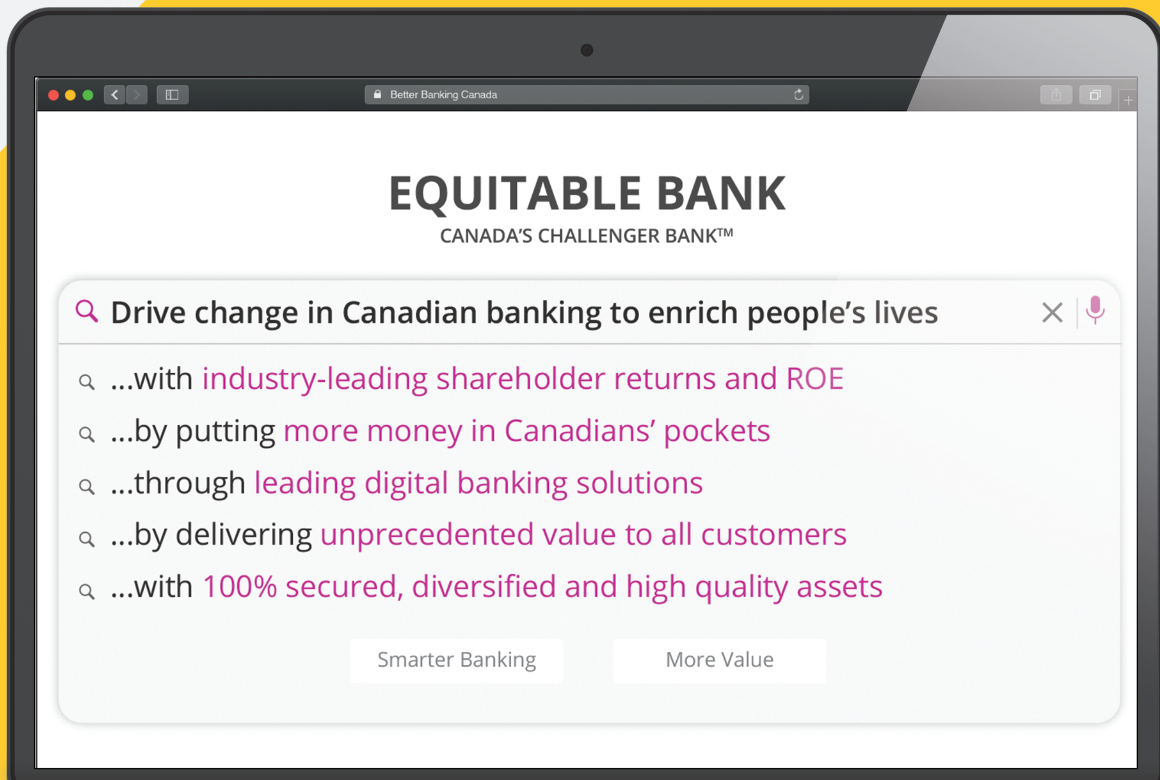
EQUITABLE
CANADA'S CHALLENGER BANK™

Fourth Quarter Report 2020
For the three and twelve months ended December 31, 2020

TSX.EQB | EQB.PR.C



Equitable Bank | EQ Bank

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

For the three months and year ended December 31, 2020

Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. (Equitable or the Bank) for the three months (quarter) and year ended December 31, 2020. This MD&A should be read in conjunction with the Bank's unaudited interim consolidated financial statements for the fourth quarter (see Tables 25-27 in the Fourth quarter overview section of this report) and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2020. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at February 22, 2021. The Bank's continuous disclosure materials, including interim filings, annual MD&A and Consolidated Financial Statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Bank's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

Cautionary note regarding forward-looking statements

Statements made by the Bank in the sections of this report including those entitled "Overview and outlook", "Significant development – COVID-19", "Financial results summary and segment performance", "Provision for credit losses", "Credit quality and allowance for credit losses", "Liquidity investments and equity securities", "Deposits", "Capital management – Equitable Bank", "Fourth quarter overview", "Risk management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Bank's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Bank's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "outlook", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", "will likely" or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results, level of activity, closing of transactions, performance or achievements of the Bank to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions including, without limitation, impacts as a result of COVID-19, legislative and regulatory developments, changes in accounting standards, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" herein and in the Bank's documents filed on SEDAR at www.sedar.com.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate, and liquidity conditions affecting the Bank and the Canadian economy. Although the Bank believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Bank in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its loan business, a continuation of the current level of economic uncertainty that affects real estate market conditions including, without limitation, impacts as a result of COVID-19, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as 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 Bank does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

Select financial and other highlights					
	As at or for the years ended				
$000s, except share, per share amounts, percentages & employees	31-Dec-20	31-Dec-19	31-Dec-18	2020 vs. 2019	
Operating Results					
Net-interest income (NII)	497,406	462,648	348,381	34,758	7.5%
Non-interest income	59,427	34,416	27,659	25,011	72.7%
Revenue	556,833	497,064	376,040	59,769	12.0%
Non-interest expenses	214,060	199,573	149,363	14,487	7.3%
Pre-provision pre-tax income[1]	342,773	297,491	226,677	45,282	15.2%
Provisions for credit losses	42,280	18,394	2,083	23,886	129.9%
Income tax expense	76,689	72,618	58,968	4,071	5.6%
Net income	223,804	206,479	165,626	17,325	8.4%
Adjusted net income[1][2]	218,981	211,890	172,778	7,091	3.3%
Operating Performance					
Earnings per share (EPS) – basic ($)	13.04	12.10	9.73	0.94	7.8%
Earnings per share – diluted ($)	12.95	11.97	9.67	0.98	8.2%
Adjusted EPS – diluted[1][2] ($)	12.66	12.29	10.10	0.37	3.0%
Return on equity[1] (%)	14.8%	15.5%	14.1%	-	-0.7%
Adjusted Return on equity[1][2] (%)	14.5%	15.9%	14.7%	-	-1.4%
Efficiency ratio[1][3] (%)	38.4%	40.2%	39.7%	-	-1.8%
Operating leverage[1][4] (%)	4.7%	-1.4%	-8.1%	-	6.1%
Net interest margin[1] (%)	1.70%	1.74%	1.59%	-	-0.04%
Select balance sheet and other information					
Total assets	30,746,318	28,392,452	25,037,145	2,353,866	8.3%
Assets under management[1] (AUM)	35,935,582	33,005,353	29,410,999	2,930,229	8.9%
Loans receivable	28,271,568	26,607,830	23,526,404	1,663,738	6.3%
Loans under management[1] (LUM)	33,346,617	31,123,254	27,800,546	2,223,363	7.1%
Total deposits	16,376,011	15,231,888	13,522,012	1,144,123	7.5%
Total EQ Bank deposits	4,555,606	2,666,551	2,188,181	1,889,055	70.8%
Total other deposits	11,820,405	12,565,337	11,333,831	(744,932)	-5.9%
Total risk-weighted assets	10,426,077	9,761,287	8,802,891	664,790	6.8%
Common shareholders' equity	1,575,225	1,395,157	1,207,470	180,068	12.9%
Credit quality					
Provisions for credit losses[5] (PCL)	42,280	18,394	2,083	23,886	129.9%
PCL - rate[1] (%)	0.15%	0.07%	0.01%	-	0.08%
Net impaired loans as a % of total loan assets	0.42%	0.44%	0.16%	-	-0.02%
Allowance for credit losses as a % of total loan assets	0.23%	0.14%	0.11%	-	0.09%
Common share information					
Common share price – close ($)	101.00	109.35	59.12	(8.35)	-7.6%
Book value per common shares[1] ($)	93.35	83.06	72.94	10.29	12.4%
Common shares outstanding (millions)	16,874,074	16,797,593	16,554,018	76,481	0.5%
Common share market capitalization	1,704,281	1,836,817	978,674	(132,536)	-7.2%
Dividends declared per:					
Common share ($)	1.48	1.29	1.08	0.19	14.7%
Preferred share ($)	1.49	1.56	1.59	(0.07)	-4.5%
Dividend yield[1] – common shares (%)	1.8%	1.5%	1.7%	-	0.3%
Capital ratios and leverage ratio[1]					
Common Equity Tier 1 ratio (%)	14.6%	13.6%	13.5%	-	1.0%
Tier 1 capital ratio (%)	15.3%	14.4%	14.3%	-	0.9%
Total capital ratio (%)	15.8%	14.7%	14.5%	-	1.1%
Leverage ratio (%)	5.1%	4.9%	5.0%	-	0.2%
Business information					
Employees – full-time equivalent[6]	925	871	669	54	6.2%
Revenue per full-time employee[1]	602	571	562	31	5.5%
EQ Bank customers	173,399	95,535	70,954	77,864	81.5%

(1) See Non-GAAP financial measures section of this MD&A. (2) Adjusted results exclude the impact of fair value gains or losses on mark-to-market loans, certain security investments and derivative financial instruments. (3) Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies. (4) Operating leverage represents the growth % in Total revenue minus the growth % in Non-interest expenses. (5) 2020 provision for credit losses includes 22.6 million (2019 – $14.5 million) of provisions for equipment leases. (6) 2018 measure represents Equitable's employees prior to Bennington's acquisition on January 1, 2019.

Select financial highlights

	2020				2019			
$000s, except share, per share amounts, percentages & employees	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating Results								
Net-interest income (NII)	131,117	127,431	118,707	120,151	124,827	118,147	114,322	105,352
Non-interest income	20,833	21,277	12,623	4,694	9,353	9,702	8,473	6,888
Revenue	151,950	148,708	131,330	124,845	134,180	127,849	122,795	112,240
Non-interest expenses	55,348	53,065	51,467	54,180	54,477	50,489	48,496	46,111
Pre-provision pre-tax income[1]	96,602	95,643	79,863	70,665	79,703	77,360	74,299	66,129
Provisions for credit losses	103	(2,357)	8,847	35,687	3,917	3,463	1,386	9,628
Income tax expense	25,075	24,072	18,534	9,008	19,932	18,955	18,891	14,840
Net income	71,424	73,928	52,482	25,970	55,854	54,942	54,022	41,661
Adjusted net income[1][2]	68,864	70,910	49,259	29,948	56,045	54,754	54,512	46,579
Operating Performance								
Earnings per share (EPS) – basic ($)	4.17	4.33	3.06	1.48	3.27	3.22	3.17	2.44
Earnings per share – diluted ($)	4.13	4.30	3.05	1.46	3.21	3.18	3.15	2.42
Adjusted EPS – diluted[1][2] ($)	3.98	4.13	2.86	1.70	3.22	3.17	3.18	2.72
Return on equity[1] (%)	18.2%	19.8%	14.7%	7.2%	15.9%	16.2%	16.8%	13.4%
Adjusted Return on equity[1][2] (%)	17.5%	19.0%	13.8%	8.4%	15.9%	16.2%	16.9%	15.0%
Efficiency ratio[3] (%)	36.4%	35.7%	39.2%	43.4%	40.6%	39.5%	39.5%	41.1%
YTD Operating leverage[1][4] (%)	4.7%	2.2%	-2.7%	-6.3%	-1.4%	-3.1%	0.9%	-10.6%
Net interest margin[1] (%)	1.74%	1.69%	1.64%	1.71%	1.78%	1.75%	1.76%	1.67%
Select balance sheet and other information								
Total assets	30,746,318	30,447,086	29,957,246	29,153,879	28,392,452	27,544,976	26,361,201	26,327,464
Assets under management[1] (AUM)	35,935,582	35,510,826	34,662,258	33,936,125	33,005,353	32,333,820	30,909,183	30,830,162
Loans receivable	28,271,568	27,591,921	27,708,917	26,781,248	26,607,830	25,960,054	24,867,909	24,446,452
Loans under management[1] (LUM)	33,346,617	32,550,738	32,330,889	31,496,058	31,123,254	30,640,893	29,321,091	28,848,831
Total deposits	16,376,011	16,372,790	15,636,120	15,474,853	15,231,888	14,904,198	14,532,042	14,637,787
Total EQ Bank deposits	4,555,606	4,318,812	3,287,602	2,707,183	2,666,551	2,516,421	2,250,998	2,218,607
Total other deposits	11,820,405	12,053,978	12,348,518	12,767,670	12,565,337	12,387,777	12,281,044	12,419,180
Total risk-weighted assets	10,426,077	10,179,647	9,936,298	9,916,286	9,761,287	9,586,356	9,373,293	9,229,237
Common shareholders' equity	1,575,225	1,501,344	1,426,826	1,378,144	1,395,157	1,338,965	1,287,089	1,241,411
Credit quality								
Provisions for credit losses[5] ($)	103	(2,357)	8,847	35,687	3,917	3,463	1,386	9,628
PCL - rate[1] (%)	0.001%	-0.03%	0.13%	0.54%	0.06%	0.05%	0.02%	0.16%
Net impaired loans as a % of total loan assets	0.42%	0.33%	0.54%	0.47%	0.44%	0.47%	0.42%	0.49%
Allowance for credit losses as a % of total loan assets	0.23%	0.25%	0.27%	0.26%	0.14%	0.13%	0.13%	0.13%
Common share information								
Common share price – close ($)	101.00	75.09	71.39	58.07	109.35	103.81	72.59	64.73
Book value per common share[1] ($)	93.35	89.25	84.89	82.00	83.06	79.97	77.22	74.59
Common shares outstanding (millions)	16,874,074	16,822,244	16,807,317	16,807,317	16,797,593	16,743,253	16,666,896	16,642,685
Common share market capitalization	1,704,281	1,263,182	1,199,874	976,001	1,836,817	1,738,117	1,209,850	1,077,281
Dividends declared per:								
Common share	0.37	0.37	0.37	0.37	0.35	0.33	0.31	0.30
Preferred share	0.37	0.37	0.37	0.37	0.37	0.40	0.40	0.40
Dividend yield[1] – common shares	1.6%	1.9%	2.3%	1.6%	1.3%	1.5%	1.8%	1.8%
Capital ratios and leverage ratio[1]								
Common Equity Tier 1 ratio (%)	14.6%	14.3%	14.0%	13.5%	13.6%	13.3%	13.1%	12.9%
Tier 1 capital ratio (%)	15.3%	15.0%	14.7%	14.3%	14.4%	14.1%	13.9%	13.7%
Total capital ratio (%)	15.8%	15.5%	15.2%	14.7%	14.7%	14.4%	14.2%	14.0%
Leverage ratio (%)	5.1%	4.9%	4.8%	4.7%	4.9%	4.8%	4.9%	4.7%

(1) See Non-GAAP financial measures section of this MD&A. (2) Adjusted results exclude the impact of fair value gains or losses on mark-to-market loans, certain security investments and derivative financial instruments. (3) Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies. (4) Operating leverage represents the growth % in Total revenue minus the growth % in Non-interest expenses. (5) 2020 provision for credit losses includes 22.6 million (2019 – $14.5 million) of provisions for equipment leases.

Overview and outlook

Equitable Group Inc. (TSX: EQB and EQB.PR.C) operates through its wholly owned subsidiary, Equitable Bank. The Bank's purpose is to *drive change in Canadian banking to enrich people's lives*.

Equitable Bank – Canada's Challenger Bank™ – is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI) and serves over 246,000 Canadians with Total assets under management of nearly $36 billion. Equitable is one of nine publicly traded banks included in the S&P/TSX Composite Index, and the 8th largest measured by market capitalization at December 31, 2020. In addition, Equitable is a member of the S&P/TSX Dividend Aristocrats, S&P/TSX Small Cap, S&P Canada BMI and MSCI Small Cap (Canada) Indices.

With approximately 925 employees across Canada, the Bank serves Canadians through two business lines: Personal Banking and Commercial Banking, and six primary consumer brands.

Personal Banking

Personal Banking serves 229,000 Canadians, with total loans under management of $19 billion. Its diversified product suite consists of deposits, single family loans, home equity lines of credit (HELOC), and retirement decumulation solutions with reverse mortgages and cash surrender value (CSV) lines of credit. Our savings products are offered through EQ Bank, Equitable Bank, Equitable Trust, and a network of independent financial planners and brokers. Personal loans are originated through the independent mortgage broker channel and through third party financial institutions. EQ Bank is a leading digital bank – the first in Canada hosted in the cloud – serving 173,399 Canadians, increasing on average by 215 customers per day in 2020. With constantly expanding solutions, EQ Bank is quickly becoming a primary banking option for Canadians, in addition to a source of diversified funding for the Bank.

Equitable Bank and Equitable Trust are each members of the Canada Deposit Insurance Corporation (CDIC).

Commercial Banking

With differentiated offerings including conventional commercial loans, commercial mortgages, specialized financing solutions, and equipment loans, Commercial Banking serves 17,500 Canadian businesses and now has $14 billion in loans under management. We lend through a network of mortgage and leasing brokers, lending partners, and other financial institutions. Commercial loans involve lending on multi-unit residential, industrial and office buildings, and other commercial property.

Environmental, Social and Governance

Equitable is proud of the critical role we play in the lives of Canadians as the country's Challenger Bank. We take our responsibility to our customers, shareholders, employees, business partners and community partners seriously, and understand that meeting our obligations, objectives and commitments requires good governance, inspired leadership and an empowered culture.

Our Environment, Social and Governance (ESG) approach starts with our Board of Directors (Board). The members of our Board guide our efforts to assess and address the risks and opportunities inherent in our ecosystem. The Board's key focus areas include long-term strategy and value creation, risk oversight, management succession, as well as workforce development and retention. We see these areas as fundamental to the Bank's sustainability and future success.

Through their actions, our Board has built a strong governance framework designed to create value for all stakeholders, enhance long-term corporate sustainability and reduce business risk. We also understand that good governance is not just about structure or framework – it is about principled, invested people moving forward together, which is what we did in 2020.

Our *Management Information Circular* and our *Sustainability Report and Public Accountability Statement* provide important details on our approach to ESG and our annual progress. They are available at www.equitablebank.ca. We are particularly proud to operate with a diverse Board of Directors (42% are women), a diverse workforce (50% of whom identify as a member of a visible minority group), and as a Bank with a small, and managed, carbon footprint that works tirelessly to address the needs of underserved communities.

Long-term objectives and strategic priorities

Our strong results are driven by our three long-term objectives:

In 2020, our strategic priorities included:

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

Refer to the Financial results summary and segment performance section for our progress against 2020 strategic priorities.

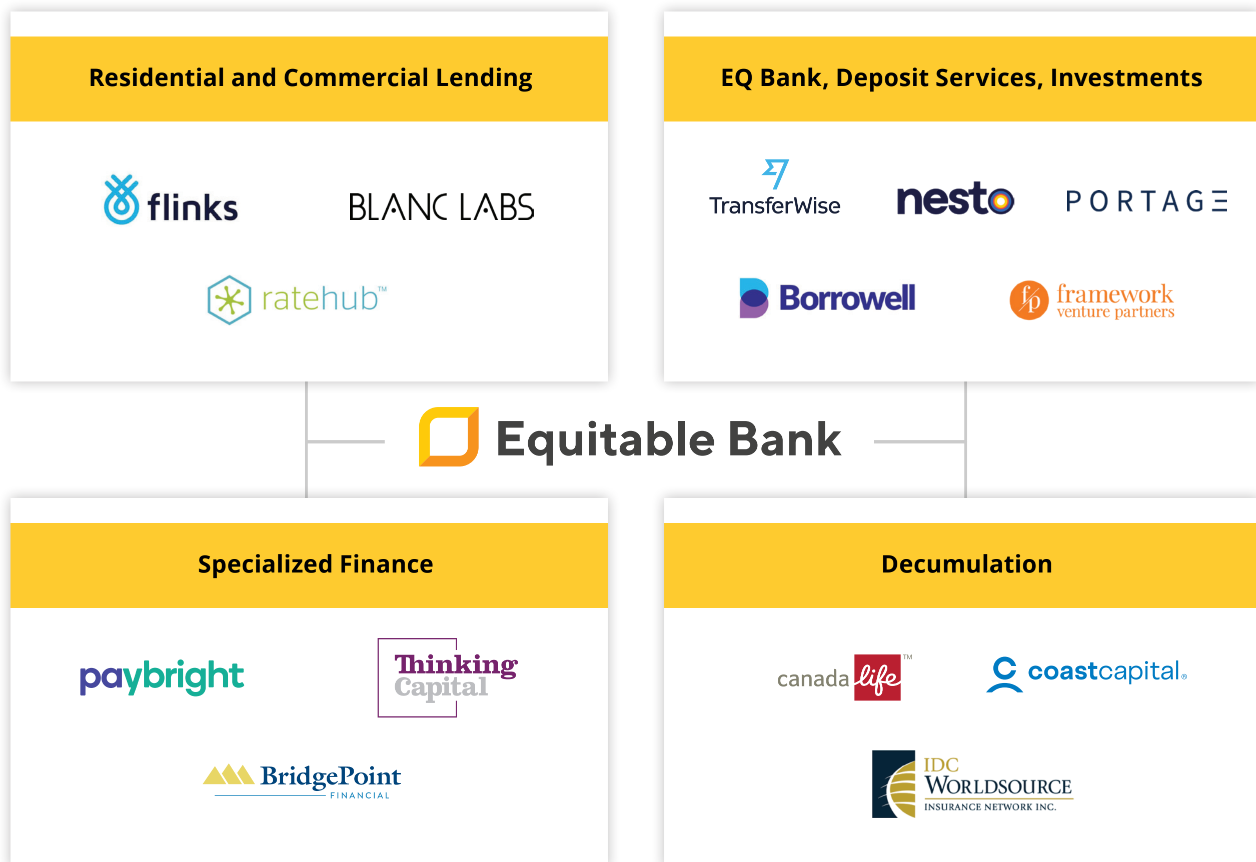
Key Partnerships and Investments

The Bank is focused on enriching the lives of Canadians, enabled by deep partnerships with leading financial institutions, plus investments and partnerships with fintechs. Fintech partnerships enable exploration of opportunities aligned with both our asset and deposit strategy. Our strategy is focused on:

- Investments that enable participation in new businesses delivered through innovative platforms
- Partnerships in distribution, marketing, and white label
- Engagements with external technology solutions, leveraging APIs to offer an innovative range of services

The Bank has distinguished itself for developing partnerships that enhance both its consumer brands and its potential for revenue growth while delivering the best customer service.

The graphic below highlights some key partnerships and clients by product group.



Evolution of Canada's Challenger Bank™

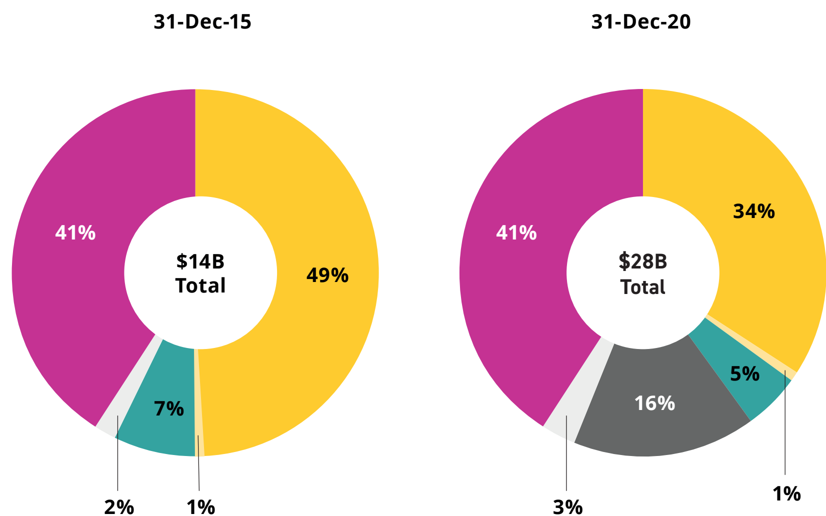
Our rich history of serving Canadians began in 1970 with our incorporation as a federally regulated financial institution. Fast forward to 2015 and we were named one of Canada's top employers – a title we have held every year since. In 2016, to complement our then $8 billion deposit business, we introduced EQ Bank, Canada's first-born all digital bank: built on a world-class digital platform to serve a mobile-first future. To express our continuous aspiration of providing better service and better value to our customers than traditional financial institutions, we earned and trademarked our title of Canada's Challenger Bank™ in 2017. We spent the final two years of the past decade becoming the first Canadian bank to migrate our core banking system to the cloud. As the decade closed, we joined Canada's largest banks on the S&P/TSX Composite Index.

In the last five years alone, our Bank has grown and diversified more than in the previous 45 years combined. The key outcomes of our diversification efforts since 2015 are outlined below.

Diversification of our cost-effective funding sources

We continue to diversify to reduce costs, increase our capital markets presence, manage risk and fuel long-term growth

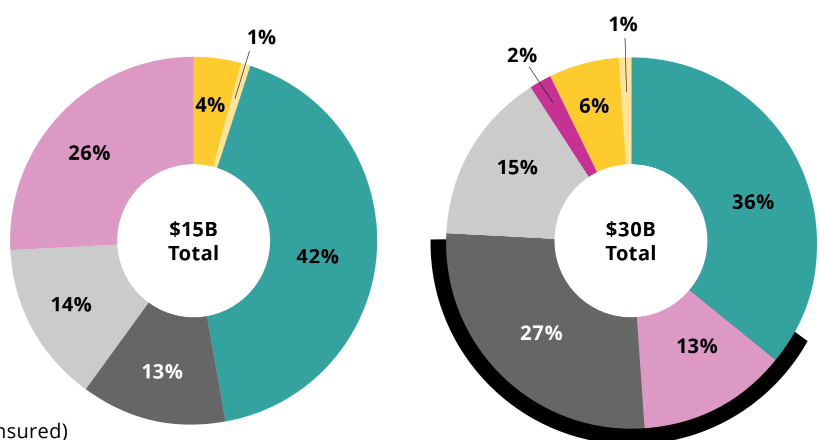
- Brokered GICs
- Brokered TFSAs
- Brokered HISAs
- EQ bank deposits
- Deposit notes
- Securitization Liability Principal



Diversification of our asset mix

We continue to diversify to optimize yields and earnings while prudently managing risk

- Cash and equivalents
- Equity securities and other retail loans
- Alternative single family mortgages
- Prime single family mortgages
- Conventional commercial loans
- Equipment leases
- Insured multi-unit residential mortgages
- Insured assets (~45% of total assets are insured)



We began 2020, challenging ourselves to drive change in Canadian banking to enrich people's lives. Our purpose guides us to deliver value through timely, thoughtful innovations that create better banking experiences for our customers. 2020 was a watershed year for Canada's Challenger Bank™ as we took advantage of our capabilities and cloud-based core banking system to expand customer services, increase customer engagement and set the stage for growth over the next five years.

We continued making significant inroads and challenging the Canadian banking landscape through:

EQ Bank

In 2020, we lived our vision by aggressively expanding EQ Bank's innovative financial services to address the core banking needs of Canadians at all stages of life. The introductions of the *EQ Bank Tax Free Savings Account* and the *EQ Bank Retirement Savings Plan* – both offering superior interest, no fees and the no-hassle convenience of online account openings – created tax-advantaged ways for our customers to reach their savings goals faster. Additionally, we created joint account capabilities so that spouses and friends can share the benefits of the *Savings Plus Account* including free bill payments, free transactions and a competitive savings rate. Joint accounts eliminate the need for our customers to use other institutions for this key everyday banking need. These advancements follow the late 2019 launch of the EQ Bank international money transfer service in partnership with TransferWise, a fintech solution that is up to eight times cheaper[1] and much more convenient than traditional bank services. 20 new currencies were added to the platform in 2020, for total coverage of 67 countries and 37 currencies.

Strategically, a key goal is to increase the value we deliver to EQ Bank customers as a means of building the value of our franchise. We gauge our success in this important area by measuring customer engagement in the form of number of products held and regular use of EQ Bank's services. It increased 23% in 2020.

While value creation for customers is paramount, we also measure the lifetime value of a customer to the Bank. Under accounting principles, we expense the cost of customer account acquisition in the period it occurs, while the value is realized for both our customer and Equitable over the future relationship. Our estimate of the cost of acquisition and the projected value of the relationship improved dramatically in 2020.

For a digital bank, the cost of customer acquisition can be high. We focus on driving this cost down through cost-effective advertising programs and in 2020, we found success through our recently launched digital customer referral program – which attracted over 10,000 new accounts.

During 2020, EQ Bank won three prestigious awards:

- Ratehub.ca's Personal Finance Award for having Canada's top high-interest savings account
- IBS Intelligence's Best Fintech Innovation Award in the cloud deployment category (shared with Temenos, our partner)
- Celent Model Bank Award in the banking-in-the cloud category

Wealth Solutions

During 2020, we added depth and breadth to our Challenger Bank deposit products in line with our goal of creating a suite of wealth solutions to serve the diverse investment goals of our customers. Key additions included Equitable Bank U.S. Currency GICs and the Equitable Bank U.S. High Interest Savings Account. These new products challenged the limited offering available in the advisor market, signaled our intention to grow our foreign currency deposit services and complement the existing deposit product portfolio available at Equitable Bank and Equitable Trust. Combined with EQ Bank, our total deposits stood at $16.4 billion at year end.

