



EQUITABLE

CANADA'S CHALLENGER BANK™

Second Quarter Report 2019

For the three and six months ended June 30, 2019



EQUITABLE GROUP INC.

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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, 2019

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and six months ended June 30, 2019. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2019, together with accompanying notes, which have been prepared in accordance with International Accounting Standard ("IAS") 34. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at July 30, 2019. The Company'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 Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

Reporting Changes

Effective Q1 2019, we are reporting the financial results of our businesses based on two portfolios: Retail and Commercial. This reporting structure better aligns our assets with our customer segments and the way in which we manage the businesses. It is also more consistent with market practice. We have updated all historical figures contained in our Q2 2019 MD&A and consolidated financial statements to conform to this new reporting format. Please refer to Note 2(f) to the interim consolidated financial statements for further details.

Adoption of IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") issued by the International Accounting Standards Board ("IASB"), which replaced IAS 17 Leases ("IAS 17"). IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a Right-of-Use ("ROU") asset and a corresponding lease liability. The Company used the modified retrospective approach and recognized a \$0.8 million opening retained earnings adjustment on January 1, 2019, resulting in a \$0.05 reduction in our book value per common share upon adoption. Please refer to Note 3 to the interim consolidated financial statements for a summary of the Company's accounting policies as it relates to IFRS 16. We did not restate the comparative periods, as permitted by the standard. Therefore, current year period disclosures are not directly comparable to prior year period disclosures, although the overall impact is deemed immaterial.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q2 2019 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Capital Management – Equitable Bank", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, changes in accounting standards, the nature of our customers and rates of default, and competition as well

as those factors discussed under the heading “Risk Management” herein and in the Company's documents filed on SEDAR at www.sedar.com.

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

BUSINESS PROFILE AND OBJECTIVES

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly owned subsidiary, Equitable Bank (the “Bank”). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (“OSFI”) with total Assets Under Management⁽¹⁾ of approximately \$31 billion. We serve retail and commercial customers across Canada with a range of savings solutions and lending products, offered under the Equitable Bank and *EQ Bank* brands. Equitable also serves the Canadian equipment leasing market through Bennington Financial Corp. (“Bennington”), acquired on January 1, 2019. Bennington finances a wide range of assets with a focus on transportation, construction and food service equipment, has long-tenured relationships with professional leasing brokers throughout Canada and employs a proven approach to adjudication with emphasis on lease structure, security, and re-marketability. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

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

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

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

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

A differentiating factor in Equitable's business model as compared to many other challenger banks around the world, is our ability to deploy the deposits that we gather consistently and profitably. We operate an integrated balance sheet and lend across a growing range of retail and commercial asset categories. Equitable's asset growth is enabled by our extensive partnerships with Canada's mortgage brokers, mortgage bankers, leasing brokers, and financial planners who provide independent professional advice to their clients. The success of our model is evident in our results: the Bank has generated an average Return on Shareholders' Equity⁽¹⁾ ("ROE") of 17.0% over the past decade.

For further information on Equitable's vision and strategy, culture and values, capabilities, business lines, and key performance indicators please refer to our 2018 annual MD&A.

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	As at or for three months ended					Six months ended		
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change
RESULTS OF OPERATIONS								
Net income	\$ 54,022	\$ 41,661	30%	\$ 37,537	44%	\$ 95,683	\$ 77,704	23%
Adjusted net income ⁽¹⁾	54,512	46,579	17%	41,510	31%	101,091	81,581	24%
Net income available to common shareholders	52,831	40,470	31%	36,346	45%	93,301	75,322	24%
Net interest income ("NII")	114,322	105,352	9%	79,496	44%	219,674	160,766	37%
Total revenue	283,625	271,494	4%	214,958	32%	555,119	415,744	34%
EPS – basic	3.17	2.44	30%	2.20	44%	5.62	4.56	23%
EPS – diluted	3.15	2.42	30%	2.19	44%	5.57	4.53	23%
Adjusted EPS – diluted ⁽¹⁾	3.18	2.72	17%	2.43	31%	5.90	4.77	24%
ROE	16.8%	13.4%	3.4%	13.0%	3.8%	15.1%	13.7%	1.4%
Adjusted ROE ⁽¹⁾	16.9%	15.0%	1.9%	14.4%	2.5%	15.9%	14.4%	1.5%
Return on average assets ⁽¹⁾	0.8%	0.7%	0.1%	0.7%	0.1%	0.7%	0.7%	-%
Net interest margin ("NIM")	1.76%	1.67%	0.09%	1.50%	0.26%	1.72%	1.55%	0.17%
Efficiency Ratio ⁽¹⁾⁽²⁾	39.5%	41.1%	(1.6%)	43.2%	(3.7%)	40.3%	40.5%	(0.2%)
BALANCE SHEET								
Total assets	26,361,201	26,327,464	0%	21,944,721	20%			
Assets Under Management	30,909,183	30,830,162	0%	26,142,735	18%			
Loans receivable	24,867,909	24,446,452	2%	20,455,377	22%			
Loans Under Management ⁽¹⁾	29,321,091	28,848,831	2%	24,568,457	19%			
Shareholders' equity	1,359,646	1,313,968	3%	1,212,952	12%			
CREDIT QUALITY								
Provision for credit losses ⁽³⁾	1,386	9,628	(86%)	168	725%	11,014	938	1,074%
Provision for credit losses – rate ⁽¹⁾	0.02%	0.16%	(0.14%)	0.003%	0.02%	0.09%	0.01%	0.08%
Net impaired loans as a % of total loan assets	0.42%	0.49%	(0.07%)	0.13%	0.29%			
Allowance for credit losses as a % of total loan assets	0.13%	0.13%	-%	0.12%	0.01%			
SHARE CAPITAL								
Common shares outstanding	16,666,896	16,642,685	0%	16,520,618	1%			
Book value per common share ⁽¹⁾⁽⁴⁾	77.22	74.59	4%	69.03	12%			
Common share price – close	72.59	64.73	12%	59.56	22%			
Common share market capitalization	1,209,850	1,077,281	12%	983,968	23%			
EQUITABLE BANK CAPITAL RATIOS⁽¹⁾								
CET1 Ratio	13.1%	12.9%	0.2%	14.3%	(1.2%)			
Tier 1 Capital Ratio	13.9%	13.7%	0.2%	15.3%	(1.4%)			
Total Capital Ratio	14.2%	14.0%	0.2%	15.6%	(1.4%)			
Leverage Ratio	4.9%	4.7%	0.2%	5.4%	(0.5%)			

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

⁽²⁾ Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.

⁽³⁾ Provision for credit losses for Q1 2019 includes \$8.6 million of provisions for equipment leases acquired through the Bennington acquisition.

⁽⁴⁾ The adoption of IFRS 16 resulted in a \$0.05 decrease in our book value per common share as at January 1, 2019.

Q2 2019 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable demonstrated its franchise value again in Q2 2019 by generating all-time record earnings. Adjusted EPS was \$3.18, \$0.46 higher than the adjusted results in the preceding quarter, and \$0.75 above Q2 2018. Adjusted ROE was also strong at 16.9%, an increase from 15.0% and 14.4% achieved in Q1 2019 and the same quarter of the prior year, respectively. Adjusted Q2 2019 results exclude the negative impact of net mark-to-market losses of \$0.7 million on certain security investments and derivative transactions. Including these items, reported EPS was \$3.15, compared to \$2.42 in Q1 2019 and \$2.19 in Q2 2018.

Our primary financial and operating metrics point to strength in the fundamentals of our business and we continued to deliver on our key strategic objectives:

Strategic Objectives for 2019	Accomplishments
Grow our existing businesses with better service and innovation	• Grew our Retail loan portfolio by 23% over Q2 2018 • Increased our Commercial loans by 19% over last year, one-third relates to the Bennington acquisition • Grew brokered term deposit principal by 18% over the prior year • Increased deposits from strategic partnerships by \$120 million in the quarter to \$435 million • Renewed our \$400 million secured backstop funding facility in June 2019 for a 2-year period at a reduced cost
Further diversify through our leasing, reverse mortgage, and CSV loan businesses	• Launched the <i>Equitable Bank Reverse Mortgage</i> product in Québec in May, which is part of our broader strategy to build a competitive decumulation business • Grew our equipment lease portfolio by \$31 million or 7% since we acquired Bennington and launched a new lease offering targeting higher credit customers • Continued to build awareness and broadened our partnerships by adding BMO Insurance as a new provider of our CSV line of credit
Expand and enhance <i>EQ Bank</i>	• Grew <i>EQ Bank</i> deposit balances to \$2.3 billion, an increase of 14% from last year • Expanded its customer base by 20 thousand or 33% to over 81,000 from last year • Upgraded its onboarding as well as mobile and web functionality to enhance the customer experience
Pursue AIRB and improve the sophistication of our capital management	• Submitted our AIRB implementation plan to OSFI • Reported a CET1 Ratio of 13.1%, which is ahead of the regulatory minimum and most competitive benchmarks
Enhance our capabilities through technology and people	• Sustained an industry leading Efficiency Ratio⁽¹⁾ while investing in strategic initiatives • Furthered the migration of our <i>EQ Bank</i> system and other applications to the cloud • Launched Equitable's first all-digital annual report giving shareholders a more comprehensive and accessible method to review business progress and strategy

⁽¹⁾ As measured by the Efficiency Ratio for the second quarter of 2019.

ITEMS OF NOTE

Q2 2019 financial results were impacted by the following items, on a pre-tax basis:

- \$1.0 million net reduction in the provision for credit losses for Bennington's equipment lease portfolio as a result of refined assumptions determined during the quarter; and
- \$0.7 million of net mark-to-market losses on certain security investments and derivative financial instruments related to securitization activities.

Q1 2019 financial results were impacted by the following items, on a pre-tax basis:

- \$5.7 million one-time IFRS 9 related provision for credit losses for Bennington's equipment lease portfolio that was recorded at the time of acquisition; and
- \$0.9 million of mark-to-market losses on certain preferred share investments and derivative financial instruments related to securitization activities.

Q2 2018 financial results were impacted by the following items, on a pre-tax basis:

- \$5.9 million write-down of unamortized up-front costs associated with the reduction of our secured backstop funding facility; and
- \$0.5 million of mark-to-market losses on certain preferred share investments and derivative financial instruments related to securitization activities.

DIVIDEND GROWTH – AN EVOLVING APPROACH

Our franchise has grown and strengthened materially over the past number of years. We have entered new business lines, firmly established our position as *Canada's Challenger Bank™*, maintained a strong capital position and generated high ROEs. Given this improved position, management and the Board of Directors (the "Board") considered changes to Equitable's dividend philosophy. As part of that process, we evaluated the impact of various approaches to dividend levels on our stakeholders. We have concluded that increasing the rate of capital allocation to dividends is now the right decision for Equitable.

As such, the Board is now committed to growing Equitable's dividend at a rate of between 20% to 25% for each of the next five years, up from its previously stated target of more than 10% per year. In keeping with this commitment, the Board today declared a dividend of 33 cents per share, payable on September 30th, to shareholders of record on the close of business at the close of business on September 13th. This represents a 22% increase over the dividend declared in August 2018. Even with this faster pace of dividend growth, we expect the Bank to maintain a strong capital position and to retain sufficient capital to support strong business growth.

In addition, on July 30, 2019, the Company's Board declared a quarterly dividend in the amount of \$0.396875 per preferred share, payable on September 30, 2019, to preferred shareholders of record at the close of business on September 13, 2019.

BUSINESS OUTLOOK

Equitable believes that our strategy, including our disciplined approach to capital allocation, will continue to deliver value to shareholders and protect the money that depositors have trusted to the Bank. Our asset quality remains high and our diversified business model presents profitable growth opportunities. We expect adjusted earnings in the last two quarters of 2019 to increase at a year-over-year rate in the range of 15% to 17% due to loan growth, higher margins, and our Bennington acquisition. ROE should be between 15% and 16% in the last two quarters; a high rate of return but below our ten-year average of 17.0% due to investments that we are making in key strategic initiatives.

Asset Growth

The Bank operates secured lending businesses that span a wide spectrum of asset types. Our diversified asset base improves our long-term growth potential, reduces our risk profile, and increases the depth of our relationships with our customers and distribution partners.

As a result of our continued emphasis on service quality and the addition of the Bennington leasing business, we expect that loans will grow at a rate between 12% and 14% in 2019. We describe our growth expectations for individual asset categories in detail below.

Summary of Expectations for Asset Growth for 2019

Portfolio	Expectations ⁽¹⁾	Rationale and Assumptions ⁽¹⁾
Retail		
Alternative Single Family	Assets grow at a rate between 9% and 11% for the full year	- Employment will be stable and overall economic growth will be low but positive - National housing market activity will be flat to 2018 and prices will be down slightly across our key markets - Originations will be consistent with 2018 levels as a result of growth in the Alternative market segment and gains in market share - Attrition rates to be consistent with last year
Prime Single Family	Assets grow at rates of approximately 40% in Q3 and 20% in Q4	- The economy and housing market perform as indicated above for Alternative Single Family - We expect to source \$300 million to \$450 million of mortgages through third parties in Q3
Commercial		
Conventional Commercial	Assets grow at a rate between 8% and 10% for the full year	- The market continues to present quality origination opportunities and competition does not intensify - Originations are just below the record levels achieved in 2018 while attrition rates are slightly higher
CMHC Insured Multi-Unit Residential ("Multi")	Balance sheet assets grow at a rate between 4% and 6% for the full year	- We will use our fixed rate CMB capacity (approximately \$350 million to \$400 million per quarter) for Multi renewals and originations - We will derecognize in the range of \$150 million to \$200 million of securitized Multis each quarter
Equipment Leasing	Assets grow at year-over-year rates between 11% and 13%	- The overall economy and the leasing markets will grow modestly - Originations will increase as we continue to deliver high quality service to brokers

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

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

Revenue

Management believes that NII will increase at a year-over-year rate between 28% and 30% in each of the remaining quarters of 2019. In addition to high levels of mortgage growth, the acquisition of Bennington and reduced secured backstop funding facility costs will contribute to the increase.

Adding to these effects, NIM will remain in the range of 1.75% to 1.80% for the remainder of the year, up from the levels achieved in 2018 and early 2019. NIM will be supported by the following factors:

- Lower secured backstop facility costs: costs should decrease by approximately \$1.6 million and \$0.8 million as compared with Q1 and Q2 2019, respectively, as a result of the recent renewal of the facility.

