**1.72%**	77,599	1.88%	93,147	2.40%	**154,202**	**1.80%**	192,525	2.51%
Secured backstop funding facility(2)	**-**	**N/A**	-	N/A	617	N/A	**-**	**N/A**	1,234	N/A
Securitization liabilities	**55,278**	**1.92%**	55,892	1.91%	63,302	2.34%	**111,170**	**1.92%**	130,323	2.42%
Others	**242**	**0.93%**	377	0.81%	1,755	0.86%	**619**	**0.85%**	4,786	1.46%
Average interest bearing liabilities	**132,123**	**1.79%**	133,868	1.89%	158,821	2.34%	**265,991**	**1.84%**	328,868	2.46%
Net interest income and margin	**141,839**	**1.81%**	133,966	1.77%	118,707	1.64%	**275,805**	**1.79%**	238,858	1.68%

(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.

Q2 2021 v Q2 2020

NII was up 19% year over year due to growth in our average asset balances of 8% and a 17 bps increase in our NIM.

Table 3(a): Factors affecting Q2 2021 v Q2 2020 NIM

	Impact (in bps)	Drivers of change
Business mix	(2)	• Asset mix shift towards lower spread Prime mortgages • Funding mix shift towards EQ Bank deposits and deposit notes which were offered at a higher rate compared to brokered deposits originated during the past 12 months *offset in part by:* • Growth in our higher spread Commercial mortgages
Rates/spread[1]	(1)	• Lower yields on cash and equivalents compared to prior year
Other	20	• Higher levels of early discharge within our Personal loan portfolio driving prepayment income • Net cost savings associated with $687 million of Alternative single family mortgages insured in Q2 2020 • Cost savings from the termination of our secured backstop funding facility in Q4 2020 • FV adjustments and other
Change in Total NIM	17	

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

Q2 2021 v Q1 2021

NII increased by 6% from last quarter as a result of 2% growth in average asset balances and a 4 bps increase in NIM.

Table 3(b): Factors affecting Q2 2021 v Q1 2021 NIM

	Impact (in bps)	Drivers of change
Business mix	2	• Asset mix shift towards our Alternative single family mortgages *offset in part by*: • Funding mix shift toward relatively higher rate EQ Bank deposits
Rates/spread[1]	(4)	• Decline in mortgage spreads as higher yielding loans roll-off the portfolio *offset in part by*: • Lower funding costs on EQ bank deposits as a result of the rate drop in April 2021
Other	6	• Higher levels of early discharge within our Personal loan portfolio • FV adjustments and other
Change in Total NIM	4	

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

YTD 2021 v YTD 2020

NII increased by 15% from last year as a result of 8% growth in average assets and an 11 bps increase in NIM.

Table 3(c): Factors affecting YTD 2021 v YTD 2020 NIM

	Impact (in bps)	Drivers of change
Business mix	(2)	• Asset mix shift towards lower spread Prime mortgages and low yield cash and equivalents • Funding mix shift towards our relatively higher cost EQ bank deposits and deposit notes *offset in part by*: • Growth in our higher spread commercial mortgages
Rates/spreads(1)	(1)	• Lower yields on cash and equivalents
Other	14	• Higher levels of early discharge within our Personal loan portfolio • Net cost savings associated with $687 million of Alternative single family mortgages insured in Q2 2020 • Cost savings from the termination of our secured backstop funding facility in Q4 2020 • Other adjustments
Change in Total NIM	11	

(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					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Fees and other income	**5,598**	5,575	0%	5,130	9%	**11,173**	11,853	(6%)
Net gain (loss) on loans and investments	**2,880**	(4,067)	171%	8,676	(67%)	**(1,187)**	(42)	(2,726%)
Net gain (loss) on strategic investments	**2,027**	2,606	(22%)	(23)	8,913%	**4,633**	164	2,725%
Securitization activities:								
Gains on securitization and income from retained interests	**8,568**	4,592	87%	3,020	184%	**13,160**	6,319	108%
Fair value (losses) gains on derivative financial instruments	**(2,138)**	7,498	(129%)	(4,180)	49%	**5,360**	(977)	649%
Total	**16,935**	16,204	5%	12,623	34%	**33,139**	17,317	91%

Q2 2021 v Q2 2020

Non-interest income increased compared with Q2 2020, mainly due to:

- An increase in gains on securitization and income from retained interests, driven by higher derecognition volumes and a higher gain on sale margin; and
- Lower unrealized fair value losses on derivative positions associated with securitization activities;

Offset by:

- Lower net mark-to-market gains on certain loans and security investments, offset in part by gains on strategic investments.

Q2 2021 v Q1 2021

Non-interest income was up slightly from the preceding quarter primarily as a result of:

- Net mark-to-market gains on certain security investments compared to losses in the preceding quarter; and
- An increase in gains on securitization and income from retained interests, due to higher derecognition volumes;

Offset by:

- Unrealized fair value losses on derivative positions associated with securitization activities versus gains in the preceding quarter.

YTD 2021 v YTD 2020

Non-interest income increased on a year-to-date basis largely due to:

- Higher gains on securitization and income from retained interests, as a result of an increase in both derecognition volumes and gain on sale margin;
- Net unrealized fair value gains on derivative positions associated with securitization activities compared to losses in the same period of the prior year; and
- A gain on strategic investments;

Offset by:

- A larger net unrealized fair value loss on certain security positions; and
- A decline in fees and other income mainly driven by the resolution of a litigation matter in Q1 2020, resulting in a $1.1 million net recovery.

Non-interest expenses

Table 5: Non-interest expenses and efficiency ratio

($000s, except percentages and FTE)	For the three months ended					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Compensation and benefits	**32,396**	28,973	12%	26,253	23%	**61,369**	53,148	15%
Technology and system costs	**10,292**	9,917	4%	8,790	17%	**20,209**	18,281	11%
Product costs	**6,785**	6,178	10%	4,758	43%	**12,963**	9,852	32%
Marketing and corporate expenses	**5,954**	3,933	51%	4,513	32%	**9,887**	9,258	7%
Regulatory, legal and professional fees	**5,599**	4,531	24%	4,624	21%	**10,130**	9,781	4%
Premises	**3,964**	3,785	5%	2,529	57%	**7,749**	5,327	45%
Total	**64,990**	57,317	13%	51,467	26%	**122,307**	105,647	16%
Efficiency ratio	**40.9%**	38.2%	2.7%	39.2%	1.7%	**39.6%**	41.2%	(1.6%)
Full-time employee (FTE) – period average	**1,005**	948	6%	884	14%	**978**	880	11%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly after taking into account the scale of our operations.

Q2 2021 v Q2 2020

Total non-interest expenses increased over the prior year mainly because of:

- Higher compensation and benefits costs driven by FTE growth of 14% and annual salary increases due to inflation;
- An increase in product costs attributable to amortization of investments for projects completed over the past 12 months and higher transaction fees driven by portfolio growth;
- Growth in technology and system costs for support, maintenance, and enhancement of our core banking systems;
- An increase in marketing expenses as we launched a marketing campaign to promote our EQ Bank products in Q2;

- Higher premises costs as we accelerated amortization of leasehold improvements associated with certain office leases that were terminated early given the work-from-home environment and plan for the Toronto office move in 2023; and
- An increase in regulatory, legal and professional fees, related to business consulting and a higher CDIC premium due to a growing insurable deposit balance.

Q2 2021 v Q1 2021

Expenses increased compared with the preceding quarter primarily due to:

- Growth in compensation and benefits costs that resulted from headcount growth of 6% and higher incentives accrual;
- Higher regulatory, legal and professional fees driven by consulting services rendered and an increase in CDIC premiums;
- An increase in marketing expenses for the EQ Bank campaign that was launched in the second quarter; and
- An increase in corporate expenses due to the timing of Deferred Share Units (DSU) grant in Q2.

YTD 2021 v YTD 2020

Total year-to-date non-interest expenses increased largely due to the same reasons cited above when comparing Q2 2021 with the prior-year quarter.

Table 6: Provisions for credit losses

($000s, except percentages)	For the three months ended					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Stage 1 and 2 (recovery) provision	**(5,294)**	(3,094)	(71%)	5,386	(198%)	**(8,388)**	36,447	(123%)
Stage 3 provision	**3,312**	2,322	43%	3,461	(4%)	**5,634**	8,087	(30%)
Total	**(1,982)**	(772)	(157%)	8,847	(122%)	**(2,754)**	44,534	(106%)
PCL – rate	**(0.03%)**	(0.01%)	(0.02%)	0.13%	(0.16%)	**(0.02%)**	0.33%	(0.35%)

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 this MD&A.