Personal and Commercial Banking Solutions

New frontiers in growth took shape in our Personal and Commercial lines of business with a new organizational structure aligned to key customer segments and designed to drive better banking experiences. One of our best opportunity areas involves providing innovative financial services to retired Canadians, a large and growing demographic. After intensely studying the credit risk and rewards of products that appeal to retired Canadians and settling on loan structures that would meet our capital allocation standards, we stood up a wealth decumulation business in 2018 and an insurance-backed line of credit product in 2019. In 2020, we made significant advancements with new products and new distribution partnerships and are well positioned to accelerate future growth in this market.

(1) Based on research conducted by Equitable comparing exchange rates and transaction fees from TransferWise, Canada's Big 5 banks and Simplii Financial.

Highlights included the addition of Equitable Bank's Reverse Mortgage Flex Program to our decumulation business to serve homeowners who wish to access more of their hard-earned equity. Immediately following year end, we announced a new partnership with Coast Capital to bring this solution to members of the British Columbia based federal credit union.

Additionally, within Personal Banking, we have quickly evolved our single-family lending lines of business by growing in the prime mortgage market. 2015 marked our entry point into the prime market. Our early ambitions were to originate between $1 billion and $2 billion of mortgages per annum. In 2020, our prime portfolio exceeded $8 billion as we deployed more capital than ever to serve Canadians with a Challenger Bank solution. Prime lending is a very large market in Canada and one that holds substantial promise for our Bank due to the strength of our distribution model and ability to deliver excellent customer service.

In Commercial Banking, we evolved our offering in several ways including through the Bank's Specialized Finance Group. It offers Challenger Bank secured financing solutions to specialty lenders to finance their growth.

Looking ahead, we will continue to challenge ourselves and others to think and do things differently. We will continue to push for value creation in our industry as a tireless advocate for Open Banking and a reliable partner to other leaders in fintech and financial services. We will grow our diversified personal and commercial banking platforms by adding new products and services. We will use EQ Bank in new ways to reach and serve more Canadians as a straightforward, no nonsense alternative to traditional banks. And we will preserve the qualities that make us a trusted name in financial services: our rigorous and disciplined risk management practices and our steadfast belief that customers deserve better.

Continuous focus on innovation

As Canada's Challenger Bank™, Equitable is always looking for opportunities to innovate its banking and lending platforms. We have a distinct focus on product development and integration of fintech and emerging technologies to make it easier for Canadians to reach their financial goals.

Our passion for continuous innovation can be seen in the recent introduction of many new services and capabilities. To name a few:

- The 2019 launch and 2020 expansion of our EQ Bank international money transfer service in partnership with TransferWise which enables Canadians to easily, quickly and cheaply move money – without hidden fees – to family and friends in dozens of countries and 37 currencies.
- The launch of an all-digital referral service within EQ Bank in May 2020 which contributed to the substantial increase in new account openings during the year.
- The creation of all-digital joint accounts and all-digital TFSA and RSP accounts at EQ Bank in 2020.
- The development of our EQ Bank onboarding technology that eliminates points of pain for customers by allowing customers to open everyday digital accounts including joint accounts with a few mouse clicks.
- The 2019 launch and 2020 expansion of our Cash Surrender Value (CSV) line of credit product that is differentiated on many levels including its ability to relieve customers of the need to first have a private banking relationship.
- The 2018 launch and subsequent market share growth of reverse mortgages as one of only two banks providing services of this kind in Canada and the one that offers the lowest rates and as a result of innovation, the easiest onboarding process.

With our continuous focus on innovation, we are positioning the Bank for broad and expected future developments in three areas: open banking, payment modernization, and cloud migration.

Open Banking is a framework that enables consumers and businesses to easily share access to their financial data with more than one financial institution or fintech, using secure online technology. Currently, each individual financial institution controls access to this information. Open Banking, which has been successfully adopted in other countries, would give Canadians greater access to services available in the digital economy that they can use to better and more securely manage their financial affairs. We believe Open Banking will benefit agile banks such as Equitable. Accordingly, we are laying the groundwork to provide valuable services to our customers that are enabled by the implementation of Open Banking in Canada. In 2020, we participated in the second round of consultations on the Minister of Finance's Open Banking advisory panel.

We envision a future where EQ Bank can serve customers by being part of an ecosystem of financial services in which consumers access our best-in-class products and those of other companies – an ecosystem supported by our bank-grade security systems. Our ecosystem will be developed through in-house innovations and partnerships with fintechs, brokerages, and other business partners. Given our Challenger Bank culture, our agile and scalable technology infrastructure, and our security posture, EQ Bank is in a unique position to innovate and create a better banking experience for Canadians when Open Banking arrives in Canada.

As Canada studies Open Banking, it also needs to consider how to best enable third-party access to customer data. Our Bank is very supportive of the idea of a digital ID, which allows identification without the need for face-to-face interaction and the exchange of physical documents. The introduction of a digital ID system would reduce fraud, enhance privacy, improve regulatory compliance and eliminate costs and duplications associated with identity collection. In broad terms, it would improve the productivity of the Canadian economy.

Payment modernization remains a top priority for Equitable given the rapid growth of our digital banking platform. In contrast to other countries with modernized real-time payment systems, it is inefficient for customers to move money within Canada's banking system. This inefficiency impedes innovation, competition and growth in financial services. Equitable is investing in upgrading our infrastructure to support the new ISO20022 standard. This infrastructure in combination with Payments Canada's Payments Modernization program will position us to act on both direct to consumer as well as new business line innovation opportunities in our pipeline. As part of this journey, we are in the initial stages of engagement with Payments Canada and the broader industry to assess the potential to participate in Real-Time Rails (RTR) to improve how Canadians move money.

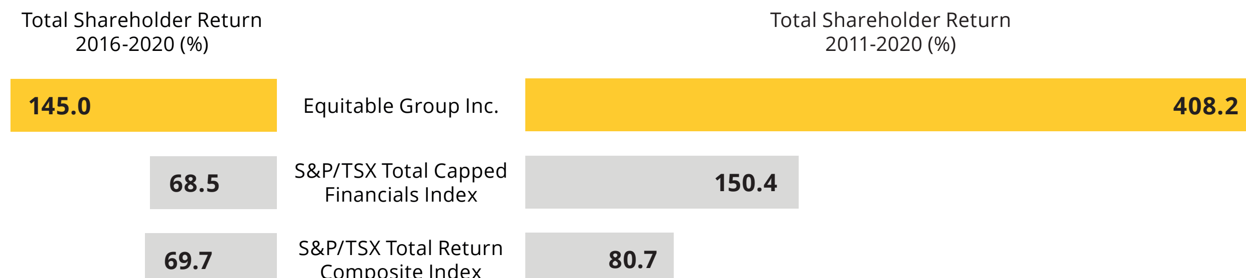
Equitable Bank is the only bank in Canada to host its digital core banking system in the cloud, giving us the advantage of scalability, reduced costs in the long run, enhanced security and agility to change our products and services quickly. The next round of innovation into cloud migration will begin in 2021 as Equitable Bank strives to achieve 100% cloud capability over the next three years. The agility of the cloud infrastrucutre is one of the main reasons why we were able to shift to a work-from-home model effectively within two weeks at the start of the COVID-19 pandemic lockdown in March 2020. We will continue to grow our digital platform and pursue opportunities that align with our strategy so that we are able to offer a banking ecosystem best fit for Canadians in all walks of life.

Shareholder returns

Equitable's performance is unequalled among its peers[1].

Total Shareholder Return

Equitable has delivered a Total Shareholder Return of 145% over the past five years, the highest of all the banks listed on the S&P/TSX Composite Index.

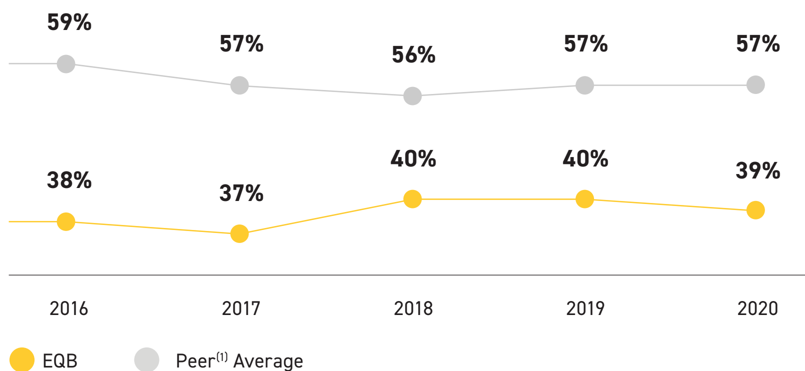


Return on Equity

Equitable has delivered an average Return on Equity of 15.4% over the past five years – higher than the average of all Schedule I banks listed on the S&P/TSX Composite Index.

Efficiency Ratio

Equitable is the most efficient Schedule I Bank of the nine Schedule I banks in Canada included in the S&P/TSX Composite Index, and the only one that operates entirely without a physical retail presence. Due to our branchless operating model, we have a low level of fixed expenses and a highly flexible cost structure.

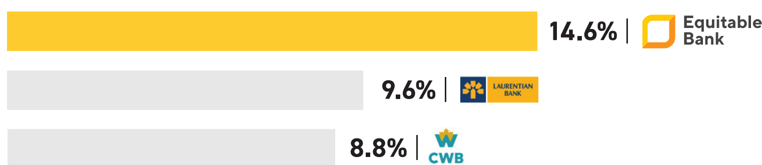


(1) Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank, Laurentian Bank and Canadian Western Bank.

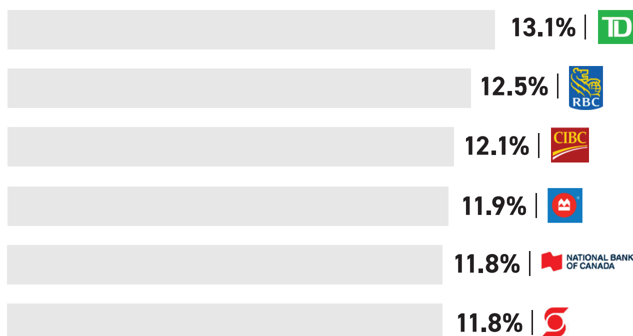
Capital Strength

We build capital to fuel our growth by retaining approximately 89% of our earnings – our retained earnings add approximately 50 basis points to our Common Equity Tier 1 (CET1) ratio each quarter. Equitable has the highest CET1 ratio of all Canadian publicly listed banks, including banks that have already converted to AIRB. AIRB banks tend to have lower risk weights than standardized banks for assets with the same risk.

Standardized

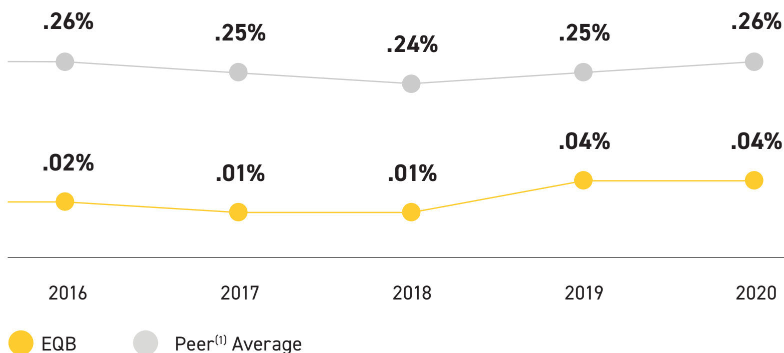


AIRB



Lowest credit losses to total loans

We have a mature risk management framework that guides all of our activities. The philosophy that underpins our approach is that we operate within a strict risk appetite and we will not stretch that appetite to achieve our growth objectives. Our rigorous framework has resulted in an average provision for credit loss rate of just 0.02% over the past five years - the lowest among all Schedule I banks listed on the S&P/TSX Composite Index.



Our industry-best performance is the direct result of the consistent application of our value creation method, our formula for delivering consistently high ROE while paying a relatively modest but growing dividend. Over the last five year period, Equitable's common share dividend increased at a CAGR of 14.3% and we reinvested the bulk of our earnings into the Bank to generate superior ROE.

(1) Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank, Laurentian Bank and Canadian Western Bank.

Capital, liquidity and funding

Capital

The Bank's capital position is fundamental to our future success. We evaluate our capital using the CET1 Ratio as defined by OSFI which measures the Bank's loss-absorbing ability relative to the size of our risk-adjusted asset base. We target a CET1 Ratio in the mid-point of our operating range of between 13% and 14%. At the end of 2020, our CET1 Ratio was above that range at 14.6%. The 100 bps increase in our CET1 Ratio during 2020 was driven by positive earnings, more modest risk-weighted asset (RWA) growth, portfolio insurance acquired on $687 million of Alternative single family loans, and restrictions imposed by OSFI on dividend increases and capital distribution. Our capital position remains the highest amongst Canadian banks, well above regulatory minimums, and positions us well for future growth. Relative to our target CET1 Ratio, the Bank is holding $118 million of excess capital or $6.99 per common share. This additional capital led to our 2020 ROE being suppressed by ~0.7%. Our stress testing and financial forecasts indicate that our capital is sufficient to withstand all modelled scenarios and will likely remain within or above our target range in 2021.

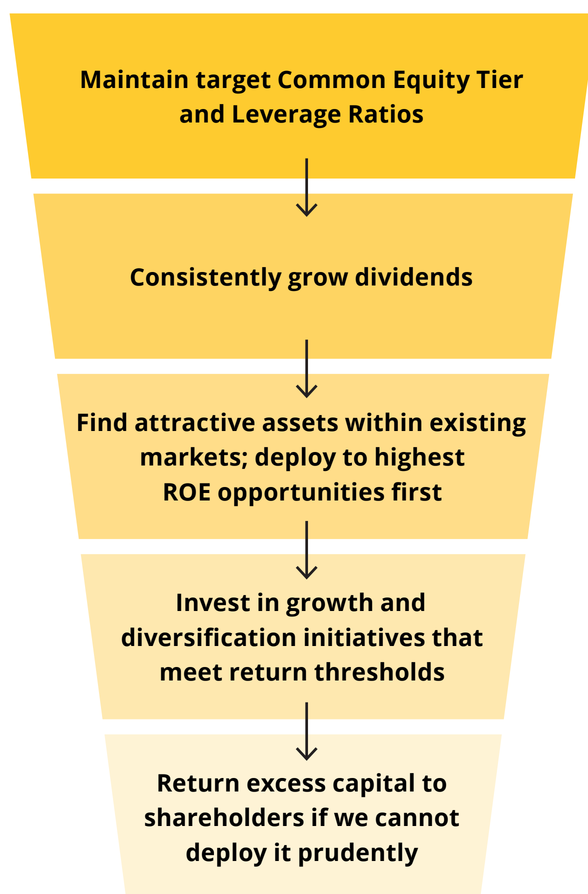
The transition to AIRB is an important step in the Bank's maturity and sophistication. We continue to advance this initiative with the objective of refining our risk rating models and capital allocation methodology, as well as filing our pre-application package with OSFI, in Q1 2022. Our objective is to transition to AIRB by early 2023. We note that setting objectives for obtaining regulatory approval to operate on an AIRB basis may include assumptions outside of the Bank's control, and that unforeseen delays may occur. The benefits of AIRB include improving the sophistication of our risk management, allocating appropriate levels of capital to our risks, introducing capital methodologies that enable us to compete more effectively across a broader range of assets, and free up more capital to further grow risk weighted assets in a prudent manner. Our ongoing analysis continues to confirm that AIRB has the potential to have a meaningful impact on our total RWA and related potential economic benefit to the Bank. This analysis suggests that our CET1 Ratio could improve by as much as 400 bps under AIRB after full adoption.

Capital deployment

We build capital to fuel our growth primarily by retaining most of our earnings. After paying a growing dividend, we have been able to profitably deploy this retained capital to achieve double-digit loan growth in our existing businesses. All of our loans must meet well-defined ROE thresholds and contribute to maximizing our overall risk-adjusted returns. A smaller, but still meaningful, amount of equity capital is also allocated to our innovation efforts each year.

Capital Management Framework

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



Change in Equitable Bank CET1 Capital Ratio (%)

In Q3 2019, Equitable announced its intention to grow its dividend at a rate between 20% and 25% for each of the next five years. Although these planned increases were put on hold in 2020 because of regulatory guidance from OSFI meant to support the financial and operational resilience of all federally regulated banks during the pandemic, the Board remains committed to returning to these dividend growth rates once regulatory restrictions are lifted. Our long-term forecasts indicate that even with this faster pace of dividend growth the Bank will retain sufficient capital to support strong business growth.

If high return growth prospects in any of our existing businesses ever demanded more capital than we produce organically, we would raise additional equity in the markets. Conversely, if we began to generate significant excess capital that we could not deploy prudently in our existing businesses, we would either seek new businesses – as we did in 2019 by acquiring Bennington – or return excess capital to our shareholders. Any capital return activities such as stock buybacks would be executed within defined parameters and with the goal of maximizing long-term shareholder value.

We intend to achieve our growth organically over the medium-term but will continue to examine non-organic growth opportunities that will enable us to achieve our strategic objectives, and continue to diversify our distribution capabilities and revenue sources. We intend to maintain access to the capital markets, so that we have the capacity to finance acquisitions that create value for our shareholders.

Normal course issuer bid

On December 21, 2020, Equitable Group announced that it received the approval of the Toronto Stock Exchange (the TSX) for a normal course issuer bid (NCIB) of up to 1,144,245 of its Common Shares and 297,250 of its Non-Cumulative 5-Year Rate Rest Preferred Shares Series 3, representing approximately 10% of its public float of each class of shares as at December 11, 2020. Equitable may purchase up to a maximum of 630,000 Common Shares under the terms of the NCIB.

At December 31, 2020, Equitable had purchased and cancelled 3,300 preferred shares at an average price of $24.91.

Liquidity and funding

Managing Equitable's liquidity and funding risk is a central focus. Our objective is to hold sufficient liquidity so that we remain well positioned to manage unexpected events that may reduce access to funding. Equitable monitors its level of liquidity by measuring liquid assets relative to the minimum requirements under its liquidity policy. These minimum requirements ensure adequate liquidity under both business-as-usual and contingent scenarios. At December 31, 2020, the Bank held liquidity in excess of its policy threshold. In addition, Equitable also measures liquidity as mandated by OSFI using the Liquidity Coverage Ratio (LCR) metric. At December 31, 2020, our LCR was well in excess of the regulatory minimum of 100%. From an absolute dollar perspective, Equitable increased its liquidity assets held for regulatory purposes to $2.8 billion from $1.7 billion, a 77% increase from a year ago. The increase in liquid assets was a result of higher near-term requirements and a shift in deposit mix.

Over the past several years, Equitable has expanded the breadth of its funding facilities and diversified its funding sources. In addition, the Bank joined other large Canadian financial institutions in ensuring access to the Bank of Canada's emergency funding programs implemented as a result of the pandemic. Our liquidity and contingent facilities include:

- two warehouse structures for insured prime and multi-unit residential mortgages provided by two of Canada's Big 6 banks,
- funding structure for uninsured single family residential mortgage provided by one of Canada's Big 6 banks,
- a contingent term repo facility which permits the repo of government and provincial guaranteed securities,
- access to the Bank of Canada sponsored (contingent) liquidity facilities intended to support the entire financial system
    - the Standing Term Liquidity Facility (STLF), a new liquidity facility launch in March 2020,
    - the Emergency Lending Assistance, a facility which permits the pledging of both insured and uninsured mortgages as well as marketable securities, a facility of last resort for institutions facing serious liquidity problems.

As a result of the continued strength of the Bank's liquidity position and access to diversified funding sources, 91% of which is held in cash and government/provincial guaranteed securities covering 54% of our demand deposits, and increasing access to funding sources, Equitable terminated its secured backstop funding facility effective December 11, 2020. As a result of this termination, all unamortized up-front costs associated with the facility were written off but were substantially offset by the standby fee savings during Q4 2020. The termination of the secured backstop funding facility is expected to reduce interest expense by $0.6 million a quarter in 2021.

Our Challenger Bank evolution has seen Equitable diversify its sources of funding beyond broker deposits and securitization and we expect this to continue. Our funding diversification efforts have yielded strong benefits with nearly 40% of our funding now coming from new sources including a deposit note program, deposits through strategic partnerships, and the tremendous success of EQ Bank, our innovative digital offering. All of these funding avenues have lowered our risk profile and positioned us well for continued balance sheet growth, all while still allowing us to offer very competitive deposit rates to our customers.

We continue to look for opportunities to grow and become more competitive, including the introduction of new products. Of significance, we believe the launch of a covered bond program in 2021 will further diversify our funding and have the added benefit of introducing a lower cost of funds relative to traditional broker deposits.

Economic and business outlook

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

Economic outlook

Due to the global resurgence of COVID-19 cases, global economic activity slowed at the end of 2020 despite strong recovery signals in the summer months and significant, ongoing fiscal and monetary stimulus. The arrival of vaccines in many countries is promising but widespread vaccinations will take time and, in the meantime, many countries, including Canada, will experience economic challenges due to business lockdowns. The Canadian economy is expected to grow between 3% to 5% in 2021 with the unemployment rate expected to stabilize around 8% by year-end. While bond yields are expected to rise with improvement in economic conditions, we expect the Bank of Canada overnight rate to remain at low levels for an extended period with annualized CPI at around 2% in 2021.

The two major trends that are expected to play a significant factor in the continued success of our business are urbanization and immigration. Over the past 75 years, Canadians have migrated in record numbers to large urban centres due to diverse and growing economic opportunities. While the pandemic has led some Canadians to move to smaller, rural communities to take advantage of the ability to work from home, we view this shift as temporary. Large urban centres will continue to provide diversity of economic opportunity which bodes well for employment and for our Bank which perceives higher risk in small, single-industry towns. Although immigration has temporarily slowed due to pandemic border entry restrictions, the Government of Canada is committed to welcoming more than 400,000 newcomers to Canada annually from 2021 to 2023. High levels of immigration will create demand for our products and unlock greater potential for our digital banking platform. Both trends will generally contribute to higher demand in the residential housing market. We remain positive on the outlook of the real estate market going into 2021 as forecasts for the House Price Index show it rising by at least 2%.

The impact of COVID-19 has accelerated the adoption of digital banking by Canadians. With a 10% growth in digital adoption in the first-round of 2020 lockdowns, well over 80% of Canadian customers now use online banking and over 60% mobile banking. The ease and convenience of digital has also led customers to interact more frequently with their banks, with over 50% interacting at least once a week compared to 32% two years prior. These trends all suggest Canadians are growing increasingly comfortable relying on digital banks to meet their needs, which reduces their dependence on physical bank branches. Moreover, the impact of the pandemic has also seen a 28% increase in the personal savings rate, with savings products that have flexible cash-out options up 31%. This has naturally brought greater awareness of the interest rates banks offer their customers on deposits as Canadians look to keep their savings in a secure and flexible account or savings vehicle.

Business outlook

For asset and revenue growth forecasts by business lines, refer to the Financial results summary and segment performance section.

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

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

- **Net Interest Margin:** NIM should remain flat or increase slightly from 2020 levels as margins within each of our businesses are expected to remain relatively consistent and we benefit from tailwinds from a lower rate on our EQ Bank deposits and the expected launch of our Covered Bond Program.
- **Provision for credit losses:** PCLs should decrease in subsequent quarters, assuming economic forecasts stabilize or improve with the reopening of the Canadian economy and borrower behaviour is consistent with what our credit loss models anticipate. If economic forecasts worsen or our borrowers react more negatively than expected to credit stress, provisions could be elevated in future quarters. The duration and depth of the economic contraction, as well as the positive impact of government support initiatives, will be the key determinants of the loan losses that we ultimately realize.
- **Loans growth:** We expect loan growth to be between 6% and 10%. We describe our growth expectations for individual loan categories in detail in the Financial results summary and segment performance section.
- **Efficiency ratio:** Non-interest expenses are expected to be higher than 2020 due to catch up on investment and significant value creating opportunities. We are committed to positive operating leverage and efficiency ratio to be between 39% to 41% in 2021.
- **Employee engagement:** Over the years, Equitable has been recognized as an employer of choice, most recently as one of the Best Workplaces™ in Canada by Great Place To Work® for the year 2020-21. The wellbeing of our employees and engagement excellence will remain areas of focus in 2021.

Medium-term objective	
Adjusted ROE	15%-17%
Adjusted Earnings per Share EPS Growth	12%-15%
Dividend Growth	20%-25%
CET1 Ratio	13%-14%

As we continue to execute on our strategic plan and follow our vision as Canada's Challenger Bank™, we remain focused on capital and risk management. Our decisions are guided not just by short-term financial returns but by a longer-term view that protects our depositors and builds value for our shareholders. We are determined to avoid the reputational and regulatory issues that many banking industry participants have faced around the globe.

Capital

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

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

Risk management

Management consistently manages credit risk through the application of prudent lending practices. Like many observers, Equitable has a constructive view on the Canadian residential real estate market while acknowledging that depressed commodity prices do represent elevated risk in certain regional markets. We expect credit loss provisions on our mortgage book to remain low

or reverse in 2021 as expectations for credit losses subside, assuming the Canadian economy continues its road to recovery. Mortgage arrears rates in our single-family book are expected to remain low – these levels may have been positively influenced by the mortgage deferral program in early 2020, which provided customers in need with time to restore their sources of income.

In 2020, our alternative lending group made a deliberate decision to further strengthen the credit risk position of the portfolio. In this respect, we targeted for lower loan-to-value (LTV) and focused on underwriting on sustainability of income in the face of pandemic uncertainties. This strengthened the quality of our portfolio but led to a relative decrease in market share. We anticipate that the mid-term annualized loss rate for the entire Bank to remain in the range of 3 to 7 basis points given the credit exposure on the Bennington equipment leasing portfolio.

Significant development – COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The disruptive effects were felt immediately across Canada. Equitable responded quickly and in a comprehensive, thoughtful manner. At the time of writing, uncertainty regarding the path of the virus and its effects on economic behaviour remain elevated, making economic projections highly conditional on assumptions about the timing of vaccine rollouts in Canada. In its January 2021 Monetary Policy Report, the Bank of Canada projected that the Canadian economy will grow by 4% in 2021 and almost 5% in 2022 after declining in 2020. Based on record financial performance achieved in 2020, we remain optimistic about Equitable's growth and earnings prospects due to the structural advantages of operating as a digital and branchless bank with diversified sources of revenue. In particular, we believe the pandemic accelerated consumer demand for and use of digital banking services, which is adding momentum to EQ Bank.

Ensuring Employee Safety and Business Continuity

By March 16th, 95% of our employees moved to a work-from-home model where they maintained a business-as-usual customer service operation with full access to our technologies. This proved to be important as customer inquiries and requests for support quickly escalated with the first lockdown in March 2020. Reflecting the dedication and resiliency of our team, and the strength and reliability of our IT backbone, productivity remains high even as we head into the second year of the pandemic with employees continuing to productively work from home. To help employees cope with the stress that accompanies a health and economic crisis of this nature, Equitable reinforced its health support system within its broader employee health and wellness programs. We also made it clear that we had no intention of engaging in layoffs, although we did act decisively in deferring new hiring and reducing discretionary spending.

Serving Customers

Canada's Challenger Bank™ plays an important role for customers by providing a safe place to store value and by lending capital to help people buy homes and build businesses through our Personal and Commercial bank operations. Through the year and the pandemic lockdowns, the Bank continued to lend and continued to pay high rates of interest on our conveniently accessible savings products.

As a result of a rapid increase in unemployment, Canadian banks including Equitable responded by offering some of our customers the opportunity to defer their loan payments if the pandemic interrupted their incomes. We also offered to restructure loans to be interest-only as a means of providing short-term help. Support of this nature was intended to allow customers time to seek other employment/sources of income before returning to their regular payment schedules. Deferrals represented a relatively modest increase in risk to the Bank that dissipated as the year progressed. The Bank deferred loan payments for 18,700 customers, representing 20% of our mortgage portfolio. This number declined to 44 customers and 0.03% of lending portfolio as of December 31, 2020, with almost all customers resuming payments in advance or per scheduled deferral timelines.

Maintaining Lending Activities and Managing Credit Risk

The Bank continued to lend in all asset categories in 2020 on the belief that we could play a constructive role in providing liquidity to the Canadian economy. However, we took various actions to shape our asset growth:

- we increased focus on insured lending with higher originations in both our single-family and multi-family lines
- we temporarily tightened loan-to-value ratio requirements at the outset of the pandemic for uninsured assets which slowed the rate of growth in certain segments of our portfolio
- we monitored the performance of all credit exposures more tightly than normal

In response to economic forecasts at the time and based on results from our expected credit loss estimation framework, we increased our PCLs in Q1 and Q2 2020. Our balance sheet credit loss reserves, or allowances, increased materially to reflect the state of the economy at that time. The increase in our allowance – which drove higher PCLs – related to performing loans (Stage 1 and 2). We model these expected losses based on our current book of business and macroeconomic forecasts provided by a recognized third party. At year-end, positive changes in economic forecasts allowed us to reduce our allowances for performing loans, which led to some reversal of Stage 1 and 2 provisions.