- Mortgage spreads: margins on originated and renewed Alternative Single Family and Commercial mortgages should be higher than in 2018, partly due to favourable funding rates.

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 Expenses

In the final two quarters of 2019, we anticipate that non-interest expenses will increase at year-over-year rates between 35% and 40% in Q3 and Q4 2019 as we continue to make investments that build the Bank's franchise and reinforce our high level of customer service. Nearly half of this increase is the result of the Bennington acquisition. In addition, we expect to record approximately \$1.5 million of non-recurring expenses in each of Q3 and Q4, up from \$0.5 million in Q2, to migrate part of our technology infrastructure to a cloud-based platform and to upgrade our core banking systems. Our forecast of the total 2019 cloud migration expenses has come down since the beginning of the year, as we progress through the migration and refine our cost estimates. The remainder of our expense base will increase at a rate in line with the growth rate of our assets, though may show some volatility due to the timing of advertising spend.

The Bank will continue to operate efficiently on both an absolute and relative basis compared to most other financial institutions due to our branchless business model. We expect that our Efficiency Ratio will be between 40% and 42% in both Q3 and Q4. This Efficiency Ratio is higher than our historical average due to the effect of strategic investments and our Bennington acquisition. The Bennington business is more labour intensive due to its smaller-ticket nature and operates with an Efficiency Ratio in the range of 50% to 55%.

Capital

Our capital ratios increased during Q2 to within our normal operating range, after the strategic acquisition of Bennington at the beginning of the year. We remain confident that we will build our capital organically and that our CET1 ratio will return to the mid-point of our target range of 13% to 14% by the end of 2019, while we still invest to grow our business. Even at current levels, our capital ratios are above regulatory standards and the levels of the eight larger, publicly listed Schedule I banks in Canada.

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

Funding

We believe that our current sources of funding – most notably brokered term and *EQ Bank* deposits – will be adequate to support our asset growth in 2019. Our deposit balances have grown by 18% over the past twelve months and we believe this trend will continue, even with what we expect to be a heightened level of competition in the deposit market.

Management will continue to diversify the Bank's funding profile for risk management purposes. For example, when it begins operating later this year, our subsidiary, Equitable Trust, will be a new issuer of deposits that are eligible for insurance through the CDIC and we will build its distribution network following launch. Having secured all the provincial licenses, we plan to launch Equitable Trust deposits to the broker market in Q3.

Credit Quality

Management consistently manages credit risk through the application of prudent lending practices. This approach applies across all of our lending businesses, including leasing.

The Bennington acquisition will cause 2019 arrears rates and provisions for credit losses to increase relative to historical levels. The equipment leasing business has higher expected losses than does our mortgage business, but we earn higher yields to compensate for this cost. We anticipate that the longer-term annualized loss rate on this portfolio will be in the range of 1.5% to 2.0%, a level of loss that is within our risk appetite. Bennington's impaired loan balances should grow over time in-line with the overall lease portfolio.

Recent economic data supports our view that risk in the Canadian residential real estate market has moderated since 2017. Prices have softened in most major urban centres and they are now demonstrating balanced supply and demand dynamics. With that backdrop, we expect credit loss provisions in our mortgage book to be low in 2019, assuming that Canadian economic conditions stay within the range of broad market expectations. Mortgage arrears rates should also remain low but will be above the trough levels we achieved last year. Arrears rates have been unusually high since Q1 due to one large commercial loan and we expect them to decrease from that level after the loan is resolved, likely later this year.

Nonetheless, we believe that risks still exist in the mortgage market and we are actively monitoring market activity. Our prudent risk appetite and approach to lending should allow us to effectively manage through any negative changes in market conditions. For example, the low LTV ratios on our uninsured mortgages are designed to protect the Bank in the event of a softening real estate market and escalating borrower defaults caused by higher levels of unemployment. The weighted average LTV ratio of 65% on our uninsured residential mortgage portfolio at the end of Q2 offers us protection against a scenario combining higher defaults and a significant decrease in house prices.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near term. Readers should be aware that information contained in this section may not be appropriate for any other purpose.

See "Cautionary Note Regarding Forward-Looking Statements" on page 1 of this MD&A.

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

(\$ THOUSANDS, EXCEPT PER SHARE AMOUNT)	Three months ended					Six months ended		
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change
Net income	\$ 54,022	\$ 41,661	30%	\$ 37,537	44%	\$ 95,683	\$ 77,704	23%
Adjusted net income	54,512	46,579	17%	41,510	31%	101,091	81,581	24%
EPS – diluted	3.15	2.42	30%	2.19	44%	5.57	4.53	23%
Adjusted EPS – diluted	3.18	2.72	17%	2.43	31%	5.90	4.77	24%
Net interest income	114,322	105,352	9%	79,496	44%	219,674	160,766	37%
Provision for credit losses	1,386	9,628	(86%)	168	725%	11,014	938	1,074%
Non-interest expenses	48,496	46,111	5%	38,523	26%	94,607	72,333	31%

NET INTEREST INCOME

NII is the main driver of profitability for the Company. Table 3 details the Company's NII by product and portfolio.

Table 3: Net interest income

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Six months ended			
	Jun 30, 2019		Mar 31, 2019		Jun 30, 2018		Jun 30, 2019		Jun 30, 2018	
	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⁾
<i>Revenues derived from:</i>										
Cash and equivalents	\$ 7,289	2.04%	\$ 6,379	1.93%	\$ 4,164	1.43%	\$ 13,668	2.03%	\$ 7,969	1.39%
Equity securities ⁽²⁾	1,519	4.93%	1,376	4.30%	1,499	4.24%	2,895	4.61%	2,545	4.17%
Alternative single family mortgages	133,183	4.85%	126,348	4.78%	108,887	4.54%	259,531	4.82%	211,733	4.49%
Prime single family mortgages	34,835	2.42%	32,803	2.37%	20,412	2.08%	67,638	2.39%	40,031	2.06%
Other retail loans	118	5.99%	71	6.28%	29	13.06%	189	6.05%	31	12.22%
Total Retail loans	168,136	4.02%	159,222	3.95%	129,328	3.83%	327,358	3.98%	251,795	3.78%
Conventional commercial loans	57,409	6.05%	58,355	6.10%	44,607	5.53%	115,764	6.08%	84,874	5.53%
Equipment leases ⁽³⁾	13,537	12.00%	12,215	11.88%	N/A	N/A	25,752	11.95%	N/A	N/A
Insured multi-unit residential mortgages	27,262	3.13%	27,059	3.23%	25,651	3.27%	54,321	3.18%	50,908	3.31%
Total Commercial loans	98,208	5.08%	97,629	5.14%	70,258	4.41%	195,837	5.11%	135,782	4.42%
Average interest earning assets	275,152	4.23%	264,606	4.20%	205,249	3.87%	539,758	4.22%	398,091	3.84%
<i>Expenses related to:</i>										
Deposits	96,280	2.64%	92,363	2.66%	68,748	2.28%	188,643	2.65%	129,893	2.23%
Secured backstop funding facility ⁽⁴⁾	1,441	N/A	2,249	N/A	10,999	N/A	3,690	N/A	16,292	N/A
Securitization liabilities	62,653	2.55%	62,903	2.63%	44,825	2.40%	125,556	2.59%	88,387	2.38%
Others	456	4.57%	1,739	3.67%	1,181	2.16%	2,195	3.81%	2,753	2.09%
Average interest bearing liabilities	160,830	2.63%	159,254	2.70%	125,753	2.54%	320,084	2.67%	237,325	2.45%
Net interest income and margin	\$ 114,322	1.76%	\$ 105,352	1.67%	\$ 79,496	1.50%	\$ 219,674	1.72%	\$ 160,766	1.55%

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

⁽²⁾ Effective January 1, 2019, the revenues from Equity securities are presented excluding a Taxable equivalent basis ("TEB") adjustment. Prior period comparatives have been restated.

⁽³⁾ The revenue derived from and the average rate on Equipment leases represents earnings on the Bennington equipment lease portfolio. Bennington was consolidated as of January 1, 2019.

⁽⁴⁾ Since its establishment in June 2017, there have been no draws on the secured backstop funding facility.

Q2 2019 v Q2 2018

NII was up 44% year over year primarily due to growth in our average asset balances of 23% and a 26 bp increase in our NIM. The increase in NIM was primarily driven by the addition of higher spread equipment leases that we acquired in Q1 2019, the write-down of upfront costs associated with the reduction of our secured backstop funding facility in Q2 2018, and the associated cost savings from the downsized facility.

Table 4(a): Factors affecting Q2 2019 v Q2 2018 NIM

	Impact (in bps)	Drivers of change
Equipment leases	11	Addition of higher spread equipment leases acquired in Q1 2019
Backstop funding facility write-down in Q2 2018	11	The \$5.9 million write-down of unamortized upfront costs associated with the reduction of our secured backstop funding facility in Q2 2018
Backstop funding facility fees	7	Lower fees associated with our downsized secured backstop funding facility; the average size was \$1.9 billion in Q2 2018 and \$0.6 billion in Q2 2019
Rates/spread ⁽¹⁾	5	- Higher spreads on recent Commercial lending originations, offset in part by: - Lower margins on our Alternative Single Family mortgages over the past year, driven in part by the competitive environment
Business mix	(9)	Mix shift toward lower spread Prime mortgages, which was affected by the high levels of originations in the latter half of 2018
Loan prepayment income	(1)	Reduced levels of early discharges in Alternative Single Family
Other	2	
Change in Total NIM	26	

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

Q2 2019 v Q1 2019

NII increased 9% from last quarter mainly because of a 9 bp increase in our NIM.

Table 4(b): Factors affecting Q2 2019 v Q1 2019 NIM

	Impact (in bps)	Drivers of change
Rates/spread ⁽¹⁾	1	Higher spreads on recent Commercial lending originations and favourable funding conditions
Loan prepayment income	3	Higher levels of early discharges in Alternative Single Family
Other	5	- Fair value changes on derivative instruments related to our deposit portfolio - Number of days in the quarter and other adjustments
Change in Total NIM	9	

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

YTD 2019 v YTD 2018

NII increased by 37% from last year mainly driven by 23% growth in average assets and a 17 bp increase in our NIM.

Table 4(c): Factors affecting YTD 2019 v YTD 2018 NIM

	Impact (in bps)	Drivers of change
Equipment leases	11	• Addition of higher spread equipment leases acquired in Q1 2019
Liquidity actions undertaken in Q2 2017	7	• Lower fees associated with our downsized secured backstop funding facility
Backstop funding facility write-down	6	• The \$5.9 million write-down of unamortized upfront costs associated with the reduction of our secured backstop funding facility in Q2 2018
Rates/spread ⁽¹⁾	1	• Higher spreads on our Commercial portfolio, offset in part by: • Lower margins on our Alternative Single Family mortgages over the past year, driven in part by the competitive environment
Business mix	(7)	• Mix shift toward lower spread Prime mortgages, which was affected by the high levels of originations in the latter half of 2018
Loan prepayment income	(2)	• Reduced levels of early discharges on Alternative Single Family
Other	1	
Change in Total NIM	17	

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

PROVISION FOR CREDIT LOSSES

Table 5: Provision for credit losses ("PCL")

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019			Three months ended		
	Equitable	Bennington	Consolidated	Mar 31, 2019	Change	Jun 30, 2018
Stage 1 and 2 provision	\$ (348)	\$ (52)	\$ (400)	\$ 530	(175%)	\$ (527)
Stage 3 provision	892	894	1,786	3,349	(47%)	695
Provision for Credit Losses – Normalized	544	842	1,386	3,879	(64%)	168
One-time Bennington acquisition related	-	-	-	5,749	(100%)	-
Provision for credit losses – Reported	544	842	1,386	9,628	(86%)	168
Provision for credit losses – Normalized rate	0.01%	0.73%	0.02%	0.06%	(0.04%)	0.003%
Provision for credit losses – Reported rate	0.01%	0.73%	0.02%	0.16%	(0.14%)	0.003%
Allowance for credit losses	\$ 25,725	\$ 7,394	\$ 33,119	\$ 32,268	3%	\$ 24,684

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019			Six months ended	
	Equitable	Bennington	Consolidated	Jun 30, 2018	Change
Stage 1 and 2 provision	\$ (118)	\$ 248	\$ 130	\$ (108)	(220%)
Stage 3 provision	1,711	3,424	5,135	1,046	391%
Provision for Credit Losses – Normalized	1,593	3,672	5,265	938	461%
One-time Bennington acquisition related	-	5,749	5,749	-	N/A
Provision for credit losses – Reported	\$ 1,593	\$ 9,421	\$ 11,014	\$ 938	1,074%
Provision for credit losses – Normalized rate	0.01%	1.62%	0.04%	0.01%	0.03%
Provision for credit losses – Reported rate	0.01%	4.15%	0.09%	0.01%	0.08%

The credit quality of our loan portfolio remained strong in Q2 2019. The PCL during the second quarter was \$1.4 million, \$2.5 million below the normalized provision in Q1 2019 and \$1.2 million higher than the same quarter of 2018. \$0.8 million of the PCL recorded in the current quarter was as a result of our lease portfolio. The equipment leasing business has higher expected losses than does our traditional mortgage business but earns a higher margin to compensate for this cost. The PCL on our mortgage portfolio was \$0.5 million or 0.01% of average loan principal, in-line with our historical PCL rates. During the quarter, we recorded a \$0.4 million reversal of Stage 1 and 2 allowances compared to a provision of \$0.5 million in Q1 2019 as a result of improved forward-looking macroeconomic assumptions.

The amount of provision may vary from period to period based on impaired loan balances, the credit quality of our unimpaired loans, estimates of the likely credit losses on all loans, and both current and forward looking economic conditions. The provision does not represent the aggregate amount that we have reserved to absorb losses: the aggregate amount of reserves is represented by the allowance for credit losses on our consolidated interim balance sheet (see *Credit Quality and Allowance for Credit Losses* discussion below).