Q2 2021 vs Q2 2020

As a result of improved macroeconomic forecasts during the quarter, we released $5.3 million of Stage 1 and 2 allowances through the income statement, as deemed appropriate based on our expected loss modeling. These allowances had been built up during the first six months of 2020 at the onset of the COVID-19 pandemic.

Stage 3 provisions – those related to impaired loans – remained steady despite a decline in the impaired loan balance at the end of this quarter. Management concluded that this level of provision and the resulting allowance for credit losses appropriately reflects the estimates of the likely credit losses on our impaired loan balances.

Q2 2021 vs Q1 2021

During the quarter, the reversal of Stage 1 and 2 allowances exceeded provisions for Stage 3 loans, resulting in a net reversal of $2.0 million through the income statement. Stage 3 provisions increased by $1.0 million during the quarter, driven by higher reserves required on non-performing leases.

YTD 2021 vs YTD 2020

On a year to date basis, the favourable movement in PCLs of $47.3 million was mainly due to the build-up of Stage 1 and 2 allowances during the onset of the COVID-19 pandemic, offset in part by subsequent reversals as macroeconomic forecasts improved.

Financial review – balance sheet

Table 7: Balance sheet highlights

($000s, except percentages)	**30-Jun-21**	31-Mar-21	Change	31-Dec-20	Change	30-Jun-20	Change
Total assets	**32,342,253**	31,354,537	3%	30,746,318	5%	29,957,246	8%
Loan principal – Personal	**20,099,933**	19,375,939	4%	19,306,186	4%	19,005,131	6%
Loan principal – Commercial	**9,687,735**	9,410,787	3%	8,851,167	9%	8,620,746	12%
Total deposits	**18,413,271**	17,426,816	6%	16,376,011	12%	15,636,120	18%
EQ Bank deposits	**6,530,862**	5,797,651	13%	4,555,606	43%	3,287,602	99%
Total liquid assets as a % of total assets(1)	**9.1%**	10.2%	(1.1%)	9.5%	(0.4%)	6.4%	2.7%

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

Total assets increased by $2.4 billion or 8% from last year mainly driven by growth in our Personal and Commercial loan portfolios.

Total loan principal

Our strategy is to maintain a diverse portfolio of loan assets in order 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)	**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change
Alternative single family mortgages	**12,058,136**	11,257,582	7%	11,397,453	6%
Prime single family mortgages	**7,877,093**	8,003,269	(2%)	7,560,146	4%
Decumulation loans	**164,704**	115,088	43%	47,532	247%
Total Personal Lending – on balance sheet	**20,099,933**	19,375,939	4%	19,005,131	6%
Conventional commercial loans	**4,907,215**	4,755,189	3%	4,304,977	14%
Equipment leases	**643,095**	589,456	9%	518,483	24%
Insured multi-unit residential mortgages	**4,137,425**	4,066,142	2%	3,797,286	9%
Total Commercial Lending – on balance sheet	**9,687,735**	9,410,787	3%	8,620,746	12%
Total Loans – on balance sheet	**29,787,668**	28,786,726	3%	27,625,877	8%
Insured multi-unit residential mortgages – derecognized	**5,585,644**	5,386,980	4%	4,705,012	19%
Total Loans – off balance sheet	**5,585,644**	5,386,980	4%	4,705,012	19%
Total Loans under management	**35,373,312**	34,173,706	4%	32,330,889	9%

Table 9: On-balance sheet loan principal continuity schedule

($000s, except percentages)	As at or for the three months ended June 30, 2021		
	Personal	**Commercial**	**Total**
Q1 2021 closing balance	**19,375,939**	**9,410,787**	**28,786,726**
Originations	**2,250,899**	**1,366,959**	**3,617,858**
Derecognition	**-**	**(491,677)**	**(491,677)**
Net repayments	**(1,526,905)**	**(598,334)**	**(2,125,239)**
Q2 2021 closing balance	**20,099,933**	**9,687,735**	**29,787,668**
% Change from Q1 2021	**4%**	**3%**	**3%**
% Change from Q2 2020	**6%**	**12%**	**8%**
Net repayments percentage(1)	**7.9%**	**6.4%**	**7.4%**
($000s, except percentages)	As at or for the three months ended June 30, 2020		
	Personal	Commercial	Total
Q1 2020 closing balance	18,456,396	8,257,416	26,713,812
Originations	1,682,125	935,772	2,617,897
Derecognition	-	(217,643)	(217,643)
Net repayments	(1,133,390)	(354,799)	(1,488,189)
Q2 2020 closing balance	19,005,131	8,620,746	27,625,877
% Change from Q1 2020	3%	4%	3%
Net repayments percentage(1)	6.1%	4.3%	5.6%

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

Q2 2021 v Q2 2020

Total on-balance sheet loan principal increased by $2.2 billion year-over-year, driven by growth in all products within both our Personal and Commercial lending businesses.

Within our Personal lending businesses, Alternative single family grew by $0.7 billion or 6% as we steadily and cautiously returned to our pre-pandemic risk appetite levels beginning in Q4 2020. This change is reflective of the resilience and strength of the Canadian housing market. This performance was supported by record quarterly origination volumes as we continued to invest in this business and endeavor to support our customers through superior services, and despite high attrition levels. Attrition levels increased over the past 12 months because of a rise in unscheduled payments and lower retention rate in a highly competitive environment.

Within our Commercial lending businesses, growth was led by Conventional commercial with an increase of $602 million or 14% due to strong originations in the multi-unit residential sector and more favourable conditions in the small business sector. Our Insured multi-unit residential portfolio added $340 million due to record quarterly originations and despite higher derecognition volumes. Equipment leases grew by $125 million or 24% as we continue to benefit from high origination levels in the logistics and transportation sector, traditionally the lowest risk segment of this business.

Q2 2021 v Q1 2021

Total on-balance sheet loan principal increased by $1.0 billion from the preceding quarter due to growth in both our Personal and Commercial businesses. Personal Bank business growth was fueled by record quarterly origination levels in Alternative single family mortgages. Commercial business growth was aided by strong originations in both Conventional commercial and Insured multi-unit residential mortgages during the quarter.

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 19 bps at quarter-end compared to 27 bps a year ago and 14 bps at Q4 2019, pre-pandemic.

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. This approach results in lower risk as it reduces both the probability that our borrowers will default and our loss in the event they do.
- Our commercial lending businesses, including leasing, are diversified across industries and geographies. Our

commercial business has defined asset-class exposure limits and focuses 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 56% 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.
- More recently, commodity prices have risen, improving Alberta's economic outlook. Despite this improvement, we continue to expect that Alberta will experience a slower economic recovery relative to other provinces because of its higher exposure to the energy industry. Our uninsured Personal loans in Alberta total $837 million or 3% of our assets. Our uninsured commercial loans in Alberta total $391 million or only 1% of our assets, down from $466 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 707 at June 30, 2021, 2 points higher quarter-over quarter and 10 points higher year-over-year. Similarly, the average Beacon score of our small business mortgage borrowers was 739. These higher credit scores are indicative of our borrowers' positive repayment histories and lower propensity to default under normal economic conditions.
- 54% of our loans under management are insured against credit losses, ultimately with the backing 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, so we have a real asset with tangible value behind almost every loan, even if these assets were to 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 58% at June 30, 2021.
- Further to this collateral, almost all 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 these segments did experience higher loss rates, those rates were only marginally higher. We are also encouraged by the recent easing of provincial lockdowns and the impact it is having on these segments, which remain a modest portion of our equipment leasing portfolio. 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 $16.9 million or 23% year over year and $6.1 million or 10% over the preceding quarter, mainly due to a decrease in Stage 1 and 2 allowances.

Stage 1 and 2 allowances declined primarily because of sequential improvements in forward-looking macroeconomic factors. In the first half of 2020, we had increased allowances to reflect the deterioration in our macroeconomic outlook at 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)	**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change
Allowance for credit losses – Stage 1 and 2	**54,245**	59,539	(9%)	68,292	(21%)
Allowance for credit losses – total	**56,794**	62,907	(10%)	73,733	(23%)
Allowance for credit losses – total as a % of total loan assets	**0.19%**	0.22%	(0.03%)	0.27%	(0.08%)
Allowance for credit losses – total as a % of uninsured loan assets	**0.34%**	0.41%	(0.07%)	0.50%	(0.16%)
Allowances for credit losses – total as a % of gross impaired	**46%**	58%	(12%)	47%	(1%)

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. In Q2 2021, the decrease in the probability of default was primarily driven by improving macroeconomic variables, triggering a shift of $1.0 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)	**30-Jun-21**	31-Mar-21	31-Dec-20	30-Sep-20	30- Jun-20
Stage 1 – proportion of loan assets(1)	**91.6%**	87.7%	83.6%	77.3%	65.0%
Stage 1 – effective allowance rate(2)	**0.13%**	0.14%	0.15%	0.16%	0.16%
Stage 2 – proportion of loan assets	**8.0%**	11.9%	15.9%	22.4%	34.5%
Stage 2 – effective allowance rate	**0.81%**	0.67%	0.59%	0.50%	0.41%

(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.