Financial results summary and segment performance

Performance against 2020 strategic priorities

Equitable generated all-time record earnings in 2020 as we continued to execute on our strategic priorities. These results reflect growth across our diversified loan portfolio, the effectiveness of our risk-managed underwriting, and vigilance in maintaining an efficient operating cost structure. Equitable is also rapidly building franchise value from its *EQ Bank* platform through a $1.9 billion increase in deposits in the year and an 82% increase in *EQ Bank* customers to over 173,000

Strategically, operationally and financially, 2020 was substantially productive.

- Net income grew by $17.3 million or 8% in 2020 to almost $224 million, a new record.
- Diluted EPS grew 8% to $12.95, also a new record.
- Q4 2020 ROE was 18.2%, reflecting the Equitable value creation approach which has delivered consistently high ROE for over a decade
- Book value per share grew 12.4% to $93.35.
- Common share dividends declared increased 15% to $1.48 per share prior to a regulatory moratorium on dividend increases by Canadian banks
- Capital ratios exceeded the upper end of our target range providing important capacity for future growth
- Realized losses remained low at 4bps of total assets or $13.0 million

Reported results exclude the impact of $6.6 million of net mark-to-market gains on loans and gains on certain security investments and derivative financial instruments. Excluding these items, performance was still best ever. Adjusted EPS and ROE were $12.66 and 14.5%, respectively, compared to $12.29 and 15.9% in 2019. This performance was mainly attributable to higher NII driven by 11% average asset growth. The $7.2 million of amortization of insurance premiums net of funding cost savings on $687 million of Alternative single family mortgages portfolio insured in Q2 2020, and higher gains on our securitization activities as we purposefully increased insured mortgage originations during a wider-spread environment partially offset the positive impact of asset growth on NII.

Our accomplishments in 2020, coupled with ongoing strategic investments, lay the foundation for more success in future years.

Items of note

Our 2020 financial results were impacted by the following item:

- $6.6 million of net mark-to-market gains on certain investments, loans, and securitization-related derivative positions.

Our 2019 financial results were impacted by the following items:

- $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
- $1.6 million of net mark-to-market losses on certain investments and securitization-related derivative positions.

Dividends

Common share dividends

On February 22, 2021, the Bank's Board declared a quarterly dividend of $0.37 per common share, payable on March 31, 2021, to common shareholders of record at the close of business on March 15, 2021.

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

Preferred share dividends

On February 22, 2021, the Board declared a quarterly dividend of $0.373063 per preferred share, payable on March 31, 2020, to preferred shareholders of record at the close of business on March 15, 2021.

Strategic Objectives for 2020	Accomplishments
Expand and enhance *EQ Bank*	• Grew *EQ Bank* deposits to $4.6 billion, an increase of $1.9 billion or 71% • Expanded our *EQ Bank* depositor base by 82% year over year to over 173,000 customers, with over 24,500 customers signing up in Q4 2020 • Launched *Joint Savings Plus, TFSA* and *RSP* accounts, adding value and customer convenience • Increased the number of currencies offered through our innovative and cost-effective international money transfer service to more than twice of the initial offering • Created a new digital customer referral program helping to drive an increase in account sign ups • Experienced a substantial increase in customer engagement measured by use of services each month and the number of products held by each customer
Grow our existing businesses with superior service and innovation	• Grew our Retail loan portfolio by 6%, driven by 20% growth in our Prime single family business • Increased our Commercial loan portfolio by 7% year-over-year, led by our conventional commercial portfolio • Increased deposits from strategic partnerships year over year by $90 million or 15% to $693 million • Successfully raised $450 million through the issuance of 3-year and 5-year deposit notes on favourable terms and with the broad investor participation • Introduced Equitable Trust HISAs through the wealth management channel; and USD denominated HISAs and GICs to our broker market
Further diversify through our leasing, reverse mortgage, and CSV loan businesses	• Grew our decumulation lending product balances by nearly three-fold since last year • Grew our equipment leasing portfolio by 13% to $559 million over the prior year as market activity accelerated in the latter half of 2020 • Introduced direct to consumer as a channel for reverse mortgages and launched reverse mortgages flex product which allows up to 55% loan-to-value
Pursue AIRB and improve sophistication of our capital management	• Advanced our AIRB program with a commitment to its implementation in early 2023 • Reported a CET1 Ratio of 14.6%, up from last year by 100 bps and above the top end of our target range • Terminated our secured backstop funding facility of $400 million as we strengthened our liquidity position and added other funding sources
Enhance our capabilities through technology and people	• Recognized as one of the Best Workplaces™ in Canada by Great Place To Work® for the year 2020-21 • Won the Celent 2020 Model Bank Award for Banking in the Cloud • Continued to make enhancements to our cloud infrastructure and other applications supporting our EQ Bank platform • Sustained an industry leading Efficiency Ratio of 38.4% while investing significantly in digitization initiatives

Personal Banking

Personal Banking operates through three businesses lines – EQ Bank, Residential Lending, and Wealth Decumulation. Our businesses serve customers with products and services both for their day-to-day and long-term financial needs. Our commitment is to serve customers – including newcomers to Canada – with valued products across all stages of life regardless of employment status. This includes students, the self-employed, entrepreneurs, high-net worth individuals, Canadians seeking retirement management solutions and retirees. We specifically look for opportunities to create better banking experiences and to address segments underserved by other financial institutions. Our competition varies widely across each business line and can include the Schedule I banks, digital banks, trust companies, mortgage finance companies and other financial services providers.

The table below summarizes key portfolio metrics at year end December 31, 2020 and provides our 2021 Outlook for growth.

		Portfolio size	Y/Y Growth	2021 Outlook
EQ Bank	Deposits	$4.6 billion	71%	20-30%
Single Family Residential Lending	Prime mortgages	$8.2 billion	20%	12-15%
	Alternative Mortgages	$11.1 billion	-3%	5-8%
Wealth Decumulation	Reverse Mortgages	$0.06 billion	194%	100%+
	Cash Surrender Value Loans	$0.03 billion	1000+%	

In 2020, key milestones included:

- Launched a suite of new payment and registered account solutions within the EQ Bank platform
- Introduced joint savings accounts within the EQ Bank platform in Q3 of 2020
- Achieved record volume in Prime business with originations up 33% Y/Y
- Introduced two new products in the wealth decumulation business line, and expanded distribution including doubling the number of Cash Surrender Value (CSV) partner advisors

Strategic Objectives for 2021	Description
Grow core assets	• Increase alternative mortgages commitment rate • Launch new origination and servicing programs to increase fee income
Grow adjacent assets through expanded distribution	• Launch direct to consumer online application capabilities for select products • Continue to build the breadth and depth of broker and partner relationships
Stronger direct customer relationships	• Launch new products and several product variations • Improve customer experience and engagement

Outlook

EQ Bank

Equitable Bank's digital banking platform experienced strong growth in 2020. We expect the trend to continue and for our deposit base to grow at a lower account acquisition cost. The main factor for growth will be the consistency of our value proposition and expansion of that proposition into a broader ecosystem of banking products. COVID-19 has also changed consumer perception around the digital world, stimulating consumer interest. This may play a positive role in the growth we achieve in 2021. Canadians are saving more and we believe our competitive deposit rates along with the speed and functionality of our technology will continue to capture marketplace attention. The savings rate in Canada is now at 14.6%, vs the 5-year average of 5.0%. Equitable will also focus on efficient marketing campaigns and products including USD accounts, loan origination, and payment functionality that resonate with a wide variety of consumer groups.

Residential Lending

The Bank continues to see strength in volume and spreads in residential lending. Equitable believes the recent surge in demand for housing demonstrated the resilience of the market. From a macroeconomic perspective, the Bank of Canada is expected to keep overnight rates low in 2021 resulting in record low mortgage rates and stimulating origination growth. Equitable is the leader in the Canadian Alternative mortgage market lending to self-employed and other Canadians that have the capacity and character to reliably pay their mortgages but do not meet the credit criteria of the major banks. Alternative lending is an important line of business for the Bank and its earnings and we expect its growth to resume in 2021 as the economic growth resumes. We also expect growth in prime, insured mortgages sectors with expanded distribution channels and increased conversion rates. The prime business generates a strong return on capital, but, is less important to the overall profitability of the Bank than the Alternative business. The integration of and investment in new technologies will enhance customer experience and efficiencies within our business.

Wealth Decumulation

Equitable Bank has driven strong growth in its Reverse Mortgage and Cash-Surrender Value Loans businesses. Growth in originations and book value of assets has outpaced internal objectives and we believe that as we deepen our understanding of the market need and build distribution partnerships and capabilities, we are poised for rapid growth in this part of our franchise. From a demographic standpoint, Canada's aging population presents strong growth opportunities for our Challenger Bank solutions. Equitable plans to capture a larger share of the market in 2021 by introducing new products and referral programs, and through digital marketing efforts that cater to specific groups. The CSV business line will also be enhanced by integrating two major insurance companies in 2021.

Commercial Banking

Commercial Banking operates through five businesses lines – Business Enterprise Solutions, Commercial Finance Group, Multi-unit Insured, Specialized Finance, and Equipment Leasing. Our businesses compete based on service excellence, the breadth and strength of our partnerships, and our in-depth knowledge of target markets. Our competition varies widely across each business line and can include the large banks but more commonly smaller banks, credit unions and other independent financial institutions and lenders.

Commercial Banking experienced strong growth in 2020 despite the challenges posed by COVID-19. The table below summarizes key portfolio metrics at year end December 31, 2020 and provides our 2021 Outlook for growth.

		Portfolio size	Y/Y Growth	2021 Outlook
Business Enterprise Solutions	Loans to entrepreneurs and SMEs*	$0.9 billion	8%	5-8%
Commercial Finance Group	Loans to institutional and corporate investors	$3.2 billion	11%	12-15%
Multi-Unit Insured**	CMHC Insured Real Estate Mortgages	$3.8 billion	3%	Flat
Specialized Finance	Total Loans	$0.3 billion	21%	20-25%
Equipment Leasing	Total Loans	$0.6 billion	13%	1-4%

The opportunity in Equitable's commercial real estate lending business is created by the long-term fundamental shifts in Canadian society, namely: increasing population, demand for housing units and densification in Canada's major cities; the need to build housing to support an ageing population; the growth of the self-employed sector; and increased demand for industrial space to support distribution and logistics businesses. The Bank's lending philosophy includes a requirement to be secured in a first lien position, making credit decisions with an eye to both the value and underlying cash flow of the property and having the support of guarantees from the investors and entrepreneurs that are our customers. The Bank partners with a number of commercial lenders who lend in subordinate position to Equitable where the customer requires more leverage than fits the Bank's risk appetite. Our focus on resilience of collateral values results in the Bank having limited appetite for lending on real estate with a unique purpose, where specialized skills are required to operate the facility or where significant ongoing investment is required to maintain the value of the property. This approach gives us a low appetite for lending on hotels.

Given our overall view on commercial lending, the Bank's real estate loans tend to be concentrated in multi-family residential property with this category making up 67% of our commercial loans of which 65% are insured against credit loss by CMHC. These loans include apartment buildings that provide appropriate accommodation for empty nesters and retirement residences. Approximately 5% of our commercial loans are on mixed use real estate which typically is located in major urban centres and consists of commercial units on the ground floor with residential living units located on the upper floors.

Non-residential real estate makes up 19% of our commercial loan book and is comprised of mortgages on industrial, office, retail and other types of commercial property.

- **Industrial:** We see opportunity to lend on mortgages on industrial property close to major urban centres that has high demand to serve growing populations. In particular, we see increasing demand for self-storage facilities, which we classify as industrial property, as people move from larger homes to living in condominiums and apartment buildings.

*Small or medium-sized enterprises. **Multi-unit Insured include only on balance sheet.

- **Office:** Most of the loans in the office sector are for smaller office condominiums and freestanding office buildings that may have tenants that include medical services, financial services and other businesses serving the local community. The Bank has only a modest exposure to larger office complexes.
- **Retail:** The Bank's appetite for loans on retail property is mainly related to loans on smaller retail units in dense urban centres that will benefit from increased urban densification and higher foot traffic. We have concerns about the impact of ecommerce on traditional shopping centres and big box stores and have little interest lending on this type of real estate.
- **Other:** We support our developer customers by lending on real estate where the highest and best use is to be redeveloped with more modern structures. In many cases, this real estate has positive cash flow from rental income in advance of development permits being obtained and construction financing being put in place.

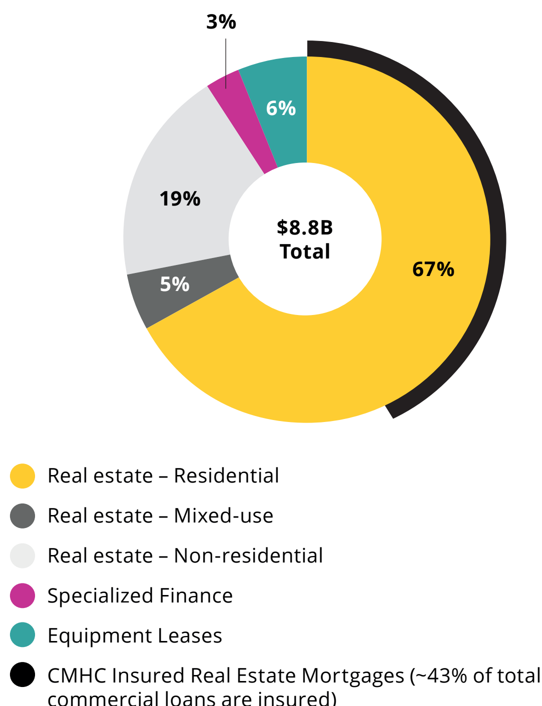
Three percent of our commercial loan book is comprised of Specialized Finance. These loans involve lending to mortgage investment corporations and other specialty lenders that have a solid history of performance backed by prudent lending formulas and where we benefit from strong collateral coverage consisting of senior secured positions over diversified pools of mortgages and loans.

Equipment leases make up six percent of our commercial loan book with Bennington serving small businesses across Canada. The majority of these leases are secured against transportation equipment. Leasing decisions focus on the quality and marketability of the equipment and the performance and stability of the lessee. Bennington may take additional collateral security, including on real estate, to enhance the credit profile of its book.

Equitable's expertise and approach to commercial real estate lending has resulted in strong credit performance. The realized annual loss on our commercial real estate portfolio has averaged 0.25 basis point over the past five years. While idiosyncratic losses on individual commercial real estate loans are always possible, we have confidence that this portfolio will continue to perform strongly from a credit perspective and this business provides Equitable an excellent opportunity for portfolio growth within the Bank's conservative risk appetite.

Our Specialized Finance business has never incurred a credit loss and, given the structure of these transactions, we do not anticipate losses in the future. The business model of our equipment embeds an expectation of credit losses of between 1.5% to 2% of the portfolio per annum with these expected losses being built into our pricing approach to drive attractive returns for the Bank.

The breakdown of our commercial loan book by industry type is depicted in the graphic below



- Real estate – Residential
- Real estate – Mixed-use
- Real estate – Non-residential
- Specialized Finance
- Equipment Leases
- CMHC Insured Real Estate Mortgages (~43% of total commercial loans are insured)

In 2020, key milestones included:

- Business Enterprise Solutions overall loan portfolio increased 8% Y/Y
- Commercial Finance Group saw originations up 18%, and the overall loan portfolio increase 11% Y/Y
- Multi-Unit Insured grew 3%, impacted by the high level of Canada Mortgage Housing Corporation (CMHC) insured originations that were de-recognized during the year
- Specialized finance commitments were up 52% Y/Y

Strategic Objectives for 2021	Description
Grow core assets	• Build the breadth and depth of broker and partner relationships by delivering exceptional service • Build capabilities and leverage market opportunities of CMHC insured construction and term lending • Enhance service levels by increased digitization of core underwriting processes
Grow adjacent assets through expanded distribution	• Leverage established specialized expertise to grow lending to other lenders • Build internal capabilities and technology solutions to deliver outstanding service
Stronger direct customer relationships	• Increase direct client origination and deepen relationships through expanded distribution and building internal capabilities

Outlook

Commercial Finance Group

Equitable Bank's Commercial Finance Group experienced strong growth in 2020 despite the challenges of the pandemic and resulting economic downturn. Core assets grew despite our decision to tighten lending parameters in early 2020. The multi-unit real estate market has continued to be strong. Opportunities in short- term bridge loans, CMHC insured and uninsured construction lending and long term financing are expected to continue into 2021. Equitable believes that growth can continue with the gradual recovery of the economy. The Commercial Finance Group's focus on building the breadth and depth of partner relationships is expected to drive continued success in 2021 and beyond. A strategic objective is also to build more direct business by leveraging our deep real estate expertise and market knowledge.

Business Enterprise Solutions

Business Enterprise Solutions provides commercial real estate solutions for small businesses. Growth in 2020 was heavily impacted by COVID-19 and the general slowdown in the economy. As the pandemic subsides and the economy improves, we expect volume to normalize and the general levels of purchase and refinancing activity in the small multi-family and commercial sectors will increase.

Multi-Unit Insured

The Multi-Unit Insured business ended 2020 with slight growth. The origination of multi-unit insured loans are limited under the Canada Mortgage Bond (CMB) program by the allocation of limits by CMHC to each lender. With the level of market activity anticipated and our strong partnerships, we anticipate high utilization of available CMB capacity in 2021.

Specialized Finance

Specialized Finance experienced strong growth in commitments in 2020. This led to loan growth but not at the levels expected as the utilization of facilities was impacted by the pandemic and economic slowdown. Equitable's focus is on providing outstanding lending solutions to other lenders. With the continued expansion of capabilities and a strong pipeline of new opportunities, higher loan growth is anticipated in 2021.

Equipment Leasing (Bennington Financial Group)

Bennington Financial provides unique and innovative commercial vehicle and equipment leasing services to small businesses across Canada. It is anticipated that as the pandemic subsides, recovery in the economy and small business growth will lead to improved originations.

Financial review – earnings

Table 1: Income statement highlights

($000s, except per share amounts)	2020	2019	Change	
Net income	**223,804**	206,479	17,325	8%
Adjusted net income	**218,981**	211,890	7,091	3%
EPS – diluted	**12.95**	11.97	0.98	8%
Adjusted EPS – diluted	**12.66**	12.29	0.37	3%
Revenue	**556,833**	497,064	59,769	12%
Provision for credit losses	**42,280**	18,394	23,886	130%
Non-interest expenses	**214,060**	199,573	14,487	7%

Net interest income

NII is the main driver of the Bank's profitability. Table 2 details the Bank's NII by product and portfolio.

Table 2: Net interest income

($000s, except percentages)	2020			2019		
	Average Balance	**Revenue/ Expense**	**Average rate[1]**	Average Balance	Revenue/ Expense	Average rate[1]
Revenues derived from:						
Cash and equivalents	**1,875,950**	**22,509**	**1.20%**	1,435,296	28,881	2.01%
Equity securities	**114,278**	**6,374**	**5.58%**	123,753	6,105	4.93%
Alternative single family mortgages	**11,313,808**	**532,981**	**4.71%**	11,065,617	539,039	4.87%
Prime single family mortgages	**7,417,506**	**155,678**	**2.10%**	6,065,959	146,271	2.41%
Decumulation loans	**48,939**	**2,206**	**4.51%**	11,152	654	5.85%
Total Personal loans	**18,780,253**	**690,865**	**3.68%**	17,142,728	685,964	4.00%
Conventional commercial loans	**4,185,720**	**237,876**	**5.68%**	3,838,503	231,796	6.04%
Equipment leases	**502,608**	**55,306**	**11.00%**	456,910	53,095	11.62%
Insured multi-unit residential mortgages	**3,866,261**	**108,735**	**2.81%**	3,524,862	110,969	3.15%
Total Commercial loans	**8,554,589**	**401,917**	**4.70%**	7,820,275	395,860	5.06%
Average interest earning assets	**29,325,070**	**1,121,665**	**3.82%**	26,522,052	1,116,810	4.21%
Expenses related to:						
Deposits	**15,739,574**	**364,047**	**2.31%**	14,566,963	385,197	2.64%
Secured backstop funding facility[2]	**-**	**2,483**	**N/A**	-	4,947	N/A
Securitization liabilities	**11,214,298**	**250,690**	**2.24%**	10,033,573	256,364	2.56%
Others	**608,177**	**7,039**	**1.16%**	322,902	7,654	2.37%
Average interest bearing liabilities	**27,562,049**	**624,259**	**2.26%**	24,923,438	654,162	2.62%
Net interest income and margin		**497,406**	**1.70%**		462,648	1.74%

NII was up $34.8 million or 8% year-over-year due to 11% growth in average balances and despite a 4 basis points decrease in total NIM.

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

Table 3: Factors affecting 2020 vs 2019 NIM

	Impact (in bps)	Drivers of change
Business mix	(7)	• Asset mix shift towards lower spread Prime mortgages and lower yielding cash and equivalents • Funding mix shift towards EQ Bank deposits and deposit notes which were offered at a higher rate compared to broker deposits originated during the year
Bulk insurance amortization	(2)	• Premiums (net of funding cost benefits) related to the $687 million of Alternative single family loans insured in Q2 2020
Rates/spread[1]	1	• Higher spreads on Personal and Commercial mortgages originated over the past year • Lower rate of interest on our EQ Bank deposits compared to a year ago • Lower rate of interest on our recently issued deposit notes, *offset in part by*: • Timing and basis differences on the reset of interest rates on our variable rate, securitized assets and liabilities in Q2 2020 • Lower interest rates on our liquid asset balances
Prepayment income	1	• Higher levels of early discharge in both Alternative single family mortgages and Insured multis
Backstop funding facility fees	1	• Lower fees associated with our secured backstop funding facility
Other	2	• FV adjustments and other
Change in Total NIM	(4)	

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

Provisions for credit losses (PCL)

Table 4: Provisions for credit losses

($000s, except per share amounts)	2020	2019	Change	
Stage 1 and 2 provision	**30,788**	8,073	22,715	281%
Stage 3 provision	**11,492**	10,321	1,171	11%
PCL[1]	**42,280**	18,394	23,886	130%
PCL – rate[2]	**0.15%**	0.07%	N/A	0.08%

(1) Total provisions in 2019 include a one-time charge under IFRS 9 on the acquisition of the Bennington leasing business. Adjusted for this charge, the PCL and PCL – rate would have been $12,645 and 5 basis points respectively.(2) See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.

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

During the year, we increased our allowance for loans categorized as Stage 1 and Stage 2 (performing loans) in light of a COVID-19 driven deterioration in macroeconomic forecasts, resulting in elevated Stage 1 and 2 provisions in our income statement. Stage 3 provisions – those related to impaired loans – were also up from prior year mainly due to higher non-performing lease write-offs, offset in part by lower provisions on our mortgage portfolio. Stage 3 reversals within our leasing business were attributable to a decline in impaired lease formations in the latter part of 2020.

Non-interest income

Table 5: Non-interest income

($000s, except percentages)	**2020**	2019	Change	
Fees and other income	**22,409**	22,276	133	1%
Income from successor issuer activities	**180**	1,579	(1,399)	(89%)
Net gain (loss) on loans and investments	**7,221**	(973)	8,194	842%
Securitization activities:				
Gains on securitization and income from retained interests	**30,183**	11,703	18,480	158%
Fair value losses on derivative financial instruments	**(566)**	(169)	(397)	(235%)
Total	**59,427**	34,416	25,011	73%

Non-interest income increased compared with 2019, mainly due to:

- An increase in gains on securitization and income from retained interests, due to higher derecognition volumes and a higher gain on sale margin. The increase in margin was driven by wider-spread multi-unit residential mortgages originated in 2020 during the funding market disruption. The spread on loans may be priced several months in advance resulting in a lag in these wider spreads being recognized in the financial performance of the Bank; and
- Net mark-to-market gains on loans and certain security investments compared to losses in the prior year;

Offset by:

- Reduced income from successor issuer activities, representing income earned on certain assets we acquired from Maple Bank in Q4 2016; and
- Higher unrealized fair value losses on derivative financial instruments related to securitization activities.

Non-interest expenses

Table 6: Non-interest expenses and efficiency ratio

($000s, except percentages and employees)	**2020**	2019	Change	
Compensation and benefits	**108,185**	101,651	6,534	6%
Technology and system costs	**36,878**	32,276	4,602	14%
Product costs	**21,237**	16,279	4,958	30%
Regulatory, legal and professional fees	**19,441**	19,518	(77)	(0%)
Marketing and corporate expenses	**17,429**	20,955	(3,526)	(17%)
Premises	**10,890**	8,894	1,996	22%
Total	**214,060**	199,573	14,487	7%
Efficiency Ratio	**38.4%**	40.2%	N/A	(1.8%)
Full-time employee (FTE) – period average	**890**	828	62	7%

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, even after taking into account the scale of our operations. Our Efficiency Ratio for the year was 38.4% compared to 40.2% a year ago. Our Efficiency Ratio improved because of our efforts to curtail spending (numerator) and growth in revenue (denominator) both derived from asset growth and higher non-interest income driven by higher gains on securitization.

Total operating expenses increased compared to 2019 mainly due to:

- Higher compensation and benefits costs, resulting from several factors including a 7% increase in our FTE, annual inflationary adjustments, and year-end performance payouts.
- An increase in product costs, mainly driven by amortization of investments in projects completed over the past 12 months and higher transaction costs attributable to HISA growth of 21% and EQ Bank's referral program launched in Q2 2020;
- Growth in technology and system costs mainly for the support, maintenance, and enhancement of our core banking systems and the EQ Bank platform including additional initiatives taken for implementing a work-from-home model during the pandemic; and
- An increase in premises costs due to office expansion earlier in the year;

Offset by:

- Lower marketing expenditures as we increased focus on lower cost, more targeted digital marketing campaigns in 2020 compared to 2019 when we engaged in an extensive campaign to promote EQ Bank and its products.

Financial review – balance sheet

Table 7: Balance sheet highlights

($000s, except percentages)	**2020**	2019	Change	
Total assets	**30,746,318**	28,392,452	2,353,866	8%
Loan principal – Personal	**19,306,186**	18,250,574	1,055,612	6%
Loan principal – Commercial	**8,851,167**	8,259,779	591,388	7%
Deposit principal	**16,376,011**	15,231,888	1,144,123	8%
EQ Bank deposit principal	**4,555,606**	2,666,551	1,889,055	71%
Total liquid assets as a % of total assets[1]	**9.5%**	6.0%	N/A	3.5%

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

Total assets increased by $2.4 billion or 8% from last year driven by growth in both our Personal and Commercial lending businesses and higher liquid asset balances.

Total loan principal

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

Table 8: Loan principal by lending business

($000s, except percentages)	**31-Dec-20**	31-Dec-19	Change	
Personal Lending				
Alternative single family mortgages	**11,050,456**	11,415,214	(364,758)	(3%)
Prime single family mortgages	**8,170,752**	6,813,331	1,357,421	20%
Decumulation loans	**84,978**	22,029	62,949	286%
Total Personal – on Balance Sheet	**19,306,186**	18,250,574	1,055,612	6%
Commercial Lending				
Conventional commercial loans	**4,466,513**	4,039,938	426,575	11%
Equipment leases	**558,987**	496,056	62,931	13%
Insured multi-unit residential mortgages	**3,825,667**	3,723,785	101,882	3%
Total Commercial – on Balance Sheet	**8,851,167**	8,259,779	591,388	7%
Total Loans – on Balance Sheet	**28,157,353**	26,510,353	1,647,000	6%
Insured multi-unit residential mortgages – derecognized	**5,189,264**	4,612,901	576,363	12%
Total Loans – off Balance Sheet	**5,189,264**	4,612,901	576,363	12%
Total Loans Under Management	**33,346,617**	31,123,254	2,223,363	7%

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

($000s, except percentages)	**As at or for the year ended December 31, 2020**		
	Personal	**Commercial**	**Total**
2019 closing balance	**18,250,574**	**8,259,779**	**25,510,353**
Originations	**5,853,469**	**4,219,089**	**10,072,558**
Derecognition	**-**	**(1,251,960)**	**(1,251,960)**
Net repayments	**(4,797,857)**	**(2,375,741)**	**(7,173,598)**
2020 closing balance	**19,306,186**	**8,851,167**	**28,157,353**
% Change from 2019	**6%**	**7%**	**6%**
Net repayments percentage[(1)]	**26.3%**	**28.8%**	**27.1%**
($000s, except percentages)	As at or for the year ended December 31, 2019		
	Personal	Commercial	Total
2018 closing balance	16,102,163	7,324,529	23,426,692
Originations	5,781,058	4,112,811	9,893,869
Derecognition	-	(891,723)	(891,723)
Net repayments	(3,632,647)	(2,285,838)	(5,918,485)
2019 closing balance	18,250,574	8,259,779	26,510,353
% Change from 2018	13%	13%	13%
Net repayments percentage[(1)]	22.6%	31.2%	25.3%

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

Total on-Balance Sheet loan principal increased by $1.6 billion or 6%, driven by growth in both our Personal and Commercial businesses.