OTHER INCOME

Table 6: Other income

(\$ THOUSANDS)	Three months ended					Six months ended		
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change
Fees and other income:								
Fees and other income	\$ 5,482	\$ 5,041	9%	\$ 5,071	8%	\$ 10,523	\$ 9,151	15%
Income from successor issuer activities	418	603	(31%)	1,476	(72%)	1,021	2,773	(63%)
Net gain (loss) on investments	76	(821)	109%	138	(45%)	(745)	(232)	(221%)
Securitization activities:								
Gains on securitization and income from retained interests	3,071	2,186	40%	2,685	14%	5,257	5,122	3%
Fair value (losses) gains on derivative financial instruments	(574)	(121)	(374%)	339	(269%)	(695)	839	(183%)
Total	\$ 8,473	\$ 6,888	23%	\$ 9,709	(13%)	\$ 15,361	\$ 17,653	(13%)

Q2 2019 v Q2 2018

Other income decreased compared with Q2 2018, mainly due to:

- Reduced income from successor issuer activities, representing income earned on certain assets that we acquired from Maple Bank in Q4 2016 and which is expected to be recurring on a diminishing basis through 2020; and
- Mark-to-market losses on derivative financial instruments related to securitization activities, compared to gains in the prior year quarter;

Offset by:

- Higher fees and other income, primarily from the equipment leasing portfolio that we acquired last quarter.

Q2 2019 v Q1 2019

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

- A reduction in unrealized fair value loss recorded on certain security holdings and a gain from sale of certain preferred share investments; and
- Higher Gains on securitization and income from retained interests, driven by increased derecognition activities and a higher gain on sale margin.

YTD 2019 v YTD 2018

Other income decreased on a year-to-date basis largely due to the same reasons cited above when comparing Q2 2019 with comparative period of last year.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

(\$ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	Three months ended					Six months ended		
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change
Compensation and benefits	\$ 25,751	\$ 24,284	6%	\$ 19,032	35%	\$ 50,035	\$ 37,635	33%
Technology and system costs	7,617	7,429	3%	5,751	32%	15,046	10,652	41%
Marketing and corporate expenses	4,776	3,654	31%	5,696	(16%)	8,430	8,658	(3%)
Regulatory, legal and professional fees	4,447	4,674	(5%)	3,117	43%	9,121	5,866	55%
Product costs	3,645	3,842	(5%)	3,377	8%	7,487	6,432	16%
Premises	2,260	2,228	1%	1,550	46%	4,488	3,090	45%
Total non-interest expenses	\$ 48,496	\$ 46,111	5%	\$ 38,523	26%	\$ 94,607	\$ 72,333	31%
Efficiency Ratio ⁽¹⁾	39.5%	41.1%	(1.6%)	43.2%	(3.7%)	40.3%	40.5%	(0.2%)
Full-time employee ("FTE") – period average	820	795	3%	613	34%	810	609	33%

⁽¹⁾ Efficiency Ratio are reported excluding TEB adjustments.

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Overall, non-interest expenses were \$2.4 million or 5% higher than the prior quarter and up \$10.0 million or 26% from a year ago. The consolidation of Bennington contributed \$6.0 million of expenses in the quarter (YTD 2019 – \$11.4 million), \$3.3 million of which related to compensation and benefits (YTD 2019 – \$6.5 million).

Q2 2019 v Q2 2018

Excluding Bennington's operating expenses, total non-interest expenses increased \$4.0 million or 10% from last year mainly because of:

- Higher Compensation and benefits costs which resulted from several factors including 12% growth in our FTE and annual inflationary salary adjustments;
- An increase in Technology and system costs mainly for support, maintenance, and enhancement of our core banking systems and the *EQ Bank* platform; and
- Higher Regulatory, legal and professional fees largely due to higher deposit balances;

Offset by:

- Lower marketing expenditures than in Q2 2018 when we launched a marketing campaign to promote *EQ Bank* GICs.

Q2 2019 v Q1 2019

Expenses were up by \$1.8 million or 4%, excluding Bennington, primarily because of:

- Higher Compensation and benefits costs that were mainly attributable to headcount growth, year-end and other payroll adjustments; and
- An increase in Corporate expenses, due to the timing of annual Deferred Share Units ("DSU") grants in Q2.

YTD 2019 v YTD 2018

Total year-to-date non-interest expenses increased largely due to the same reasons cited above when comparing Q2 2019 to Q2 2018.

INCOME TAXES

Q2 2019 v Q2 2018

Our statutory income tax rate for the quarter was 26.6%, consistent with last year. Our effective income tax rate for the quarter increased to 26.0% from 25.6% a year ago mainly due to increase in tax-exempt dividend income earned from our preferred share investments being outpaced by growth of our pre-tax earnings and other adjustments.

Q2 2019 v Q1 2019

Our effective income tax rate decreased to 26.0% from 26.3% in the preceding quarter, primarily due to higher tax-exempt dividend income and other adjustments.

YTD 2019 v YTD 2018

Our year-to-date effective income tax rate remained at 26.1% compared to the same period of 2018.

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Change	Dec 31, 2018	Change	Jun 30, 2018	Change
Total assets	\$ 26,361,201	\$ 26,327,464	0%	\$ 25,037,145	5%	\$ 21,944,721	20%
Loan Principal – Retail	16,915,910	16,629,554	2%	16,102,163	5%	13,790,084	23%
Loan principal – Commercial	7,857,199	7,716,579	2%	7,324,529	7%	6,580,359	19%
Deposit principal	14,532,042	14,637,787	(1%)	13,522,012	7%	12,366,734	18%
Total liquid assets as a % of total assets ⁽¹⁾	6.0%	7.8%	(1.8%)	5.6%	0.4%	8.1%	(2.1%)

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

Equitable continued to produce strong growth in Q2 2019, with Loan Principal increasing \$427 million or 2% from the preceding quarter. Total assets were consistent with Q1 as planned seasonal changes in our liquidity portfolio offset the increase in loans growth.

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 9 presents our loan principal by lending business and Table 10 provides continuity schedules for our on-balance sheet loan assets.

Table 9: Loan principal by lending business

(\$ THOUSANDS)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change
Alternative single family mortgages	\$ 11,155,609	\$ 10,920,051	2%	\$ 9,826,147	14%
Prime single family mortgages	5,749,924	5,703,570	1%	3,962,788	45%
Other retail loans	10,377	5,933	75%	1,149	803%
Total Retail – on Balance Sheet	16,915,910	16,629,554	2%	13,790,084	23%
Conventional commercial loans	3,810,649	3,890,853	(2%)	3,252,323	17%
Equipment leases	469,271	448,812	5%	-	N/A
Insured multi-unit residential mortgages	3,577,279	3,376,914	6%	3,328,036	7%
Total Commercial – on Balance Sheet	7,857,199	7,716,579	2%	6,580,359	19%
Total Loans – on Balance Sheet	24,773,109	24,346,133	2%	20,370,443	22%
Insured multi-unit residential mortgages – derecognized	4,547,982	4,502,698	1%	4,198,014	8%
Total Loans – off Balance Sheet	4,547,982	4,502,698	1%	4,198,014	8%
Total Loans Under Management	\$ 29,321,091	\$ 28,848,831	2%	\$ 24,568,457	19%

Table 10: On-Balance Sheet loan principal continuity schedule

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended June 30, 2019		
	Retail	Commercial	Total
Q1 2019 closing balance	\$ 16,629,554	\$ 7,716,579	\$ 24,346,133
Originations	1,118,757	924,970	2,043,727
Derecognition	-	(244,394)	(244,394)
Net repayments	(832,401)	(539,956)	(1,372,357)
Q2 2019 closing balance	\$ 16,915,910	\$ 7,857,199	\$ 24,773,109
Net repayments percentage ⁽¹⁾	5.0%	7.0%	5.6%

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended June 30, 2018		
	Retail	Commercial	Total
Q1 2018 closing balance	\$ 13,356,064	\$ 6,233,763	\$ 19,589,827
Originations	1,120,703	904,517	2,025,220
Derecognition	-	(242,234)	(242,234)
Net repayments	(686,683)	(315,687)	(1,002,370)
Q2 2018 closing balance	\$ 13,790,084	\$ 6,580,359	\$ 20,370,443
% Change from Q1 2018	3%	6%	4%
Net repayments percentage ⁽¹⁾	5.1%	5.1%	5.1%

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

Q2 2019 v Q2 2018

Total loan principal increased by \$4.4 billion or 22%, driven by growth in both our Retail and Commercial businesses.

Within our Retail business, Alternative single family mortgages grew 14% due to strong origination volumes and continued low levels of attrition over the past 12 months. Growth in Prime single family was 45%, driven by originations sourced through third parties in the latter half of 2018, growing levels of mortgages originated internally, and relatively low attrition levels.

Our Commercial business also grew significantly year-over-year with loan principal increasing by 19%. This growth was driven by a variety of Commercial asset classes and the addition of Bennington's equipment lease portfolio at the beginning of the year. Conventional commercial loans grew \$558 million or 17% while Insured Multi-unit residential mortgages were up by \$249 million or 7%. The increase in Commercial reflects our strategic decision to deploy additional capital into this business during 2018 and demonstrates our continued success in growing the breadth and depth of our relationships with brokers and business partners.

Q2 2019 v Q1 2019

During the quarter, total loan principal grew \$0.4 billion due to increases in both our Retail and Commercial businesses.

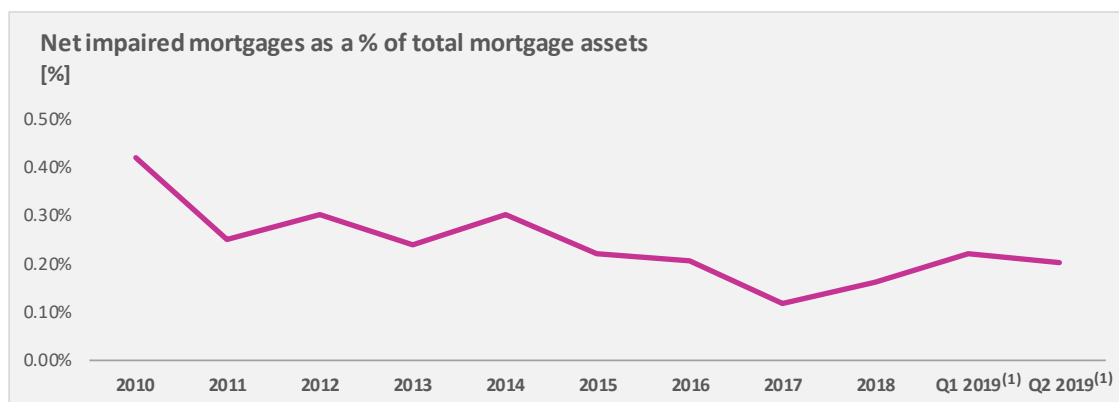
Our Retail balances continued to grow due to a seasonal uplift in originations on Alternative single family mortgages. The increase in our Commercial portfolio was driven by Insured multi-unit residential mortgages and despite a decline in Conventional commercial mortgages. The decrease in this portfolio was the result of deliberate actions that management took to slow origination activity and rebuild the Bank's capital organically after the Bennington acquisition.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

Management regularly evaluates the profile of Equitable's loan portfolio and our lending practices, taking into account borrower behaviours and external variables including real estate values and economic conditions that prevail in the markets in which we lend. When management judges that the risk associated with a particular region or product is no longer acceptable, we adjust underwriting criteria to ensure that our policies continue to be prudent and reflective of current and expected economic conditions, thereby safeguarding the future health of our portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased loan originations, while continuing to maintain a low credit-risk profile.

Impaired loans at the end of the quarter were \$109.2 million, \$12.7 million lower than the preceding quarter and up \$80.8 million from a year ago. Included in this balance were \$17.0 million of impaired equipment leases which were acquired in 2019. Impaired leases were down by \$10.7 million, from \$27.7 million at the end of Q1, as a result of refinements to our arrears and risk modelling assumptions. The equipment leasing business has higher expected losses than our traditional mortgage business but earns a higher margin to compensate for this cost. The impaired loans also continue to include a \$39 million commercial mortgage that defaulted in Q1 2019. This loan is secured by a high-quality commercial property in Vancouver and has a current LTV of 39%, and accordingly management does not expect to realize a loss on this property. The balance of impaired loans relates to a number of residential or smaller commercial mortgages, which in aggregate represent 20 basis points of overall mortgage assets.

Adjusting for the one large commercial loan, the impairment rate on our mortgage portfolio is down slightly from Q1 and represents a return to more normal levels. The following graph highlights that even at 20 basis points our impairment rate is at or below the levels realized in 2016 and earlier, even though it may be above the trough levels of the past two years.



⁽¹⁾ Excludes the impact of a \$39 million impaired Commercial loan that defaulted in Q1 2019 on which management does not expect to realize a loss.

Our loan credit metrics are summarized in the following table. We believe that these measures reflect the continued health of the Company's loan portfolio and indicate that our allowances adequately provide for the risk of loss.

Table 11: Loan credit metrics

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018
Gross impaired loan assets	\$ 109,208	\$ 121,888	\$ 28,394
Net impaired loan assets	105,740	119,671	27,159
Net impaired loan assets as a % of total loan assets	0.42%	0.49%	0.13%
Allowance for credit losses	33,119	32,268	24,684
Allowance for credit losses as a % of total loan assets	0.13%	0.13%	0.12%
Allowances for credit losses as a % of gross impaired loan assets	30%	26%	87%

Q2 2019 v Q2 2018

In aggregate, our loan portfolio remained healthy and within our risk appetite in Q2 2019:

- Impaired loan balances grew by \$80.8 million from the same quarter of the previous year as a result of the reasons cited above.
- The allowance for credit losses increased in both dollar terms and as a percentage of total loan assets, primarily because of a \$7.4 million allowance recorded on equipment leases in 2019. The allowance for credit losses remains sufficient in the opinion of management and well above the company's 10-year average loss rate on its mortgage book of 5 basis points.
- Allowances for credit losses as a percentage of gross impaired loan assets declined from the prior year as a result of the increase in gross impaired assets discussed above and management's belief that there will not be a corresponding increase in credit losses. This view is supported by our normal and extensive review of impaired loans, the low LTVs on our mortgages, and the quality of the collateral underpinning these loans.

Q2 2019 v Q1 2019

Our key credit risk metrics remained relatively stable when compared to the prior quarter with the exception of impaired loans which declined by \$12.7 million, primarily as a result of refinements to the arrears and risk modelling assumptions on our lease portfolio.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management believes that funding markets are currently stable and that the Company holds sufficient liquid assets. We maintain liquid asset balances at a level to ensure that we can meet our upcoming obligations even through a disruption in the financial markets.

The size and composition of our liquidity portfolio at any point in time is influenced by several factors, such as our expected future cash needs and the availability of our various funding sources. Further, we apply a strategic approach to liquidity management through rigorous asset-liability matching analysis and stress testing. Even with this liquidity risk management framework, a significant or protracted disruption to funding markets could require the Company to take further liquidity protection measures. Please refer to the Risk Management section of this document for more detail on the Company's Liquidity and Funding Risk policies and procedures.