During Q2 2021, Stage 1 and 2 allowances against our uninsured personal loans, uninsured commercial loans and equipment leases declined by $3.3 million, $0.6 million, and $1.4 million respectively.

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

($000s, except percentages and bps)	**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change
Uninsured personal loans – stage 1 and 2 allowances	**14,379**	17,711	(19%)	19,637	(27%)
as a % of uninsured personal loans (bps)	***13***	*17*	*(4)*	*20*	*(7)*
Uninsured commercial loans – stage 1 and 2 allowances	**23,243**	23,813	(2%)	27,388	(15%)
as a % of uninsured commercial loans (bps)	***50***	*52*	*(2)*	*68*	*(18)*
Equipment leases – stage 1 and 2 allowances	**16,563**	17,983	(8%)	21,255	(22%)
as a % of equipment leases (bps)	***267***	*320*	*(53)*	*438*	*(171)*
Insured personal and commercial loans – stage 1 and 2 allowances	**60**	32	88%	12	400%
as a % of insured personal and commercial loans (bps)	***0.04***	*0.02*	*0.02*	*0.01*	*0.03*
Total loans – stage 1 and 2 allowances	**54,245**	59,539	(9%)	68,292	(21%)
as a % of total loans (bps)	***18***	*21*	*(3)*	*25*	*(7)*

We obtain macroeconomic forecasts from Moody's Analytics and use them 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 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 Note 7(e) to the Q2 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%	**50,005**	**42,347**	**56,830**	**67.867**	**94,742**
Difference vs. financial statement ECL	**(4,240)**	**(11,898)**	**2,585**	**13,622**	**40,497**

Stage 3 allowances relate to impaired loans and were down by $2.9 million and $0.8 million from Q2 2020 and Q1 2021, respectively. Stage 3 allowances are determined loan-by-loan and we believe that they are adequate at the end of Q2 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 judgment, 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 $124.7 million, down $31.9 million from a year ago, but higher than the preceding quarter by $16.0 million.

The improvement in impaired loan balances over the past 12 months was attributable to the discharge of a $39.3 million commercial loan in Vancouver without a loss and a loan in Alberta of $17.0 million that returned to performing status, offset in part by the addition of commercial loans of $53 million, of which $23 million was successfully resolved in early July 2021. The remaining loans have LTVs between 59% and 74%. As a result, we do not expect a loss on these loans. The remaining variance reflects a net reduction in single family mortgages of $16.5 million and impaired equipment leases of $9.7 million.

The increase in impaired loans compared to the prior quarter was mainly because of the addition of the two commercial loans cited above, offset in part by a net reduction in single family mortgages and equipment leases.

Table 14: Impaired loan metrics

($000s, except percentages)	**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change
Gross impaired loan assets	**124,680**	108,639	15%	156,588	(20%)
Net impaired loan assets	**122,131**	105,271	16%	151,147	(19%)
Net impaired loan assets as a % of total loan assets	**0.41%**	0.36%	0.05%	0.54%	(0.13%)

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 COVID-19 pandemic. The size and composition of our liquidity portfolio at any point in time are 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 details 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)	**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change
Eligible deposits with regulated financial institutions(1)	**583,518**	588,013	(1%)	569,573	2%
Debt securities	**297,626**	293,757	1%	293,488	1%
Government of Canada issued or guaranteed debt instruments:					
Investments purchased under reverse repurchase agreements	**100,015**	350,037	(71%)	200,370	(50%)
Loans and investments held in the form of debt securities(2), net of obligations under repurchase agreements	**1,832,268**	1,838,459	(0%)	762,098	140%
Liquid assets held for regulatory purposes	**2,813,427**	3,070,266	(8%)	1,825,529	54%
Other deposits with regulated financial institutions(3)	**8,234**	8,254	(0%)	115	7,060%
Equity securities(4)	**121,733**	118,578	3%	94,645	29%
Total liquid assets	**2,943,394**	3,197,098	(8%)	1,920,289	53%
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**8.7%**	9.8%	(1.1%)	6.1%	2.6%
Total liquid assets as a % of total assets	**9.1%**	10.2%	(1.1%)	6.4%	2.7%

(1) Eligible deposits with regulated financial institutions represents deposits of Bank which are held at major Canadian financial institutions and excludes $25.9 million (March 31, 2021 – $11.1 million, June 30, 2020 – $43.4 million) of restricted cash held as collateral with third parties for the Bank's interest rate swap transactions, issuance of letters of credit and banking settlement in the normal course of business and $481.4 million (March 31, 2021 – $521.5 million, June 30, 2020 – $546 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 June 30, 2021, our LCR was well in excess of the regulatory minimum of 100%.

Liquid assets were $2.9 billion at Q2 2021, down $254 million from the prior quarter, but up $1.0 billion from Q2 2020. 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

Table 16: Deposit principal

($000s)	**30-Jun-21**	31-Mar-21	Change	30-Jun-20	Change
Brokered deposits:					
Term	**9,620,916**	9,395,250	2%	10,679,411	(10%)
Demand	**675,354**	647,418	4%	638,409	6%
	10,296,270	10,042,668	3%	11,317,820	(9%)
EQ Bank deposits:					
Term	**1,721,093**	590,795	191%	469,062	267%
Demand	**4,809,769**	5,206,856	(8%)	2,818,540	71%
	6,530,862	5,797,651	13%	3,287,602	99%
Strategic partnerships	**532,451**	533,631	(0%)	675,433	(21%)
Deposit notes	**1,053,688**	1,052,866	0%	355,265	197%
Total	**18,413,271**	17,426,816	6%	15,636,120	18%

(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 $2.8 billion or 18% compared to a year ago and $986 million 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 Q2 2021 exceeded regulatory minimums and were above the top end of our target range. Our CET1 ratio decreased by 10 bps from the preceding quarter as growth in risk-weighted assets outpaced capital growth. Our CET1 ratio increased by 40 bps over the prior year mainly due to earnings' retention over the past 12 months and unrealized gains in our preferred share portfolio, and despite an increase in risk weight density.

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 5.2% at the end of Q2 2021 and the Bank was fully compliant with its regulatory requirements. The 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)	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change
Total risk-weighted assets (RWA)	**11,461,154**	10,911,018	5%	9,936,298	15%
Common Equity Tier 1 Capital:					
Common shares	**216,652**	216,541	0%	214,418	1%
Contributed surplus	**9,328**	8,813	6%	8,910	5%
Retained earnings	**1,511,782**	1,448,144	4%	1,255,281	20%
Accumulated other comprehensive loss (AOCI)(1)	**(16,816)**	(12,219)	(38%)	(29,580)	43%
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(73,980)**	(77,052)	4%	(58,214)	(27%)
Common Equity Tier 1 Capital	**1,646,966**	1,584,227	4%	1,390,815	18%
Additional Tier 1 capital:					
Non-cumulative preferred shares	**72,554**	72,554	-%	72,554	-%
Tier 1 Capital	**1,719,520**	1,656,781	4%	1,463,369	18%
Tier 2 Capital:					
Eligible Stage 1 and 2 allowance	**54,244**	59,538	(9%)	68,291	(21%)
Less: Transitional adjustment in response to COVID-19	**(8,277)**	(10,233)	19%	(18,772)	56%
Tier 2 Capital	**45,967**	49,305	(7%)	49,519	(7%)
Total Capital	**1,765,487**	1,706,086	3%	1,512,888	17%
Capital ratios and Leverage ratio:					
CET1 ratio	**14.4%**	14.5%	(0.1%)	14.0%	0.4%
Tier 1 capital ratio	**15.0%**	15.2%	(0.2%)	14.7%	0.3%
Total capital ratio	**15.4%**	15.6%	(0.2%)	15.2%	0.2%
Leverage ratio	**5.2%**	5.1%	0.1%	4.8%	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 Q2 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 judgments 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 judgments 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 Q2 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 or control associated with the securitized assets. The outstanding securitized loan principal that qualified for derecognition totaled $5.6 billion at June 30, 2021 (March 31, 2021 – $5.4 billion, June 30, 2020 – $4.7 billion). The securitization liabilities associated with these transferred assets were approximately $5.6 billion at June 30, 2021 (March 31, 2021 – $5.4 billion, June 30, 2020 – $4.7 billion). The securitization retained interests recorded with respect to certain securitization transactions were $203.5 million at June 30, 2021 (March 31, 2021 – $187.9 million, June 30, 2020 – $149.3 million) and the associated servicing liability was $39.0 million at June 30, 2021 (March 31, 2021 – $36.1 million, June 30, 2020 – $28.6 million).