Growth within our Personal business was primarily driven by Prime single family loans. These loans grew $1.4 billion or 20% year-over-year as a result of our strategic decision to provide liquidity to the Canadian economy through support of the Prime insured mortgage market and continued progress towards building our internal originations as well as growth in mortgages sourced through third parties. Our internal Prime business generated all-time record annual origination volumes, as we continued to expand our market reach. We sourced $1.5 billion of Prime insured mortgages from third parties in 2020 (2019 – $1.3 billion).

Alternative single family loan principal was down by 3% due to lower originations in Q2 and Q3, in response to our reduced risk appetite at the onset of the COVID-19 pandemic. Based on the resilience of the housing market in the latter half of the year, we steadily and cautiously increased our risk appetite and in Q4, our originations returned to pre-pandemic levels. Attrition levels over the past 12 months have been in-line with historical averages but above the rates experienced in 2018 and early 2019.

Our Commercial business grew by 7% year-over-year, mainly due to Conventional commercial loans. Conventional commercial grew by $427 million or 11% due to strong originations in the multi-unit residential construction sector and more favourable competitive conditions. Insured multis were up $102 million or 3% due to higher origination volumes offset in part by higher derecognitions. Our secured specialized financing portfolio also saw tremendous growth, finishing the year at $290 million, an increase of 21% year-over-year. Equipment leases were up by $63 million or 13%, driven by strong originations in Q4.

Credit quality and allowance for credit losses

We regularly evaluate the profile of our loan portfolio and its lending practices, taking into account borrower behaviours and external variables, including real estate values and economic conditions. When we judge that the risk associated with a particular region or product is no longer acceptable, we adjust underwriting criteria so that our policies continue to be prudent and reflective of current and expected economic conditions, thereby safeguarding the future health of our portfolio.

While the start of the pandemic caused us to take several steps to temporarily tighten our prudent risk profile, we believe that credit losses from COVID-19 will be manageable and will not significantly impair our capital position. For example, we temporarily reduced our maximum LTVs on uninsured loans due to real estate price uncertainty early in 2020. We also reduced our appetite for certain asset classes, and introduced new language in our commercial real estate commitments that set clear precedents to mitigate risks related to COVID-19. These actions tapered loan and revenue growth mid-year but helped uphold the quality of our asset base.

There are several aspects of our risk management approach and existing loan portfolios that have and will continue to help mitigate the effects of the pandemic on our credit losses. We remain well reserved for credit losses with allowances as a percentage of total assets equaling 23 bps at year-end compared to 14 bps a year ago.

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

- We focus our lending in urban and suburban markets that have diversified employment bases and more liquid real estate markets. We also do not have any direct lending exposure to companies that operate in the oil and gas industry, a sector that will likely experience continuing challenges as a result of low commodity prices. This approach results in lower risk as it reduces both the probability that our borrowers will default and our loss in the event that they do.
- Our commercial lending businesses, including leasing, are diversified across industries and geographies. Our commercial business has defined asset-class exposure limits and focus on assets that we believe will be resilient through an economic cycle such as multi-unit residential and mixed-use properties. These segments now make up 58% of our Commercial loan portfolio while categories such as hotels and shopping centres comprise 0.4% and 3.6% of our Commercial loans or 0.1% and 1.1% of the total loan portfolio, respectively.
- We expect that Alberta will experience a deeper and more prolonged economic decline than other provinces because of its higher exposure to the energy industry. Our uninsured Personal loans in Alberta total $774 million or only 3% of our assets. Our uninsured commercial

loans in Alberta total $514 million or only 2% of our assets, primarily consisting of multi-unit residential and mixed-use loans. Further, the vast majority of these loans are mortgage loans secured by real estate in Edmonton and Calgary, cities with broader economic foundations than other parts of the province.
- We require a cash security deposit on most of our higher risk leases and in some cases require additional real assets to be pledged. For example, we may place a mortgage on real estate owned by our lessees.

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

- Our underwriting focuses foremost on a borrower's ability to repay a loan. The average Beacon score of our Alternative single family residential borrowers was 702 at December 31, 2020, up from 691 just two years ago. Similarly, the average Beacon score of our small business mortgage borrowers was 741. These higher credit scores are indicative of our borrowers' positive repayment histories and lower propensity to default under normal economic conditions.
- 56% of our loans under management are insured against credit losses, ultimately with the backing of the Government of Canada.
- 100% of our loan portfolio is secured. Our uninsured mortgage loans are supported by first-position claims on real estate and our leases by first position claims on equipment, so we have a real asset with tangible value behind almost every loan, even if those assets decline in value from pre-COVID-19 levels.
- If the prices of the assets securing our mortgage loans decline, we are further protected by the low LTVs at which we lend. The average LTV on our uninsured residential mortgage portfolio was 61% at year-end.
- Further to this collateral, almost all of our uninsured commercial mortgage borrowers and the majority of our lessees provide personal or corporate covenants against their borrowings. In our mortgage business, our due diligence on borrowers and guarantors involves assessing their financial resiliency and liquidity.

With the onset of the pandemic, we believed that there may have been an elevated level of risk in the hospitality, retail, and personal services segments of our equipment business. Although this segment did experience higher loss rates, those rates were only marginally higher. This segment remains a small portion of our equipment leasing portfolio at only 0.4% of our total assets in the broader equipment leasing portfolio, mitigating the risk of loss is the fact that almost 59% of our leasing assets are in transportation related industries. Transportation has a wide range of sub-segments that are impacted by COVID-19 in different ways. However, owing to the quality and diversity of our transportation portfolio, we believe its performance will stand up well to these economic challenges. This view is supported by the strength of secondary sales, recent auction prices, and demand for new lease originations. Despite this, our experienced team continues to closely monitor our overall equipment portfolio.

Allowance for Credit Losses

Our total allowance for credit losses increased year-over-year by $29.3 million or 79%, primarily as a result of a deterioration of macroeconomic forecasts due to the impact of COVID-19. IFRS 9 requires us to estimate future losses taking into account macroeconomic forecasts. Although forecasts have improved since mid-2020, they remain weak relative to December 31, 2019. Our loss estimates and macroeconomic scenarios attempt to factor in the wide range of Government support programs for Canadian individuals and businesses that we believe will mitigate our losses, though modelling those unprecedented actions is inherently difficult. Allowances increased in both dollar terms and relative to loan balances, driven by $30.8 million or 97% increase in estimated future losses on performing loans (Stage 1 and 2 allowances).

Table 10: Loan credit metrics

($000s, except percentages)	**31-Dec-20**	31-Dec-19	Change	
Allowance for credit losses – Stage 1 and 2	**62,633**	31,845	30,788	97%
Allowance for credit losses – total	**66,177**	36,907	29,270	79%
Allowance for credit losses – total as a % of total loan assets	**0.23%**	0.14%	N/A	0.09%
Allowance for credit losses – total as a % of uninsured loan assets	**0.45%**	0.25%	N/A	0.20%
Allowances for credit losses – total as a % of gross impaired	**54%**	30%	N/A	24%

The movement in Stage 1 and 2 allowances is a function of changes in both the probability that loans will default and the expected loss rates on loans. During the year, the increase in the probability of default was primarily driven by deteriorating macroeconomic variables, triggering a shift of $1.7 billion of loans from Stage 1 to Stage 2. This shift caused an increase in allowances due to the fact that Stage 1 allowances are based on expected losses *over the next 12 months* of a loan, while Stage 2 allowances are based on expected losses *over the projected life of a loan*. The deterioration in macroeconomic variables also added to our allowances by increasing expected loss rates on both our Stage 1 and Stage 2 loans. The chart below provides allowance metrics that illustrate these stage migration and loss rate dynamics:

Table 11: Stage 1 and 2 loan credit metrics

(Percentages)	**31-Dec-20**	30-Sep-20	30-Jun-20	31-Mar-20	31-Dec-19
Stage 1 – proportion of loan assets(1)	**83.6%**	77.3%	65.0%	75.0%	88.9%
Stage 1 – effective allowance rate(2)	**0.15%**	0.16%	0.16%	0.14%	0.08%
Stage 2 – proportion of loan assets	**15.9%**	22.4%	34.5%	24.5%	10.6%
Stage 2 – effective allowance rate	**0.59%**	0.50%	0.41%	0.54%	0.42%

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

Over the first two quarters of 2020, allowances against each of our loan portfolios increased, though our equipment leasing business drove a disproportionately higher share of the change. Leasing is typically a higher-loss business, although its better spreads more than compensate for higher losses through the credit cycle. We expect the rates of default in our leasing business to exceed those in our mortgage business and the loss given default to be higher. The higher loss on default results from the fact that we lend up to the full acquisition cost against depreciable assets, in line with standard industry practice.

In Q4, Stage 1 and 2 allowances against our uninsured personal loans declined by $1.0 million, uninsured commercial loans increased by $0.4 million, while our allowances against our equipment leases decreased by $2.2 million.

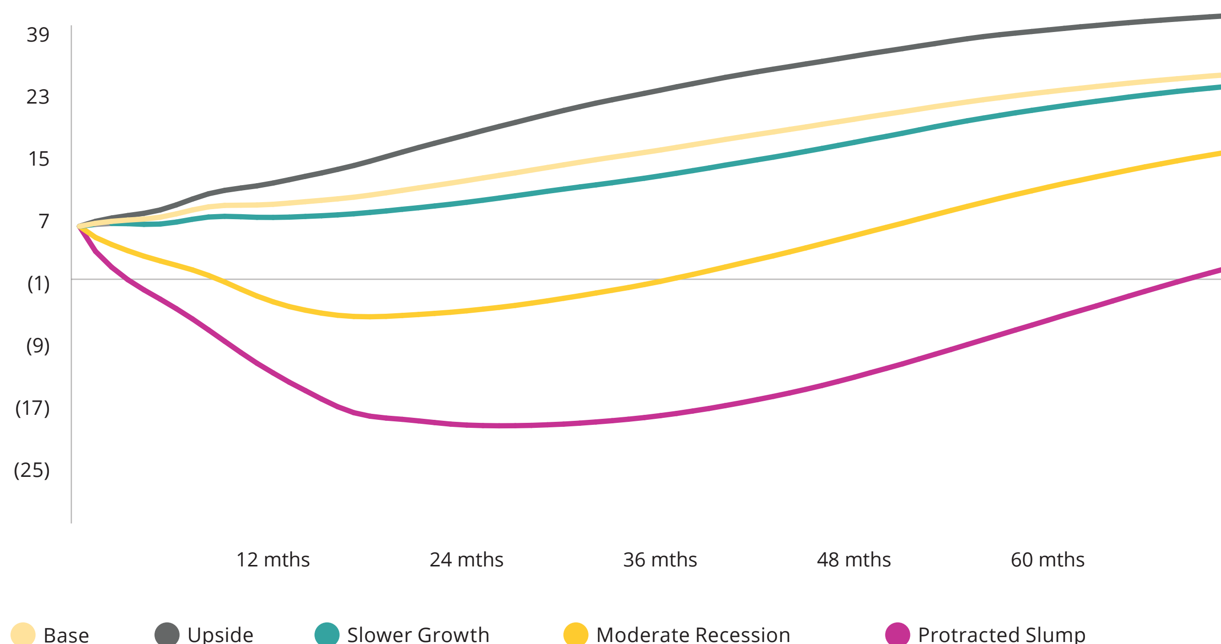
Table 12: Stage 1 and 2 allowance for credit losses by lending business

($000s, except percentages and bps)	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Uninsured Personal loans – stage 1 and 2 allowances	**18,121**	19,083	(5%)	5,712	217%
as a % of uninsured personal loans (bps)	**18**	20	(2)	5	13
Uninsured Commercial loans – stage 1 and 2 allowances	**25,253**	24,855	2%	19,383	30%
as a % of uninsured commercial loans (bps)	**58**	59	(1)	50	8
Equipment leases – stage 1 and 2 allowances	**19,240**	21,471	(10%)	6,737	186%
as a % of equipment leases (bps)	**363**	419	(56)	143	220
Insured Personal and Commercial loans – stage 1 and 2 allowances	**19**	9	111%	13	46%
as a % of insured personal and commercial loans (bps)	**0.01**	0.01	-	0.01	-
Total loans – stage 1 and 2 allowances	**62,633**	65,418	(4%)	31,845	97%
as a % of total loans (bps)	**22**	24	(2)	12	10

Moody's Analytics provides the macroeconomic forecasts that we use in our credit loss modelling. The forecasts show a weak Canadian economy continuing into the start of 2021 with signs of improvement in the second half of the year.

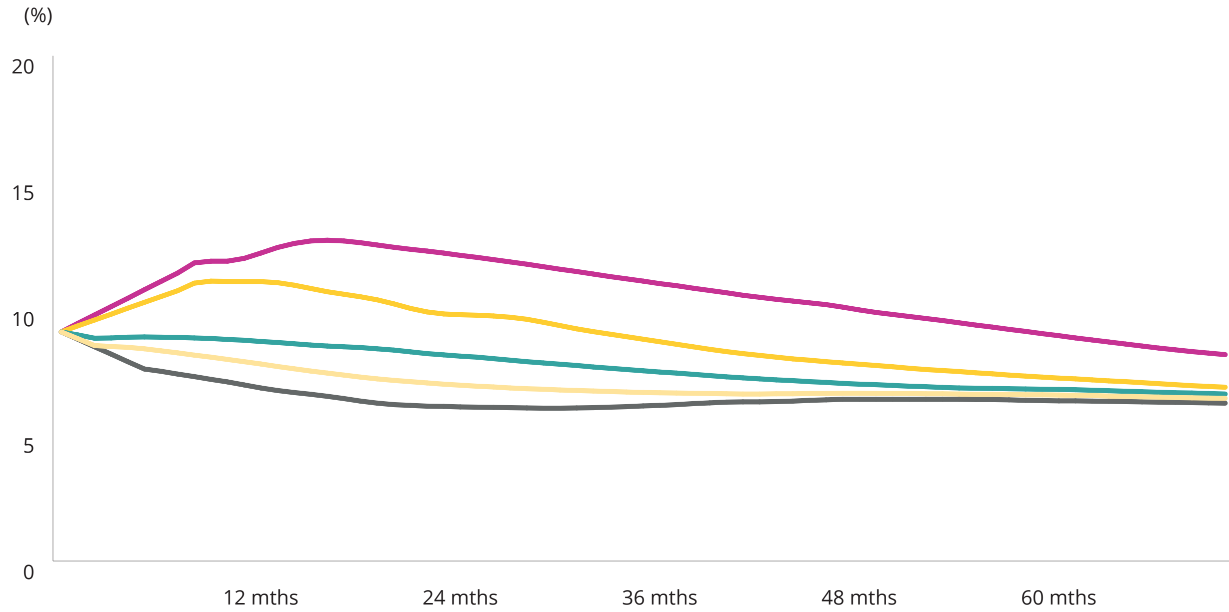
Generally, macroeconomic forecasts have improved across all significant factors since Q2 and have caused our Expected Credit Losses (ECL) to decrease since then. We have compared these forecasts to those of other Canadian economists, and the estimates that we used appear to be in line with market consensus. A multi-year view of the key forecast assumptions for each scenario that we model can be found below:

Canadian Housing Price Index[(1)]

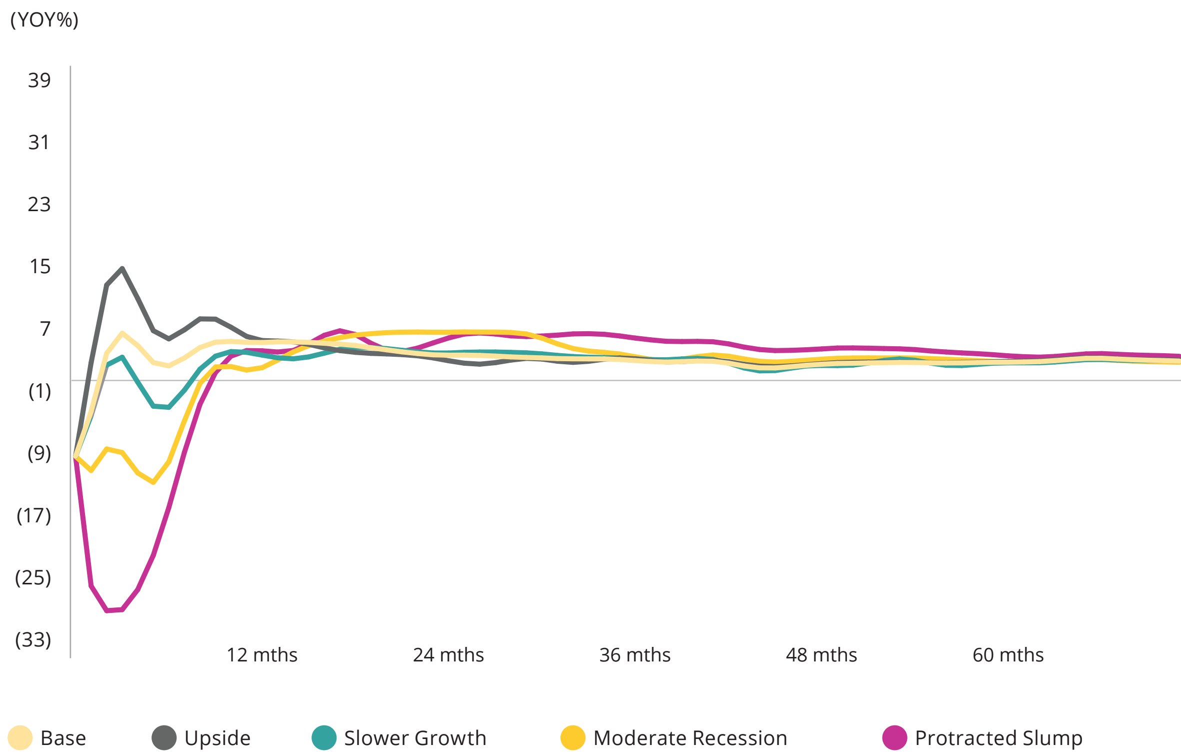


(1) The starting point as illustrated is the weighted average of the November 2020 forecasted assumption under each scenario as certain measures are reported on a lagged basis.

Canadian Unemployment Rate[1]



Canadian Real GDP Growth[1]



Base Upside Slower Growth Moderate Recession Protracted Slump

(1) The starting point as illustrated is the weighted average of the November 2020 forecasted assumption under each scenario as certain measures are reported on a lagged basis.

Table 13: Expected future credit losses by macroeconomic scenario

($000s, except percentages)	Base Case	Upside Scenario	Slower Growth	Moderate Recession	Protracted Slump
Weighting for financial statement ECL calculation (%)	**50**	**15**	**20**	**10**	**5**
Expected credit losses if each scenario weighted 100%	**57,897**	**47,992**	**65,486**	**80,711**	**106,351**
Difference vs. financial statement ECL	**(4,736)**	**(14,641)**	**2,853**	**18,078**	**43,718**

Stage 3 allowances relate to impaired loans and were down by $1.5 million year-over-year. Stage 3 allowances are determined loan-by-loan and we believe that they are adequate at the end of 2020. Stage 3 allowances on our mortgages are generally supported by up-to-date, independent property appraisals.

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

Impaired Loans

Impaired loans at the end of the year were $121.5 million, down by $0.9 million from the prior year. The improvement in impaired loans reflected the discharge of an impaired $39.3 million commercial loan in Vancouver without loss to the Bank, offset by an anticipated rise of impaired single family mortgages and equipment leases of $11.6 million and $2.4 million, respectively.

Impaired loans may continue to rise in Q1 2021 as a result of reduced loan payment deferrals and weak economic conditions. Our models forecast that levels of impaired loans will increase in Q1 2021 under our base case scenario. This expectation is consistent with the discussion of expected credit losses above.

Table 14: Impaired loan metrics

($000s, except percentages)	31-Dec-20	31-Dec-19	Change	
Gross impaired loan assets	**121,548**	122,454	(906)	(1%)
Net impaired loan assets	**118,004**	117,392	612	1%
Net impaired loan assets as a % of total loan assets	**0.42%**	0.44%	N/A	(0.02%)

Liquidity investments and equity securities

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

We maintain liquid asset balances at a level that we believe is sufficient for the Bank to meet its upcoming obligations even through periods of disruption in financial markets, including the current COVID-19 pandemic. The size and composition of our liquidity portfolio at any point in time is influenced by several factors such as our expected future cash needs and the availability of our various funding sources. Further, we apply a strategic approach to liquidity management through rigorous asset-liability matching analysis and stress testing. Even with this liquidity risk management framework, a significant or protracted disruption to funding markets could require the Bank to take further liquidity protection measures. Please refer to the Risk Management section of this document for more detail on the Bank's Liquidity and Funding Risk policies and procedures.

In addition to assets that are held for the purpose of providing liquidity protection, we also maintain a portfolio of liquid equity securities (99% of which are investment grade preferred shares) to yield tax-preferred dividend income. We have the ability to liquidate this portfolio in the event of financial stress.

Table 15: Liquid assets

($000s, except percentages)	31-Dec-20	31-Dec-19	Change	
Eligible deposits with regulated financial institutions[1]	**553,554**	508,711	44,843	9%
Debt securities	**301,674**	67,798	233,876	345%
Government of Canada issued or guaranteed debt instruments:				
Investments purchased under reverse repurchase agreements	**450,203**	150,069	300,134	200%
Loans and Investments held in the form of debt securities[2], net of obligations under repurchase agreements	**1,488,124**	848,719	639,405	75%
Liquid assets held for regulatory purposes	**2,793,555**	1,575,297	1,218,258	77%
Other deposits with regulated financial institutions[3]	**4,188**	142	4,046	2,849%
Equity securities[4]	**112,447**	114,898	(2,451)	(2%)
Total	**2,910,190**	1,690,337	1,219,853	72%
Liquid assets held for regulatory purposes as a % of total Equitable Bank assets	**9.1%**	5.5%	N/A	3.6%
Total liquid assets as a % of total assets	**9.5%**	6.0%	N/A	3.5%

(1) Eligible deposits with regulated financial institutions represents deposits of the Bank which are held with major Canadian financial institutions and excludes $28.7 million (December 31, 2019 – $8.4 million) of restricted cash held as collateral with third parties for the Bank's interest rate swap transactions and $475.4 million (December 31, 2019 – $454.6 million) of cash held in trust accounts and deposits held with banks as collateral for the Bank's securitization activities. (2) Loans held in the form of debt securities represent loans securitized and retained by the Bank and are reported in our Loans receivable balances. Investments held in the form of debt securities refer to MBS securities that we purchase from third parties. These values reported above represent the fair market value of the associated MBS securities. (3) Other deposits with regulated financial institutions are deposits held by Equitable Group Inc. (4) Equity securities are 99% investment grade publicly traded preferred shares and 1% publicly traded common shares.

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio (LCR)[1]. At December 31, 2020, our LCR was well in excess of the regulatory minimum of 100%.

Liquid asset balances were $2.9 billion at year end, up $1.2 billion from last year. The current level of liquid assets reflects measures taken to strengthen the Bank's liquidity position in light of COVID-19 related uncertainties, higher levels of liquidity required due to growth in demand deposits, and cash needs for upcoming quarters.

Other assets

Please refer to Note 13 to our 2020 audited annual consolidated financial statements for details of our Other assets balances at December 31, 2020 and 2019.

Other assets were $188.0 million at December 31, 2020 an increase of $27.0 million or 17% over last year. Overall, the increase in Other assets was mainly due to:

- $17.7 million increase in Intangible assets, mainly due to investments in various projects over the past 12 months including our AIRB project;
- $10.1 million of income taxes recoverable primarily in relation to other comprehensive loss for the year on our equity investments and cash flow hedges in excess of tax payments over provision for the year; and
- $3.9 million increase in the fair value of outstanding derivative financial instruments.

(1) See Non-GAAP Financial Measures section of this MD&A.

Deposits

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

Table 16: Deposit principal

($000s, except percentages)	**31-Dec-20**	31-Dec-19	Change	
Brokered deposits:				
Term	**9,647,939**	11,056,440	(1,408,501)	(13%)
Demand	**675,358**	557,211	118,147	21%
	10,323,297	11,613,651	(1,290,354)	(11%)
EQ Bank deposits:				
Term	**962,170**	516,195	445,975	86%
Demand	**3,593,436**	2,150,356	1,443,080	67%
	4,555,606	2,666,551	1,889,055	71%
Strategic partnerships	**692,785**	602,970	89,815	15%
Deposit notes	**804,323**	348,716	455,607	131%
Total	**16,376,011**	15,231,888	1,144,123	8%

We have experienced increasing demand for digital banking services since the beginning of the pandemic. This is reflected in EQ Bank deposits increasing by 71% to $4.6 billion, and EQ Bank customers increasing by 82% to 173,399 by year end. This included an increase of nearly 25,000 customers in Q4 2020.

We are also committed to building our deposit note program over the long-term. During the latter half of 2020, the Bank issued 3-year and 5-year fixed rate deposit notes of $200 million and $250 million, respectively.

Our brokered term deposit distribution network remains as broad as that of any non-big 6 bank. We have deliberately reduced this funding source over the past year, as we continue to diversify our funding sources.

Brokered demand deposits grew over the past year mainly due to the HISAs offered through Equitable Trust and the launch of a competitive USD product, but remain a small component of our overall funding base. We will continue to offer these deposits with a competitive rate and aim to grow balances only modestly. While balances may increase in nominal terms, we expect them to remain a small share of our total funding.

We have further diversified our funding profile by expanding and deepening our strategic partnerships. In 2020, we grew these more stable deposits by $90 million or 15% to $693 million. These relationships have allowed the Bank to expand our reach to new customers across Canada.

Securitization liabilities

A large portion of the Bank's securitization transactions do not qualify the loans for balance sheet derecognition and therefore the associated obligations are recognized on the consolidated balance sheets and accounted for as securitization liabilities. The Securitization liability was $12.0 billion at the end of December 31, 2020, up $1.3 billion or 12% from last year. The increase is largely due to growth of our Prime single family loans. Our securitization liability also included $653.8 million (December 31, 2019 – $750 million) of securitizations through a funding program which is sponsored by a Domestic Systemically Important Bank (D-SIB) and provides the Bank with a source of matched funding for qualifying uninsured single family mortgages.

Bank facilities

The Bank has two revolving credit facilities, each with a D-SIB to fund insured residential mortgages prior to securitization, with an aggregate capacity of $600 million (December 31, 2019 – $600 million). At December 31, 2020, there was no balance outstanding on the facilities (December 31, 2019 – $Nil). Our use of these facilities is a function of our Prime Single Family and Insured multi-unit activity levels, the timing of mortgage securitizations and sales, and the availability of other funding sources.

We also have a $35 million operating credit facility in place with a D-SIB. The facility is secured by a portion of the Bank's preferred share investments. There was no outstanding balance on the facility at December 31, 2020 or 2019.

In March 2020, the Bank of Canada announced the launch of its Standing Term Liquidity Facility (STLF), intended to support liquidity in the financial system. Under the STLF, eligible financial institutions including Equitable Bank, can borrow from the Bank of Canada by pledging a broad set of collateral, including mortgages. On March 31, 2020, the Bank accessed the new facility along with its peers; Bank of Montreal, Canadian Western Bank, CIBC, HSBC Bank Canada, National Bank of Canada, RBC Royal Bank, Scotiabank, and TD Bank Group. The draw was subsequently repaid prior to year-end.

Effective December 11, 2020, the Bank terminated its $400 million secured backstop funding facility.

Details related to Equitable's bank facilities can be found in Note 17 to our 2020 audited consolidated financial statements.

Other liabilities and deferred income taxes

Please refer to Notes 15(b) and 16 to our 2020 audited consolidated financial statements for a detailed breakdown of Other liabilities and Deferred income tax liabilities as at December 31, 2020 and December 31, 2019.

Other liabilities and Net deferred income tax liabilities, on an aggregate basis, increased by $1.2 million to $269.7 million mainly due to:

- $37.2 million increase in obligations related to our derivative positions;
- $7.3 million increase in mortgage servicing liability; and
- $6.2 million increase in net deferred income tax liabilities;

Offset by:

- $21.1 million of income taxes payable in 2019 compared to a receivable this year;
- $18.3 million decrease in accounts payable and accrued liabilities driven by a decrease in liabilities associated with our successor issuer activities related to the assets we acquired from Maple Bank in 2016;
- $6.8 million decrease in mortgage realty taxes due to timing of collections relative to remittances; and
- $3.1 million reduction in right-of-use liabilities.

Contractual obligations by year of maturity are outlined in Table 32 – Contractual obligations. There were no material changes to contractual obligations that are outside the ordinary course of the Bank's operations during 2020.

Shareholders' equity

Total shareholders' equity increased $180 million or 12% to $1.65 billion at December 31, 2020, from $1.47 billion a year ago. The increase reflects the earnings retained by the Bank, net of dividends paid and fair value losses on derivative hedges associated with securitization activity.

On December 21, 2020, Equitable announced that it received the approval of the Toronto Stock Exchange for an NCIB of up to 1,144,245 of its Common Shares and 297,250 of its Series 3 preferred shares. By year-end, Equitable had purchased and cancelled 3,300 Series 3 preferred shares and no common shares.

At December 31, 2020, the Bank had 16,874,074 common shares and 2,996,700 Series 3 preferred shares issued and outstanding (December 31, 2019 – 16,797,593 common shares and 3,000,000 Series 3 preferred shares).