In addition to assets that are held for the purpose of providing liquidity protection, we also maintain a portfolio of equity securities (the majority of which is investment grade preferred shares) to yield tax-preferred dividend income. This portfolio could be liquidated in the event of financial stress.

Table 12: Liquid assets

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change
Eligible deposits with regulated financial institutions ⁽¹⁾	\$ 423,830	\$ 485,991	(13%)	\$ 793,513	(47%)
Debt securities	71,945	68,269	5%	2,441	2,847%
Government of Canada issued or guaranteed debt instruments:					
Investments purchased under reverse repurchase agreements	125,069	547,620	(77%)	-	N/A
Loans held in the form of debt securities ⁽²⁾ , net of obligations under repurchase agreements	860,238	829,371	4%	843,986	2%
Liquid assets held for regulatory purposes	1,481,082	1,931,251	(23%)	1,639,940	(10%)
Other deposits with regulated financial institutions	592	431	37%	175	238%
Equity securities ⁽³⁾	110,451	115,214	(4%)	142,790	(23%)
Total liquid assets	\$ 1,592,125	\$ 2,046,896	(22%)	\$ 1,782,905	(11%)
Total assets held for regulatory purposes as a % of total Equitable Bank assets	5.6%	7.3%	(1.7%)	7.5%	(1.9%)
Total liquid assets as a % of total assets	6.0%	7.8%	(1.8%)	8.1%	(2.1%)

⁽¹⁾ Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held at major Canadian financial institutions and excludes \$8.3 million (March 31, 2019 – \$10.6 million, June 30, 2018 – \$12.5 million) of restricted cash held as collateral with third parties for the Company's interest rate swap transactions and \$454.2 million (March 31, 2019 – \$370.6 million, June 30, 2018 – \$335.0 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.

⁽²⁾ Loans held in the form of debt securities represent loans securitized and retained by the Company and are reported in our Loans receivable balances. The values reported above represent the fair market value of the associated MBS securities.

⁽³⁾ Equity securities include publicly traded common and preferred shares and exclude privately held investments.

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio ("LCR")⁽¹⁾. At June 30, 2019, our LCR was well in excess of the regulatory minimum of 100%.

Liquid asset balances were down from both Q1 2019 and Q2 2018. The decrease from Q1 was due to a deliberate build-up of our liquidity assets in March, ahead of the spring mortgage market. The decrease from last year reflects higher liquidity held a year ago as a result of management's decision to hold more liquidity after the funding market disruption experience in Q2 2017.

DEPOSITS

Table 13: Deposit principal

(\$ THOUSANDS)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change
Brokered deposits:					
Term	\$ 11,097,490	\$ 11,316,137	(2%)	\$ 9,402,210	18%
Demand	597,664	637,777	(6%)	773,437	(23%)
	11,695,154	11,953,914	(2%)	10,175,647	15%
EQ Bank deposits:					
Term	549,593	529,144	4%	157,861	248%
Demand	1,701,405	1,689,463	1%	1,816,125	(6%)
	2,250,998	2,218,607	1%	1,973,986	14%
Strategic partnerships	435,423	315,266	38%	67,101	549%
Deposit notes	150,467	150,000	0%	150,000	0%
Total	\$ 14,532,042	\$ 14,637,787	(1%)	\$ 12,366,734	18%

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

Total deposit principal was up by \$2.2 billion or 18% over the previous year and decreased slightly from Q1 2019.

A significant portion of the year-over-year growth was in brokered term deposits. We continue to have strong relationships with our deposit agents and brokers, and our distribution network remains as broad as that of any non-big 6 bank. Compared to Q1 2019, balances were down, in part due to the increased usage of other funding sources in the quarter.

Also contributing to the growth of our deposits was our award-winning *EQ Bank* platform, which grew its balances to \$2.3 billion, up \$277 million or 14% over the same period in 2018. Growth in *EQ Bank* deposit principal was driven by our growing customer base which increased to approximately 81,000 customers at the end of Q2 2019. We expect to continue growing our customer base and balances as we enhance the platform, maintain a highly competitive deposit rate, and provide superior service.

We continued to strengthen our funding profile by deepening our Strategic partnerships. The more stable deposits obtained through these channels grew to \$435 million at quarter end, with \$120 million added in Q2 2019 alone. These relationships demonstrate the success of our fintech partnership strategy, have allowed us to reach new customers across Canada, and further diversify our deposit sources.

Brokered demand deposits remain a small and declining share of our overall funding base as a result of our decision to de-emphasize their growth. We will continue to offer these deposits with a competitive rate but aim to reduce overall balances and encourage account stability.

CAPITAL MANAGEMENT – EQUITABLE BANK

Management believes that the 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 Q2 2019 exceeded regulatory minimums. Compared to Q1, our Capital Ratios have improved as expected due to the organic growth in our capital and slower growth of our higher risk weighted Commercial assets. Despite a high rate of capital retention, our Capital Ratios are below last year's levels as a result of Commercial asset growth and the acquisition of Bennington.

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 4.9% at the end of Q2 2019 and the Bank was fully compliant with our regulatory requirements.

As part of our capital management process, we stress test the loan portfolio on a regular basis in order 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. Based on the results of the stress tests performed to date, we have determined that even in the most adverse scenario analyzed, the Company has sufficient capital to absorb the potential losses without impairing the viability of the institution and that we would remain profitable in each year of the testing horizon.

Table 14: Capital measures of Equitable Bank

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018
Total risk-weighted assets ("RWA")	\$ 9,373,293	\$ 9,229,237	\$ 7,790,674
Common Equity Tier 1 Capital:			
Common shares	207,376	206,418	201,784
Contributed surplus	8,223	7,999	7,704
Retained earnings	1,093,402	1,045,960	933,922
Accumulated other comprehensive (loss) income ("AOCI") ⁽¹⁾	(20,320)	(18,607)	(7,147)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	(61,883)	(53,324)	(18,744)
Common Equity Tier 1 Capital	1,226,798	1,188,446	1,117,519
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Tier 1 Capital	1,299,352	1,261,000	1,190,073
Tier 2 Capital:			
Eligible Stage 1 and 2 allowance	29,651	30,051	23,449
Tier 2 Capital	29,651	30,051	23,449
Total Capital	\$ 1,329,003	\$ 1,291,051	\$ 1,213,522
Capital Ratios:			
CET1 Ratio	13.1%	12.9%	14.3%
Tier 1 Capital Ratio	13.9%	13.7%	15.3%
Total Capital Ratio	14.2%	14.0%	15.6%
Leverage Ratio	4.9%	4.7%	5.4%

⁽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.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in mortgage prepayment income and hedging activities may cause some volatility in earnings from quarter to quarter.

Table 15: Summary of quarterly results

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2019 ⁽¹⁾		2018 ⁽¹⁾				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
RESULTS OF OPERATIONS								
Net income	\$ 54,022	\$ 41,661	\$ 40,116	\$ 47,806	\$ 37,537	\$ 40,167	\$ 40,446	\$ 37,869
Adjusted net income	54,512	46,579	45,535	45,662	41,510	40,071	40,807	36,772
Net income available to common shareholders	52,831	40,470	38,926	46,615	36,346	38,976	39,256	36,678
Net interest income	114,322	105,352	94,591	93,024	79,496	81,270	79,697	71,964
Total revenue	283,625	271,494	239,568	232,410	214,958	200,786	197,648	189,290
EPS – basic ⁽²⁾	3.17	2.44	2.35	2.82	2.20	2.36	2.38	2.23
EPS – diluted ⁽²⁾	3.15	2.42	2.33	2.80	2.19	2.34	2.36	2.21
Adjusted EPS – diluted ⁽²⁾	3.18	2.72	2.66	2.67	2.43	2.34	2.38	2.15
ROE	16.8%	13.4%	12.9%	15.9%	13.0%	14.5%	14.9%	14.4%
Adjusted ROE	16.9%	15.0%	14.7%	15.2%	14.4%	14.5%	15.0%	14.0%
Return on average assets	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%
NIM	1.76%	1.67%	1.58%	1.66%	1.50%	1.60%	1.56%	1.45%
Efficiency Ratio	39.5%	41.1%	41.7%	36.5%	43.2%	37.9%	37.5%	37.6%
BALANCE SHEET								
Total assets	26,361,201	26,327,464	25,037,145	23,147,614	21,944,721	21,054,763	20,634,250	20,221,205
Assets Under Management	30,909,183	30,830,162	29,410,999	27,495,398	26,142,735	25,259,152	24,652,969	24,274,172
Loans receivable	24,867,909	24,446,452	23,526,404	21,671,338	20,455,377	19,676,690	19,298,548	18,787,348
Loans Under Management	29,321,091	28,848,831	27,800,546	25,935,686	24,568,457	23,794,216	23,233,420	22,753,938
Shareholders' equity	1,359,646	1,313,968	1,280,027	1,259,875	1,212,952	1,181,472	1,138,117	1,098,325
Liquid assets	1,592,125	2,046,896	1,406,592	1,439,394	1,782,905	1,775,459	1,479,429	1,459,711
CREDIT QUALITY								
Provision for credit losses	1,386	9,628	628	517	168	770	387	40
Provision for credit losses – rate	0.02%	0.16%	0.01%	0.01%	0.003%	0.02%	0.01%	0.001%
Net impaired loans as a % of total loan assets	0.42%	0.49%	0.16%	0.16%	0.13%	0.13%	0.12%	0.13%
Allowance for credit losses as a % of total loan assets	0.13%	0.13%	0.11%	0.11%	0.12%	0.13%	0.17%	0.18%

⁽¹⁾ Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. 2017 period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, 2019 and 2018 period disclosures are not directly comparable to 2017 periods.

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

Table 15: Summary of quarterly results (continued)

(\$ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2019 ⁽¹⁾		2018 ⁽¹⁾				2017	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	16,650,635	16,573,522	16,553,212	16,528,351	16,517,020	16,507,603	16,486,677	16,478,314
Weighted average diluted	16,770,276	16,702,520	16,672,512	16,654,209	16,603,186	16,629,832	16,625,927	16,570,256
Book value per common share	77.22	74.59	72.94	71.73	69.03	67.14	64.57	62.25
Common share price – close	72.59	64.73	59.12	68.87	59.56	53.68	71.50	56.00
Common share market capitalization	1,209,850	1,077,281	978,674	1,140,013	983,968	886,538	1,179,996	922,826
Dividends declared per: ⁽²⁾								
Common share	0.31	0.30	0.28	0.27	0.27	0.26	0.25	0.24
Preferred share – Series 3	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
EQUITABLE BANK CAPITAL RATIOS								
CET1 Ratio	13.1%	12.9%	13.5%	13.8%	14.3%	14.7%	14.8%	14.8%
Tier 1 Capital Ratio	13.9%	13.7%	14.3%	14.7%	15.3%	15.7%	15.9%	15.8%
Total Capital Ratio	14.2%	14.0%	14.5%	15.0%	15.6%	16.0%	16.3%	17.2%
Leverage Ratio	4.9%	4.7%	5.0%	5.3%	5.4%	5.5%	5.4%	5.3%

⁽¹⁾ Effective January 1, 2018, the amounts and ratios have been prepared in accordance with IFRS 9. 2017 period comparatives were prepared in accordance with IAS 39 and have not been restated. As a result, 2019 and 2018 period disclosures are not directly comparable to 2017 periods.

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

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Company in the Q2 2019 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2018, except for the adoption of IFRS 16 and the adoption of new accounting policies as a result of the acquisition of a subsidiary, effective January 1, 2019. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses. Estimates and underlying assumptions are reviewed by management on an ongoing basis. The critical estimates and judgments utilized in preparing the Company's consolidated financial statements affect the assessment of the allowance for credit losses on 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 judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments or events that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these interim consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Refer to Note 2(d) to the Q2 2019 interim consolidated financial statements for further discussion.

OFF-BALANCE SHEET ACTIVITIES

The Company engages in certain financial transactions that, for accounting purposes, are not recorded on our interim consolidated balance sheets. Off-Balance sheet transactions are generally undertaken for risk, capital and funding management purposes. These include certain securitization transactions, the commitments we make to fund our pipeline of loan originations (see Note 23 to the audited consolidated financial statements in the Company's 2018 Annual Report) and letters of credit issued in the normal course of business.

SECURITIZATION OF FINANCIAL ASSETS

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized loan principal that qualified for derecognition totalled \$4.5 billion at June 30, 2019 (March 31, 2019 – \$4.5 billion, June 30, 2018 – \$4.2 billion). The securitization liabilities associated with these transferred assets were approximately \$4.5 billion at June 30, 2019 (March 31, 2019 – \$4.5 billion, June 30, 2018 – \$4.2 billion). The securitization retained interests recorded with respect to certain securitization transactions were \$124.6 million at June 30, 2019 (March 31, 2019 – \$119.2 million, June 30, 2018 – \$109.2 million) and the associated servicing liability was \$27.0 million at June 30, 2019 (March 31, 2019 – \$26.7 million, June 30, 2018 – \$26.0 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund \$2.0 billion of loans in the ordinary course of business at June 30, 2019 (March 31, 2019 – \$1.8 billion, June 30, 2018 – \$1.7 billion).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of \$24.5 million were outstanding at June 30, 2019 (March 31, 2019 – \$18.6 million, June 30, 2018 – \$12.1 million), none of which were drawn upon.

RELATED PARTY TRANSACTIONS

Certain of the Company's key management personnel have transacted with the Company and/or invested in deposits, and/or the Series 3 preferred shares of the Company in the ordinary course of business, on market terms and conditions. See Note 24 to the audited consolidated financial statements in the Company's 2018 Annual Report for further details.

RISK MANAGEMENT

Through our wholly owned subsidiary Equitable Bank, the Company is exposed to risks that are similar to those of other financial institutions, including the symptoms and effects of both domestic and global economic conditions and other factors that could adversely affect our business, financial condition and operating results. These factors may also influence an investor's decision to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The Board plays an active role in monitoring the Company's key risks and in determining the policies, practices, controls and other mechanisms that are best suited to manage these risks.

For a detailed discussion of the risks that affect the Company, please refer to the section entitled Risk Management in the Company's 2018 Annual Report which is available on SEDAR at www.sedar.com. The most significant of those risks are summarized below.