Commitments and letters of credit

The Bank provides commitments to extend credit to our borrowers. The Bank had outstanding commitments to fund $3.5 billion of loans in the ordinary course of business at June 30, 2021 (March 31, 2021 – $2.9 billion, June 30, 2020 – $1.8 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 $44.0 million were outstanding at June 30, 2021 (March 31, 2021 – $28.2 million, June 30, 2020 – $26.9 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 in the Bank's 2020 Annual Report 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 June 30, 2021 (December 31, 2020 – 100%, June 30, 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 41% or $50 million of the total equity securities portfolio at June 30, 2021, compared to 41% or $39 million a year ago. Preferred share securities rated P-3 or higher comprised 98% of the total equity securities portfolio at the end of Q2 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 June 30, 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)				June 30, 2021
	Stage 1	Stage 2	Stage 3	Total
Loans receivable:				
Low risk	14,153,628	449,971	-	14,603,599
Standard risk	12,937,606	1,827,366	-	14,764,972
High risk	327,992	128,425	-	456,417
Impaired	-	-	124,680	124,680
Total	27,419,226	2,405,762	124,680	29,949,668
Less allowance	(34,464)	(19,568)	(2,549)	(56,581)
	27,384,762	2,386,194	122,131	29,893,087
Loan commitments:				
Low risk	673,745	84	-	673,829
Standard risk	978,222	146,392	-	1,124,614
High risk	3,574	150	-	3,724
Total	1,655,541	146,626	-	1,802,167
Less allowance	(191)	(22)	-	(213)
	1,655,350	146,604	-	1,801,954

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 June 30, 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 June 30, 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	**22,339**	**(195)**
Impact on EVE	**(19,229)**	**(9,159)**
EVE impact as a % of common shareholders' equity	**(1.1%)**	**(0.5%)**
200 basis point shift		
Impact on net interest income	**40,876**	**(198)**
Impact on EVE	**(42,695)**	**(11,756)**
EVE impact as a % of common shareholders' equity	**(2.5%)**	**(0.7%)**

(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 Assets 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 July 28, 2021, the Bank had 16,969,821 common shares and 2,960,800 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 618,918 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $49.5 million.

Normal course issuer bid (NCIB)

During Q2 2021, Equitable purchased and cancelled 8,000 preferred shares at an average price of $25.46. As at June 30, 2021, Equitable has purchased aggregate preferred shares of 23,000 at an average price of $25.15. 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 second 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)	**30-Jun-2021**	31-Mar-2021	Change	30-Jun-2020	Change
Total assets on the consolidated balance sheet	**32,342,253**	31,354,537	3%	29,957,246	8%
Loan principal derecognized	**5,585,644**	5,386,980	4%	4,705,012	19%
Assets under management	**37,927,897**	36,741,517	3%	34,662,258	9%

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

($000s, except share and per share amounts)	**30-Jun-2021**	31-Mar-2021	Change	30-Jun-2020	Change
Shareholders' equity	**1,801,537**	1,731,779	4%	1,499,383	20%
Preferred shares	**(72,001)**	(72,194)	0%	(72,557)	1%
Common shareholders' equity	**1,729,536**	1,659,585	4%	1,426,826	21%
Common shares outstanding	**16,966,407**	16,958,586	0%	16,807,317	1%
Book value per common share	**101.94**	97.86	4%	84.89	20%

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

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 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					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Non-interest expenses	**64,990**	57,317	13%	51,467	26%	**122,307**	105,647	16%
Revenue	**158,774**	150,170	6%	131,330	21%	**308,944**	256,175	21%
Efficiency ratio	**40.9%**	38.2%	2.7%	39.2%	1.7%	**39.6%**	41.2%	(1.6%)

- **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 Table 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 portfolio outstanding during the period.

($000s, except percentages)	For the three months ended					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Provision for credit losses	**(1,982)**	(772)	157%	8,847	(122%)	**(2,754)**	44,534	(106%)
Divided by: average loan principal	**29,168,947**	28,472,040	2%	27,169,845	7%	**28,854,261**	27,068,115	7%
Provision for credit losses – rate	**(0.03%)**	(0.01%)	(0.02%)	0.13%	(0.16%)	**(0.02%)**	0.33%	(0.35%)

- **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					For the six months ended		
	30-Jun-21	31-Mar-21	Change	30-Jun-20	Change	**30-Jun-21**	30-Jun-20	Change
Net income available to common shareholders	**69,690**	68,080	2%	51,363	36%	**137,770**	76,214	81%
Weighted average common equity	**1,694,570**	1,617,447	5%	1,402,485	21%	**1,653,599**	1,411,043	17%
Return on equity	**16.5%**	17.1%	(0.6%)	14.7%	1.8%	**16.8%**	10.9%	5.9%

- **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 (FTE):** is calculated as revenue for the period divided by the number of fill-time employees as at the end of that period.

Consolidated balance sheets (unaudited)

($000s) As at	Note	**June 30, 2021**	December 31, 2020	June 30, 2020
Assets:				
Cash and cash equivalents		**591,752**	557,743	569,688
Restricted cash		**507,295**	504,039	589,046
Securities purchased under reverse repurchase agreements		**100,015**	450,203	200,370
Investments	6	**859,925**	589,876	566,859
Loans – Personal	7,8	**20,225,222**	19,445,386	19,135,799
Loans – Commercial	7,8	**9,667,652**	8,826,182	8,573,118
Securitization retained interests		**203,491**	184,844	149,307
Other assets	9	**186,901**	188,045	173,059
		32,342,253	30,746,318	29,957,246
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	10	**18,588,223**	16,585,043	15,861,725
Securitization liabilities	8	**11,483,635**	11,991,964	11,190,224
Obligations under repurchase agreements	8	**201,271**	251,877	598,956
Deferred tax liabilities	11	**67,520**	60,880	50,546
Other liabilities	12	**200,067**	208,852	256,038
Funding facilities	13	**-**	-	500,374
		30,540,716	29,098,616	28,457,863
Shareholders' equity:				
Preferred shares	14	**72,001**	72,477	72,557
Common shares	14	**224,997**	218,166	213,701
Contributed surplus	15	**8,237**	8,092	7,818
Retained earnings		**1,513,118**	1,387,919	1,257,268
Accumulated other comprehensive loss		**(16,816)**	(38,952)	(51,961)
		1,801,537	1,647,702	1,499,383
		32,342,253	30,746,318	29,957,246

See accompanying notes to the Consolidated Financial Statements.

Consolidated statements of income (unaudited)

($000s, except per share amounts)	Note	Three months ended June 30, 2021	June 30, 2020	Six months ended June 30, 2021	June 30, 2020
Interest income:					
Loans – Personal		**164,363**	172,019	**325,420**	353,576
Loans – Commercial		**103,169**	98,974	**204,427**	199,180
Investments		**3,824**	3,315	**6,723**	5,803
Other		**2,606**	3,220	**5,226**	9,167
		273,962	277,528	**541,796**	567,726
Interest expense:					
Deposits		**76,693**	94,022	**154,478**	195,842
Securitization liabilities		**55,278**	63,302	**111,170**	130,323
Funding facilities		**152**	1,497	**343**	2,703
		132,123	158,821	**265,991**	328,868
Net interest income		**141,839**	118,707	**275,805**	238,858
Non-interest income:					
Fees and other income		**5,598**	5,130	**11,173**	11,853
Net gain on loans and investments		**4,907**	8,653	**3,446**	122
Gains (losses) on securitization activities and income from securitization retained interests	8	**6,430**	(1,160)	**18,520**	5,342
		16,935	12,623	**33,139**	17,317
Revenue		**158,774**	131,330	**308,944**	256,175
Provision for credit losses		**(1,982)**	8,847	**(2,754)**	44,534
Revenue after provision for credit losses		**160,756**	122,483	**311,698**	211,641
Non-interest expenses:					
Compensation and benefits		**32,396**	26,253	**61,369**	53,148
Other		**32,594**	25,214	**60,938**	52,499
		64,990	51,467	**122,307**	105,647
Income before income taxes		**95,766**	71,016	**189,391**	105,994
Income taxes:					
Current		**20,698**	16,106	**42,740**	31,686
Deferred		**4,267**	2,428	**6,656**	(4,144)
		24,965	18,534	**49,396**	27,542
Net income		**70,801**	52,482	**139,995**	78,452
Dividends on preferred shares		**1,111**	1,119	**2,225**	2,238
Net income available to common shareholders		**69,690**	51,363	**137,770**	76,214
Earnings per share:	16				
Basic		**4.11**	3.06	**8.13**	4.54
Diluted		**4.05**	3.05	**8.02**	4.50

See accompanying notes to the Consolidated Financial Statements.