During 2020, 119,402 options were granted. In addition, 76,481 stock options were exercised that contributed $4.1 million to common share capital. At December 31, 2020, there were 616,324 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $41.5 million. For additional information on outstanding stock options and their associated exercise prices, please refer to Note 19(a) to the 2020 audited consolidated financial statements.

Capital management – Equitable Bank

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements' Basel Committee on Banking Supervision (BCBS). OSFI's Capital Adequacy Requirements (CAR) Guideline details how Basel III rules apply to Canadian banks. OSFI has mandated that all Canadian-regulated financial institutions meet minimum target Capital Ratios: those being a CET1 Ratio of 7.0%, a Tier 1 Capital Ratio of 8.5%, and a Total Capital Ratio of 10.5%. In order to govern the quality and quantity of capital necessary based on the Equitable Bank's inherent risks, it utilizes an Internal Capital Adequacy Assessment Process (ICAAP).

On March 27, 2020, OSFI announced several actions to address operational issues stemming from the economic impact of COVID-19 including the introduction of a transitional arrangement for expected credit loss provisioning on capital. This transitional arrangement results in a portion of allowances that would otherwise be included in Tier 2 capital of Equitable Bank to be included in CET1 capital. The adjustment is equal to the increase in Stage 1 and Stage 2 allowances relative to December 31, 2019. This increase is tax-effected and subject to a scaling factor that will decrease over time. The scaling factor has been set at 70% for 2020, 50% for 2021, and 25% for 2022.

We believe that the Equitable Bank's current level of capital and earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Equitable Bank's Capital Ratios at December 31, 2020 exceeded the regulatory minimums and its CET1 Ratio was above the top end of its target range. Equitable Bank's CET1 Ratio was up 100 bps from last year mainly due to earnings' retention and a slower pace of asset growth. Further, we obtained portfolio insurance on $687 million of Alternative single family mortgages in Q2 2020, reducing the density of our risk-weighted assets.

Canadian banks are required to report on OSFI's Leverage Ratio based on Basel III guidelines. OSFI has established minimum Leverage Ratio targets on a confidential and institution-by-institution basis. Equitable Bank's Leverage Ratio was 5.1% at December 31, 2020 and the Bank remains fully compliant with its regulatory requirements. Our Leverage Ratio increased relative to 2019 as a result of capital growth through earnings.

As part of our capital management process, we stress test the loan portfolio on a regular basis to understand the potential impact of extreme but plausible adverse economic scenarios. We use these tests to analyze the impact that an increase in unemployment, rising interest rates, a decline in real estate prices, and other factors could have on our financial position. In light of COVID-19, we also run a variety of financial and capital stress tests to ensure we are positioned to manage through any of the potential scenarios that may transpire. Based on the results of the stress tests performed to date, we have determined that even in the most adverse scenario analyzed, the Bank has sufficient capital to absorb the potential losses without impairing the viability of the institution and that we would remain profitable in each year of the testing horizon.

Table 17: Capital measures of Equitable Bank

($000s, except percentages)	**31-Dec-20**	31-Dec-19	Change	
Total risk-weighted assets (RWA)	**10,426,077**	9,761,287	664,790	7%
Common Equity Tier 1 Capital:				
Common shares	**215,536**	213,995	1,541	1%
Contributed surplus	**9,184**	8,065	1,119	14%
Retained earnings	**1,386,197**	1,191,562	194,635	16%
Accumulated other comprehensive loss (AOCL)	**(19,009)**	(18,827)	(182)	1%
Less: Regulatory adjustments to Common Equity Tier 1 Capital[2]	**(66,448)**	(66,591)	143	(0%)
Common Equity Tier 1 Capital	**1,525,460**	1,328,204	197,256	15%
Additional Tier 1 capital:				
Non-cumulative preferred shares	**72,554**	72,554	-	0%
Tier 1 Capital	**1,598,014**	1,400,758	197,256	14%
Tier 2 Capital:				
Eligible Stage 1 and 2 allowance	**62,633**	31,844	30,789	97%
Less: Transitional adjustment in response to COVID-19	**(15,873)**	-	(15,873)	N/A
Tier 2 Capital	**46,760**	31,844	14,916	47%
Total Capital	**1,644,774**	1,432,602	212,172	15%
Capital Ratios:				
CET1 Ratio	**14.6%**	13.6%	N/A	1.0%
Tier 1 Capital Ratio	**15.3%**	14.4%	N/A	0.9%
Total Capital Ratio	**15.8%**	14.7%	N/A	1.1%
Leverage Ratio	**5.1%**	4.9%	N/A	0.2%

(1) As prescribed by OSFI (under Basel III rules), AOCL 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. (2) Includes the positive effect of the ECL transitional adjustment of $15.9 million, as prescribed by OSFI

Table 18: Risk-weighted assets of Equitable Bank

($000s, except percentages)	For the year ended December 31, 2020		
	Amounts	**Risk Weighting**	**Risk-weighted Amounts**
On balance sheet:			
Cash and cash equivalents	**1,057,475**	**16%**	**173,157**
Securities purchased under reverse repurchase agreements	**450,203**	**1%**	**2,401**
Investments	**589,876**	**27%**	**159,561**
Loans – Personal	**19,463,507**	**19%**	**3,703,288**
Loans – Commercial	**8,870,694**	**52%**	**4,618,890**
Securitization retained interests	**184,844**	**100%**	**184,844**
Other assets	**188,049**	**43%**	**81,593**
Total Equitable Bank assets subject to risk rating	**30,804,648**		**8,923,734**
Less: Eligible Stage 1 and 2 allowance	**(62,633)**		**-**
Total Equitable Bank assets	**30,742,015**		**8,923,734**
Off-balance sheet:			
Loan commitments			**577,497**
Derivatives			**18,165**
Other			**13,331**
Total credit risk			**9,532,727**
Operational risk[(1)]			**893,350**
Total			**10,426,077**

($000s, except percentages)	For the year ended December 31, 2019		
	Amounts	Risk Weighting	Risk-weighted Amounts
On balance sheet:			
Cash and cash equivalents	971,703	17%	164,082
Securities purchased under reverse repurchase agreements	150,069	0%	-
Investments	362,611	38%	137,525
Loans – Personal	18,365,516	21%	3,864,649
Loans – Commercial	8,274,158	50%	4,111,203
Securitization retained interests	139,009	100%	139,009
Other assets	161,085	49%	79,021
Total Equitable Bank assets subject to risk rating	28,424,151		8,495,489
Less: Eligible Stage 1 and 2 allowance	(31,844)		-
Total Equitable Bank assets	28,392,307		8,495,489
Off-balance sheet:			
Loan commitments			462,033
Derivatives			22,942
Other			16,360
Total credit risk			8,996,824
Operational risk[(1)]			764,463
Total			9,761,287

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

Fourth quarter overview

Equitable produced all-time record Q4 EPS of $4.13, up $0.92 from a year ago. Adjusting for the impact of mark-to-market gains on certain loans, security investments, and derivatives transactions, EPS for the quarter was $3.98, compared to $3.22 in Q4 2019.

Items of note

Q4 2020 financial results were impacted by the following item:

- $3.5 million of net mark-to-market gains on certain investments, loans, and securitization-related derivative positions.

Q3 2019 financial results were impacted by the following item:

- $4.1 million of net mark-to-market gains on certain investments, loans, and securitization-related derivative positions.

There were no items of note in our financial results for Q4 2019.

Net interest income

The table below details the Bank's NII and NIM for the three months ended December 31, 2020, with comparisons to the preceding quarter and the corresponding quarter of the prior year, by product and portfolio.

Table 19: Net Interest Income

($000s, except percentages)	For the three months ended					
	31-Dec-20		30-Sep-20		31-Dec-19	
	Revenue/ Expense	**Average rate**	Revenue/ Expense	Average rate	Revenue/ Expense	Average rate
Revenues derived from:						
Cash and equivalents	**5,019**	**0.99%**	5,292	1.00%	7,894	2.04%
Equity securities	**1,453**	**4.85%**	2,149	7.63%	1,505	4.89%
Alternative single family mortgages	**126,420**	**4.56%**	130,257	4.63%	141,065	4.94%
Prime single family mortgages	**40,643**	**2.00%**	38,567	1.99%	41,186	2.42%
Decumulation loans	**779**	**4.10%**	623	4.39%	273	5.66%
Total Personal loans	**167,842**	**3.48%**	169,447	3.56%	182,524	4.00%
Conventional commercial loans	**59,563**	**5.53%**	61,185	5.72%	57,824	6.03%
Equipment leases	**14,261**	**10.76%**	14,052	11.02%	14,215	11.58%
Insured multi-unit residential mortgages	**27,054**	**2.75%**	26,622	2.65%	29,507	3.16%
Total Commercial loans	**100,878**	**4.60%**	101,859	4.62%	101,546	5.04%
Average interest earning assets	**275,192**	**3.65%**	278,747	3.70%	293,469	4.20%
Expenses related to:						
Deposits	**82,434**	**2.03%**	89,088	2.22%	99,385	2.63%
Secured backstop funding facility	**626**	**N/A**	623	N/A	625	N/A
Securitization liabilities	**60,435**	**2.05%**	59,932	2.08%	65,950	2.49%
Others	**580**	**0.74%**	1,673	0.83%	2,682	2.07%
Average interest bearing liabilities	**144,075**	**2.03%**	151,316	2.14%	168,642	2.57%
Net interest income and margin	**131,117**	**1.74%**	127,431	1.69%	124,827	1.78%

Q4 2020 vs Q4 2019

NII was up 5% year-over-year mainly driven by 8% growth in our average asset balances and despite a 4 bps decrease in our NIM.

Table 20(a): Factors affecting Q4 2020 v Q4 2019 NIM

	Impact (in bps)	Drivers of change
Business mix	(7)	• Mix shift towards lower spread Prime mortgages • Increase in the relative size of our low yielding cash and equivalents • Funding mix shift towards EQ Bank deposits which were offered at a higher rate compared to term deposits originated in 2020
Loan prepayment income	1	• Higher levels of early discharge within Alternative single family mortgages and Insured multis
Rates/spread[1]	1	• Higher spreads on Personal and Commercial mortgages originated in 2020, offset in part by: • Lower rate of interest earned on our liquid assets
Other	1	
Change in Total NIM	(4)	

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

Q4 2020 v Q3 2020

NII increased 3% from last quarter as a result of 5 bps increase in NIM.

Table 20(b): Factors affecting Q4 2020 vs Q3 2020 NIM

	Impact (in bps)	Drivers of change
Prepayment income	5	• Higher levels of early discharge within Alternative single family mortgages and Insured multis
Bulk insurance amortization	2	• Lower premium expense (net of funding cost benefits) in Q4 on bulk insurance of $687 million of Alternative single family loans
Business mix	(1)	• Asset mix shift toward lower spread Prime mortgages due to higher third party originations in Q4 • Funding mix shift towards our EQ bank deposits, offered at a higher rate compared to other deposits originated during the quarter, *offset in part by*: • Decrease in the relative size of our low yielding cash and equivalents
Rates/spread[1]	(1)	• Lower income on our equity investments
Change in Total NIM	5	

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

Provisions for credit losses

Table 21: Provisions for credit losses

($000s, except percentages)	For the three months ended				
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Stage 1 and 2 provision	**(2,785)**	(2,874)	3%	1,174	(337%)
Stage 3 provision	**2,888**	517	459%	2,743	5%
PCL	**103**	(2,357)	104%	3,917	(97%)
PCL – rate	**0.001%**	(0.03%)	0.03%	0.06%	(0.06%)

Q4 2020 v Q4 2019

The Bank's provision for credit losses during Q4 was $0.1 million, $3.8 million lower than the prior year. The decrease was mainly due to Stage 1 and 2 reversals of $2.8 million compared to a charge of $1.2 million a year ago, as improved macroeconomic forecasts resulted in a reversal of provisions built up during the first half of 2020.

Q4 2020 v Q3 2020

The Provision for credit losses increased by $2.5 million compared to Q3, mainly driven by a return to more normal levels of non-performing lease formations in the quarter.

Non-Interest Income

Table 22: Non-interest income

($000s, except percentages)				For the three months ended	
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Fees and other income	**5,724**	5,042	14%	5,941	(4%)
Income from successor issuer activities	**(13)**	(17)	24%	260	(105%)
Net gain on loans and investments	**2,732**	4,367	(37%)	99	2,660%
Securitization activities:					
Gains on securitization and income from retained interests	**11,640**	12,224	(5%)	3,108	275%
Fair value gains (losses) on derivative financial instruments	**750**	(339)	321%	(55)	1,464%
Total	**20,833**	21,277	(2%)	9,353	123%

Q4 2020 v Q4 2019

Non-interest income increased by $11.5 million primarily due to:

- Higher gains on securitization and income from retained interests driven by higher derecognition volumes and higher gains on sale margin on loans originated during the funding market disruption;
- Higher mark-to-market gains on loans and certain security investments; and
- Unrealized fair value gains on derivatives financial instruments associated with securitization activities compared to loss in the prior year.

Q4 2020 v Q3 2020

Non-interest income decreased by $0.4 million or 2% due to:

- Lower unrealized fair value gains on loans and certain security investments; and
- A decrease in gains on securitization activities due to lower derecognition volumes;

Offset by:

- Net mark-to-market gains on derivative financial instruments associated with securitization activities compared to loss in the preceding quarter; and
- A rise in fees and other income driven by an increased number of loans returning to regular payment schedules after being on deferral.

Non-interest expenses

Table 23: Non-interest expenses and efficiency ratio

($000s, except percentages and employees)	For the three months ended				
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Compensation and benefits	**28,448**	26,589	7%	25,920	10%
Technology and system costs	**9,353**	9,244	1%	8,976	4%
Product costs	**5,845**	5,540	6%	4,453	31%
Regulatory, legal and professional fees	**4,872**	4,788	2%	5,261	(7%)
Marketing and corporate expenses	**4,094**	4,076	0%	7,724	(47%)
Premises	**2,736**	2,828	(3%)	2,143	28%
Total	**55,348**	53,065	4%	54,477	2%
Efficiency Ratio	**36.4%**	35.7%	0.7%	40.6%	(4.2%)
FTE – period average	**912**	887	3%	857	6%

Q4 2020 v Q4 2019

Our Efficiency Ratio improved to 36.4% from 40.6% a year ago as growth in revenue outpaced the increase in expenses. Revenue in Q4 2020 was positively impacted by higher securitization gains, coupled with mark-to-market gains on loans, certain security investments, and derivative transactions.

Total expenses, were up by $0.9 million mainly due to:

- An increase in compensation and benefits costs, which were largely the result of a 6% increase in FTE and annual salary adjustments;
- Growth in product costs mainly due to amortization of investments in projects completed in the year and higher transaction costs driven by deposit growth and referral incentive programs; and
- Higher technology and system costs mainly to support our IT infrastructure;

Offset by:

- Lower marketing expenses and lower travel costs due to COVID-19; and
- A decrease in legal and professional fees.

Q4 2020 v Q3 2020

Expenses were up $2.3 million or 4%, primarily because of:

- Higher compensation and benefits cost due to FTE growth of 3% and incentive adjustments; and
- Higher product costs due to amortization related to project investments.

Total loan principal

The following table provides quarterly on-balance sheet loan principal continuity schedules by lending business for Q4 2020 and Q4 2019:

Table 24: On-balance sheet loan principal continuity schedule

($000s, except percentages)	**For the three months ended December 31, 2020**		
	Personal	**Commercial**	**Total**
Q3 2020 closing balance	**18,831,618**	**8,655,380**	**27,486,998**
Originations	**1,941,997**	**1,236,782**	**3,178,779**
Derecognition	**-**	**(418,692)**	**(418,692)**
Net repayments	**(1,467,429)**	**(622,303)**	**(2,089,732)**
Q4 2020 closing balance	**19,306,186**	**8,851,167**	**28,157,353**
% Change from Q3 2020	**3%**	**2%**	**2%**
Net repayments percentage(1)	**7.8%**	**7.2%**	**7.6%**
($000s, except percentages)	For the three months ended December 31, 2019		
	Personal	Commercial	Total
Q3 2019 closing balance	17,947,471	7,904,578	25,852,049
Originations	1,490,234	1,209,247	2,699,481
Derecognition	-	(181,962)	(181,962)
Net repayments	(1,187,131)	(672,084)	(1,859,215)
Q4 2019 closing balance	18,250,574	8,259,779	26,510,353
% Change from Q3 2019	2%	4%	3%
Net repayments percentage(1)	6.6%	8.5%	7.2%

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

Q4 2020 v Q4 2019

Please refer to Total loan principal under the "Financial review – balance sheet" section in this document for a discussion of our year-over-year portfolio growth.

Q4 2020 v Q3 2020

During the quarter, total loan principal increased by $670 million due to growth in both our Personal and Commercial businesses.

The growth in our Personal portfolio was primarily driven by higher levels of originations within Alternative and third party Prime single family mortgages. Originations in Alternative single family were sparked by a resumption of pre-COVID-19 underwriting requirements beginning in August 2020.

The growth in our Commercial portfolio was the result of stronger originations within Conventional commercial business and a record year for insured multi-unit residential.

Table 25: Unaudited interim consolidated statements of income

($000s, except per share amounts)	For the three months ended		
	31-Dec-20	30-Sep-20	31-Dec-19
Interest income:			
Loans – Personal	**167,842**	169,447	182,524
Loans – Commercial	**100,878**	101,859	101,546
Investments	**3,016**	3,569	2,462
Other	**3,456**	3,872	6,937
	275,192	278,747	293,469
Interest expense:			
Deposits	**82,434**	89,088	99,385
Securitization liabilities	**60,435**	59,932	65,950
Bank facilities	**926**	1,726	1,061
Other	**280**	570	2,246
	144,075	151,316	168,642
Net interest income	**131,117**	127,431	124,827
Non-interest income:			
Fees and other income	**5,711**	5,025	6,201
Net gain on investments	**2,732**	4,367	99
Gains on securitization activities and income from securitization retained interests	**12,390**	11,885	3,053
	20,833	21,277	9,353
Revenue	**151,950**	148,708	134,180
Provision for credit losses	**103**	(2,357)	3,917
	151,847	151,065	130,263
Non-interest expenses:			
Compensation and benefits	**28,448**	26,589	25,920
Other	**26,900**	26,476	28,557
	55,348	53,065	54,477
Income before income taxes	**96,499**	98,000	75,786
Income taxes			
Current	**19,885**	18,927	27,916
Deferred	**5,190**	5,145	(7,984)
	25,075	24,072	19,932
Net income	**71,424**	73,928	55,854
Dividends on preferred shares	**1,120**	1,119	1,118
Net income available to common shareholders	**70,304**	72,809	54,736
Earnings per share			
Basic	**4.17**	4.33	3.27
Diluted	**4.13**	4.30	3.21

Table 26: Unaudited interim consolidated statements of comprehensive income

($000s)	For the three months ended		
	31-Dec-20	30-Sep-20	31-Dec-19
Net income	**71,424**	73,928	55,854
Other comprehensive income – items that will be reclassified subsequently to income:			
Debt instruments at Fair Value through Other Comprehensive Income:			
Net unrealized gains from change in fair value	**185**	1,091	80
Reclassification of net losses (gains) to income	**115**	(281)	(153)
Other comprehensive income – items that will not be reclassified subsequently to income:			
Equity instruments designated at Fair Value through Other Comprehensive Income:			
Net unrealized gains from change in fair value	**7,357**	5,901	2,604
	7,657	6,711	2,531
Income tax expense	**(2,024)**	(1,773)	(670)
	5,633	4,938	1,861
Cash flow hedges:			
Net unrealized gains (losses) from change in fair value	**4,556**	1,770	4,969
Reclassification of net (gains) losses to income	**(3,406)**	418	(1,015)
	1,150	2,188	3,954
Income tax expense	**(322)**	(578)	(1,046)
	828	1,610	2,908
Total other comprehensive income	**6,461**	6,548	4,769
Total comprehensive income	**77,885**	80,476	60,623

Table 27: Unaudited interim consolidated statements of cash flows

($000s)	For the three months ended		
	31-Dec-20	30-Sep-20	31-Dec-19
Net income for the period	**71,424**	73,928	55,854
Adjustments for non-cash items in net income:			
Financial instruments at fair value through income	**(11,222)**	(6,191)	5,237
Amortization of premiums/discounts on investments	**(196)**	301	340
Amortization of capital assets and intangible costs	**6,389**	5,806	4,461
Provision for credit losses	**103**	(2,357)	3,917
Securitization (gains) losses	**(11,125)**	(11,693)	(2,667)
Stock-based compensation	**403**	571	397
Income taxes	**25,075**	24,072	19,932
Securitization retained interests	**10,242**	18,011	8,767
Changes in operating assets and liabilities:			
Restricted cash	**63,955**	21,052	(54,356)
Securities purchased under reverse repurchase agreements	**(250,195)**	364	100,011
Loans receivable, net of securitizations	**(693,777)**	91,169	(667,064)
Other assets	**24,673**	(22,910)	3,097
Deposits	**(15,601)**	744,324	336,105
Securitization liabilities	**300,644**	500,952	413,303
Obligations under repurchase agreements	**97,513**	(444,592)	43,973
Bank facilities	**(150,261)**	(350,113)	-
Other liabilities	**(4,383)**	(31,400)	1,972
Income taxes paid	**(17,571)**	(38,991)	(11,491)
Cash flows from (used in) operating activities	**(553,910)**	572,303	261,788
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common shares	**2,953**	812	2,161
Dividends paid on preferred shares	**(1,120)**	(1,119)	(1,118)
Dividends paid on common shares	**(6,238)**	(6,222)	(5,871)
Cash flows used in financing activities	**(4,405)**	(6,529)	(4,828)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	**(35,662)**	(27,563)	(188,473)
Proceeds on sale or redemption of investments	**9,601**	36,372	87,928
Net change in Canada Housing Trust re-investment accounts	**1,425**	10,796	(15,640)
Purchase of capital assets and system development costs	**(7,310)**	(7,063)	(5,826)
Cash flows used in investing activities	**(31,946)**	12,542	(122,011)
Net increase (decrease) in cash and cash equivalents	**(590,261)**	578,316	134,949
Cash and cash equivalents, beginning of period	**1,148,004**	569,688	373,904
Cash and cash equivalents, end of period	**557,743**	1,148,004	508,853
Cash flows from operating activities include:			
Interest received	**264,560**	278,199	282,038
Interest paid	**(160,417)**	(125,440)	(157,638)
Dividends received	**1,504**	4,867	1,569

Accounting policy changes

The Bank's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Bank in the 2020 annual consolidated financial statements are the same as those applied by it as at and for the year ended December 31, 2019. Please refer to Note 3 to the audited consolidated financial statements for a summary of the Bank's other significant accounting policies.

Critical accounting estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. Estimates and underlying assumptions are reviewed by management on an ongoing basis. The critical estimates and judgments utilized in preparing the Bank's consolidated financial statements affect the assessment of the allowance for credit losses on loans, impairment of other financial instruments, 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. COVID-19 has materially impacted and continues materially impact the markets in which we operate. The government has imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, quarantines and cancellations of gatherings and events. These measures have caused increased economic volatility and uncertainty resulting in a rise of estimation uncertainty. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future years.

Allowance for credit losses under IFRS 9 and the impact of COVID-19

The expected credit loss (ECL) model requires management to make judgements and estimates in a number of areas. Management must exercise significant judgement in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of expected credit losses. The measurement of ECL considers the incorporation of forward-looking macroeconomic variables and probability weightings of macroeconomic scenarios, which requires significant judgement. Management also exercises significant experienced credit judgement in determining the amount of ECLs at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgements directly impact the measurement of ECL.

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

Recognizing the current economic situation, management has also revised the probability-weights assigned to the macroeconomic scenarios from December 2019 and has also exercised its judgment in determining the amount of the ECL by considering reasonable and supportable information that was not already incorporated in the ECL modelling process.

For further information regarding critical accounting estimates, please refer to Notes 2(d) and 9(d) to (f) to the audited consolidated financial statements.

Derivative financial instruments

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

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

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

The Bank uses interest rate swaps to hedge its interest rate exposure on certain loans assets, securitization liabilities and deposit liabilities. Starting this year, the Bank entered into interest rate swap agreements to manage interest rate exposures on its investment in fixed rate provincial bonds. The Bank applies hedge accounting to these relationships.

Beginning in 2020, the Bank also entered into hedging transactions to manage foreign exchange exposure on certain foreign currency liabilities. The Bank does not apply hedge accounting to these hedging relationships.

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

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

For more information on derivative financial instruments see Notes 3, 5, 9, 10, 11, 12, 13 and 16 to the audited consolidated financial statements.

Off- balance sheet activities

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

Securitization of financial assets

Certain securitization transactions qualify for derecognition when the Bank has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized loan principal that qualified for derecognition totalled $5.2 billion at December 31, 2020 (December 31, 2019 – $4.6 billion). The securitization liabilities associated with these transferred assets are approximately $5.2 billion (December 31, 2019 – $4.6 billion). The securitization retained interest recorded with respect to certain securitization transactions was $184.8 million (December 31, 2019 – $139.0 million) and the associated servicing liability was $35.1 million at December 31, 2020 (December 31, 2019 – $27.8 million).

Commitments and letter of credits

The Bank provides commitments to extend credit to borrowers. The Bank had outstanding commitments to fund $2.6 billion of loans and investments in the ordinary course of business at December 31, 2020 (December 31, 2019 – $1.9 billion).

The Bank also issues letters of credit which represent assurances that it will make payments in the event that a borrower cannot meet their obligations to a third party. Letters of credit in the amount of $29.6 million were outstanding at December 31, 2020 (December 31, 2019 – $29.1 million), none of which had been drawn.

Related party transactions

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

Risk management

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

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

The Risk Management framework, Credit Risk, Liquidity and Funding Risk Management, and Market Risk Management sections below form an integral part of the 2020 annual consolidated financial statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A. See Note 4 of the annual consolidated financial statements.

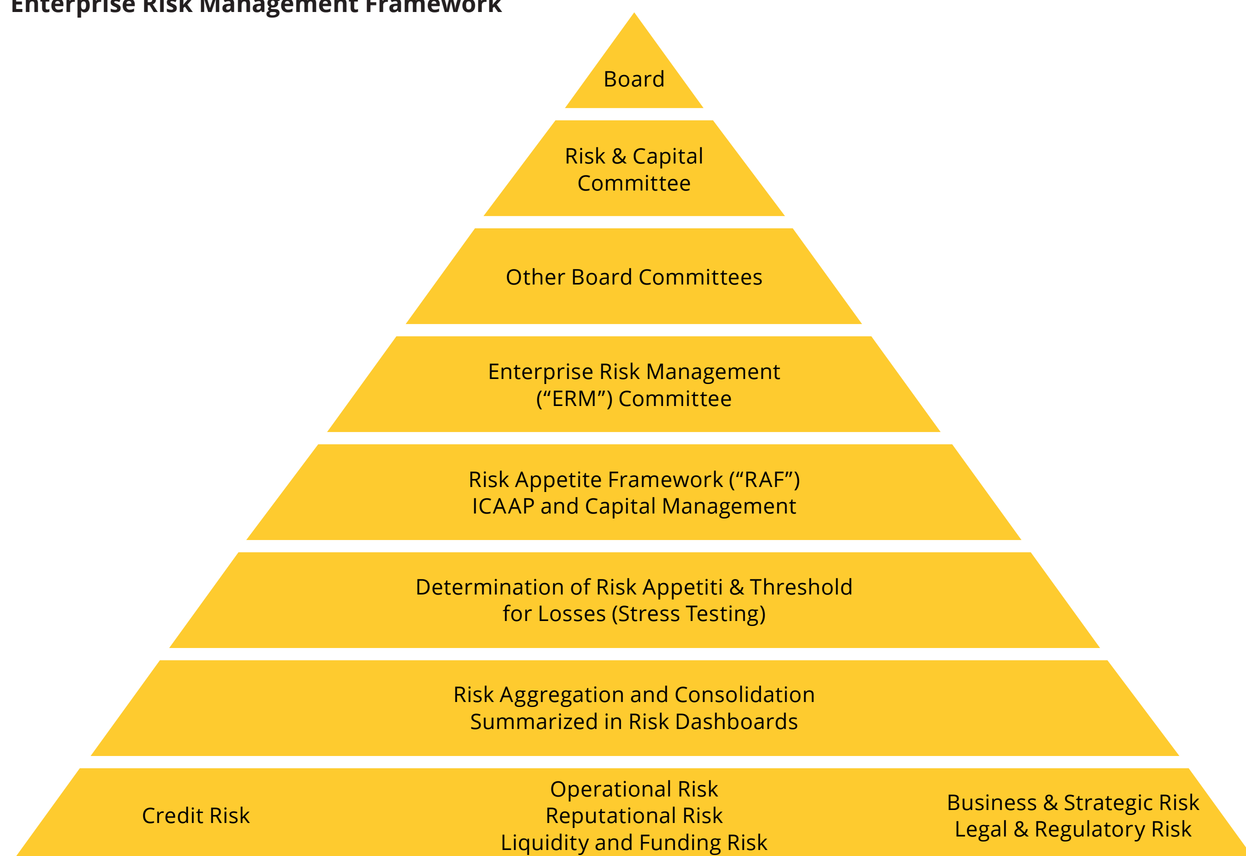
Risk management framework

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

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

The Bank's ERM framework is illustrated below:

Enterprise Risk Management Framework



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

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

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

Credit Risk Sub-Committee: The credit risk sub-committee of the RCC is responsible for approving lending transactions which exceed the credit limits that have been delegated to management by the Board.