CREDIT RISK

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

The Company's primary lending business is providing first mortgages on real estate located across Canada. The Company 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 Company invests in corporate bonds to diversify its liquidity holdings and to generate higher returns. These investments also expose the Company to credit risk, should the issuer of these securities be unable to make timely interest payments or, under a worst case scenario, if the issuer becomes insolvent. To limit its exposure to this credit risk, the Company establishes policies with exposure limits based on credit rating and investment type. Securities rated BBB- and higher (which is considered "low risk") comprised 100% of the Company's corporate bond portfolio at June 30, 2019 (December 31, 2018 – 100%, June 30, 2018 - nil).

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 \$45 million of the total equity securities portfolio at June 30, 2019, compared to 40% or \$55 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 98% of the total equity securities portfolio at the end of Q2 2019.

Table 16: Credit risk exposure ratings scale

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

Management has assessed the credit quality of the Company's assets as at June 30, 2019 on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories.

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

Table 17: Credit quality analysis

	June 30, 2019			
(\$ THOUSANDS)	Stage 1	Stage 2	Stage 3	Total
Loans receivable:				
Low risk	\$ 11,169,959	\$ 568,485	\$ -	\$ 11,738,444
Standard risk	10,326,595	2,427,891	-	12,754,486
High risk	178,573	120,317	-	298,890
Impaired	-	-	109,208	109,208
Total	\$ 21,675,127	\$ 3,116,693	\$ 109,208	\$ 24,901,028
Less allowance	(19,300)	(10,205)	(3,468)	(32,973)
	\$ 21,655,827	\$ 3,106,488	\$ 105,740	\$ 24,868,055
Loan commitments:				
Low risk	\$ 128,441	\$ -	\$ -	\$ 128,441
Standard risk	1,045,643	145,596	-	1,191,239
High risk	-	-	-	-
Total	\$ 1,174,084	\$ 145,596	\$ -	\$ 1,319,680
Less allowance	(127)	(19)	-	(146)
	\$ 1,173,957	\$ 145,577	\$ -	\$ 1,319,534

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

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at June 30, 2019, see Note 18 to the interim consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders' equity ("EVE") and 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, 2019. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 18: Net interest income shock

(\$ THOUSANDS, EXCEPT PERCENTAGE)	Increase in interest rates	Decrease in interest rates ⁽¹⁾
100 basis point shift		
Impact on net interest income	\$ 17,181	\$ (8,806)
Impact on EVE	(10,703)	15,223
EVE impact as a % of common shareholders' equity	(0.8%)	1.2%
200 basis point shift		
Impact on net interest income	\$ 31,832	\$ (12,779)
Impact on EVE	(19,568)	46,236
EVE impact as a % of common shareholders' equity	(1.5%)	3.6%

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

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

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

UPDATED SHARE INFORMATION

At July 30, 2019, the Company had 16,673,815 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 693,891 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of \$40.0 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying interim consolidated financial statements. Equitable has in place appropriate information systems and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying interim consolidated financial statements and accompanying notes.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the second quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

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

Reconciliation of Adjusted net income

	Three months ended						Six months ended		
(\$ THOUSANDS)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
Net income	\$ 54,022	\$ 41,661	30%	\$ 37,537	44%	\$ 95,683	\$ 77,704	23%	
Adjustments on an after-tax basis:									
Provision for credit losses on equipment leases at Bennington’s acquisition date	-	4,226	N/A	-	N/A	4,226	-	N/A	
Fair value adjustments related to securities and derivatives	490	692	(29%)	(350)	240%	1,182	(446)	365%	
Backstop funding facility write-down	-	-	N/A	4,323	N/A	-	4,323	N/A	
Adjusted net income	\$ 54,512	\$ 46,579	17%	\$ 41,510	31%	\$ 101,091	\$ 81,581	24%	

Reconciliation of Adjusted EPS – diluted

	Three months ended						Six months ended		
(\$ PER SHARE AMOUNTS)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
EPS – diluted	\$ 3.15	\$ 2.42	30%	\$ 2.19	44%	\$ 5.57	\$ 4.53	23%	
Adjustments on an after-tax basis:									
Provision for credit losses on equipment leases at Bennington’s acquisition date	-	0.26	N/A	-	N/A	0.26	-	N/A	
Fair value adjustments related to securities and derivatives	0.03	0.04	(25%)	(0.02)	250%	0.07	(0.02)	450%	
Backstop funding facility write-down	-	-	N/A	0.26	N/A	-	0.26	N/A	
Adjusted EPS – diluted	\$ 3.18	\$ 2.72	17%	\$ 2.43	31%	\$ 5.90	\$ 4.77	24%	

Reconciliation of Adjusted Return on shareholders' equity

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Six months ended	
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change
Net income available to common shareholders	\$ 52,831	\$ 40,470	31%	\$ 36,346	45%	\$ 93,301	\$ 75,322	24%
Add back:								
Provision for credit losses on equipment leases at Bennington's acquisition date	-	4,226	N/A	-	N/A	4,226	-	N/A
Fair value adjustments related to securities and derivatives	490	692	(29%)	(350)	240%	1,182	(446)	365%
Backstop funding facility write-down	-	-	N/A	4,323	N/A	-	4,323	N/A
Adjusted income available to common shareholders	\$ 53,321	\$ 45,388	17%	\$ 40,319	32%	\$ 98,709	\$ 79,199	25%
Adjusted weighted average common equity	1,264,190	1,225,556	3%	1,126,616	12%	1,249,405	1,108,374	13%
Adjusted return on shareholders' equity	16.9%	15.0%	1.9%	14.4%	2.5%	15.9%	14.4%	1.5%

- **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 Company.

(\$ THOUSANDS)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change
Total assets on the consolidated balance sheet	\$ 26,361,201	\$ 26,327,464	0%	\$ 21,944,721	20%
Loan principal derecognized	4,547,982	4,502,698	1%	4,198,014	8%
Assets Under Management	\$ 30,909,183	\$ 30,830,162	0%	\$ 26,142,735	18%

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

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change
Shareholders' equity	\$ 1,359,646	\$ 1,313,968	3%	\$ 1,212,952	12%
Preferred shares	(72,557)	(72,557)	-%	(72,557)	-%
Common shareholders' equity	\$ 1,287,089	\$ 1,241,411	4%	\$ 1,140,395	13%
Common shares outstanding	16,666,896	16,642,685	0%	16,520,618	1%
Book value per common share	\$ 77.22	\$ 74.59	4%	\$ 69.03	12%

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.

The Capital ratios are calculated in accordance with OSFI's CAR Guideline. A detailed calculation of all Capital ratios can be found in Table 14 of this MD&A.

- **Economic value of shareholders' equity ("EVE"):** is a calculation of the present value of the Company's asset cash flows less the present value of liability cash flows on an after-tax basis. EVE is a more comprehensive measure of our exposure to interest rate changes than net interest income because it captures all interest rate mismatches across all terms.
- **Efficiency Ratio:** this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net revenue. A lower Efficiency Ratio reflects a more efficient cost structure.

	Three months ended						Six months ended		
(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
Non-interest expenses	\$ 48,496	\$ 46,111	5%	\$ 38,523	26%	\$ 94,607	\$ 72,333	31%	
Net revenue	122,795	112,240	9%	89,205	38%	235,035	178,419	32%	
Efficiency Ratio	39.5%	41.1%	(1.6%)	43.2%	(3.7%)	40.3%	40.5%	(0.2%)	

- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are held for the purposes of funding mortgages, deposit maturities, and the ability to collect other receivables and settle other obligations.
- **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 Company. A detailed calculation can be found in Table 9 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 3 of this MD&A.
- **Net revenue:** is calculated as the sum of net interest income, and other income.

(\$ THOUSANDS,)	Three months ended						Six months ended		
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
Net interest income	\$ 114,322	\$ 105,352	9%	\$ 79,496	44%	\$ 219,674	\$ 160,766	37%	
Other income	8,473	6,888	23%	9,709	(13%)	15,361	17,653	(13%)	
Net revenue	\$ 122,795	\$ 112,240	9%	\$ 89,205	38%	\$ 235,035	\$ 178,419	32%	

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

	Three months ended						Six months ended		
(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
Provision for credit losses	\$ 1,386	\$ 9,628	(86%)	\$ 168	725%	\$ 11,014	\$ 938	1,074%	
Divided by: average loan principal	24,559,621	24,105,462	2%	19,980,135	23%	24,318,950	19,792,572	23%	
Provision for credit losses – rate	0.02%	0.16%	(0.14%)	0.003%	0.02%	0.09%	0.01%	0.08%	

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

	Three months ended						Six months ended		
(\$ THOUSANDS, EXCEPT PERCENTAGES)	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
Net income	\$ 54,022	\$ 41,661	30%	\$ 37,537	44%	\$ 95,683	\$ 77,704	23%	
Average total assets	26,337,074	25,722,083	2%	21,453,473	23%	25,987,024	21,138,478	23%	
Return on average assets	0.8%	0.7%	0.1%	0.7%	0.1%	0.7%	0.7%	-%	

- **Return on shareholders' equity ("ROE"):** this profitability measure is calculated on an annualized basis and is defined as net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.

(\$ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended						Six months ended		
	Jun 30, 2019	Mar 31, 2019	Change	Jun 30, 2018	Change	Jun 30, 2019	Jun 30, 2018	Change	
Net income available to common shareholders	\$ 52,831	\$ 40,470	31%	\$ 36,346	45%	\$ 93,301	\$ 75,322	24%	
Weighted average common equity	1,263,945	1,223,097	3%	1,124,630	12%	1,246,701	1,106,448	13%	
Return on shareholders' equity	16.8%	13.4%	3.4%	13.0%	3.8%	15.1%	13.7%	1.4%	

- **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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT JUNE 30, 2019

With comparative figures as at December 31, 2018 and June 30, 2018

(\$ THOUSANDS)

	Note	June 30, 2019	December 31, 2018	June 30, 2018
Assets:				
Cash and cash equivalents		\$ 424,422	\$ 477,243	\$ 793,688
Restricted cash		462,438	327,097	347,285
Securities purchased under reverse repurchase agreements		125,069	250,000	-
Investments	7	196,699	193,399	155,048
Loans – Retail ⁽¹⁾	8, 9	17,014,738	16,203,137	13,874,941
Loans – Commercial ⁽¹⁾	8, 9	7,853,171	7,323,267	6,580,436
Securitization retained interests		124,561	115,331	109,191
Other assets	10	160,103	147,671	84,132
		\$ 26,361,201	\$ 25,037,145	\$ 21,944,721
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	11	\$ 14,720,700	\$ 13,668,521	\$ 12,476,974
Securitization liabilities	9	10,024,334	9,236,045	7,584,327
Obligations under repurchase agreements	9	-	342,010	202,928
Deferred tax liabilities	12	58,100	42,610	38,735
Other liabilities	13	198,421	177,961	177,994
Bank facilities	14	-	289,971	250,811
		25,001,555	23,757,118	20,731,769
Shareholders' equity:				
Preferred shares		72,557	72,557	72,557
Common shares		206,039	200,792	199,305
Contributed surplus		7,132	7,035	6,612
Retained earnings		1,096,231	1,014,559	938,122
Accumulated other comprehensive loss		(22,313)	(14,916)	(3,644)
		1,359,646	1,280,027	1,212,952
		\$ 26,361,201	\$ 25,037,145	\$ 21,944,721

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its loan products (refer Note 2 (f)). Prior period presentation has been updated accordingly.

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2019

With comparative figures for the three and six month periods ended June 30, 2018

(\$THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Note	Three months ended		Six months ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest income:					
Loans – Retail ⁽¹⁾		\$ 168,136	\$ 129,327	\$ 327,358	\$ 251,795
Loans – Commercial ⁽¹⁾		98,208	70,259	195,837	135,782
Investments		2,084	1,500	3,905	2,546
Other		6,724	4,163	12,658	7,968
		275,152	205,249	539,758	398,091
Interest expense:					
Deposits		96,280	69,392	189,976	131,676
Securitization liabilities		62,653	44,825	125,556	88,387
Bank facilities		1,897	11,536	4,552	17,262
		160,830	125,753	320,084	237,325
Net interest income		114,322	79,496	219,674	160,766
Provision for credit losses	8	1,386	168	11,014	938
Net interest income after provision for credit losses		112,936	79,328	208,660	159,828
Other income:					
Fees and other income		5,900	6,547	11,544	11,924
Net gain/(loss) on investments		76	138	(745)	(232)
Gains on securitization activities and income from securitization retained interests	9	2,497	3,024	4,562	5,961
		8,473	9,709	15,361	17,653
Net interest and other income		121,409	89,037	224,021	177,481
Non-interest expenses:					
Compensation and benefits		25,751	19,032	50,035	37,635
Other		22,745	19,491	44,572	34,698
		48,496	38,523	94,607	72,333
Income before income taxes		72,913	50,514	129,414	105,148
Income taxes:	12				
Current		17,861	12,404	31,437	26,724
Deferred		1,030	573	2,294	720
		18,891	12,977	33,731	27,444
Net income		\$ 54,022	\$ 37,537	\$ 95,683	\$ 77,704
Dividends on preferred shares		1,191	1,191	2,382	2,382
Net income available to common shareholders		\$ 52,831	\$ 36,346	\$ 93,301	\$ 75,322
Earnings per share:	16				
Basic		\$ 3.17	\$ 2.20	\$ 5.62	\$ 4.56
Diluted		\$ 3.15	\$ 2.19	\$ 5.57	\$ 4.53

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its interest income relating to loan products (refer to Note 2 (f)). Prior period presentation has been updated accordingly.