Consolidated statements of comprehensive income (unaudited)

($000s)	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Net income	**70,801**	52,482	**139,995**	78,452
Other comprehensive income – items that will be reclassified subsequently to income:				
Debt instruments at Fair Value through Other Comprehensive Income:				
Net unrealized (losses) gains from change in fair value	**(1,570)**	3,899	**(3,228)**	3,074
Reclassification of net losses (gains) to income	**178**	(351)	**1,317**	(1,019)
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	**6,374**	6,239	**16,102**	(16,669)
	4,982	9,787	**14,191**	(14,614)
Income tax (expense) recovery	**(1,307)**	(2,586)	**(3,725)**	3,861
	3,675	7,201	**10,466**	(10,753)
Cash flow hedges:				
Net unrealized gains (losses) from change in fair value	**2,155**	(5,293)	**16,065**	(33,354)
Reclassification of net losses (gains) to income	**231**	(245)	**(234)**	2,610
	2,386	(5,538)	**15,831**	(30,744)
Income tax (expense) recovery	**(628)**	1,463	**(4,161)**	8,122
	1,758	(4,075)	**11,670**	(22,622)
Total other comprehensive income (loss)	**5,433**	3,126	**22,136**	(33,375)
Total comprehensive income	**76,234**	55,608	**162,131**	45,077

See accompanying notes to the Consolidated Financial Statements.

Consolidated statements of changes in shareholders' equity (unaudited)

($000s) Three month period ended					Accumulated other comprehensive income (loss)			June 30, 2021
	Preferred Shares	Common Shares	Contributed Surplus	Retained Earnings	Cash Flow Hedges	Financial Instruments at FVOCI	Total	Total
Balance, beginning of period	**72,194**	**224,397**	**7,722**	**1,449,715**	**(10,031)**	**(12,218)**	**(22,249)**	**1,731,779**
Net Income	**-**	**-**	**-**	**70,801**	**-**	**-**	**-**	**70,801**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**1,758**	**3,675**	**5,433**	**5,433**
Exercise of stock options	**-**	**489**	**-**	**-**	**-**	**-**	**-**	**489**
Purchase of treasury preferred shares	**(193)**	**-**	**-**	**-**	**-**	**-**	**-**	**(193)**
Net loss on cancellation of treasury preferred shares	**-**	**-**	**-**	**(10)**	**-**	**-**	**-**	**(10)**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,111)**	**-**	**-**	**-**	**(1,111)**
Common shares	**-**	**-**	**-**	**(6,277)**	**-**	**-**	**-**	**(6,277)**
Stock-based compensation	**-**	**-**	**626**	**-**	**-**	**-**	**-**	**626**
Transfer relating to the exercise of stock options	**-**	**111**	**(111)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**72,001**	**224,997**	**8,237**	**1,513,118**	**(8,273)**	**(8,543)**	**(16,816)**	**1,801,537**
($000s) Three month period ended								June 30, 2020
Balance, beginning of period	72,557	213,701	7,405	1,212,125	(18,306)	(36,781)	(55,087)	1,450,701
Net Income	-	-	-	52,482	-	-	-	52,482
Other comprehensive loss, net of tax	-	-	-	-	(4,075)	7,201	3,126	3,126
Dividends:								
Preferred shares	-	-	-	(1,119)	-	-	-	(1,119)
Common shares	-	-	-	(6,220)	-	-	-	(6,220)
Stock-based compensation	-	-	413	-	-	-	-	413
Balance, end of period	72,557	213,701	7,818	1,257,268	(22,381)	(29,580)	(51,961)	1,499,383

See accompanying notes to the Consolidated Financial Statements.

Consolidated statements of changes in shareholders' equity (unaudited)

($000s) Six month period ended								**June 30, 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	**-**	**-**	**-**	**139,995**	**-**	**-**	**-**	**139,995**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**11,670**	**10,466**	**22,136**	**22,136**
Exercise of stock options	**-**	**5,715**	**-**	**-**	**-**	**-**	**-**	**5,715**
Purchase of treasury preferred shares	**(476)**	**-**	**-**	**-**	**-**	**-**	**-**	**(476)**
Net loss on cancellation of treasury preferred shares	**-**	**-**	**-**	**(20)**	**-**	**-**	**-**	**(20)**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(2,225)**	**-**	**-**	**-**	**(2,225)**
Common shares	**-**	**-**	**-**	**(12,551)**	**-**	**-**	**-**	**(12,551)**
Stock-based compensation	**-**	**-**	**1,261**	**-**	**-**	**-**	**-**	**1,261**
Transfer relating to the exercise of stock options	**-**	**1,116**	**(1,116)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**72,001**	**224,997**	**8,237**	**1,513,118**	**(8,273)**	**(8,543)**	**(16,816)**	**1,801,537**
($000s) Six month period ended								June 30, 2020
Balance, beginning of period	72,557	213,277	6,973	1,193,493	241	(18,827)	(18,586)	1,467,714
Net Income	-	-	-	78,452	-	-	-	78,452
Other comprehensive loss, net of tax	-	-	-	-	(22,622)	(10,753)	(33,375)	(33,375)
Exercise of stock options	-	357	-	-	-	-	-	357
Dividends:								
Preferred shares	-	-	-	(2,238)	-	-	-	(2,238)
Common shares	-	-	-	(12,439)	-	-	-	(12,439)
Stock-based compensation	-	-	912	-	-	-	-	912
Transfer relating to the exercise of stock options	-	67	(67)	-	-	-	-	-
Balance, end of period	72,557	213,701	7,818	1,257,268	(22,381)	(29,580)	(51,961)	1,499,383

See accompanying notes to the Consolidated Financial Statements.

Consolidated statements of cash flows (unaudited)

($000s)	Three months ended		Six months ended	
Three and six month periods ended	**June 30, 2021**	June 30, 2020	**June 30, 2021**	June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**70,801**	52,482	**139,995**	78,452
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	**1,778**	982	**(5,612)**	14,344
Amortization of premiums/discount on investments	**28**	1,148	**46**	1,457
Amortization of capital assets and intangible costs	**7,897**	5,504	**15,234**	10,735
Provision for credit losses	**(1,982)**	8,847	**(2,754)**	44,534
Securitization gains	**(8,177)**	(2,516)	**(12,355)**	(5,283)
Stock-based compensation	**626**	413	**1,261**	912
Income taxes	**24,965**	18,534	**49,396**	27,542
Securitization retained interests	**11,221**	518	**21,900**	8,998
Changes in operating assets and liabilities:				
Restricted cash	**25,398**	(198,648)	**(3,256)**	(126,054)
Securities purchased under reverse repurchase agreements	**250,022**	299,594	**350,188**	(50,303)
Loans receivable, net of securitizations	**(1,025,059)**	(939,714)	**(1,672,166)**	(1,145,281)
Other assets	**(709)**	(1,520)	**5,198**	(3,990)
Deposits	**980,721**	168,440	**2,008,887**	404,314
Securitization liabilities	**(247,738)**	412,120	**(508,067)**	478,239
Obligations under repurchase agreements	**201,271**	169,609	**(50,606)**	91,912
Funding facilities	**-**	386	**-**	500,374
Other liabilities	**(23,931)**	(8,057)	**11,647**	13,803
Income taxes paid	**(15,306)**	(420)	**(32,531)**	(37,919)
Cash flows from (used in) operating activities	**251,826**	(12,298)	**316,405**	306,786
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common shares	**489**	-	**5,715**	357
Dividends paid on preferred shares	**(1,111)**	(1,119)	**(2,225)**	(2,238)
Dividends paid on common shares	**(6,277)**	(6,220)	**(12,551)**	(12,439)
Cash flows used in financing activities	**(6,899)**	(7,339)	**(9,061)**	(14,320)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**(453,543)**	(153,815)	**(484,850)**	(269,777)
Proceeds on sale or redemption of investments	**213,111**	50,045	**229,466**	112,226
Net change in Canada Housing Trust re-investment accounts	**336**	(36,997)	**(89)**	(60,667)
Purchase of capital assets and system development costs	**(9,346)**	(7,243)	**(17,862)**	(13,413)
Cash flows used in investing activities	**(249,442)**	(148,010)	**(273,335)**	(231,631)
Net (decrease) increase in cash and cash equivalents	**(4,515)**	(167,647)	**34,009**	60,835
Cash and cash equivalents, beginning of period	**596,267**	737,335	**557,743**	508,853
Cash and cash equivalents, end of period	**591,752**	569,688	**591,752**	569,688
Cash flows from operating activities include:				
Interest received	**250,337**	275,050	**508,152**	555,359
Interest paid	**(134,229)**	(150,628)	**(274,186)**	(293,723)
Dividends received	**1,434**	1,522	**2,916**	3,076

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 the Bank 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 July 28, 2021.