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

Asset and Liability Committee: The RCC oversees the Bank's ALCO, which identifies the liquidity as well as the market risks faced by the Bank, sets appropriate risk limits and controls, and monitors those risks and adherence to Board approved limits. The ALCO is chaired by the CEO and is comprised of members of senior management.

Other Board Committees that monitor the organizations activities and overall risk profile are as follows:

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

Governance and Nominating Committee: The Governance and Nominating Committee of the Board maintains primary oversight over the Bank's Legal and Regulatory risk; this includes oversight of the Bank's Compliance function and ensures the Bank's compliance with all legal and regulatory requirements. The Committee also is responsible for overall corporate governance which includes Board membership, Board effectiveness, development of corporate governance guidelines including a code of conduct, and matters related to the Financial Consumer Agency of Canada. Further, this committee is responsible for the oversight of the Bank's environmental sustainability and corporate social responsibility initiatives in conjunction with the review of Bank's Public Accountability Statement, and monitors trends and best practices in environmental, social and governance practices and reporting.

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

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

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

i. Business Unit Leaders are the 'first line', and are primarily accountable for identifying, assessing, managing and reporting risk within their functional areas of responsibility.
ii. The Risk Oversight functions, which include the Finance, Risk and Compliance departments, are accountable for independent oversight of the Business Unit operations from a 'second line' perspective. Given the size and relatively low complexity of the Bank's operations and risk profile, business line management leverages the skills of the 'second line' as subject matter experts to assist in the design of our risk monitoring practices. Due to the inherent expertise embedded in our 'second line', the performance of some traditional 'first line' oversight functions may be undertaken by the 'second line'.
iii. Internal Audit is accountable for independent assurance as the 'third line of defense'.

The following sections address the risks associated with COVID-19 and provide updates on our credit risk and liquidity risk profiles.

COVID-19

This section should be read in conjunction with the other comments about COVID-19 and our actions in other parts of this document, in particular but not limited to the sections titled "COVID-19", "Business Outlook", and "Credit Quality and Allowances".

As a result of the global COVID-19 pandemic, the risks to our business have increased. The pandemic continues to have an adverse impact on businesses in Canada and around the world and the economic environments in which they operate. The spread of COVID-19 and resulting efforts to contain its spread has resulted in a recession and elevated unemployment in Canada that has been met by a response from Government in the form of income support for people and businesses impacted by enforced shutdowns of businesses.

The Bank has established a pandemic response plan and procedures. The response plan outlines precautions to protect the safety and well-being of its employees and customers but no assurance can be given that these actions will be adequate or appropriate. The unprecedented move across industries around the globe to conduct business from home and away from primary office locations increases both the demand on our technology infrastructure but also the risk of cyber-attacks which could lead to technology failures, security breaches, unauthorized access, loss or destruction of data or unavailability of services. Any of these events could result in litigation or result in a financial loss, disruption of our business activities, liability to our customers, government intervention or damage to our reputation. The spread of COVID-19 could also negatively impact availability of key personnel and employee productivity, as well as the business and operations of third-party service providers who perform critical services for the Bank, which could adversely impact the ability to deliver products and services to customers. While being alert to this risk, the Bank's cloud based infrastructure has allowed the Bank's operations to be effectively conducted while most employees are working from home.

The management committee of the Bank is actively monitoring its response to the financial and non-financial risk of COVID-19. The CEO provides the Board with regular updates on the impact on the business, our workforce, and customers.

Credit risk

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

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

We have implemented a number of Risk Appetite measures which allow the Bank to monitor and control inherent risks at the enterprise and portfolio levels. These measures vary by business unit as may be appropriate, and include a combination of measures such as geographic concentrations, loan classifications, asset concentration limits, and industrial segmentation limits. These limits are monitored and reported to senior management and the Board on a regular basis and are also used to inform our strategic planning process.

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

Adding new products and diversifying is an important means to reduce risk if executed effectively. The Bank follows established change management policies and procedures to ensure the successful implementation of new offerings. The Bank has diversified into adjacent personal businesses such as the offering of reverse mortgages to qualifying homeowners. These reverse mortgages enable homeowners to convert a portion of their home equity into cash on a tax-free basis while remaining in their principal residence. The Bank also offering lines of credit to individuals aged over fifty, secured against the Cash Surrender Value (CSV) of the borrower's participating whole life insurance policy.

Through its Commercial Lending platform, the Bank continues diversifying into 'Specialized Finance' – with a focus on 'Lend to Lender' arrangements.

On January 1, 2019, the Bank acquired Bennington, a privately owned company serving the brokered equipment leasing market in Canada with a focus on transportation, construction, and food service equipment. The Bank's strategy with respect to Bennington is to enhance its competitive position in the equipment financing market using our challenger bank platform and access to cost-effective funding sources.

The Bank categorizes individual credit exposures in our lending portfolios using an internal risk rating system that rates each exposure in the portfolio

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

The Bank invests in corporate bonds to diversify its liquidity holdings and to generate higher returns. However, such investments expose the Bank to credit risk, should the issuer of these securities be unable to make timely interest payments or, under a worst case scenario, if the issuer becomes insolvent. To limit its exposure to credit risk, the Bank establishes policies with exposure limits based on credit rating and investment type. Securities rated BBB- and higher (which is considered "low risk") comprised 100% of the Bank's corporate bond portfolio at December 31, 2020 (December 31, 2019 – 100%).

The Bank also invests in preferred shares to generate returns that meet certain internally acceptable ROE thresholds. These securities also represent a potential source of liquidity for the Bank. However, such investments expose the Bank to credit risk – should the issuer of these securities be unable to make timely dividend payments or, under a worst case scenario, if the issuer becomes insolvent. To limit its exposure to credit risk, the Bank establishes policies with exposure limits based on credit rating and investment type. Securities rated P-2 or higher comprised 41% of the Bank's total equity securities portfolio at December 31, 2020, compared to 41.5% a year earlier. Securities rated P-3 or higher comprised 97.6% of the total equity securities portfolio at the end of December 2020 (December 31, 2019 – 98.2%).

The Bank's rating scale for the credit quality of our counterparties is based on both internal and external credit grading systems. Table 28 below maps these grading systems against the categories on the Bank's credit risk exposure ratings scale. It presents the long-term Standard & Poor's equivalent grades for the Bank's cash and cash equivalents, debt and equity securities, and derivative counterparties. Low risk denotes that there is a very low risk of either default or loss, standard risk that there is a low risk of default or loss, and high risk that there is some concern that default or loss could occur.

Cash and cash equivalents and derivatives ratings are based on the issuer grade of the respective financial institution, their subsidiaries or other financial intermediaries. Debt securities, including corporate bonds, are categorized based on short-term or long-term issue grades, depending on the maturity dates of the securities. Preferred share securities are categorized based on the DBRS preferred share rating scale used in the Canadian securities market. Lending exposures are categorized according to the Bank's internal risk rating framework, which is based on the likelihood of default.

The Bank assigns economic and regulatory capital for our counterparty credit exposures in accordance with OSFI's CAR Guideline, which is based on standards issued by the BCBS. All deemed credit exposures, such as counterparty credit risk that may arise through deposits placed with banks, derivatives contracts and other activities, are regularly assessed to ensure that such activities are consistent with the Bank's Board-approved RAF and do not expose the Bank to undue risk of loss. All related counterparty credit limits are approved by senior management and monitored on an ongoing basis to ensure that all such exposures are maintained within approved limits.

Table 28: Credit risk exposure ratings scale

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

We have assessed the credit quality of the Bank's assets as at December 31, 2020 and 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 financial assets classified as debt instruments in accordance with IFRS 9, for which a loss allowance is calculated, including contractual amounts of undrawn loan commitments, based on the Bank's credit risk exposure rating scale.

Table 29: Credit quality analysis

($000s)				**For the year ended December 31, 2020**
	Stage1	**Stage1**	**Stage3**	**Total**
Loans receivable:				
Low risk	**13,757,464**	**952,212**	**-**	**14,709,676**
Standard risk	**9,641,586**	**3,309,828**	**-**	**12,951,414**
High risk	**304,089**	**251,018**	**-**	**555,107**
Impaired	**-**	**-**	**121,548**	**121,548**
Total	**23,703,139**	**4,513,058**	**121,548**	**28,337,745**
Less allowance	**(35,731)**	**(26,753)**	**(3,544)**	**(66,028)**
	23,667,408	**4,486,305**	**118,004**	**28,271,717**

($000s)				**For the year ended December 31, 2020**
	Stage1	**Stage1**	**Stage3**	**Total**
Loans commitments:				
Low risk	**672,180**	**742**	**-**	**672,922**
Standard risk	**963,356**	**141,127**	**-**	**1,104,483**
High risk	**32,630**	**572**	**-**	**33,202**
Total	**1,668,166**	**142,441**	**-**	**1,810,607**
Less allowance	**(129)**	**(20)**	**-**	**(149)**
	1,668,037	**142,421**	**-**	**1,810,458**

($000s)				For the year ended December 31, 2019
	Stage1	Stage1	Stage3	Total
Loans receivable:				
Low risk	12,248,376	521,467	-	12,769,843
Standard risk	11,235,604	2,175,479	-	13,411,083
High risk	209,680	131,677	-	341,357
Impaired	-	-	122,454	122,454
Total	23,693,660	2,828,623	122,454	26,644,737
Less allowance	(19,946)	(11,768)	(5,062)	(36,776)
	23,673,714	2,816,855	117,392	26,607,961

($000s)				For the year ended December 31, 2019
	Stage1	Stage1	Stage3	Total
Loans receivable:				
Low risk	232,030	370	-	232,400
Standard risk	927,607	169,807	-	1,097,414
High risk	6,177	147	-	6,324
Total	1,165,814	170,324	-	1,336,138
Less allowance	(107)	(24)	-	(131)
	1,165,707	170,300	-	1,336,007

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

Table 30: Credit analysis for financial assets

($000s)	**31-Dec-20**	31-Dec-19
Debt Instruments:		
Loan receivables – FVTPL		
Low risk	**59,416**	96,779
Standard risk	**65,789**	98,272
Carrying amount	**125,205**	195,051
Investments – FVTPL		
Low risk	**134,355**	41,059
Standard risk	**7,683**	7,281
High risk	**9,279**	6,093
Carrying amount	**151,317**	54,433
Equity Instruments:		
Equity Securities – FVTPL		
High risk	**1,165**	1,100
Carrying amount	**1,165**	1,100
Equity Securities – FVOCI		
Low risk	**27,901**	31,614
Standard risk	**54,419**	55,766
High risk	**5,019**	5,007
Carrying amount	**87,339**	92,387

Cash and cash equivalents

The Bank held cash and cash equivalents of $557.7 million as at December 31, 2020. The cash and cash equivalents are held with financial institutions that are rated at least A- to AAA, based on S&P ratings.

Collateral held as security

All mortgages are secured by real estate property located in Canada. Appraised values for collateral held against mortgages are obtained at the time of origination and are generally not updated, except when a mortgage is individually assessed as impaired. For impaired mortgages, the most recent appraised value of collateral at December 31, 2020 was $140 million (December 31, 2019 – $149 million). At December 31, 2020, the appraised values of collateral held for mortgages considered past due but not impaired, as determined when the mortgages were originated, was $182 million (December 31, 2019 – $88 million). It is the Bank's policy to pursue the timely realization of collateral in an orderly manner.

Real estate from foreclosures that were owned and held for sale at December 31, 2020 amounted to $0.9 million (December 31, 2019 – $1.6 million) and are included in Other assets (Note 14) in the consolidated balance sheet. The Bank does not use the real estate obtained through foreclosure for its own operations.

Leases are secured by first charges against the equipment leased, and may include guarantees and other additional charges against other assets such as real estate. Values for the equipment securing leases are typically determined at the origination of the lease and generally not updated, except when a lease is individually assessed as impaired. For impaired leases, the value of expected realizations from charges and against equipment and other security at December 31, 2020 was $7.3 million (December 31, 2019 – $5.3 million).

The Bank does not hold collateral against investments in debt and equity securities; however, securities received under reverse repurchase agreements are allowed to be sold or re-pledged in the absence of default by the owner. The Bank has a commitment to return collateral to the counterparty in accordance with the terms and

conditions stipulated by the master repurchase agreement. The Bank has no contractual agreement with any counterparty that required it to post increased collateral in the event of its credit rating being downgraded.

The contractual amount outstanding on financial assets that were written off during the year amounted to $3 million (December 31, 2019 – $3.1 million). These amounts are still subject to enforcement activity.

Credit concentration risk

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

Management believes that it is adequately diversified by borrower, property type and geography. At December 31, 2020, no individual borrower represented more than $94 million (December 31, 2019 – $100 million) or 0.7% (December 31, 2019 – 0.7%) of uninsured loan principal outstanding. See Tables 7 and 13 of our Q4 2020 unaudited Supplemental Information and Regulatory Disclosures Report for a breakdown of loan principal outstanding by property type and geography, respectively.

Liquidity and funding risk

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

In accordance with our RAF, the Board defines the Bank's liquidity and funding risk tolerance as 'low', and also reviews and approves the limits to measure and control this risk. These limits are articulated via our Board-approved Liquidity and Funding Risk Management Policy – which is updated annually, at a minimum. This Policy requires the Bank to maintain a pool of high quality liquid assets and stipulates various liquidity ratios and limits, concentration limits and, among other considerations, ongoing periodic liquidity stress testing requirements. We also adhere to the OSFI's Liquidity Adequacy Requirement (LAR) Guideline, which provides the framework within which OSFI assesses whether a federally-regulated financial institution maintains adequate liquidity. Our liquidity position and adherence to the requirements are monitored on a daily basis by senior management. Key metrics are also reported monthly to the ALCO and, quarterly, both to the ERM Committee and the RCC of the Board. Any exceptions to established Policy or regulatory limits are reported immediately to the ALCO or to the Board, as applicable. As at December 31, 2020, we were in compliance with all related regulatory requirements.

The Bank's practice is to hold a sufficient amount of liquidity on our balance sheet to ensure that we remain well positioned to manage unexpected events that may reduce/limit our access to funding. We closely monitor our liquidity position on a daily basis and ensure that the level of liquid resources held, together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and properly discharge our other financial obligations. Actual liquidity may vary from period to period, mainly due to the timing of anticipated cash flows and funding seasonality. In addition to our funding and liquidity management policies and procedures, we have also developed a Liquidity and Funding Risk Contingency Plan, an OSFI-mandated Comprehensive Recovery Plan, which outlines actions to be undertaken to address the outflow of funds in the event of a funding or liquidity crisis, and a Resolution Plan.

Table 31: Assets held for liquidity protection

($000s, except percentages)	Policy minimum	2020	2019
Liquid assets held for regulatory purposes		**2,793,555**	1,575,297
Liquidity Policy Ratio: liquid assets as a % of required liquidity[(1)(2)]	**100%**	**128%**	178%

(1) For purposes of this calculation, the Bank's Liquidity and Funding Risk Management Policy requires the value of assets held for liquidity protection to be reduced to reflect their estimated liquidity value. (2) The liquidity policy ratio declined in 2020, while the amount of liquid assets held increased. This was the result of growth in the consolidated balance sheet including demand deposits (which we hold higher levels of liquidity for than term deposits) and higher business requirements, which in turn increased the amount of required liquidity.

Stress and scenario testing is an integral part of the Bank's Liquidity and Funding Risk Management framework and supports the development of action plans to address funding needs in stressed environments. We manage our funding needs to ensure that we can meet our financial commitments in a timely manner and at reasonable prices, even in times of stress. The Bank's stress-testing models consider scenarios that incorporate institution-specific, market-specific and combination events. These scenarios model cash flows over a one-year period incorporating such factors as a decline in capacity to raise new deposits, lower liquidity values for market investments and an accelerated redemption of notice deposits. In order to establish these scenarios, we assess our fund-raising capacity and establish assumptions related to the cash flow behavior of each type of asset and liability. In each scenario, the Bank targets to hold sufficient liquid assets and have fundraising capacity sufficient to meet all obligations for at least a three-month forecast period while maintaining normal business activities. As at December 31, 2020, the Bank held sufficient liquid assets and maintained sufficient funding capacity to meet all funding obligations over the one-year forecasting period under all considered scenarios.

We continue to actively diversify our funding sources in order to proactively manage our funding risk profile. This diversification has been accomplished through the launch of our direct-to-consumer platform, EQ Bank, the addition of several large bank sponsored funding facilities, a deposit note program, and new securitization vehicles. Also, in 2019, the Bank received approval of the Minister of Finance (Canada) for letters patent to incorporate a trust company under the Trust and Loan Companies Act (Canada) and, on December 19, 2019, received the "Order to Commence and Carry on Business" from OSFI. The new wholly-owned trust subsidiary commenced business in early 2020 and provides an additional source of funding diversification for the Bank as it is a new issuer of deposits that is eligible for CDIC insurance coverage.

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

Table 32: Contractual obligations[(1)]

($000s)					**Payments due by period**
	Total	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Deposits principal and interest	**11,957,938**	**6,548,778**	**4,173,085**	**1,226,934**	**9,141**
Securitization liabilities principal and interest	**22,681,113**	**4,000,029**	**7,548,040**	**7,042,573**	**4,090,470**
Bank facilities principal and interest	**141**	**141**	**-**	**-**	**-**
Other liabilities	**152,064**	**125,080**	**17,274**	**5,262**	**4,448**
Total 2020 contractual obligations	**34,791,256**	**10,674,027**	**11,738,399**	**8,274,769**	**4,104,059**
Total 2019 contractual obligations[(2)]	32,777,778	9,945,417	11,323,280	8,093,703	3,415,378

(1) The balances for financial liabilities will not agree with those in our consolidated balance sheet as this table incorporates all on and off balance sheet obligations, on an undiscounted basis, including both principal and interest. Prior year amounts have been adjusted accordingly. (2) Reclassified to conform to current year presentation.

See Note 22 to the consolidated financial statements for credit commitments and contingencies as at December 31, 2020 and 2019.

Market risk

Market Risk consists of interest rate risk and equity price risk, and is broadly defined as the possibility that changes in either market interest rates or equity prices may have an adverse effect on our profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes, such as optionality features embedded in our cashable deposits or mortgage commitments. For the interest sensitivity position of the Bank at December 31, 2020, see Note 24 to the consolidated financial statements. With respect to equity price risk, the value of our securities portfolio may be impacted by market determined variables which are beyond our control, such as benchmark yields, credit and/or market spreads, implied volatilities, the possibility of credit migration and default, among others. Overall, we have a 'low' appetite for market risk.

With respect to structural interest rate risk, our objective is to manage and control the Bank's interest rate risk exposures within acceptable parameters and our primary method of mitigating this risk involves funding our assets with liabilities of a similar duration. The Bank also maintains a hedging program to manage its economic value to its target risk. The responsibility for managing the Bank's interest rate risk resides with the ALCO, which meets monthly to review and approve all Treasury-related policies, to review key interest rate risk metrics, and to provide direction on our operating and funding strategy. Also, senior management continuously reviews our interest rate risk profile and monitors the Bank's ongoing funding strategy through the daily interest rate-setting process.

We monitor interest rate risk by utilizing simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on net interest income and on the economic value of shareholders' equity (EVE). EVE is a calculation of the present value of the Bank's asset cash flows, less the present value of liability cash flows on an after-tax basis. Management considers this measure to be more comprehensive than measuring changes in net interest income, as it captures all interest rate mismatches across all terms. Certain assumptions that are based on actual experience are also built into the simulations, including assumptions related to the pre-maturity redemption of deposits and early payouts of mortgages.

The table below illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest-rate changes on EVE and NII during the 12-month period following December 31, 2020. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 33: Net interest income shock

($000s, except percentages)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	**19,430**	**(764)**
Impact on EVE	**(18,381)**	**(4,060)**
EVE impact as a % of common shareholders' equity	**(1.2%)**	**(0.3%)**
200 basis point shift		
Impact on net interest income	**38,986**	**(755)**
Impact on EVE	**(34,649)**	**(4,068)**
EVE impact as a % of common shareholders' equity	**(2.2%)**	**(0.3%)**

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

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

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

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

Operational risk

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

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

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

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

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

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

- **Key Risk Indicators (KRI's):** As part of our RCSA monitoring exercise, we utilize KRI's to measure, monitor and report on the level of operational risk on a business/functional unit basis, as well as

across the organization. These KRI's also serve as early warning triggers to highlight potential issues before the Bank experiences an incident or loss event.

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

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

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

- **Enterprise Change Management:** Effective change management is key to successful implementation and execution of our business strategies and objectives. The Bank is committed to effective management of changes through use of established controls and processes that consider the materiality and risk of each change before it is undertaken. Our change management practices involve assessment of change materiality, appropriate engagement of key stakeholders and support areas. All material changes are subject to a comprehensive assessment of impact to the Bank's core risks to ensure appropriate identification and mitigation of risks. In addition, all material changes are subject to a more detailed assessment of operational risks to ensure appropriate identification and mitigation of risks as part of the project management, implementation plans, post implementation activities, and operational execution.

- **Fraud:** The Bank maintains a robust control framework designed to manage the risks related to misrepresentation and fraudulent activities across the Bank.

Our approach to fraud risk management has been to:

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

We have processes to keep our fraud controls relevant, agile, and current to accommodate new products, new channels and evolving fraud trends. The existing fraud risk management program utilizes proactive measures to deter, prevent and detect fraud, rather than solely relying upon reactive measures. Our fraud risk management framework is oriented around our three lines of defense model. Our first line business unit processes in mortgage underwriting and deposit taking form the primary layer of defense against external fraudulent activities. Here our businesses focus on early detection and rejection of potentially fraudulent transactions. Remaining vigilant, particularly in the face of regulatory changes, tightening mortgage qualification criteria, and changing housing prices, we have continually enhanced our capabilities through the adoption of new technologies , the maintenance and use of data strategically, and the continual development of training and awareness programs for staff.

Centrally, and operating as a 2nd line centre of excellence in conjunction with our Compliance and AML teams, we operate a Central Fraud team to provide independent oversight of 1st line activities, expert assistance in detection, the development

and delivery of training, as well as policy development and Quality Assurance. Our Internal Audit team provides 3rd line oversight of fraud prevention activities. The 2nd and 3rd lines provide independent reporting to committees of the Board on a regular basis.

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

  We are compliant with OSFI Guideline E-23: Enterprise-Wide Model Risk Management. We have a 'low' appetite and tolerance for Model risk and have implemented the principles set out in this Guideline. A Model Risk Policy, Model Validation Standard, and Model Validation Procedures are in place to ensure the effective identification and mitigation of Model Risk.

- **Technology and Cyber Security:** We remain focused on the confidentiality, integrity and availability of our information and cyber security controls that protect our network, data and infrastructure. The cyber security risk landscape includes numerous cyber threats such as hacking threats, identity theft, denial of service, and advanced persistent threats. These and other cyber threats continue to become more sophisticated, complex, and potentially damaging. Third party service providers that we use may also be subject to these risks which can increase our risk of potential attack. We continually assess the performance of third-party suppliers against industry standards. In addition, we have limited control over the safety of our clients' personal devices that may be used to conduct transactions. To manage these risks, our defense systems are designed as an integral part of both our existing Bank infrastructure, and our new architecture and development for our digital banking platform.

  We view cyber risk as a key component of Operational Risk and the Bank proactively maintains a "defense in depth" strategy with developed standards and procedures to prevent, detect, respond, manage and address cyber security threats from all types of malicious attackers that attempt to steal sensitive information, cause a system failure or denial of service on websites or other types of service disruption.

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

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

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

  Risks are actively managed through information security management programs which include regular vulnerability assessments conducted by qualified 3rd parties on an annual basis, completion of the OSFI Cyber Security Self-Assessment and continuous improvements to the Bank's security and change management practices based on best practices from recognized industry associations.

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

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

- **Data Management and Privacy Risk:** The use and management of data and its governance are becoming increasingly important as we continue to invest in digital solutions and innovation, the move of our core banking system to the cloud and the ongoing expansion of business activities. There are regulatory compliance risks associated with data management and privacy as well, which form part of the Bank's Regulatory Compliance Management Program as discussed in the Legal and Regulatory Risk section below. We have established a dedicated Enterprise Data Management team to ensure we effectively address current and future data needs (quality, security, integrity), and that we are positioned to address emerging requirements from a data management planning and governance perspective.

- **Environmental and Social Risk:** Environmental risk is the possibility of loss of strategic, financial, operational or reputational value resulting from the impact of environmental issues or concerns, including climate change, and related social risk. The Bank may be exposed to environmental risks both through emerging regulatory and legal requirements, disruptions to its operations and services, the products and services that it provides to its customers, as well as through its customers themselves. To manage this risk, we evaluate environmental factors as part of our underwriting process. We consider the environmental risk associated with Single Family residential lending to be low so do not conduct environmental assessments for each of those loans. For the majority of our commercial loan portfolio, we employ third-party consultants to carry out detailed environmental assessments. We also maintain a diversified lending portfolio, which improves our resilience to geographic or sectoral specific environmental developments or events. The Bank is committed to reducing its environmental footprint. During the year, the Bank participated in disclosing its 2019 climate change related information to CDP (formerly known as Carbon Disclosure Project).

We consider this risk to be a component of Operational risk. We conduct analyses of this risk at periodic intervals to determine its potential impact on the Bank's assets in certain geographical regions which are prone to such disasters, including an extensive stress test on earthquake risk. Based on the results of these stress tests, refinements are made to our RAF, where considered appropriate and prudent.

- **Third Party Risk:** Third party suppliers are integral to the Bank's business operations and the Bank has designed a program to provide oversight for third party relationships. Our approach to third party risk mitigation is outlined in policies and procedures that establish the minimum requirements for identifying and managing risks throughout the engagement life cycle with a third party. Performance monitoring and due diligence reviews are conducted on a regular basis. A higher level of due diligence is focused on our material arrangements to ensure that service levels are met, and that their system of controls is adequate. Outsourcing arrangements are reviewed on a regular (annual) basis to assess materiality, and to ensure regulatory requirements (i.e. OSFI B-10 Outsourcing Guideline) are met. We continue to evolve and improve our capabilities in this area, and with ever increasing reliance on external technology services, we expect that third party risk management will be subject to increased levels of regulation in the coming years.

Operational risk loss events

The Bank has a process and procedures in place for monitoring and reporting operational losses as well as near miss events. A near miss is an event that otherwise meets the definition of an operational loss event, but for which no financial loss has been incurred, not because of effective control but because of fortuitous circumstances. Our established processes include completing root cause analysis and action plans for loss and near miss events within defined thresholds. This helps ensure that actions are taken to mitigate future recurrence and potential negative impacts to financial, regulatory compliance, or to the image/ reputation of the bank. During 2020, we did not experience any material operational risk loss events.

Legal and regulatory risk

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

In accordance with our Board-approved RAF, we have a 'low' appetite and a 'low' tolerance for Legal and Regulatory risk. We undertake reasonable and prudent measures designed to achieve compliance

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

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

Business and strategic risk

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

- **Competitive Risk:** Competitive risk is the risk of an inability to build or maintain a sustainable competitive advantage in a given market or markets, and includes potential for loss of the market share due to competitors offering superior products or services. Competitive risks can arise from within or outside the financial sector, from traditional or non-traditional competitors. The banking business is highly competitive and the Bank's products compete with those offered by other banks, trust companies, insurance companies, and other financial services companies in the jurisdictions in which it operates. Many of these companies are strongly capitalized and hold a larger share of the Canadian banking market. There is always a risk that there will be new entrants in the market with more efficient systems and operations that could impact our lending or deposit-taking market share.

We do not use proprietary retail branches to originate deposits or loan exposures. Deposits are raised directly through our online digital platform. Additionally, we rely primarily on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada (IIRO"), the Registered Deposit Brokers Association (RDBA) and the Mutual Fund Dealer Association (MFDA) to distribute our deposit products. Lending exposure originations depend on a network of independent mortgage and lease brokers, brokerage firms and mortgage banking organizations. Under adverse circumstances, it may be difficult to attract enough new deposits from agents or lending business from brokers to meet our current operating requirements. The potential failure to sustain or increase current levels of deposits or lending originations from these sources could negatively affect the financial condition and operating results of the Bank.

- **Systemic Risk:** Systemic risk is a risk that the financial system as a whole, or major part of it, may collapse with the likelihood of material damage to the economy, resulting in financial, legal, operational, and reputational risks for the Bank.

The Bank significantly operates in Canada and deposits its monies with other Banks that are AAA or higher rated. An event of systemic crisis may result in higher unemployment and lower family income, corporate earnings, business investment and consumer spending and could adversely affect the demand for our loan products resulting in higher provisions for credit losses.