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2019

With comparative figures for the three and six month periods ended June 30, 2018

(\$ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net income	\$ 54,022	\$ 37,537	\$ 95,683	\$ 77,704
Other comprehensive income – items that will be reclassified subsequently to income:				
Debt instruments at Fair Value through Other Comprehensive Income:				
Net unrealized gains/(losses) from change in fair value	143	(23)	545	(26)
Reclassification of net gains to income	(162)	-	(162)	-
Other comprehensive income – items that will not be reclassified subsequently to income:				
Equity instruments designated at Fair Value through Other Comprehensive Income:				
Net unrealized losses from change in fair value	(1,668)	(1,117)	(3,499)	(228)
Reclassification of net losses to retained earnings	(646)	-	(638)	(6)
	(2,333)	(1,140)	(3,754)	(260)
Income tax recovery	620	302	999	69
	(1,713)	(838)	(2,755)	(191)
Cash flow hedges:				
Net unrealized losses from change in fair value	(1,856)	(364)	(6,445)	(969)
Reclassification of net (gains)/losses to income	(56)	291	123	1,445
	(1,912)	(73)	(6,322)	476
Income tax recovery/(expense)	508	19	1,680	(126)
	(1,404)	(54)	(4,642)	350
Total other comprehensive (loss)/income	(3,117)	(892)	(7,397)	159
Total comprehensive income	\$ 50,905	\$ 36,645	\$ 88,286	\$ 77,863

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2019

With comparative figures for the three month period ended June 30, 2018

(\$ THOUSANDS)

	June 30, 2019							
	Accumulated other comprehensive income (loss)							
	Financial instruments at FVOCI							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges		Total	Total
Balance, beginning of period	\$ 72,557	\$ 204,492	\$ 6,907	\$ 1,049,208	\$ (589)	\$ (18,607)	\$ (19,196)	\$ 1,313,968
Net income	-	-	-	54,022	-	-	-	54,022
Transfer of losses on sale of equity instruments	-	-	-	(646)	-	646	646	-
Other comprehensive loss, net of tax	-	-	-	-	(1,404)	(2,359)	(3,763)	(3,763)
Exercise of stock options	-	1,399	-	-	-	-	-	1,399
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(5,162)	-	-	-	(5,162)
Stock-based compensation	-	-	373	-	-	-	-	373
Transfer relating to the exercise of stock options	-	148	(148)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 206,039	\$ 7,132	\$ 1,096,231	\$ (1,993)	\$ (20,320)	\$ (22,313)	\$ 1,359,646

	June 30, 2018							
	Accumulated other comprehensive income (loss)							
	Financial instruments at FVOCI							
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges		Total	Total
Balance, beginning of period	\$ 72,557	\$ 199,123	\$ 6,309	\$ 906,235	\$ 3,557	\$ (6,309)	\$ (2,752)	\$ 1,181,472
Net income	-	-	-	37,537	-	-	-	37,537
Other comprehensive loss, net of tax	-	-	-	-	(54)	(838)	(892)	(892)
Exercise of stock options	-	151	-	-	-	-	-	151
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(4,459)	-	-	-	(4,459)
Stock-based compensation	-	-	334	-	-	-	-	334
Transfer relating to the exercise of stock options	-	31	(31)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 199,305	\$ 6,612	\$ 938,122	\$ 3,503	\$ (7,147)	\$ (3,644)	\$ 1,212,952

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2019

With comparative figures for the six month period ended June 30, 2018

(\$ THOUSANDS)

	June 30, 2019							
	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	\$ 72,557	\$ 200,792	\$ 7,035	\$ 1,014,559	\$ 2,649	\$ (17,565)	\$ (14,916)	\$ 1,280,027
Cumulative effect of adopting IFRS 16 ⁽¹⁾	-	-	-	(840)	-	-	-	(840)
Restated balance as at January 1, 2019	72,557	200,792	7,035	1,013,719	2,649	(17,565)	(14,916)	1,279,187
Net income	-	-	-	95,683	-	-	-	95,683
Transfer of losses on sale of equity instruments	-	-	-	(638)	-	638	638	-
Other comprehensive loss, net of tax	-	-	-	-	(4,642)	(3,393)	(8,035)	(8,035)
Exercise of stock options	-	4,532	-	-	-	-	-	4,532
Dividends:								
Preferred shares	-	-	-	(2,382)	-	-	-	(2,382)
Common shares	-	-	-	(10,151)	-	-	-	(10,151)
Stock-based compensation	-	-	812	-	-	-	-	812
Transfer relating to the exercise of stock options	-	715	(715)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 206,039	\$ 7,132	\$ 1,096,231	\$ (1,993)	\$ (20,320)	\$ (22,313)	\$ 1,359,646

	June 30, 2018							
	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	\$ 72,557	\$ 198,660	\$ 6,012	\$ 871,559	\$ 3,153	\$ (8,374)	\$ (5,221)	\$ 1,138,117
Cumulative effect of adopting IFRS 9	-	-	-	5,450	-	1,418	1,418	6,868
Restated balance as at January 1, 2018	72,557	198,660	6,012	871,559	3,153	(6,956)	(3,803)	1,144,985
Net income	-	-	-	77,704	-	-	-	77,704
Transfer of losses on sale of equity instruments	-	-	-	(6)	-	-	-	(6)
Other comprehensive income, net of tax	-	-	-	-	350	(191)	159	159
Exercise of stock options	-	525	-	-	-	-	-	525
Dividends:								
Preferred shares	-	-	-	(2,382)	-	-	-	(2,382)
Common shares	-	-	-	(8,753)	-	-	-	(8,753)
Stock-based compensation	-	-	720	-	-	-	-	720
Transfer relating to the exercise of stock options	-	120	(120)	-	-	-	-	-
Balance, end of period	\$ 72,557	\$ 199,305	\$ 6,612	\$ 938,122	\$ 3,503	\$ (7,147)	\$ (3,644)	\$ 1,212,952

⁽¹⁾ The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognized in opening retained earnings at the date of initial application. The adjustment of \$840 is net of tax (refer Note 3 – Changes in accounting policies).

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2019

With comparative figures for the three and six month periods ended June 30, 2018

(\$ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	\$ 54,022	\$ 37,537	\$ 95,683	\$ 77,704
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	3,148	(6,985)	5,223	(3,720)
Amortization of premiums/discount on investments	263	2,247	1,592	4,537
Amortization of capital assets and intangible costs	4,186	2,424	8,084	4,759
Provision for credit losses	1,386	168	11,014	938
Securitization gains	(2,581)	(3,024)	(4,360)	(5,961)
Stock-based compensation	373	334	812	720
Income taxes	18,891	12,977	33,731	27,444
Securitization retained interests	7,705	6,966	15,039	13,700
Changes in operating assets and liabilities:				
Restricted cash	(81,294)	(14,188)	(92,763)	18,753
Securities purchased under reverse repurchase agreements	422,552	-	124,932	-
Loans, net of securitizations	(439,781)	(777,267)	(939,460)	(1,152,404)
Other assets	(6,137)	9,954	44,329	15,256
Deposits	(104,893)	478,126	1,033,472	1,364,963
Securitization liabilities	97,473	29,380	398,169	19,093
Obligations under repurchase agreements	-	98,276	(342,010)	(249,073)
Bank facilities	-	250,811	(320,421)	121,940
Other liabilities	(13,104)	4,595	(20,311)	(20,146)
Income taxes paid	(12,534)	(15,355)	(25,691)	(33,698)
Cash flows (used in)/from operating activities	(50,325)	116,976	27,064	204,805
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common shares	1,399	151	4,532	525
Dividends paid on preferred shares	(1,191)	(1,191)	(2,382)	(2,382)
Dividends paid on common shares	(5,163)	(4,294)	(14,786)	(8,418)
Cash flows used in financing activities	(4,955)	(5,334)	(12,636)	(10,275)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(20,876)	(9,952)	(33,383)	(52,622)
Acquisition of subsidiary	293	-	(46,772)	-
Proceeds on sale or redemption of investments	18,409	-	22,548	45
Net change in Canada Housing Trust re-investment Accounts	19	19	155	38
Purchase of capital assets and system development costs	(4,565)	(6,380)	(9,164)	(9,233)
Cash flows used in investing activities	(6,720)	(16,313)	(66,616)	(61,772)
Net (decrease)/increase in cash and cash equivalents	(62,000)	95,329	(52,188)	132,758
Cash and cash equivalents, beginning of period	486,422	698,359	476,610	660,930
Cash and cash equivalents, end of period	\$ 424,422	\$ 793,688	\$ 424,422	\$ 793,688
Cash flows from operating activities include:				
Interest received	\$ 258,560	\$ 199,575	\$ 515,030	\$ 390,844
Interest paid	(104,969)	(80,334)	(205,129)	(144,237)
Dividends received	2,061	1,472	3,614	2,574

See accompanying notes to the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance:

These interim consolidated financial statements of Equitable Group Inc. have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2018 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on July 30, 2019.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the periods. Estimates and underlying assumptions are reviewed by management on an ongoing basis. The critical estimates and judgments utilized in preparing the Company's consolidated financial statements affect the assessment of the allowance for credit losses on 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 judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments or events that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these interim consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Allowance for credit losses under IFRS 9

The expected credit loss ("ECL") model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

since initial recognition and in estimating the amount of expected credit losses. The calculation of expected credit losses includes the incorporation of forward-looking forecasts of future economic conditions, which requires significant judgement to determine the forward-looking variables that are relevant for each portfolio and the scenarios and probability weights that should be applied. Management also exercises expert credit judgement in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgements directly impact the measurement of ECLs.

(e) Consolidation

The interim consolidated financial statements as at and for the six months ended June 30, 2019 and June 30, 2018 include the assets, liabilities and results of operations of the Company and its subsidiaries, after the elimination of intercompany transactions and balances. The Company has control of its subsidiaries as it is exposed to and has rights to variable returns from its involvement with the subsidiaries and it has the ability to affect those returns through its power over their relevant activities.

(f) Change in presentation

Effective January 1, 2019, the Company has changed the presentation of its loan products based on Retail and Commercial lending. In the prior periods, the Company presented these loans as Mortgages based on Core lending and Securitization financing. A similar change has been made in the Consolidated Statements of Income for presenting related interest income. Prior period presentation has also been updated accordingly. This change in presentation better aligns the Company's loan products with its customer segments and the way it manages its business.

Note 3 – Significant Accounting Policies

The significant accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2018 as described in Note 3 of the audited consolidated financial statements in the Company's 2018 Annual Report, except for:

- i) changes in the accounting policies resulting from the adoption of International Financial Reporting Standards 16, Leases ("IFRS 16"); and
- ii) adoption of new accounting policies as a result of acquisition of a subsidiary in the current period (refer to Note 5).

As a result, the Company has changed its accounting policies and adopted new accounting policies as outlined below.

Changes in accounting policies

IFRS 16 - As a Lessee

The Company adopted IFRS 16 effective January 1, 2019. Prior to adoption of IFRS 16, premises leased by the Company were classified as operating leases under IAS 17, Leases. IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a Right-of-Use ("ROU") asset and a corresponding lease liability. As a result of adoption of the new standard, the Company changed its accounting policies relating to its operating leases. As permitted by the transition provisions of IFRS 16, the Company elected to use the modified retrospective approach and not to restate comparative period results, therefore all comparative period information is presented in accordance with our previous accounting policies. Adjustments relating to the recognition of ROU assets and related liabilities, at the date of initial application have been recognized in opening retained earnings for the current period. New disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Identification of a lease

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess if the contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly in the contract, and is physically distinct or represents substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not considered as identified;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing the purpose of the asset use throughout the period of use.

Recognition

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Company's incremental borrowing rate.

Subsequent measurement

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end on the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortized cost using effective interest method. The liability is remeasured if there are changes to the lease rates, or changes to the Company's assessment of whether it will exercise the extension or termination options per the lease contracts.

After the commencement date, if a lease is remeasured, an adjustment is made to the ROU asset. In case the carrying amount of the ROU asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining amount is recognized in the income statement.

The ROU assets and corresponding lease liabilities are included in Other Assets and Other Liabilities, on the Company's Consolidated Balance Sheets.

Short-term leases and leases of low-value assets

The Company has elected not to recognize an ROU asset and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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SIX MONTH PERIOD ENDED June 30, 2019

New accounting policies adopted

The Company acquired a new equipment leasing line of business on January 1, 2019 (refer Note 5). Accordingly, the Company has adopted the following new accounting policies:

IFRS 16 - As a Lessor

Identification of a lease

At the inception of each lease, the Company assesses if it is a finance lease or an operating lease. The assessment is based on substantially transferring all the risks and rewards to the lessee. If substantially all of the risks and rewards incidental to ownership are transferred to the lessee, then the lease is a finance lease, else it is an operating lease.

Recognition

At the lease commencement date, the Company includes assets held under a finance lease in Loans – Commercial, on its Consolidated Balance Sheets at an amount equal to the net investment in the finance lease. The investment in finance lease is initially measured at the present value of the lease payments that are not received at the commencement date, discounted using the interest rate implicit in the lease, which is adjusted for all the initial direct costs associated with the origination of finance lease that are factored into the determination of the interest rate implicit in the lease. Lease payments included in the measurement of investment in finance lease include fixed and variable lease payments, less incentives payable.

Subsequent measurement

The net investment in finance leases includes gross minimum lease payments receivable, less the unamortized portion of unearned finance income, security deposits held, and the allowance for credit losses. The finance income earned is included in Interest income – Commercial Loans in the Consolidated Statements of Income on a basis that reflects a constant periodic rate of return on the gross investment in finance lease receivables.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Non-controlling interests, if any, are recognized at their proportionate share of the fair value of identifiable assets and liabilities. Goodwill represents the excess purchase price paid over the fair value of identifiable net assets and liabilities acquired in a business combination on the date of acquisition.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually and when an event or change in circumstances indicates that the carrying amount may be impaired. Goodwill is carried at cost less accumulated impairment losses and is included in Other assets on the Consolidated Balance Sheets.

Purchased loans

All purchased financial assets are initially measured at fair value on the date of acquisition. As a result, no allowance for credit losses is recognized in the purchase price equation at the acquisition date.

Fair value of loans is determined by estimating the principal and interest cash flows expected to be collected and discounting those cash flows at a market rate of interest. The fair value adjustment set up for these loans on the date of acquisition is amortized over the life of these loans and included in Interest income – Loans – Commercial in the Consolidated Statements of Income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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SIX MONTH PERIOD ENDED June 30, 2019

On the date of acquisition, purchased performing loans follow the same accounting treatment as originated performing loans, and are included in Stage 1. As a result, immediately after the date of acquisition, a 12 month allowance is recorded in provision for credit losses in the Consolidated Statements of Income. Subsequent to the acquisition date, ECL allowances are estimated in a manner consistent with our impairment policies that we apply to loans that we originate.

Purchased credit impaired loans are reflected in Stage 3 and are subject to lifetime allowance for credit losses. Any changes in expected cash flows since the date of acquisition are recorded as a charge/recovery in the provision for credit losses in the Consolidated Statements of Income.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, liquidity risk and market risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 48 to 61 of the Company's 2018 Annual Report.

Note 5 – Business Combination

On January 1, 2019, the Company acquired 100% ownership in Bennington Financial Corp. ("Bennington"), a privately owned company serving the brokered equipment leasing market in Canada. Bennington was founded in Oakville, Ontario in 1996 and finances a wide range of assets with a focus on transportation, construction and food service equipment, and has long-tenured relationships with professional leasing brokers throughout Canada. The Company's acquisition of Bennington diversifies it into adjacent markets and complements its other secured lending businesses and broker-led distribution model.