(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 spread of the Delta and other variants, 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 six months ended June 30, 2021 and June 30, 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 second 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's net income is derived from gains, losses, income and expenses related to these financial assets and liabilities.

(a) Valuation methods and assumptions

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

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

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

Securities purchased under reverse repurchase agreements, obligations under repurchase agreements, funding 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 Fair Value through Other Comprehensive Income (FVOCI) and Fair value through Profit and Loss (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 June 30, 2021 and December 31, 2020. The tables do not include assets and liabilities that are not financial instruments.

($000s)						June 30, 2021
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	-	-	-	591,752	591,752	591,752
Restricted cash	-	-	-	507,295	507,295	507,295
Securities purchased under reverse repurchase agreements	-	-	-	100,015	100,015	100,015
Investments	152,328	453,242	94,521	159,834	859,925	860,825
Loans – Personal	-	-	-	20,225,222	20,225,222	20,241,941
Loans – Commercial(1)	45,045	-	-	8,997,073	9,042,118	9,118,540
Securitization retained interests	-	-	-	203,491	203,491	204,354
Other assets:						
Derivative financial instruments(2):						
Interest rate swaps	28,901	-	-	-	28,901	28,901
Total return swaps	7,364	-	-	-	7,364	7,364
Bond forwards	181	-	-	-	181	181
Foreign exchange forwards	1,762	-	-	-	1,762	1,762
Other	-	-	-	7,413	7,413	7,413
Total financial assets	235,581	453,242	94,521	30,792,095	31,575,439	31,670,343
Financial liabilities:						
Deposits	-	-	-	18,588,223	18,588,223	18,633,859
Securitization liabilities	-	-	-	11,483,635	11,483,635	11,631,535
Obligations under repurchase agreements	-	-	-	201,271	201,271	201,271
Other liabilities:						
Derivative financial instruments(2):						
Interest rate swaps	10,608	-	-	-	10,608	10,608
Total return swaps	8,533	-	-	-	8,533	8,533
Bond forwards	489	-	-	-	489	489
Foreign exchange forwards	257	-	-	-	257	257
Loan commitments	4	-	-	-	4	4
Other	-	-	-	170,545	170,545	170,545
Total financial liabilities	19,891	-	-	30,443,674	30,463,565	30,657,101

(1) Loans – Commercial does not include $625,534 (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 $625,534 (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 otherthan 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 theprice 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) **June 30, 2021**	**Level 1**	**Level 2**	**Level 3**	**Total financial assets/financial liabilities at fair value**
Financial assets:				
Investments	**826,227**	**-**	**34,598**	**860,825**
Loans – Personal	**-**	**-**	**20,241,941**	**20,241,941**
Loans – Commercial	**-**	**45,045**	**9,073,495**	**9,118,540**
Securitization retained interests	**-**	**204,354**	**-**	**204,354**
Other assets:				
Derivative financial instruments(1):				
Interest rate swaps	**-**	**28,901**	**-**	**28,901**
Total return swaps	**-**	**4,526**	**2,838**	**7,364**
Bond forwards	**-**	**181**	**-**	**181**
Foreign exchange forwards	**-**	**1,762**	**-**	**1,762**
Other	**-**	**7,413**	**-**	**7,413**
Total financial assets	**826,227**	**292,182**	**29,352,872**	**30,471,281**
Financial liabilities:				
Deposits	**-**	**18,633,859**	**-**	**18,633,859**
Securitization liabilities	**-**	**10,706,386**	**925,150**	**11,631,536**
Other liabilities:				
Derivative financial instruments(1):				
Interest rate swaps	**-**	**10,608**	**-**	**10,608**
Total return swaps	**-**	**688**	**7,845**	**8,533**
Bond forwards	**-**	**489**	**-**	**489**
Foreign exchange forwards	**-**	**257**	**-**	**257**
Loan Commitments	**-**	**-**	**4**	**4**
Other	**-**	**170,545**	**-**	**170,545**
Total financial liabilities	**-**	**29,522,832**	**932,999**	**30,455,831**

(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)	**June 30, 2021**	December 31, 2020	June 30, 2020
Equity securities measured at FVOCI	**94,521**	87,339	75,649
Equity securities measured at FVTPL	**1,713**	1,165	1,021
Debt securities measured at FVOCI	**453,242**	174,646	120,742
Debt securities measured at FVTPL	**150,615**	151,317	171,008
Debt securities measured at AMC	**159,834**	175,409	198,439
	859,925	589,876	566,859

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 June 30, 2021, the Bank earned dividends of $2,157 (June 30, 2020 − $2,380) on these Equity securities. During the period, the Bank redeemed Equity securities of $8,855 (June 30, 2020 − $nil) and did not recognize any gains or losses (June 30, 2020 − $nil) in Retained earnings.

As at June 30, 2021 the Bank had a commitment to invest $20,823 (June 30, 2020 − $14,274) in certain investment securities measured at FVTPL.

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

($000s)	**June 30, 2021**	June 30, 2020
Equity securities measured at FVOCI	**16,102**	(16,669)
Equity securities measured at FVTPL	**548**	(80)
Debt securities measured at FVOCI	**(1,908)**	2,055
Debt securities measured at FVTPL	**3,308**	892

Note 7 – Loans Receivable

(a) Loans receivable

($000s)						**June 30, 2021**
	Gross	**Allowance for credit losses**				**Net**
	amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**amount**
Loans – Personal	**20,240,584**	**10,744**	**3,635**	**983**	**15,362**	**20,225,222**
Loans – Commercial	**9,709,084**	**23,911**	**15,955**	**1,566**	**41,432**	**9,667,652**
	29,949,668	**34,655**	**19,590**	**2,549**	**56,794**	**29,892,874**

($000s)						December 31, 2020
	Gross	Allowance for credit losses				Net
	amount	Stage 1	Stage 2	Stage 3	Total	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)						June 30, 2020
	Gross	Allowance for credit losses				Net
	amount	Stage 1	Stage 2	Stage 3	Total	amount
Loans – Personal	19,157,205	8,322	11,316	1,768	21,406	19,135,799
Loans – Commercial	8,625,445	20,876	27,778	3,673	52,327	8,573,118
	27,782,650	29,198	39,094	5,441	73,733	27,708,917

As at June 30, 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 June 30, 2021, the carrying value of these loans was $43,967 (December 31, 2020 – $59,415, June 30, 2020 – $154,996) and included fair value adjustment of $7 (December 31, 2020 – $43, June 30, 2020 – $570).

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 June 30, 2021, the carrying amount of these loans was $1,078 (December 31, 2020 – $65,789, June 30, 2020 – $74,853) and included fair value adjustment of ($8) (December 31, 2020 – $21, June 30, 2020 – ($460)).

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

($000s)	**June 30, 2021**	June 30, 2020
Net (losses) gains in fair values for loans measured at FVTPL included in gains on securitization activities	**(36)**	1,296
Net losses in fair values for loans measured at FVTPL and recognized in net loss on loans and investments	**(43)**	(962)

Loans – Commercial include loans of $310,601 (December 31, 2020 – $230,989, June 30, 2020 – $211,447) 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 $625,533 (December 31, 2020 – $538,156, June 30, 2020 – $494,122).

At June 30, 2021, the Bank had commitments to fund a total of $3,459,527 (December 31, 2020 − $2,547,278, June 30, 2020 – $1,813,858) loans in the ordinary course of business.

(b) Impaired and past due loans

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

($000s)		**June 30,2021**		December 31, 2020	June 30, 2020
	Gross(1)	**Allowance for credit losses**	**Net**	Net	Net
Loans – Personal	**34,557**	**983**	**33,574**	61,018	49,297
Loans – Commercial – Conventional and Insured	**66,530**	**567**	**65,963**	30,208	71,639
Loans – Commercial – Finance Leases	**23,593**	**999**	**22,594**	26,778	30,211
	124,680	**2,549**	**122,131**	118,004	151,147

(1) Gross balances include loans amounting to $5,989 (December 31, 2020 − $8,873, June 30, 2020 – $9,551) that are insured.