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

Reputational risk

Reputational risk is the possibility that current and potential customers, counterparties, analysts, shareholders, investors, regulators or others will

have an adverse opinion of the Bank – irrespective of whether these opinions are based on facts or merely public perception. Such an event could result in potential losses to the Bank arising from a decline in business volumes, challenges accessing funding markets, or increased funding costs.

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

Updated share information

At February 22, 2021, the Bank had 16,903,254 common shares and 2,988,900 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 587,144 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $39.7 million.

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis to enable appropriate decisions to be made regarding public disclosure.

We have evaluated the effectiveness of the Bank's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2020. Based on that evaluation, we have concluded that these disclosure controls and procedures were effective.

Internal control over financial reporting

Our Internal Control over Financial Reporting framework is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. We have evaluated the design and operational effectiveness of the Bank's Internal Controls over Financial Reporting as of December 31, 2020 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the Integrated (2013) Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a recognized control model, and the requirements of National Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, we have concluded that the Bank's Internal Controls over Financial Reporting were effective as of December 31, 2020.

Changes in internal control over financial reporting

There were no changes in the Bank's internal control over financial reporting that occurred during the 2020 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Non-Generally Accepted Accounting Principles (GAAP) financial measures

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

- **Adjusted results:** in periods where we determine that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Bank may present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. We believe that adjusted results, if any, can to some extent enhance comparability between reporting periods or provide the reader with a better understanding of how we view the Bank'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, adjusted net income available to common shareholders and Adjusted ROE

($000s, except percentages)					**For the years ended**
	31-Dec-20	31-Dec-19	Change	31-Dec-18	Change
Net income	**223,804**	206,479	8%	165,626	35%
Adjustments on an after-tax basis:					
Provision for credit losses on equipment leases at Bennington's acquisition date	**-**	4,226	N/A	-	N/A
Fair value adjustments related to securities and derivatives	**(4,823)**	1,185	(507%)	2,829	(270%)
Backstop funding facility write-down	**-**	-	N/A	4,323	N/A
Adjusted net income	**218,981**	211,890	3%	172,778	27%
Dividends on preferred shares	**4,477**	4,691	(5%)	4,763	(6%)
Adjusted net income available to common shareholders	**214,504**	207,199	4%	168,015	28%
Adjusted weighted average common equity	**1,481,361**	1,303,174	14%	1,143,427	30%
Adjusted ROE	**14.5%**	15.9%	(1.4%)	14.7%	(0.2%)
($000s, except percentages)					**For the three months ended**
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Net income	**71,424**	73,928	(3%)	55,854	28%
Adjustments on an after-tax basis:					
Fair value adjustments related to securities and derivatives	**(2,560)**	(3,018)	15%	191	(1,440%)
Adjusted net income	**68,864**	70,910	(3%)	56,045	23%
Dividends on preferred shares	**1,120**	1,119	0%	1,118	0%
Adjusted net income available to common shareholders	**67,744**	69,791	(3%)	54,927	23%
Adjusted weighted average common equity	**1,536,634**	1,462,444	5%	1,366,616	12%
Adjusted ROE	**17.5%**	19.0%	(1.5%)	15.9%	(1.6%)

Reconciliation of Adjusted EPS – diluted

($ per share amounts)					**For the years ended**
	31-Dec-20	31-Dec-19	Change	31-Dec-18	Change
EPS – diluted	**12.95**	11.97	8%	9.67	34%
Adjustments on an after-tax basis:					
Provision for credit losses on equipment leases at Bennington's acquisition date	**-**	0.26	N/A	-	N/A
Fair value adjustments related to securities and derivatives	**(0.29)**	0.06	(583%)	0.17	(271%)
Backstop funding facility write-down	**-**	-	N/A	0.26	N/A
Adjusted EPS – diluted	**12.66**	12.29	3%	10.10	25%
($ per share amounts)					**For the three months ended**
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
EPS – diluted	**4.13**	4.30	(4%)	3.21	29%
Adjustments on an after-tax basis:					
Fair value adjustments related to preferred shares and derivatives	**(0.15)**	(0.17)	12%	0.01	(1,600%)
Adjusted EPS – diluted	**3.98**	4.13	(4%)	3.22	24%

Reconciliation of Adjusted Efficiency Ratio

($000s, except percentages)					For the years ended
	31-Dec-20	31-Dec-19	Change	31-Dec-18	Change
Non-interest expenses	**214,060**	199,573	7%	149,363	43%
Revenue	**556,833**	497,064	12%	376,040	48%
Adjustments on a pre-tax basis:					
Fair value adjustments related to securities and derivatives	**(6,562)**	1,613	(507%)	3,849	(270%)
Backstop funding facility write-down	**-**	-	N/A	5,881	N/A
Adjusted net revenue	**550,271**	498,677	10%	385,770	43%
Adjusted Efficiency Ratio	**38.9%**	40.0%	(1.1%)	38.7%	0.2%
($000s, except percentages)					For the three months ended
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Non-interest expenses	**55,348**	53,065	4%	54,477	2%
Revenue	**151,950**	148,708	2%	134,180	13%
Adjustments on a pre-tax basis:					
Fair value adjustments related to securities and derivatives	**(3,483)**	(4,106)	15%	259	(1,445%)
Adjusted net revenue	**148,467**	144,602	3%	134,439	10%
Adjusted Efficiency Ratio	**37.3%**	36.7%	0.6%	40.5%	(3.2%)

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

($000s, except percentages)	**31-Dec-20**	31-Dec-19	Change	31-Dec-18	Change
Total assets on the consolidated balance sheet	**30,746,318**	28,392,452	8%	25,037,145	23%
Loan principal derecognized	**5,189,264**	4,612,901	12%	4,373,854	19%
Assets Under Management	**35,935,582**	33,005,353	9%	29,410,999	22%

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

($000s, except share and per share amounts)	**31-Dec-20**	31-Dec-19	Change	31-Dec-18	Change
Shareholders' equity	**1,647,702**	1,467,714	12%	1,280,027	29%
Preferred shares	**(72,477)**	(72,557)	0%	(72,557)	0%
Common shareholders' equity	**1,575,225**	1,395,157	13%	1,207,470	30%
Common shares outstanding	**16,874,074**	16,797,593	0%	16,554,018	2%
Book value per common share	**93.35**	83.06	12%	72.94	28%

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

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

- **Dividend Yield:** is calculated on an annualized basis and is defined as dividend per common share divided by average of daily closing price per common share for the period.
- **Economic value of shareholders' equity (EVE):** is a calculation of the present value of the Bank's asset cash flows, less the present value of liability cash flows on an after-tax basis. EVE is a more comprehensive measure of our exposure to interest rate changes than is in net interest income because it captures all interest rate mismatches across all terms.
- **Efficiency Ratio:** this measure is used to assess the efficiency of the Bank's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by revenue. A lower efficiency ratio reflects a more efficient cost structure.

($000s, except percentages)					For the years ended
	31-Dec-20	31-Dec-19	Change	31-Dec-18	Change
Non-interest expenses	**214,060**	199,573	7%	149,363	43%
Revenue	**556,833**	497,064	12%	376,040	48%
Efficiency Ratio	**38.4%**	40.2%	(1.8%)	39.7%	(1.3%)
					For the three months ended
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Non-interest expenses	**55,348**	53,065	4%	54,477	2%
Revenue	**151,950**	148,708	2%	134,180	13%
Efficiency Ratio	**36.4%**	35.7%	0.7%	40.6%	(4.2%)

- **Liquid assets:** is a measure of the Bank's cash or assets that can be readily converted into cash, which are held for the purposes of funding loans, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 15 of this MD&A.
- **Liquidity Coverage Ratio (LCR):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures the Bank's ability to meet its liquidity needs for a 30 calendar day liquidity stress scenario. It is equal to high-quality liquid assets divided by total net cash outflows over the next 30 calendar days.
- **Loans Under Management (LUM):** is the sum of loan principal reported on the consolidated balance sheet and loan principal derecognized but still managed by the Bank. A detailed calculation can be found in Table 8 of this MD&A.
- **Net interest margin (NIM):** this profitability measure is calculated on an annualized basis by dividing net interest income by the average total interest earning assets for the period. A detailed calculation can be found in Tables 2 and 19 of this MD&A.
- **Operating leverage:** is the growth rate in revenue less the growth rate in non-interest expenses.
- **Pre-provision pre-tax income:** is the difference between revenue and non-interest expenses.
- **Provision for credit losses (PCL) – rate:** this credit quality metric is calculated on an annualized basis and is defined as the provision for credit losses as a percentage of average loan principal outstanding during the period.

($000s, except percentages)					For the years ended
	31-Dec-20	31-Dec-19	Change	31-Dec-18	Change
Provision for credit losses	**42,280**	18,394	130%	2,083	1,930%
Divided by: average loan principal	**27,333,853**	25,187,572	9%	21,320,697	28%
Provision for credit losses – rate	**0.15%**	0.07%	0.08%	0.01%	0.14%
					For the three months ended
	31-Dec-20	30-Sep-20	Change	Dec-31-19	Change
Provision for credit losses	**103**	(2,357)	104%	3,917	(97%)
Divided by: average loan principal	**27,822,176**	27,556,438	1%	26,181,101	6%
Provision for credit losses – rate	**0.001%**	(0.03%)	0.03%	0.06%	(0.06%)

- **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.

($000s, except percentages)					For the years ended
	31-Dec-20	31-Dec-19	Change	31-Dec-18	Change
Net income available to common shareholders	**219,327**	201,788	9%	160,863	36%
Weighted average common equity outstanding	**1,483,772**	1,300,468	14%	1,139,851	30%
Return on shareholders' equity	**14.8%**	15.5%	(0.7%)	14.1%	0.7%
					For the three months ended
	31-Dec-20	30-Sep-20	Change	31-Dec-19	Change
Net income available to common shareholders	**70,304**	72,809	(3%)	54,736	28%
Weighted average common equity outstanding	**1,537,914**	1,463,953	5%	1,366,521	13%
Return on shareholders' equity	**18.2%**	19.8%	(1.6%)	15.9%	2.3%

- **Risk-weighted assets (RWA):** represents the Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline. A detailed calculation can be found in Table 18 of this MD&A.
- **Total shareholder return (TSR):** is defined as total return of stock to an investor including stock appreciation and dividends.
- **Revenue per full-time employee:** is calculated as revenue for the period divided by the number of full-time employees as at the end of that period.

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Management's responsibility for financial reporting

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

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

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

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

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

Andrew Moor
President and Chief Executive Officer

Chadwick Westlake
Chief Financial Officer

February 22, 2021

Independent auditors' report

To the Shareholders of Equitable Group Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Assessment of the allowance for credit losses for loans

Description of the matter

We draw your attention to Notes 2(d), 3(a)(ii) and 9(d) to the financial statements. The Entity's allowance for credit losses (ACL) for loans is $66,177 thousand. The Entity's ACL is estimated using statistical models that involve a number of inputs and assumptions. ACL is calculated using an expected credit loss (ECL) model which measures the credit losses using a three-stage approach based on the extent of credit deterioration of the financial assets since initial recognition. Probability of default (PD) and loss given default (LGD) are inputs used to estimate ECL and are modelled using forward-looking macroeconomic variables that are closely related with credit losses in the relevant portfolios, and are probability weighted using five macroeconomic scenarios.

Management exercises significant judgement in determining:

- whether there has been a significant increase in credit risk since initial recognition
- the forward-looking macroeconomic variables that are relevant for each portfolio
- probability weights that are applied to the macroeconomic scenarios
- the amount of ECL by exercising experienced credit judgement in considering reasonable and supportable information not already incorporated in models (hereafter, referred to as 'overlays')

In addition, as a result of the Covid-19 pandemic, the economic environment experienced significant volatility and uncertainty. This had a direct impact on forward-looking macroeconomic variables, probability weights and overlays.

Why the matter is a key audit matter

We identified the assessment of the ACL for loans as a key audit matter. Significant auditor judgement was required because of the use of complex models and there is a higher degree of measurement uncertainty due to the significant judgements described above, including the impact of the Covid-19 pandemic. Assessing the ACL for loans required significant auditor effort and specialized skills and knowledge to apply audit procedures and evaluate the results of those procedures.

How the matter was addressed in the audit

The following were the primary procedures we performed to address this key audit matter. We evaluated the design and tested the operating effectiveness of certain controls over the Entity's ACL process with the involvement of credit risk and economics professionals with specialized skills and knowledge. This included controls related to:

- monitoring of the models used to derive the PD and LGD inputs
- monitoring of the methodology for identifying whether there has been a significant increase in credit risk
- the review of the forward-looking macroeconomic variables that were relevant for each portfolio and probability weights that were applied to the macroeconomic scenarios
- the review of overlays adjusting the modeled results.

We involved credit risk and economics professionals with specialized skills and knowledge who assisted in evaluating:

- The models for determining PD and LGD by assessing the model monitoring methodology and checking the accuracy of quantitative measures, where applicable
- The methodology used to determine a significant increase in credit risk by assessing the methodology for compliance with IFRS 9 and checking the accuracy of quantitative measures, where applicable
- The forward-looking macroeconomic variables that were relevant to each portfolio by comparing against external macroeconomic data
- The probability weights that were applied to the macroeconomic scenarios through the application of our knowledge of the economy
- The overlays adjusting the modeled results through the application of our industry knowledge and relevant experience.

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Steven Watts.

Toronto, Canada

February 22, 2021

Consolidated balance sheets

($000s) As at December 31	Note	**2020**	2019
Assets			
Cash and cash equivalents	6	**557,743**	508,853
Restricted cash	6	**504,039**	462,992
Securities purchased under reverse repurchase agreements	7	**450,203**	150,069
Investments	8	**589,876**	362,611
Loans – Personal[(1)]	9,10	**19,445,386**	18,359,805
Loans – Commercial	9,10	**8,826,182**	8,248,025
Securitization retained interests	10	**184,844**	139,009
Other assets	13	**188,045**	161,088
		30,746,318	28,392,452
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	14	**16,585,043**	15,442,207
Securitization liabilities	10	**11,991,964**	10,706,956
Obligations under repurchase agreements	10	**251,877**	507,044
Deferred tax liabilities	15	**60,880**	54,689
Other liabilities	16	**208,852**	213,842
		29,098,616	26,924,738
Shareholders' Equity:			
Preferred shares	18	**72,477**	72,557
Common shares	18	**218,166**	213,277
Contributed surplus	19	**8,092**	6,973
Retained earnings		**1,387,919**	1,193,493
Accumulated other comprehensive loss		**(38,952)**	(18,586)
		1,647,702	1,467,714
		30,746,318	28,392,452

David LeGresley
Chair of the Board

Andrew Moor
President and Chief Executive Officer

(1) The Bank has changed the title of one of its Loan product from “Loans – Retail” to “Loans – Personal”. This change is to align the naming convention used internally by the business. There is no change to the numbers being reported under these line items. See accompanying notes to the consolidated financial statements.

Consolidated statements of income

($000s, except per share amounts) Years ended December 31	Note	**2020**	2019
Interest income:			
Loans – Personal		**690,865**	685,964
Loans – Commercial		**401,917**	395,860
Investments		**12,388**	8,671
Other		**16,495**	26,315
		1,121,665	1,116,810
Interest expense:			
Deposits		**364,047**	385,197
Securitization liabilities	10	**250,690**	256,364
Bank facilities		**5,355**	7,319
Other		**4,167**	5,282
		624,259	654,162
Net interest income		**497,406**	462,648
Non-interest income [1]:			
Fees and other income		**22,589**	23,855
Net gain (loss) on loans and investments		**7,221**	(973)
Gains on securitization activities and income from securitization retained interests	10	**29,617**	11,534
		59,427	34,416
Revenue		**556,833**	497,064
Provision for credit losses	9	**42,280**	18,394
Revenue after provision for credit losses		**514,553**	478,670
Non-interest expenses:			
Compensation and benefits		**108,185**	101,651
Other		**105,875**	97,922
		214,060	199,573
Income before income taxes		**300,493**	279,097
Income taxes:	15		
Current		**70,498**	73,877
Deferred		**6,191**	(1,259)
		76,689	72,618
Net income		**223,804**	206,479
Dividends on preferred shares		**4,477**	4,691
Net income available to common shareholders		**219,327**	201,788
Earnings per share	20		
Basic		**13.04**	12.10
Diluted		**12.95**	11.97

(1) Effective January 1, 2020, the Bank has changed the presentation of its non-interest income (refer to Note 2 (f)). Prior year presentation has been updated accordingly. See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

($000s) Years ended December 31	Note	**2020**	2019
Net income		**223,804**	206,479
Other comprehensive income – items that will be reclassified subsequently to income			
Debt instruments at Fair Value through Other Comprehensive Income:			
Net unrealized gains from change in fair value		**4,350**	554
Reclassification of net gains to income		**(1,185)**	(315)
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		**(3,411)**	(1,320)
Reclassification of net gains to retained earnings		**-**	(638)
		(246)	(1,719)
Income tax recovery		**64**	457
		(182)	(1,262)
Cash flow hedges:	11		
Net unrealized losses from change in fair value		**(27,028)**	(894)
Reclassification of net gains to income		**(378)**	(2,388)
		(27,406)	(3,282)
Income tax recovery		**7,222**	874
		(20,184)	(2,408)
Total other comprehensive loss		**(20,366)**	(3,670)
Total comprehensive income		**203,438**	202,809

See accompanying notes to the consolidated financial statements.

Consolidated statements of changes in shareholders' equity

($000s)								2020
					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 year	**72,557**	**213,277**	**6,973**	**1,193,493**	**241**	**(18,827)**	**(18,586)**	**1,467,714**
Net income	**-**	**-**	**-**	**223,804**	**-**	**-**	**-**	**223,804**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(20,184)**	**(182)**	**(20,366)**	**(20,366)**
Exercise of stock options	**-**	**4,122**	**-**	**-**	**-**	**-**	**-**	**4,122**
Purchase of treasury preferred shares	**(80)**	**-**	**-**	**-**	**-**	**-**	**-**	**(80)**
Net loss on cancellation of treasury preferred shares	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**(2)**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(4,477)**	**-**	**-**	**-**	**(4,477)**
Common shares	**-**	**-**	**-**	**(24,899)**	**-**	**-**	**-**	**(24,899)**
Stock-based compensation	**-**	**-**	**1,886**	**-**	**-**	**-**	**-**	**1,886**
Transfer relating to the exercise of stock options	**-**	**767**	**(767)**	**-**	**-**	**-**	**-**	**-**
Balance, end of year	**72,477**	**218,166**	**8,092**	**1,387,919**	**(19,943)**	**(19,009)**	**(38,952)**	**1,647,702**
								2019
Balance, beginning of year	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	-	-	-	206,479	-	-	-	206,479
Transfer of losses on sale of equity instruments	-	-	-	(469)	-	-	-	(469)
Other comprehensive loss, net of tax	-	-	-	-	(2,408)	(1,262)	(3,670)	(3,670)
Exercise of stock options	-	10,825	-	-	-	-	-	10,825
Dividends:								
Preferred shares	-	-	-	(4,691)	-	-	-	(4,691)
Common shares	-	-	-	(21,545)	-	-	-	(21,545)
Stock-based compensation	-	-	1,598	-	-	-	-	1,598
Transfer relating to the exercise of stock options	-	1,660	(1,660)	-	-	-	-	-
Balance, end of year	72,557	213,277	6,973	1,193,493	241	(18,827)	(18,586)	1,467,714

(1)The Bank 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.
See accompanying notes to the consolidated financial statements.

Consolidated statements of cash flows

($000s) Years ended December 31	**2020**	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**223,804**	206,479
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**(3,069)**	15,175
Amortization of premiums/discount on investments	**1,562**	2,415
Amortization of capital assets and intangible costs	**22,930**	16,999
Provision for credit losses	**42,280**	18,394
Securitization gains	**(28,101)**	(9,888)
Stock-based compensation	**1,886**	1,598
Income taxes	**76,689**	72,618
Securitization retained interests	**37,251**	31,736
Changes in operating assets and liabilities:		
Restricted cash	**(41,047)**	(93,317)
Securities purchased under reverse repurchase agreements	**(300,134)**	99,931
Loans receivable, net of securitizations	**(1,751,647)**	(2,713,778)
Other assets	**(2,227)**	41,192
Deposits	**1,132,975**	1,763,225
Securitization liabilities	**1,283,655**	1,081,924
Obligations under repurchase agreements	**(255,167)**	165,034
Bank facilities	**-**	(320,421)
Other liabilities	**(21,980)**	(23,108)
Income taxes paid	**(94,481)**	(48,510)
Cash flows from operating activities	**325,179**	307,698
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	**4,122**	10,825
Dividends paid on preferred shares	**(4,477)**	(4,691)
Dividends paid on common shares	**(24,899)**	(26,180)
Cash flows used in financing activities	**(25,254)**	(20,046)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(333,002)**	(259,181)
Acquisition of subsidiary	**-**	(46,772)
Proceeds on sale or redemption of investments	**158,199**	110,519
Net change in Canada Housing Trust re-investment accounts	**(48,446)**	(39,848)
Purchase of capital assets and system development costs	**(27,786)**	(20,127)
Cash flows used in investing activities	**(251,035)**	(255,409)
Net increase in cash and cash equivalents	**48,890**	32,243
Cash and cash equivalents, beginning of year	**508,853**	476,610
Cash and cash equivalents, end of year	**557,743**	508,853
Cash flows from operating activities include:		
Interest received	**1,098,118**	1,073,829
Interest paid	**(579,580)**	(536,734)
Dividends received	**9,447**	6,688

See accompanying notes to the consolidated financial statements.

Notes to consolidated financial statements

($000s, except per share amounts)

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Bank's Board of Directors on February 22, 2021.

(b) Basis of measurement

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

(c) Functional currency

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

(d) Use of estimates and accounting judgements in applying accounting policies

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

In making estimates and judgements, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been made taking into consideration the economic impact of the COVID-19 pandemic and the significant economic volatility and uncertainty it has created. Actual results could differ materially from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Allowance for credit losses under IFRS 9

The expected credit loss (ECL) model requires management to make judgements and estimates in a number of areas. Management must exercise significant experienced credit judgement in determining whether there has been a significant increase in credit risk since initial recognition and in estimating the amount of ECL. The measurement of ECL considers the incorporation of forward-looking macroeconomic variables and probability weightings of macroeconomic scenarios, which requires significant judgement. Management also exercises significant experienced credit judgement in determining the amount of ECL at each reporting date by considering reasonable and supportable information that is not already incorporated in the modelling process. Changes in these inputs, assumptions, models, and judgements directly impact the measurement of ECL.

As a result of the COVID-19 pandemic, the macroeconomic environment has experienced significant volatility and uncertainty. This has resulted in a direct impact on the forward-looking macroeconomic variables which management uses as part of its underlying assumptions for calculating

ECL. Management has used the latest forward-looking macroeconomic variables provided by Moody's Analytics economic forecasting services for calculating ECL. Please refer to note 9(d).

Recognizing the current economic environment, management has also revised the probability-weights assigned to the macroeconomic scenarios and has also exercised its judgement in determining the amount of ECL by considering reasonable and supportable information that was not already incorporated in the ECL modelling process.

(e) Consolidation

The consolidated financial statements as at and for the twelve months ended December 31, 2020 and December 31, 2019 include the assets, liabilities and results of operations of the Bank and its subsidiaries, after the elimination of intercompany transactions and balances. The Bank has control over 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, 2020, the Bank has changed the presentation of its non-interest income in the Consolidated Statements of Income. In prior years, the Bank presented these non-interest incomes after provision for credit losses. Non-interest income has now been reclassified before provision for credit losses. As a result of this change the Bank now presents Total Revenue.

Note 3 – Significant Accounting Policies

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

(a) Financial instruments

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

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

(i) Classification and measurement of financial instruments

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

i. Debt Instruments

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

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

Business model assessment

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

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

Cash flow characteristics assessment

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

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

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

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

Debt instruments measured at AMC

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

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

Debt instruments measured at FVOCI

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

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

Debt instruments measured at FVTPL

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

ii. Equity instruments

Equity instruments are measured at FVTPL, unless they are not held for trading purposes and an irrevocable election is made to designate these instruments at FVOCI upon initial recognition. The measurement election is made on an instrument-by-instrument basis. Changes in fair value are recognized as part of Investments income in the Consolidated Statements of Income for equity instruments measured as at FVTPL. The Bank has elected to measure certain equity investments at FVOCI that are held for longer term investment purposes. These instruments are measured at fair

value in the Consolidated Balance Sheets, with transaction costs being added to the cost of the instrument. Dividends received that represent return on capital, are recorded in Investments income in the Consolidated Statements of Income. Unrealized fair value gains/losses are recognized in OCI and are not subsequently reclassified to the Consolidated Statements of Income when the instrument is derecognized or sold.

iii. Financial assets and liabilities designated at FVTPL

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

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

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

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

iv. Financial liabilities

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

(ii) Impairment

Scope

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

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

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

ECL model

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

Measurement of ECL

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

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

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

Details of these statistical parameters/inputs are as follows:

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

Forward-looking macroeconomic variables

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

The Bank relies on a broad range of forward-looking macroeconomic variables, such as expected GDP growth, unemployment rates, house price indices, commercial property index and family income. The inputs used in the model for calculating ECL may not always capture all characteristics of the market at the balance sheet date. To capture portfolio characteristics and risks, qualitative adjustments or overlays are made using management experienced credit judgement.

Multiple forward-looking macroeconomic scenarios

The Bank determines ECL using five probability-weighted forward-looking macroeconomic scenarios obtained on a periodic basis from Moody's Analytics economic forecasting services. These macroeconomic scenarios include a 'base-case' scenario which represents the most likely outcome and four additional macroeconomic scenarios representing more optimistic and more pessimistic outcomes. These additional macroeconomic scenarios are designed to capture material non-linearity of potential credit losses in portfolios.

Assessment of significant increase in credit risk

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

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

Modified financial assets

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

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

Definition of default

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

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

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

(iii) Determination of fair value of financial instruments

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

Subsequent to initial recognition, for financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which maximize use of observable market data and include discounted cash flow analysis and other commonly used valuation techniques. See Note 6 for the valuation methods and assumptions used to estimate fair values of financial instruments.

(iv) Derecognition of financial instruments

Financial assets

The Bank derecognizes a financial asset when:

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

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

If the transfer of assets does not meet the criteria for derecognition, the Bank continues to recognize the financial asset and also recognizes a financial liability for the consideration received upon the transfer in the Consolidated Balance Sheets.

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

Financial liabilities

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

(v) Offsetting

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

(b) Investments

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

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

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in Consolidated Statements of Income in the same manner as for financial assets measured at amortized cost:

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

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

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

(c) Loans receivable

Loans receivable measured at amortized cost

Loans are initially recognized at fair value and subsequently measured at amortized cost, plus accrued interest, using the effective interest rate method, and are reported net of unamortized origination fees, commitment income, premiums or discounts and an allowance for ECL. Net fees relating to loan origination are amortized to income on an effective yield basis over the term of the loans to which they relate, and are included in Interest income – loans in the Consolidated Statements of Income.

Loans receivable measured as at FVTPL

Certain loans measured as at FVTPL are carried at fair value with changes in fair value included in Non-interest income in the Consolidated Statements of Income. Net fees relating to loan origination are recognized in income as incurred, and are included in Interest income – Loans in the Consolidated Statements of Income.

(d) Cash and cash equivalents

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

(e) Securities purchased under reverse repurchase agreements

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

(f) Securitizations

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

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

Securitized loans and securitization liabilities

Insured loans in MBS that are sold to third parties and do not qualify for derecognition continue to be classified as Loans receivable on the Consolidated Balance Sheets and they are measured at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts and insurance costs. Net fees and any premium or discount relating to loan origination are amortized to income on an effective yield basis over the term of the loans to which they relate, and are included in Interest income – Loans in the Consolidated Statements of Income.

Sale of uninsured residential loans do not qualify for derecognition and are classified as Loans receivable on the Consolidated Balance Sheets, and are measured at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income, premiums or discounts. Net fees and any premium or discount relating to loan origination are amortized to income on an effective yield basis over the term of the loans to which they relate, and are included in Interest income – Loans in the Consolidated Statements of Income.

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

Securitization retained interest and servicing liability

In certain securitization transactions that qualify for derecognition, the Bank has a continuing involvement in the securitized asset that is limited to retained rights in future excess interest and the liability associated with servicing these assets. Under IFRS 9, the securitization retained interest is classified as AMC. The servicing liability is reported as part of Other liabilities. During the life of the securitization, as cash is received, and servicing fees are paid, the retained interests and the servicing liability are amortized and recognized in the Consolidated Statements of Income under Gains on securitization activities and income from securitization retained interests.

Gains on securitization

When an asset is derecognized, the related loans are removed from the Consolidated Balance Sheets and a gain or loss is recognized in the Consolidated Statements of Income under Non-interest income – Gains on securitization activities and income from securitization retained interests.

(g) 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.

The 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.

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 policy 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.

(h) 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.

(i) Foreign currency translation

On initial recognition, monetary assets and liabilities denominated in foreign currencies are translated into Canadian Dollars at rates prevailing on the date of the transaction. At the balance sheet date, these foreign currency monetary assets and liabilities are remeasured into Canadian Dollars at rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the translation on remeasurement or settlement of these items are recognized in Fees and other income in the Consolidated Statements of Income.