During the quarter, the Company refined the purchase consideration paid and the purchase price allocation, resulting in an increase in goodwill by \$5,901. The purchase price allocation may be further refined as the Company completes its valuation of the fair value of assets acquired and liabilities assumed. The following table presents the estimated fair values of the assets and liabilities acquired as of the date of acquisition.

	January 1, 2019
Assets:	
Restricted cash	\$ 42,578
Loans – Commercial: Finance leases	429,386
Capital and intangible assets	9,412
Other assets	5,761
	487,137
Liabilities:	
Securitization liabilities	388,147
Deferred tax liabilities	13,660
Bank facilities	31,083
Accounts payable and accrued liabilities	24,634
	457,524
Fair value of identifiable net assets acquired	29,613
Goodwill	17,159
Total purchase consideration	\$ 46,772

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Note 6 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

(ii) Financial instruments classified as at FVOCI and FVTPL

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

(iii) Loans

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at June 30, 2019 and December 31, 2018. The tables do not include assets and liabilities that are not financial instruments.

	June 30, 2019					
	FVTPL - Mandatorily	FVOCI - Debt instruments	FVOCI - Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 424,422	\$ 424,422	\$ 424,422
Restricted cash	-	-	-	462,438	462,438	462,438
Securities purchased under reverse repurchase agreements	-	-	-	125,069	125,069	125,069
Investments	47,626	55,619	89,947	3,507	196,699	196,699
Loans – Retail ⁽¹⁾	-	-	-	17,014,738	17,014,738	17,034,119
Loans – Commercial ⁽¹⁾⁽²⁾	276,834	-	-	7,114,459	7,391,293	7,447,404
Securitization retained interests	-	-	-	124,561	124,561	126,222
Other assets:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	28,588	-	-	-	28,588	28,588
Total return swaps	1,466	-	-	-	1,466	1,466
Bond forwards	40	-	-	-	40	40
Loan commitments	27	-	-	-	27	27
Other	-	-	-	14,824	14,824	14,824
Total financial assets	\$ 354,581	\$ 55,619	\$ 89,947	\$ 25,284,018	\$ 25,784,165	\$ 25,861,318
Financial liabilities:						
Deposits	\$ -	\$ -	\$ -	\$ 14,720,700	\$ 14,720,700	\$ 14,764,391
Securitization liabilities	-	-	-	10,024,334	10,024,334	10,083,073
Other liabilities:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	3,588	-	-	-	3,588	3,588
Total return swaps	9,405	-	-	-	9,405	9,405
Bond forwards	1,883	-	-	-	1,883	1,883
Other	-	-	-	183,056	183,056	183,056
Total financial liabilities	\$ 14,876	\$ -	\$ -	\$ 24,928,090	\$ 24,942,966	\$ 25,045,396

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

SIX MONTH PERIOD ENDED June 30, 2019

	December 31, 2018					
	FVTPL - Mandatorily	FVOCI - Debt instruments	FVOCI - Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 477,243	\$ 477,243	\$ 477,243
Restricted cash	-	-	-	327,097	327,097	327,097
Securities purchased under reverse repurchase agreements	-	-	-	250,000	250,000	250,000
Investments	30,823	58,311	100,607	3,658	193,399	193,399
Loans – Retail ⁽¹⁾	-	-	-	16,203,138	16,203,138	16,141,054
Loans – Commercial ⁽¹⁾⁽²⁾	243,854	-	-	7,079,412	7,323,266	7,311,118
Securitization retained interests	-	-	-	115,331	115,331	115,048
Other assets:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	16,315	-	-	-	16,315	16,315
Total return swaps	1,704	-	-	-	1,704	1,704
Loan commitments	55	-	-	-	55	55
Other	-	-	-	12,983	12,983	12,983
Total financial assets	\$ 292,751	\$ 58,311	\$ 100,607	\$ 24,468,862	\$ 24,920,531	\$ 24,846,016
Financial liabilities:						
Deposits	\$ -	\$ -	\$ -	\$ 13,668,521	\$ 13,668,521	\$ 13,653,490
Securitization liabilities	-	-	-	9,236,045	9,236,045	9,218,609
Obligations under repurchase agreements	-	-	-	342,010	342,010	342,010
Bank facilities	-	-	-	289,971	289,971	289,971
Other liabilities:						
Derivative financial instruments ⁽³⁾ :						
Interest rate swaps	7,265	-	-	-	7,265	7,265
Total return swaps	3,707	-	-	-	3,707	3,707
Bond forwards	2,331	-	-	-	2,331	2,331
Other	-	-	-	164,451	164,451	164,451
Total financial liabilities	\$ 13,303	\$ -	\$ -	\$ 23,700,998	\$ 23,714,301	\$ 23,681,834

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its loan products. Refer to Note 2 (a). Accordingly, the presentation for the comparative period has also been updated.

⁽²⁾ Loans – Commercial does not include \$461,878 (December 31, 2018 - \$nil) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9.

⁽³⁾ Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date.

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

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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 on the Consolidated Balance Sheets, except for certain financial instruments whose carrying amount always approximates their fair values due to their short-term in nature:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	\$ 187,078	\$ 2,160	\$ 7,461	\$ 196,699
Loans – Retail ⁽¹⁾	-	-	17,034,119	17,034,119
Loans – Commercial ⁽¹⁾	-	276,834	7,170,570	7,447,404
Securitization retained interests	-	126,222	-	126,222
Other assets:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	28,588	-	28,588
Total return swaps	-	1,230	236	1,466
Bond forwards	-	40	-	40
Loan commitments	-	-	27	27
Other	-	14,824	-	14,824
	\$ 187,078	\$ 449,898	\$ 24,212,413	\$ 24,849,389
Financial liabilities:				
Deposits	\$ -	\$ 14,764,391	\$ -	\$ 14,764,391
Securitization liabilities	-	8,995,292	1,087,781	10,083,073
Other liabilities:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	3,588	-	3,588
Total return swaps	-	3	9,402	9,405
Bond forwards	-	1,883	-	1,883
Other	-	183,056	-	183,056
	\$ -	\$ 23,948,213	\$ 1,097,183	\$ 25,045,396

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

SIX MONTH PERIOD ENDED June 30, 2019

	December 31, 2018			
	Level 1			Total financial assets/ financial liabilities at fair value
	Level 1	Level 2	Level 3	
Financial assets:				
Investments	\$ 182,015	\$ 2,315	\$ 9,069	\$ 193,399
Loans – Retail ⁽¹⁾	-	-	16,141,054	16,141,054
Loans – Commercial ⁽¹⁾	-	243,854	7,067,264	7,311,118
Securitization retained interests	-	115,048	-	115,048
Other assets:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	16,315	-	16,315
Total return swaps	-	350	1,354	1,704
Loan commitments	-	-	55	55
Other	-	12,983	-	12,983
Total financial assets	\$ 182,015	\$ 390,865	\$ 23,218,796	\$ 23,791,676
Financial liabilities:				
Deposits	\$ -	\$ 13,653,490	\$ -	\$ 13,653,490
Securitization liabilities	-	8,409,095	809,514	9,218,609
Other liabilities:				
Derivative financial instruments ⁽²⁾ :				
Interest rate swaps	-	7,265	-	7,265
Total return swaps	-	99	3,608	3,707
Bond forwards	-	2,331	-	2,331
Other	-	164,451	-	164,451
Total financial liabilities	\$ -	\$ 22,236,731	\$ 813,122	\$ 23,049,853

⁽¹⁾ Effective January 1, 2019, the Company has changed the presentation of its loan products (refer Note 2 (f)). Prior period numbers have been updated accordingly.

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

Note 7 – Investments

Carrying value of investments is as follows:

	June 30, 2019	December 31, 2018	June 30, 2018
Equity securities measured at FVOCI	\$ 89,947	\$ 100,607	\$ 113,020
Equity securities measured at FVTPL	1,029	292	300
Debt securities measured at FVTPL	46,597	30,531	32,714
Debt securities measured at AMC	3,507	3,658	3,561
Debt securities measured as at FVOCI	55,619	58,311	5,453
	\$ 196,699	\$ 193,399	\$ 155,048

The Company has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for the long term. For the period ended June 30, 2019, the Company earned dividends of \$2,754 (June 30, 2018 – \$2,039) on these Equity securities. During the period, the Company has sold Equity securities of \$5,829 (June 30, 2018 – \$nil) and recognized a loss of \$638 in Retained earnings.

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

	June 30, 2019	June 30, 2018
Equity securities measured at FVOCI	\$ (4,137)	\$ (234)
Equity securities measured at FVTPL	(351)	-
Debt securities measured at FVOCI	383	(26)
Debt securities measured at FVTPL	(1,636)	(232)

Note 8 – Loans

(a) Loans receivable:

	June 30, 2019					
	Allowance for credit losses					
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Retail	\$ 17,021,075	\$ 2,231	\$ 2,095	\$ 2,011	\$ 6,337	\$ 17,014,738
Loans – Commercial	7,879,953	17,196	8,129	1,457	26,782	7,853,171
	\$ 24,901,028	\$ 19,427	\$ 10,224	\$ 3,468	\$ 33,119	\$ 24,867,909

	December 31, 2018					
	Allowance for credit losses					
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Retail	\$ 16,208,928	\$ 2,068	\$ 2,210	\$ 1,513	\$ 5,791	\$ 16,203,137
Loans – Commercial	7,342,774	12,528	6,966	13	19,507	7,323,267
	\$ 23,551,702	\$ 14,596	\$ 9,176	\$ 1,526	\$ 25,298	\$ 23,526,404

	June 30, 2018					
	Allowance for credit losses					
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Retail	\$ 13,880,051	\$ 1,723	\$ 2,174	\$ 1,213	\$ 5,110	\$ 13,874,941
Loans – Commercial	6,600,010	12,970	6,582	22	19,574	6,580,436
	\$ 20,480,061	\$ 14,693	\$ 8,756	\$ 1,235	\$ 24,684	\$ 20,455,377

As at June 30, 2019, Loans – Commercial include certain loans measured as at FVTPL with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at June 30, 2019, the carrying value of these loans is \$169,320 (December 31, 2018 – \$122,456, June 30, 2018 – \$105,827) and includes fair value adjustment of \$957 (December 31, 2018 – \$1,027, June 30, 2018 – \$309).

Loans – Commercial also include certain loans measured as at FVTPL with changes in fair value included in Interest income – Commercial. As at June 30, 2019, the carrying amount of these loans is \$107,515 (December 31, 2018 – \$121,398, June 30, 2018 – \$136,473) and includes fair value adjustment of \$74 (December 31, 2018 – \$774, June 30, 2018 – (\$93)).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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SIX MONTH PERIOD ENDED June 30, 2019

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

	June 30, 2019	June 30, 2018
Net gains in fair values for loans measured as at FVTPL included in gains on securitization activities	\$ 70	\$ 712
Net gains/(losses) in fair values for loans measured as at FVTPL and recognized in interest income – commercial	808	(71)

Loans – Commercial include loans of \$149,515 (December 31, 2018 – \$181,404, June 30, 2018 – \$158,961) invested in certain asset-backed structured entities. The Company holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Company does not have the ability to direct the relevant activities of these structured entities and has no exposure to their variable returns, other than the right to receive interest income from these investments. Consequently, the Company does not control these structured entities and has not consolidated them.

Loans – Commercial also include the Company's net investment in finance leases of \$461,877 (December 31, 2018 – \$nil, June 30, 2018 – \$nil).

At June 30, 2019, the Company had commitments to fund a total of \$2,041,188 (December 31, 2018 – \$1,544,683, June 30, 2018 – \$1,659,525) loans in the ordinary course of business.

(b) Impaired and past due loans:

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

	June 30, 2019			December 31, 2018	June 30, 2018
	Allowance for credit losses				
	Gross		Net	Net	Net
Loans – Retail	\$ 50,264	\$ 2,011	\$ 48,253	\$ 36,956	\$ 26,314
Loans – Commercial	58,944	1,457	57,487	449	845
	\$ 109,208	\$ 3,468	\$ 105,740	\$ 37,405	\$ 27,159

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

	June 30, 2019			
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	\$ 41,252	\$ 15,911	\$ -	\$ 57,163
Loans – Commercial	23,834	5,613	-	29,447
	\$ 65,086	\$ 21,524	\$ -	\$ 86,610

	December 31, 2018			
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	\$ 38,454	\$ 18,708	\$ -	\$ 57,162
Loans – Commercial	845	2,479	-	3,324
	\$ 39,299	\$ 21,187	\$ -	\$ 60,486

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SIX MONTH PERIOD ENDED June 30, 2019

	June 30, 2018			
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	\$ 39,065	\$ 17,535	\$ -	\$ 56,600
Loans – Commercial	3,255	1970	-	5,225
	\$ 42,320	\$ 19,505	\$ -	\$ 61,825

(c) Allowance for credit losses:

	June 30, 2019			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	Total
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	\$ 14,596	\$ 9,176	\$ 1,526	\$ 25,298
Provision for credit losses:				
Transfers to (from) Stage 1	664	(434)	(230)	-
Transfers to (from) Stage 2	(366)	454	(88)	-
Transfers to (from) Stage 3	(2)	(11)	13	-
Re-measurement ⁽¹⁾	(773)	(255)	2,016	988
Originations	734	-	-	734
Discharges	(85)	(44)	-	(129)
Finance leases acquired	4,659	1,338	3,424	9,421
Write-offs	-	-	(2,027)	(2,027)
Realized losses	-	-	(1,259)	(1,259)
Recoveries	-	-	93	93
Balance, end of period	\$ 19,427	\$ 10,224	\$ 3,468	\$ 33,119

	June 30, 2018			
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	Total
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	\$ 13,930	\$ 9,627	\$ 1,327	\$ 24,884
Provision for credit losses:				
Transfers to (from) Stage 1	1,015	(848)	(167)	-
Transfers to (from) Stage 2	(433)	496	(63)	-
Transfers to (from) Stage 3	(1)	(5)	6	-
Re-measurement ⁽¹⁾	(887)	45	1,270	428
Originations	616	-	-	616
Discharges	(42)	(64)	-	(106)
Realized losses	-	-	(1,165)	(1,165)
Recoveries	-	-	27	27
Balance, end of period	\$ 14,198	\$ 9,251	\$ 1,235	\$ 24,684

⁽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 allowance for credit losses includes allowance on loan commitments amounting to \$146 (June 30, 2018 – \$190).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Note 9 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through its securitization activities and sale of assets under repurchase agreements. For further details, refer to Note 11 to the audited consolidated financial statements in the Company's 2018 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:

	June 30, 2019		December 31, 2018		June 30, 2018	
	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 ⁽¹⁾	\$ 10,109,716	\$ -	\$ 9,365,527	\$ 342,010	\$ 7,677,286	\$ 202,928
Carrying amount of associated liability	10,024,334	-	9,236,045	342,010	7,584,327	202,928
Carrying amount, net position	\$ 85,382	\$ -	\$ 129,482	\$ -	\$ 92,959	\$ -
Fair value of assets	\$ 10,157,881	\$ -	\$ 9,315,515	\$ 342,010	\$ 7,596,908	\$ 202,928
Fair value of associated liability	10,083,073	-	9,218,609	342,010	7,550,367	202,928
Fair value, net position	\$ 74,808	\$ -	\$ 96,906	\$ -	\$ 46,541	\$ -

⁽¹⁾ The carrying amount of assets excludes securitized assets that were retained by the Company and not transferred to third parties of \$863,917 (December 31, 2018 – \$852,564, June 30, 2018 – \$1,002,458).