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

($000s)				**June 30, 2021**
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Loans – Personal	**29,920**	**9,236**	**-**	**39,156**
Loans – Commercial – Conventional and Insured	**-**	**989**	**-**	**989**
Loans – Commercial – Finance Leases	**8,232**	**3,550**	**-**	**11,782**
	38,152	**13,775**	**-**	**51,927**

($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

($000s)				June 30, 2020
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Personal	30,298	9,254	-	39,552
Loans – Commercial – Conventional and Insured	19,879	-	-	19,879
Loans – Commercial – Finance Leases	14,642	8,963	-	23,605
	64,819	18,217	-	83,036

(c) Allowance for credit losses

($000s)				**June 30, 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	**5,740**	**(4,702)**	**(1,038)**	**-**
Transfers to (from) Stage 2	**(1,981)**	**2,573**	**(592)**	**-**
Transfers to (from) Stage 3	**(39)**	**(616)**	**655**	**-**
Re-measurement[1]	**(7,711)**	**(3,524)**	**6,609**	**(4,626)**
Originations	**3,389**	**-**	**-**	**3,389**
Discharges	**(603)**	**(914)**	**-**	**(1,517)**
Write-off	**-**	**-**	**(6,050)**	**(6,050)**
Realized losses	**-**	**-**	**(597)**	**(597)**
Recoveries	**-**	**-**	**18**	**18**
Balance, end of period	**34,655**	**19,590**	**2,549**	**56,794**

($000s)				June 30, 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	2,898	(2,374)	(524)	-
Transfers to (from) Stage 2	(6,252)	6,402	(150)	-
Transfers to (from) Stage 3	(44)	(865)	909	-
Re-measurement[1]	6,685	24,683	7,852	39,220
Originations	6,278	-	-	6,278
Discharges	(420)	(544)	-	(964)
Write-off	-	-	(6,349)	(6,349)
Realized losses	-	-	(1,384)	(1,384)
Recoveries	-	-	25	25
Balance, end of period	29,198	39,094	5,441	73,733

(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.

The Stage 1 and 2 allowance for credit losses includes allowance on loan commitments amounting to $213 (June 30, 2020 – $130).

(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 relevant portfolios; 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 market characteristics. Qualitative adjustments or overlays may be made by 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 and the Delta variant has brought to current economic conditions and outlook. The Bank has applied experienced creditjudgement, 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 the credit 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:

										June 30, 2021
					Downside Scenarios					
	Base-Case Scenario		**Upside Scenario**		**Scenario 1**		**Scenario 2**		**Scenario 3**	
	Next 12 months	**2 to 5 years**	**Next 12 months**	**2 to 5 years**	**Next 12 months**	**2 to 5 years**	**Next 12 months**	**2 to 5 years**	**Next 12 months**	**2 to 5 years**
Unemployment rate (%)	**7.7**	**6.5**	**7.2**	**5.5**	**8.2**	**7.1**	**8.8**	**8.2**	**9.6**	**9.7**
Real GDP growth rate (%)	**7.6**	**3.0**	**10.4**	**3.3**	**5.2**	**3.0**	**2.5**	**2.9**	**(3.6)**	**2.9**
Home Price Index growth rate (%)	**5.9**	**0.9**	**7.4**	**2.4**	**5.2**	**0.3**	**1.7**	**(0.8)**	**(1.6)**	**(3.3)**
Commercial Property Index growth rate (%)	**5.8**	**2.3**	**7.0**	**3.1**	**4.4**	**1.9**	**(0.3)**	**1.3**	**(4.7)**	**(0.6)**
Household income growth rate (%)	**1.7**	**0.4**	**4.6**	**1.2**	**(0.8)**	**0.0**	**(2.1)**	**(0.5)**	**(4.8)**	**(1.9)**

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)

June 30, 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 (%)	10.2	7.3	9.6	6.7	10.3	8.0	12.7	9.5	14.0	11.3
Real GDP growth rate (%)	(5.9)	3.6	(3.7)	3.9	(6.5)	3.1	(10.4)	3.6	(14.8)	3.5
Home Price Index growth rate (%)	(3.6)	2.8	(2.9)	3.4	(4.3)	2.5	(6.2)	1.8	(7.7)	0.8
Commercial Property Index growth rate (%)	(12.1)	5.3	(9.8)	6.0	(13.9)	5.0	(21.0)	6.2	(26.2)	4.8
Household income growth rate (%)	(8.2)	1.0	(7.2)	1.8	(8.5)	0.1	(10.9)	(0.2)	(12.7)	(1.1)

(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 downsidescenario instead of the five probability-weighted macroeconomic scenarios for performing loans:

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
ACL – Five probability-weighted macroeconomic scenarios (actual)	**54,245**	62,633	68,292
ACL – Base-case scenario only	**50,006**	57,898	60,458
ACL – Downside scenario 3 only	**94,743**	106,351	129,291
Difference – Actual versus base-case scenario only	**4,239**	4,735	7,834
Difference – Actual versus downside scenario 3 only	**(40,498)**	(43,718)	(60,999)

Impact of staging on ACL

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

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
ACL – Loans in Stage 1 and Stage 2 (actual)	**54,245**	62,633	68,292
ACL – Assuming all loans in Stage 1	**51,984**	59,395	61,326
Lifetime ACL impact	**2,261**	3,238	6,966

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

($000s)		**June 30, 2021**		December 31, 2020		June 30, 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	**11,423,835**	**201,271**	11,991,675	251,877	11,163,922	598,956
Carrying amount of associated liability	**11,483,635**	**201,271**	11,991,964	251,877	11,190,224	598,956
Carrying value, net position	**(59,800)**	**-**	(289)	-	(26,302)	-
Fair value of assets	**11,501,265**	**201,271**	12,222,074	251,877	11,434,081	598,956
Fair value of associated liability	**11,631,535**	**201,271**	12,294,592	251,877	11,488,020	598,956
Fair value, net position	**(130,270)**	**-**	(72,518)	-	(53,939)	-

The carrying amount of assets includes $20,700 (December 31, 2020 – $39,760, June 30, 2020 – $69,131) of the Bank's net investment in finance leases that were securitized and not derecognized. The carrying value of associated liability includes $16,570 (December 31, 2020 – $32,634, June 30, 2020 – $59,471) of liabilities pertaining to finance leases securitized.

The Bank's outstanding securitization liabilities are as follows:

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
Securitization principal	**11,507,868**	12,013,975	11,220,472
Deferred net discount and issuance costs	**(43,908)**	(42,174)	(50,348)
Accrued interest	**19,675**	20,163	20,100
	11,483,635	11,991,964	11,190,224

(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)	**June 30, 2021**	June 30, 2020
Loans securitized and sold	**748,448**	429,177
Carrying value of Securitization retained interests	**40,547**	27,775
Carrying value of Securitized loan servicing liability	**8,555**	4,688
Gains on loans securitized and sold	**12,355**	5,283
Income from securitization activities and retained interests	**6,165**	59

Note 9 – Other Assets

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
Intangible assets	**82,459**	71,198	63,090
Goodwill	**16,944**	16,944	16,944
Property and equipment	**13,869**	15,324	16,480
Receivable relating to securitization activities	**11,821**	18,108	21,255
Prepaid expenses and other	**11,162**	14,162	9,733
Right-of-use assets	**9,161**	10,708	12,596
Accrued interest and dividends on non-loan assets	**2,221**	3,709	3,862
Real estate owned	**1,056**	863	818
Income taxes receivable	**-**	10,059	-
Deferred cost – Contingent liquidity facility	**-**	-	271
Loan commitments	**-**	-	14
Derivative financial instruments:			
Interest rate swaps	**28,901**	22,081	26,423
Total return swaps	**7,364**	4,889	1,537
Foreign exchange forwards	**1,762**	-	31
Bond forwards	**181**	-	5
	186,901	188,045	173,059

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)	**June 30, 2021**	June 30, 2020
Carrying amount of right-of-use assets	**9,161**	12,596
Depreciation charge for right-of-use assets	**1,658**	1,209
Cash outflows for lease liabilities	**1,497**	1,556
Interest expense on lease liabilities	**272**	370

In 2021 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 recognized $110 of right-of-use assets, derecognized $148 of related right-of-use liabilities and recognized a gain of $258 in the Consolidated Statements of Income at June 30, 2021.