The carrying amount of assets exclude loans held for securitization of \$566,680 (December 31, 2018 – \$759,507, June 30, 2018 – \$513,938).

The carrying amount of assets includes \$237,636 (December 31, 2018 – \$nil, June 30, 2018 – \$nil) of the Company's net investment in finance leases that were securitized and not transferred to third parties.

The Company's outstanding securitization liabilities are as follows:

	June 30, 2019		December 31, 2018		June 30, 2018	
Securitization principal	\$ 10,068,473	\$ -	\$ 9,283,989	\$ -	\$ 7,618,836	\$ -
Deferred net discount and issuance costs	(65,417)	-	(68,921)	-	(51,006)	-
Accrued interest	21,278	-	20,977	-	16,497	-
	\$ 10,024,334	\$ -	\$ 9,236,045	\$ -	\$ 7,584,327	\$ -

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

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

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

	June 30, 2019	June 30, 2018
Loans securitized and sold	\$ 416,724	\$ 478,531
Carrying value of Securitization retained interests	24,268	17,893
Carrying value of Securitized loan servicing liability	3,747	3,958
Gains on loans securitized and sold	4,360	4,091
Gains from securitization activities and retained interests	202	1,870

Note 10 – Other Assets

	June 30, 2019	December 31, 2018	June 30, 2018
Intangible assets	\$ 47,571	\$ 34,068	\$ 29,905
Property and equipment	17,824	17,519	16,914
Goodwill	17,159	-	-
Receivable relating to securitization activities	14,992	12,026	10,423
Right-of-use assets	14,637	-	-
Prepaid expenses and other	13,004	58,743	7,859
Accrued interest and dividends on non-loan assets	2,330	1,174	941
Real estate owned	1,907	1,368	898
Deferred cost – Contingent liquidity facility	558	1,864	4,267
Income taxes receivable	-	2,835	-
Derivative financial instruments:			
Interest rate swaps	28,588	16,315	10,514
Total return swaps	1,466	1,704	2,296
Bond forwards	40	-	115
Loan commitments	27	55	-
	\$ 160,103	\$ 147,671	\$ 84,132

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

The Company 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:

	June 30, 2019
Carrying amount of right-of-use assets	\$ 14,637
Depreciation on right-of-use assets for the period	1,293
Cash outflows for leases	1,591
Interest expense on lease liabilities	417

Prepaid expenses and other include a net of \$3,100 (December 31, 2018 – \$3,100, June 30, 2018 \$3,200) related to an alleged fraud that was identified in 2011. The Company is currently pursuing a recovery claim under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries, if any, will be received in a timely manner from these additional actions or that such proceeds will be sufficient to recover the full amount of the receivable.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Note 11 – Deposits

	June 30, 2019	December 31, 2018	June 30, 2018
Term and other deposits	\$ 14,532,042	\$ 13,522,012	\$ 12,366,734
Accrued interest	220,714	178,028	140,884
Deferred deposit agent commissions	(32,056)	(31,519)	(30,644)
	\$ 14,720,700	\$ 13,668,521	\$ 12,476,974

Note 12 – Income Taxes**(a) Income tax provision:**

	June 30, 2019	June 30, 2018
Current tax expense:		
Current year	\$ 31,371	\$ 27,171
Adjustment for prior years	66	(447)
	31,437	26,724
Deferred tax expense:		
Reversal of temporary differences	2,374	445
Adjustment for prior years	(79)	239
Changes in tax rates	(1)	36
	2,294	720
Total income tax expense	\$ 33,731	\$ 27,444

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

	June 30, 2019	June 30, 2018
Canadian statutory income tax rate	26.6%	26.6%
Increase/(decrease) resulting from:		
Tax-exempt income	(0.7%)	(0.7%)
Non-deductible expenses and other	0.2%	0.2%
Effective income tax rate	26.1%	26.1%

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	June 30, 2019	December 31, 2018	June 30, 2018
Deferred income tax assets:			
Tax losses	\$ 14,528	\$ -	\$ -
Allowance for credit losses	6,339	6,356	6,262
Share issue expenses	150	198	423
Other	2,532	1,436	1,614
	23,549	7,990	8,299
Deferred income tax liabilities:			
Securitization activities	36,222	33,304	30,973
Leasing activities	27,662	-	-
Deposit agent commissions	8,418	8,364	8,112
Net origination fees	5,145	4,361	2,855
Intangible costs	2,427	2,666	2,995
Other	1,775	1,905	2,099
	81,649	50,600	47,034
Net deferred income tax liabilities	\$ 58,100	\$ 42,610	\$ 38,735

Note 13 – Other Liabilities

	June 30, 2019	December 31, 2018	June 30, 2018
Accounts payable and accrued liabilities	\$ 119,220	\$ 79,242	\$ 99,563
Loan realty taxes	37,077	58,594	37,088
Securitized mortgage servicing liability	26,970	26,822	26,004
Income taxes payable	278	-	463
Derivative financial instruments :			
Interest rate swaps	3,588	7,265	11,462
Total return swaps	9,405	3,707	1,882
Bond forwards	1,883	2,331	1,510
Loan Commitments	-	-	22
	\$ 198,421	\$ 177,961	\$ 177,994

Accounts payable and accrued liabilities include \$39,628 (December 31, 2018 - \$39,356, June 30, 2018 - \$65,790) relating to obligations associated with the purchase of the Maple portfolio in 2016.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Note 14 – Bank Facilities

During the quarter, the Company reduced its secured backstop funding facility to \$400,000 from \$850,000 and renewed this facility for an additional 2 years. The annualized cost of the facility is 60 basis points if undrawn, and the interest rate on any draws would be equal to 3 month CDOR plus 1.25%. The Company has not made any draws on this facility since its inception.

Note 15 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years and vest over a four-year period. As at June 30, 2019, the maximum number of common shares available for issuance under the plan is 2,000,000. The outstanding options expire on various dates to March 2026. A summary of the Company's stock option activity and related information for the periods ended June 30, 2019 and June 30, 2018 is as follows:

	June 30, 2019		June 30, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	671,332	\$ 52.59	619,771	\$ 50.80
Granted	138,967	67.77	121,159	55.66
Exercised	(95,772)	35.41	(17,181)	30.55
Forfeited/cancelled	(13,717)	66.57	(17,503)	59.82
Outstanding, end of period	700,810	\$ 57.67	706,246	\$ 51.90
Exercisable, end of period	400,905	\$ 53.46	421,683	\$ 46.68

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$812 (June 30, 2018 – \$720) 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, 2019 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	June 30, 2019	June 30, 2018
Risk-free rate	1.8%	2.1%
Expected option life (years)	4.8	4.8
Expected volatility	27.8%	26.2%
Expected dividends	1.8%	1.5%
Weighted average fair value of each option granted	\$ 14.7	\$ 13.7

(b) Other stock based plans:

The Company has an Employee share purchase ("ESP") plan, a Restricted share unit ("RSU" and "PSU") plan for eligible employees, and a Deferred share unit ("DSU") plan for Directors. For details on the plan, refer to Note 20 to the audited consolidated financial statements in the Company's 2018 Annual Report.

Under the DSU plan, the activity for the periods ended June 30, 2019 and June 30, 2018 is as follows:

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

	June 30, 2019	June 30, 2018
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	42,697	32,915
Granted	9,388	8,543
Dividends reinvested	611	260
Outstanding, end of period	52,696	41,718

The liability associated with DSUs outstanding as at June 30, 2019 was \$3,796 (June 30, 2018 – \$2,461). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the six months ended June 30, 2019 amounted to \$703 (June 30, 2018 – \$500).

Under the Company's RSU and PSU plan, the activity for the periods ended June 30, 2019 and June 30, 2018 is as follows:

	June 30, 2019	June 30, 2018
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of period	67,180	56,762
Granted	43,241	44,021
Dividends reinvested	1,279	684
Vested and paid out	(1,306)	(1,816)
Forfeited/cancelled	(3,299)	(2,805)
Outstanding, end of period	107,095	96,846

The liability associated with RSUs and PSUs outstanding as at June 30, 2019 was \$3,167 (June 30, 2018 – \$2,408). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the six months ended June 30, 2019 amounted to \$786 (June 30, 2018 – \$1,251).

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 dilution effect of stock options using the treasury stock method.

	June 30, 2019	June 30, 2018
Earnings per common share – basic:		
Net income	\$ 95,683	\$ 77,704
Dividends on preferred shares	2,382	2,382
Net income available to common shareholders	\$ 93,301	\$ 75,322
Weighted average basic number of common shares outstanding	16,612,292	16,512,338
Earnings per common share – basic	\$ 5.62	\$ 4.56
Earnings per common share – diluted:		
Net income available to common shareholders	\$ 93,301	\$ 75,322
Weighted average basic number of common shares outstanding	16,612,292	16,512,338
Adjustment to weighted average number of common shares outstanding:		
Stock options	124,294	104,108
Weighted average diluted number of common shares outstanding	16,736,586	16,616,446
Earnings per common share – diluted	\$ 5.57	\$ 4.53

For the period ended June 30, 2019, the calculation of the diluted earnings per share excluded 231,631 (June 30, 2018 – 221,975) average options outstanding with a weighted average exercise price of \$69.37 (June 30, 2018 – \$63.78) as the exercise price of these options was greater than the average price of the Company's common shares.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

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. For further details refer to the pages 22-23 of the MD&A.

Equitable Bank maintains a Capital Management Policy and an Internal Capital Adequacy Assessment Process to govern the quality and quantity of capital utilized in its operations. During the six months ended June 30, 2019, Equitable Bank complied with all internal and external capital requirements.

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

	June 30, 2019	December 31, 2018	June 30, 2018
Common Equity Tier 1 Capital ("CET1"):			
Common shares	\$ 207,376	\$ 203,270	\$ 201,784
Contributed surplus	8,223	8,127	7,704
Retained earnings	1,093,402	1,011,052	933,922
Accumulated other comprehensive loss ⁽¹⁾	(20,320)	(17,565)	(7,147)
Less: Regulatory adjustments	(61,883)	(20,684)	(18,744)
Common Equity Tier 1 Capital	1,226,798	1,184,200	1,117,519
Additional Tier 1 capital:			
Non-cumulative preferred shares	72,554	72,554	72,554
Tier 1 Capital	1,299,352	1,256,754	1,190,073
Tier 2 Capital:			
Eligible stage 1 and 2 allowance	29,651	23,772	23,449
Tier 2 Capital	29,651	23,772	23,449
Total Capital	\$ 1,329,003	\$ 1,280,526	\$ 1,213,522

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

SIX MONTH PERIOD ENDED June 30, 2019

Note 18 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at June 30, 2019.

	June 30, 2019							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Total assets	\$ 5,786,351	\$ 3,060,050	\$ 6,361,984	\$ 15,208,385	\$ 9,615,883	\$ 1,047,853	\$ 489,080	\$ 26,361,201
Total liabilities and equity ⁽²⁾	(229)	(7,201,025)	(5,563,947)	(12,765,201)	(10,981,646)	(808,449)	(1,805,905)	(26,361,201)
Off-balance sheet items ⁽³⁾	-	(2,239,696)	(36,149)	(2,275,845)	2,198,404	77,441	-	-
Interest rate sensitive gap	\$ 5,786,122	\$ (6,380,671)	\$ 761,888	\$ 167,339	\$ 832,641	\$ 316,845	\$ (1,316,825)	\$ -
Cumulative gap	\$ 5,786,122	\$ (594,549)	\$ 167,339	\$ 167,339	\$ 999,980	\$ 1,316,825	\$ -	\$ -
Cumulative gap as a percentage of total assets	21.95%	(2.26%)	0.63%	0.63%	3.79%	5.00%	-%	-%

	December 31, 2018							
	Floating rate	0 to 3 Months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap	\$ 5,837,496	\$ (490,256)	\$ 468,480	\$ 468,480	\$ 911,722	\$ 1,163,529	\$ -	\$ -
Cumulative gap as a percentage of total assets	23.32%	(1.96)%	1.87%	1.87%	3.64%	4.65%	-%	-%

	June 30, 2018							
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive ⁽¹⁾	Total ⁽¹⁾
Cumulative gap	\$ 4,793,741	\$ (725,517)	\$ 361,216	\$ 361,216	\$ 1,006,239	\$ 1,159,915	\$ -	\$ -
Cumulative gap as a percentage of total assets	21.84%	(3.31)%	1.65%	1.65%	4.59%	5.29%	-%	-%

⁽¹⁾ Accrued interest is included in "Non-interest sensitive" assets and liabilities.

⁽²⁾ Cashable GIC deposits are included in the "0 to 3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance.

⁽³⁾ Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.

SHAREHOLDER AND CORPORATE INFORMATION

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Stock Listings

TSX: EQB and EQB.PR.C

Auditors

KPMG LLP
Toronto, Ontario

Quarterly Conference Call and Webcast

Wednesday, July 31, 2019, 8:30 a.m.

EST

Live: 647.427.7450

Replay: 416.849.0833 (code 2869878)

Archive: www.equitablebank.ca

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Dividend Reinvestment Plan

The Company's dividend reinvestment plan allows common shareholders to reinvest their cash dividends to purchase additional common shares from treasury at an applicable discount. No commissions, service charges or brokerage fees are payable by participants under this plan and all administrative costs are borne by the Company.

For more information, shareholders may contact the Company's plan agent, Computershare Trust Company of Canada.