Note 10 – Deposits

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
Term and other deposits	**18,413,271**	16,376,011	15,636,120
Accrued interest	**204,013**	235,260	252,988
Deferred deposit agent commissions	**(29,061)**	(26,228)	(27,383)
	18,588,223	16,585,043	15,861,725

Note 11 – Income Taxes

(a) Income tax provision:

($000s)	**June 30, 2021**	June 30, 2020
Current tax expense:	**42,740**	31,686
Deferred tax expense:		
Reversal of temporary differences	**6,231**	(4,777)
Adjustments for prior years	**446**	628
Changes in tax rates	**(21)**	5
	6,656	(4,144)
Total income tax expense	**49,396**	27,542

The provision for income taxes shown in the Consolidated Statements of Income differs from that obtained byapplying statutory income tax rates to income before provision for income taxes due to the following reasons:

(Percentages)	**June 30, 2021**	June 30, 2020
Canadian statutory income tax rate	**26.3%**	26.4%
Increase (decrease) resulting from:		
Tax-exempt income	**(0.4%)**	(0.7%)
Non-deductible expenses and other	**0.2%**	0.3%
Effective income tax rate	**26.1%**	26.0%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
Deferred income tax assets:			
Tax losses	**1,186**	7,455	17,819
Allowance for credit losses	**10,010**	11,452	12,419
Other	**4,848**	2,606	2,900
Net loan fees	**1,866**	372	176
Share issue expenses	**4**	5	53
	17,914	21,890	33,367
Deferred income tax liabilities:			
Securitization activities	**55,458**	51,249	42,570
Leasing activities	**15,562**	19,257	29,105
Deposit agent commissions	**6,501**	6,143	6,951
Intangible costs	**6,336**	3,300	1,625
Other	**1,577**	2,821	3,662
	85,434	82,770	83,913
Net deferred income tax liabilities	**67,520**	60,880	50,546

Note 12 – Other Liabilities

($000s)	**June 30, 2021**	December 31, 2020	June 30, 2020
Accounts payable and accrued liabilities	**115,171**	68,605	116,586
Securitized loan servicing liability	**39,012**	35,060	28,647
Right-of-use liabilities	**9,866**	12,363	14,535
Income taxes payable	**8,092**	-	2,976
Loan realty taxes	**7,981**	43,546	36,130
Unearned revenue	**53**	-	-
Loan commitments	**4**	26	-
Derivative financial instruments:			
Interest rate swaps	**10,608**	30,098	36,150
Total return swaps	**8,533**	17,192	19,719
Bond forwards	**490**	1,253	1,295
Foreign exchange forwards	**257**	709	-
	200,067	208,852	256,038

Note 13 – Funding 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 June 30, 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 programs sponsored by the Government of Canada, namely the Bank of Canada's Standing Term Liquidity Facility, Emergency Lending Assistance program, and Contingent Term Repo Facility. As at June 30, 2021, the Bank had no outstanding balance (December 31, 2020 – $nil, June 30, 2020 – $500,374) on these facilities.

Note 14 – Shareholder's Equity

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 six months ended June 30, 2021, the Bank repurchased and cancelled 19,700 Series 3 – 5-year rate reset preferred shares (December 31, 2020 – 3,300, June 30, 2020 – nil) at a volume weighted average price of $25.19 (December 31, 2020 – 24.91, June 30, 2020 – nil). No common shares have been purchased and cancelled under the NCIB.

Note 15 – Stock-based Compensation

(a) 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 June 30, 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 June 30, 2021 and June 30, 2020 is as follows:

($000s, except share, per share and stock option amounts)		**June 30, 2021**		June 30, 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**	104,056	90.60
Exercised	**(92,333)**	**61.90**	(9,724)	36.64
Forfeited/cancelled	**(11,619)**	**101.05**	(2,677)	75.83
Outstanding, end of period	**622,332**	**79.97**	668,667	65.68
Exercisable, end of period	**346,295**	**63.28**	380,396	58.94

Under the fair value-based method of accounting for stock options, the Bank has recorded compensation expense in the amount of $1,261 (June 30, 2020 – $912) 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 June 30, 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)	**June 30, 2021**	June 30, 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	**34.32**	18.83

(b) 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 June 30, 2021 and June 30, 2020 is as follows:

	June 30, 2021	June 30, 2020
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**68,219**	54,237
Granted	**5,579**	11,096
Dividend reinvested	**400**	708
Outstanding, end of period	**74,198**	66,041

The liability associated with DSUs outstanding as at June 30, 2021 was $10,155 (June 30, 2020 – $4,676). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the three months ended June 30, 2021 amounted to $822 (June 30, 2020 – $714).

Under the Bank's RSU and PSU plan, the activity for the periods ended June 30, 2021 and June 30, 2020 is as follows:

	June 30, 2021	June 30, 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	**634**	1,470
Vested and paid out	**(235)**	(324)
Forfeited/cancelled	**(5,115)**	(1,732)
Outstanding, end of period	**108,704**	122,817

The liability associated with RSUs and PSUs outstanding as at June 30, 2021 was $7,743 (June 30, 2020 – $4,202). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the six months ended June 30, 2021 amounted to ($65) (June 30, 2020 – $1,882).

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)	**June 30, 2021**	June 30, 2020
Earnings per common share − basic:		
Net income	**139,995**	78,452
Dividends on preferred shares	**2,225**	2,238
Net income available to common shareholders	**137,770**	76,214
Weighted average basic number of common shares outstanding	**16,940,433**	16,803,864
Earnings per common share − basic	**8.13**	4.54
Earnings per common share − diluted:		
Net income available to common shareholders	**137,770**	76,214
Weighted average basic number of common shares outstanding	**16,940,433**	16,803,864
Adjustment to weighted average number of common shares outstanding:		
Stock options	**246,853**	120,103
Weighted average diluted number of common shares outstanding	**17,187,286**	16,923,967
Earnings per common share − diluted	**8.02**	4.50

For the period ended June 30, 2021, the calculation of the diluted earnings per share excluded 74,281 (June 30, 2020 – 180,055) average options outstanding with a weighted average exercise price of $137.46 (June 30, 2020 − $78.49) 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 14.4% as at June 30, 2021, while Tier 1 Capital and Total Capital Ratios were 15.0% and 15.4% respectively. The Bank's Capital Ratios at June 30, 2021 exceeded the regulatory minimums.

Equitable Bank maintains a Capital Management Policy and an ICAAP 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)	**June 30, 2021**	December 31, 2020	June 30, 2020
Common Equity Tier 1 Capital ("CET1"):			
Common shares	**216,652**	215,536	214,418
Contributed surplus	**9,328**	9,184	8,910
Retained earnings	**1,511,782**	1,386,197	1,255,281
Accumulated other comprehensive loss[1]	**(16,816)**	(19,009)	(29,580)
Less: Regulatory adjustments	**(73,980)**	(66,448)	(58,214)
Common Equity Tier 1 Capital	**1,646,966**	1,525,460	1,390,815
Additional Tier 1 Capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,719,520**	1,598,014	1,463,369
Tier 2 Capital:			
Eligible stage 1 and 2 allowance	**54,244**	62,633	68,291
Less: Regulatory adjustments	**(8,277)**	(15,873)	(18,772)
Tier 2 Capital	**45,967**	46,760	49,519
Total Capital	**1,765,487**	1,644,774	1,512,888

(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 June 30, 2021.

($000s, except percentages)								**June 30, 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	**6,503,046**	**1,920,782**	**6,537,831**	**14,961,659**	**15,496,121**	**1,254,997**	**629,476**	**32,342,253**
Total liabilities and shareholders' equity	**-**	**(11,127,878)**	**(5,480,754)**	**(16,608,632)**	**(12,409,102)**	**(971,417)**	**(2,353,102)**	**(32,342,253)**
Off-balance sheet items[3]	**-**	**2,460,620**	**(689,110)**	**1,771,510**	**(1,928,605)**	**157,095**	**-**	**-**
Interest rate sensitivity gap	**6,503,046**	**(6,746476)**	**367,967**	**124,537**	**1,158,414**	**440,675**	**(1,723,626)**	**-**
Cumulative gap[2]	**6,503,046**	**(243,430)**	**124,537**	**124,537**	**1,282,951**	**1,723,626**	**-**	**-**
Cumulative gap as a percentage of total assets	**20.11%**	**(0.75%)**	**0.39%**	**0.39%**	**3.97%**	**5.33%**	**-%**	**-%**

($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 gap as a percentage of total assets	20.65%	(2.50%)	1.76%	1.76%	4.05%	5.27%	-%	-%

($000s, except percentages)								June 30, 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]	6,444,150	762,872	205,676	205,676	1,417,583	1,650,097	-	-
Cumulative gap as a percentage of total assets	21.51%	2.55%	0.69%	0.69%	4.73%	5.51%	-%	-%

(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

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

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

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

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

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

Website
www.equitablebank.ca

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

Quarterly Conference Call and Webcast
Thursday, July 29, 2021,
8:30 a.m. EST
Live: 416.764.8609
Replay: 416.764.8677
(code 015442)
Archive: www.equitablebank.ca

Investor Relations
Richard Gill
Senior Director, Corporate Development & Investor Relations
416.515.7000
Email: investor_enquiry@eqbank.ca

More comprehensive investor information including supplemental financial reports, quarterly news releases, and investor presentations is available in the Investor Relations at www. equitablebank.ca

Transfer Agent and Registrar
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario
Canada, M5J 2Y1
1.800.564.6253
Email: service@computershare.com