(j) Derivative financial instruments

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

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

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

Separated embedded derivatives are presented with other derivative assets and liabilities in the Consolidated Balance Sheets.

Cash flow hedges

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

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

The Bank's cash flow hedges also include Total return equity swap contracts (TRS) used to hedge the risk of changes in future cash flows related to its RSU plan. The value of RSUs or Performance Share Units (PSU) issued is linked to the price of the Bank's common shares over the period the TRS is in effect. The fair value of the TRS is included in Other assets and/or Other liabilities in the Consolidated Balance Sheets and the effective portion of the changes in fair values of these TRS is recorded in OCI, net of tax. The cumulative amounts deferred in AOCI are reclassified to Non-interest expense – Compensation and benefits in the Consolidated Statements of Income, over the vesting period of the RSUs or PSUs.

Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation. The change in the fair value of the hedging instrument will be recorded on the Consolidated Balance Sheets under AOCI as either deferred gains or losses during the hedge term only to the extent of the effective portion of the hedges. Any ineffectiveness in the hedging relationship, occurring as a result of mismatch in critical terms such as tenor and timing of cash flows between hedging instruments and hedged items, is included in Non-interest income – Gains on securitization activities and income from securitization retained interests in the Consolidated Statements of Income as it occurs.

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

Fair value hedges

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

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

The Bank also enters into interest rate swap agreements to manage interest rate exposures on fixed rate loan assets. The fair value of these interest rate swap agreements is included in Other assets and/or Other liabilities with changes in fair value recorded in Interest income Loans – Personal and /or Loans – Commercial. Changes in fair value of the loan assets attributable to the hedged risk, is also included in Interest income Loans – Personal and/or Loans – Commercial. The Bank applies hedge accounting to these derivatives.

Beginning in 2020, the Bank entered into interest rate swap agreements to manage interest rate exposures on its investment in fixed rate provincial bonds. The fair value of these interest rate swap agreements is included in Other assets and/or Other liabilities with changes in fair value recorded in Non-interest income - Net gain (loss) on investments. Changes in fair value of the provincial bonds is attributable to the hedged risk, and is also included in Non-interest income - Net gain (loss) on investments. The Bank applies hedge accounting to these derivatives.

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

and prospectively, primarily using quantitative statistical measures of correlation. Hedge ineffectiveness, if any, are a result of differences in maturities and prepayment frequency between hedging instruments and hedged items.

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

Beginning in 2020, the Bank entered into foreign exchange forwards to manage foreign exchange exposures on certain foreign currency liabilities. The fair value of these foreign exchange forwards are included in Other assets and/or Other liabilities with changes in fair value recorded in Non-interest income – Fees and other income. Changes in foreign currency translation of foreign currency liabilities are also included in Non-interest income – Fees and other income. The Bank does not apply hedge accounting to these derivative instruments.

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

(k) Leases

As a Lessor:

Identification of a lease

At the inception of each lease, the Bank 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, the lease is considered a finance lease, otherwise it is considered an operating lease.

Recognition

At the lease commencement date, the Bank 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. The interest rate 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.

As a Lessee:

Identification of a lease

At the inception of a contract, the Bank 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 Bank 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 Bank has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank 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 Bank recognizes a Right-of-Use (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 Bank'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 the effective interest rate method. The liability is remeasured if there are changes to the lease rates, or changes to the Bank'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 Consolidated Statements of Income.

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

Short-term leases and leases of low-value assets

The Bank has elected not to recognize a 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 Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(l) Compensation plans

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

(i) Short-term employee benefits

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

(ii) Deferred profit sharing plan (DPSP)

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

(iii) Stock-based compensationStock option plan

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

Restricted share unit (RSU) plan

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

Deferred share unit (DSU) plan

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

Employee stock purchase (ESP) plan

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

(m) Income taxes

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

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

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

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

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are

reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

(n) Capital assets

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

Capital asset categories	Rate of depreciation
Furniture, fixtures and office equipment	10% to 20%
Computer hardware and software	20% to 33%

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

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

(o) Intangible assets

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

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

(p) Deposits

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

(q) Obligations under repurchase agreements

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

(r) Bank facilities and debentures

Bank facilities and debentures are recorded in the Consolidated Balance Sheets at amortized cost and interest expense is recorded using the effective interest rate method.

(s) Securitized leases

The Bank securitizes pools of finance leases on a fully serviced basis, to independent third parties. The Bank retains the servicing responsibilities and participates in certain cash flows from the pools. The securitization transaction is not considered to have transferred the risks and rewards of ownership and accordingly is not derecognized. The securitized finance leases continue to be classified as finance leases on the Bank's Consolidated Balance Sheets, with a corresponding lease financing liability.

(t) Share capital

Issuance costs

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

Treasury preferred shares

Preferred shares are repurchased and cancelled by the Bank. These repurchased and cancelled treasury preferred shares are deducted from the preferred shares in Shareholders' Equity at cost. Any gain or loss arising on the difference between the carrying value and the purchase consideration is recognized in Retained Earnings.

(u) Earnings per share

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

(v) Interest

Interest income and interest expense are recognized in the Consolidated Statements of Income using the effective interest rate method and the rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortized cost of the liability. The effective interest rate is the rate that exactly discounts the estimated future cash flow payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, management estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. Under IFRS 9, for financial assets that become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

(w) Fees

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

(x) Provisions

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

(y) Write-off

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

Future accounting changes

Interbank Offered Rates (IBOR) reform

On August 27, 2020, the IASB published "Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)". The amendments address the issues that will arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduces additional disclosure requirements.

The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.

The Bank does not consider the impact of the IBOR reform to be material, as majority of its contracts use Canadian Dollar Offered Rate (CDOR) as reference rates, which will not be replaced.

Note 4 – Risk Management

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

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions

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

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

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

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

(ii) Financial instruments classified as at FVOCI and FVTPL

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

(iii) Loans receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Derivatives

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

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at December 31, 2020 and December 31, 2019. The tables do not include assets and liabilities that are not financial instruments.

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

(1) Loans – Commercial does not include $538,156 (December 31, 2019 - $486,610) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9. (2) Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

($000s)						December 31, 2019
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	-	-	-	508,853	508,853	508,853
Restricted cash	-	-	-	462,992	462,992	462,992
Securities purchased under reverse repurchase agreements	-	-	-	150,069	150,069	150,069
Investments	55,533	43,199	92,386	171,493	362,611	361,134
Loans – Personal	-	-	-	18,359,805	18,359,805	18,331,260
Loans – Commercial[1]	195,051	-	-	7,566,364	7,761,415	7,771,496
Securitization retained interests	-	-	-	139,009	139,009	139,336
Other assets:						
Derivative financial instruments[2]:						
Interest rate swaps	14,468	-	-	-	14,468	14,468
Total return swaps	6,686	-	-	-	6,686	6,686
Bond forwards	1,939	-	-	-	1,939	1,939
Other	-	-	-	19,139	19,139	19,139
Total financial assets	273,677	43,199	92,386	27,377,724	27,786,986	27,767,372
Financial liabilities:						
Deposits	-	-	-	15,442,207	15,442,207	15,451,289
Securitization liabilities	-	-	-	10,706,956	10,706,956	10,719,070
Obligations under repurchase agreements	-	-	-	507,044	507,044	507,044
Other liabilities:						
Derivative financial instruments[2]:						
Interest rate swaps	4,959	-	-	-	4,959	4,959
Total return swaps	7,083	-	-	-	7,083	7,083
Loan commitments	209	-	-	-	209	209
Other	-	-	-	179,740	179,740	179,740
Total financial liabilities	12,251	-	-	26,835,947	26,848,198	26,869,394

(1) Loans – Commercial does not include $538,156 (December 31, 2019 - $486,610) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9. (2) Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

(b) Fair value hierarchy

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

The following table presents the fair value hierarchy of all financial instruments, whether or not measured at fair value in the Consolidated Balance Sheets, except for certain financial instruments whose carrying amount always approximates their fair values due to their short-term nature:

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

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

($000s) December 31, 2019	Level 1	Level 2	Level 3	Total financial assets/financial liabilities at fair value
Financial assets:				
Investments	353,973	-	7,161	361,134
Loans – Personal	-	-	18,331,260	18,331,260
Loans – Commercial	-	195,051	7,576,445	7,771,496
Securitization retained interests	-	139,336	-	139,336
Other assets:				
Derivative financial instruments[1]:				
Interest rate swaps	-	14,468	-	14,468
Total return swaps	-	6,242	444	6,686
Bond forwards	-	1,939	-	1,939
Other	-	19,139	-	19,139
Total financial assets	353,973	376,175	25,915,310	26,645,458
Financial liabilities:				
Deposits	-	15,451,289	-	15,451,289
Securitization liabilities	-	9,809,562	909,508	10,719,070
Other liabilities:				
Derivative financial instruments[1]:	-			
Interest rate swaps	-	4,959	-	4,959
Total return swaps	-	12	7,071	7,083
Loan commitments	-	-	209	209
Other	-	179,740	-	179,740
Total financial liabilities	-	25,445,562	916,788	26,362,350

Note 6 – Cash and Cash Equivalents and Restricted Cash

($000s)	**December 31, 2020**	December 31, 2019
Deposits with regulated financial institutions	**557,743**	508,853
Cash and cash equivalents	**557,743**	508,853
Restricted cash – securitization	**475,375**	454,553
Restricted cash – interest rate swaps	**28,048**	7,826
Restricted cash – other programs	**616**	613
Restricted cash	**504,039**	462,992

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

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

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

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

Note 7 – Securities Purchased Under Reverse Repurchase Agreements

As at December 31, 2020, the fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default is $450,106 (December 31, 2019 – $147,741). The Bank is obliged to return equivalent securities at the repurchase date, and the Bank did not sell or repledge any of the collateral as at the year ended December 31, 2020.

Note 8 – Investments

Carrying value of investments is as follows:

($000s)	**December 31, 2020**	December 31, 2019
Equity securities measured at FVOCI	**87,339**	92,386
Equity securities measured at FVTPL	**1,165**	1,100
Debt securities measured at FVOCI	**174,646**	43,200
Debt securities measured at FVTPL	**151,317**	54,432
Debt securities measured at AMC	**175,409**	171,493
	589,876	362,611

The Bank has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for the long term. For the year ended December 31, 2020, the Bank earned dividends of $4,635 (2019 − $5,388) on these Equity securities. During the year, the Bank sold Equity securities of $1,500 (2019 − $5,829) and did not recognize any gains or losses (2019 − ($638)) in Retained earnings.

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

($000s)	**2020**	2019
Equity securities measured at FVOCI	**(3,411)**	(1,958)
Equity securities measured at FVTPL	**(2,656)**	(280)
Debt securities measured at FVOCI	**3,165**	239
Debt securities measured at FVTPL	**7,731**	(1,444)

Note 9 – Loans Receivable

(a) Loans receivable

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

($000s)						December 31, 2019
		Allowance for credit losses				
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Personal	18,367,715	3,295	2,417	2,198	7,910	18,359,805
Loans – Commercial	8,277,022	16,758	9,375	2,864	28,997	8,248,025
	26,644,737	20,053	11,792	5,062	36,907	26,607,830

Loans – Commercial include certain loans measured at FVTPL with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at December 31, 2020, the carrying value of these loans was $59,415 (December 31, 2019 – $96,779) and included fair value adjustment of $43 (December 31, 2019 – ($726)).

Loans – Commercial also include certain loans measured at FVTPL with changes in fair value included in Non-interest income in the Consolidated Statements of Income. As at December 31, 2020, the carrying amount of these loans was $65,789 (December 31, 2019 – $98,272) and included fair value adjustment of $21 (December 31, 2019 – $424).

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

($000s)	**2020**	2019
Net gains (losses) in fair values for loans measured at FVTPL included in gains on securitization activities	**769**	(1,753)
Net (losses) gains in fair values for loans measured at FVTPL and recognized in net gain (loss) on loans and investments	**(473)**	1,179

Loans – Commercial include loans of $230,989 (December 31, 2019 – $169,859) invested in certain asset-backed structured entities. The Bank holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Bank does not have the ability to direct the relevant activities of these structured entities and has no exposure to their variable returns, other than the right to receive interest income from these investments. Consequently, the Bank does not control these structured entities and has not consolidated them.

Loans – Commercial also include the Bank's net investment in finance leases of $538,156 (December 31, 2019 – $486,610). The following table shows the maturity analysis of undiscounted minimum lease payments reconciled to the net investment in finance leases:

($000s)	**December 31, 2020**	December 31, 2019
Minimum lease payments:		
Less than 1 year	**251,229**	231,813
1 year to less than 2 years	**188,040**	171,253
2 years to less than 3 years	**115,507**	101,427
3 years to less than 4 years	**50,848**	42,405
4 years to less than 5 years	**13,486**	11,338
More than 5 years	**1,028**	560
Non performing leases – net	**22,685**	16,320
Total undiscounted lease payments receivable	**642,823**	575,116
Less:		
Security deposits held	**(7,068)**	(7,874)
Unearned finance income	**(76,768)**	(71,186)
Allowance for credit losses	**(20,831)**	(9,446)
Net investment in finance leases	**538,156**	486,610

For the year ended December 31, 2020, the Bank earned finance income of $55,307 (December 31, 2019 – $53,095) from its investment in finance leases. As at December 31, 2020, all of the Bank's leases are fixed rate leases with terms ranging from one to seven years, and approximately 82.3% of the Bank's finance leases were concentrated in the following five industry segments:

	December 31, 2020	December 31, 2019
Transportation – Long Haul	**42.5%**	40.5%
Transportation – Vocational	**16.4%**	16.5%
Food	**11.1%**	13.0%
Construction	**8.4%**	8.8%
Agriculture	**3.9%**	3.4%

(b) Impaired and past due loans

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

($000s)			**December 31, 2020**	December 31, 2019
	Gross[(1)]	**Allowance for credit losses**	**Net**	Net
Loans – Personal	**62,703**	**1,685**	**61,018**	48,863
Loans – Commercial – Conventional and Insured	**30,476**	**268**	**30,208**	45,296
Loans – Commercial – Finance Leases	**28,369**	**1,591**	**26,778**	23,233
	121,548	**3,544**	**118,004**	117,392

(1) Gross balances include loans amounting to $8,873 (December 31, 2019 - $9,311) that are insured.

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

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

($000s)				December 31, 2019
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Personal	39,872	16,207	-	56,079
Loans – Commercial – Conventional and Insured	8,922	2,760	-	11,682
Loans – Commercial – Finance Leases	16,690	6,213	-	22,903
	65,484	25,180	-	90,664

(c) Allowance for credit losses

($000s)				**December 31, 2020**
	12 months ECL	**Lifetime non-credit impaired**	**Lifetime credit impaired**	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of year	**20,053**	**11,792**	**5,062**	**36,907**
Provision for credit losses:				
Transfers to (from) Stage 1	**14,706**	**(13,383)**	**(1,323)**	**-**
Transfers to (from) Stage 2	**(10,538)**	**11,136**	**(598)**	**-**
Transfers to (from) Stage 3	**(82)**	**(2,114)**	**2,196**	**-**
Re-measurement[(1)]	**3,186**	**21,718**	**11,217**	**36,121**
Originations	**10,047**	**-**	**-**	**10,047**
Discharges	**(1,512)**	**(2,376)**	**-**	**(3,888)**
Write-off	**-**	**-**	**(11,196)**	**(11,196)**
Realized losses	**-**	**-**	**(1,879)**	**(1,879)**
Recoveries	**-**	**-**	**65**	**65**
Balance, end of year[(3)]	**35,860**	**26,773**	**3,544**	**66,177**

(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 (2) Finance lease acquired include $5,749 of day one stage 1 allowance recognized on acquisition. (3) The allowance for credit losses includes allowance on loan commitments amounting to $149 (December 31, 2019 - $131).

($000s)				December 31, 2019
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	14,596	9,176	1,526	25,298
Provision for credit losses:				
Transfers to (from) Stage 1	1,377	(659)	(718)	-
Transfers to (from) Stage 2	(876)	1,070	(194)	-
Transfers to (from) Stage 3	(5)	(22)	27	-
Re-measurement[(1)]	(837)	(210)	3,462	2,415
Originations	1,870	-	-	1,870
Discharges	(272)	(100)	-	(372)
Finance Lease acquired[(2)]	4,200	2,537	7,744	14,481
Write-off	-	-	(5,035)	(5,035)
Realized losses	-	-	(2,155)	(2,155)
Recoveries	-	-	405	405
Balance, end of year[(3)]	20,053	11,792	5,062	36,907

(d) Key inputs, assumptions and model techniques

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

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

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

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

(e) Forward-looking macroeconomic scenarios

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

(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 (2) Finance lease acquired include $5,749 of day one stage 1 allowance recognized on acquisition. (3) The allowance for credit losses includes allowance on loan commitments amounting to $149 (December 31, 2019 - $131).

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

December 31, 2020										
					Downside Scenarios					
	Base-Case Scenario		**Upside Scenario**		**Scenario 1**		**Scenario 2**		**Scenario 3**	
	Next 12 months	**2 to 5 years**	**Next 12 months**	**2 to 5 years**	**Next 12 months**	**2 to 5 years**	**Next 12 months**	**2 to 5 years**	**Next 12 months**	**2 to 5 years**
Unemployment rate %	**8.91**	**7.22**	**8.40**	**6.68**	**9.21**	**7.90**	**10.49**	**9.16**	**11.25**	**10.92**
Real GDP growth rate %	**4.10**	**3.29**	**6.93**	**3.51**	**2.63**	**2.85**	**(1.03)**	**3.32**	**(6.89)**	**3.66**
Home Price Index growth rate %	**2.54**	**2.84**	**3.48**	**3.96**	**1.96**	**2.52**	**(1.57)**	**1.37**	**(4.92)**	**(1.22)**
Commercial Property Index growth rate %	**7.59**	**4.10**	**10.09**	**4.81**	**5.95**	**3.90**	**(0.28)**	**3.91**	**(5.01)**	**1.67**
Household income growth rate %	**(1.15)**	**0.52**	**0.40**	**1.40**	**(1.55)**	**(0.45)**	**(2.46)**	**(1.01)**	**(4.31)**	**(2.29)**

December 31, 2019										
					Downside Scenarios					
	Base-Case Scenario		Upside Scenario		Scenario 1		Scenario 2		Scenario 3	
	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years
Unemployment rate %	5.75	6.11	5.42	5.58	5.93	6.76	6.93	7.86	7.03	9.08
Real GDP growth rate %	2.17	1.61	2.79	2.08	1.58	0.95	(0.59)	1.20	(1.14)	0.28
Home Price Index growth rate %	0.37	1.27	0.93	1.74	(0.43)	0.91	(2.21)	0.27	(3.31)	(1.16)
Commercial Property Index growth rate %	1.37	1.36	3.29	2.03	1.13	0.67	(1.94)	0.61	(3.05)	(0.94)
Household income growth rate %	0.00	0.08	0.04	0.91	(0.42)	(0.62)	(1.20)	(1.19)	(1.10)	(2.56)

(f) Sensitivity of allowance for credit losses

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

Impact of probability-weighting on ACL

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

($000s)	**December 31, 2020**	December 31, 2019
ACL – Five probability-weighted macroeconomic scenarios (actual)	**62,633**	31,845
ACL – Base-case scenario only	**57,898**	30,202
ACL – Downside scenario 3 only	**106,351**	43,935
Difference – Actual versus base-case scenario only	**4,735**	1,643
Difference – Actual versus downside scenario 3 only	**(43,718)**	(12,090)

Impact of staging on ACL

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

($000s)	**December 31, 2020**	December 31, 2019
ACL – Loans in Stage 1 and Stage 2 (actual)	**62,633**	31,845
ACL – Assuming all loans in Stage 1	**59,395**	29,625
Lifetime ACL impact	**3,238**	2,220

Note 10 – Derecognition of Financial Assets

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

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

Obligations under repurchase agreements

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

Securitizations

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

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

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

i) MBS securitizations

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

ii) CMB securitizations

As part of a CMB transaction, the Bank may enter into total return swaps with highly rated counterparties, exchanging the cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by the Bank. For transactions that fail derecognition, these swaps are not recognized on the Bank's Consolidated Balance Sheets as the underlying cash flows of these derivatives are captured through the continued recognition of the loans and their associated CMB securitization liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair valued through the Bank's Consolidated Statements of Income. As at December 31, 2020, the notional amount of these swaps was $2,336,244 (December 31, 2019 – $2,131,905).

CMB securitization liabilities are non-amortizing bond liabilities with fixed maturity dates. Principal payments collected from the loans underlying the MBS sold to CHT are held in trust for the CHT and invested in eligible investments until the maturity of the bond. To the extent that these eligible investments are not the Bank's own issued MBS, the investments are recorded on the Bank's Consolidated Balance Sheets under Investments – Canada Housing Trust re-investment accounts. Interest on the CMB securitization liabilities is calculated at the CMB coupon rate and is paid to the CMB holders on a monthly, quarterly, or semi-annual basis.

iii) Finance lease securitizations

The Bank also securitizes pools of finance leased assets on a fully serviced basis to independent third party investors. The Bank continues to be exposed to substantially all of the risks and rewards associated with the transferred pools of leases and therefore does not derecognize the leased assets. The corresponding securitization liabilities are repaid on a monthly basis with financing rates ranging from 2.83% to 5.33%.

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

($000s)				
		2020		2019
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets	**11,991,675**	**251,877**	10,707,145	507,044
Carrying amount of associated liability	**11,991,964**	**251,877**	10,706,956	507,044
Carrying value, net position	**(289)**	**-**	189	-
Fair value of assets	**12,222,074**	**251,877**	10,703,277	507,044
Fair value of associated liability	**12,294,592**	**251,877**	10,718,809	507,044
Fair value, net position	**(72,518)**	**-**	(15,532)	-

The carrying amount of assets include $39,760 (December 31, 2019 – $167,113) of the Bank's net investment in finance leases that were securitized and not derecognized. The carrying value of associated liability includes $32,634 (December 31, 2019 – $160,658) of liabilities pertaining to finance leases securitized.

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

($000s)	MBS Liabilities	CMB Liabilities	Lease Securitization Liabilities	Other Securitization Liabilities	Total Liabilities
2021	**1,623,841**	**704,224**	**22,371**	**455,294**	**2,805,730**
2022	**1,016,042**	**479,955**	**8,372**	**149,788**	**1,654,157**
2023	**2,011,622**	**350,885**	**1,869**	**30,329**	**2,394,705**
2024	**1,744,112**	**467,898**	**22**	**16,877**	**2,228,909**
2025	**1,663,364**	**332,572**	**-**	**795**	**1,996,731**
Thereafter	**573,980**	**356,541**	**-**	**-**	**930,521**
	8,632,961	**2,692,075**	**32,634**	**653,083**	**12,010,753**

(b) Transfers that are derecognized in their entirety

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

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

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

($000s)	**2020**	2019
Loans securitized and sold	**1,251,959**	891,723
Carrying value of Securitization retained interests	**83,086**	55,413
Carrying value of Securitized loan servicing liability	**15,228**	8,340
Gains on loans securitized and sold	**28,101**	9,888
Income from securitization activities and retained interests	**1,516**	1,646

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

($000s)	**MBS Liabilities**
2021	**612,926**
2022	**873,088**
2023	**883,795**
2024	**688,624**
2025	**975,122**
Thereafter	**1,551,399**
	5,584,954

Note 11 – Derivative Financial Instruments

(a) Hedge instruments

Cash flow hedges

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

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

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

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

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

Fair value hedges

The Bank enters into hedging transactions to manage interest rate exposures on loan commitments and certain deposits used to fund floating rate loans. The hedging instruments used to manage these exposures are interest rate swaps and bond forwards. The Bank does not apply hedge accounting to these hedging relationships.

The Bank also enters into hedging transactions to manage interest rate exposure on certain loan assets, securitization liabilities, and deposit liabilities. Beginning in 2020, the Bank entered into interest rate swap agreements to manage interest rate exposures on its investment in fixed rate provincial bonds. The Bank applies hedge accounting to all these relationships.

Beginning in 2020, the Bank also entered into hedging transactions to manage foreign exchange exposure on certain foreign currency liabilities. The Bank does not apply hedge accounting to these hedging relationships.

(b) Other derivatives

Total return swaps

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

(c) Financial impact of derivatives

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

($000's, except percentages)								December 31, 2020
Derivative instrument and term (years)	Notional amount	Average Rate/ Price[1]	Positive current replacement cost[2]	Credit equivalent amount[3]	Risk-weighted balance[4]	Fair Value		
						Assets	Liabilities	Net[5]
Cash flow hedges:								
Bond forwards – hedge accounting								
1 or less	300,700	1.44%	2	1,495	1,495	-	(1,160)	(1,160)
Interest rate swaps – hedge accounting								
1 or less	308,373	0.67%	-	684	137	-	(323)	(323)
1 to 5	703,830	1.01%	18	3,466	693	13	(7,642)	(7,629)
Total return swaps – hedge accounting								
1 or less	3,006	70.53	22	16	3	1,247	-	1,247
1 to 5	7,269	93.64	10	40	8	484	-	484
Total return swaps – non-hedge accounting								
1 or less	3,933	N/A	50	21	4	2,874	-	2,874
Fair value hedges:								
Interest rate swaps – hedge accounting								
1 or less	629,360	0.66%	-	2,805	561	-	(784)	(784)
1 to 5	1,684,649	0.79%	318	8,600	1,720	944	(7,576)	(6,632)
5 and above	65,762	1.78%	-	328	66	538	(2,764)	(2,226)
Interest rate swaps – non-hedge accounting								
1 or less	525,348	N/A	-	1,257	251	-	(228)	(228)
1 to 5	610,000	N/A	599	2,659	532	13,286	(10,535)	2,751
5 and above	100,984	N/A	730	737	147	7,300	(246)	7,054
Bond forwards – non-hedge accounting								
1 or less	44,200	N/A	344	504	504	-	(93)	(93)
Foreign exchange forwards – non-hedge accounting								
1 or less	33,740	N/A	-	83	17	-	(709)	(709)
Total return swaps								
1 or less	386,511	N/A	489	317	63	-	(508)	(508)
1 to 5	2,508,017	N/A	8	725	145	-	(4,392)	(4,392)
5 and above	1,587,358	N/A	28	1,111	222	284	(12,292)	(12,008)
	9,503,040		2,618	24,848	6,568	26,970	(49,252)	(22,282)

(1) Average rate or average price are on initiation of the derivatives, and refer to the average bond forward rate, the average rate on the fixed-leg of an interest rate swap, and the average share price of the total return swap. These rates/prices are applicable to derivatives in hedge accounting relationships only. (2) Positive current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments. (3) Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline. (4) Risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI. (5) Derivative financial assets are included in Other assets (Note 13) and derivative financial liabilities are included in Other liabilities (Note 16).

($000's, except percentages)								December 31, 2019
Derivative instrument and term (years)	Notional amount	Average Rate/ Price[1]	Positive current replacement cost[2]	Credit equivalent amount[3]	Risk-weighted balance[4]	Fair Value		
						Assets	Liabilities	Net[5]
Cash flow hedges:								
Bond forwards – hedge accounting								
1 or less	86,900	1.81%	934	1,477	1,477	934	-	934
Interest rate swaps – hedge accounting								
1 or less	212,486	1.99%	7	952	190	18	-	18
1 to 5	486,558	1.57%	3,412	4,006	801	4,551	-	4,551
Total return swaps – hedge accounting								
1 or less	2,287	56.29	117	10	2	2,254	-	2,254
1 to 5	5,775	88.96	96	26	5	1,889	(12)	1,877
Total return swaps – non-hedge accounting								
1 or less	3,965	N/A	107	18	4	2,099	-	2,099
Fair value hedges:								
Interest rate swaps – hedge accounting								
1 to 5	1,108,900	1.93%	747	5,660	1,132	3,855	(3,436)	419
5 and above	57,621	1.92%	71	493	99	971	(11)	960
Interest rate swaps – non-hedge accounting								
1 to 5	445,599	N/A	883	2,241	448	3,319	(1,182)	2,137
5 and above	113,074	N/A	1,162	1,769	354	1,754	(330)	1,424
Bond forwards – non-hedge accounting								
1 or less	80,525	N/A	1,005	1,368	1,368	1,005	-	1,005
Other deliverables:								
Total return swaps								
1 to 5	2,236,275	N/A	1,302	1,535	307	95	(2,179)	(2,084)
5 and above	1,199,393	N/A	1,163	2,063	413	349	(4,892)	(4,543)
	6,039,358		11,006	21,618	6,600	23,093	(12,042)	11,051

(1) Average rate or average price are on initiation of the derivatives, and refer to the average bond forward rate, the average rate on the fixed-leg of an interest rate swap, and the average share price of the total return swap. These rates/prices are applicable to derivatives in hedge accounting relationships only. (2) Positive current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments. (3) Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline. (4) Risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI. (5) Derivative financial assets are included in Other assets (Note 13) and derivative financial liabilities are included in Other liabilities (Note 16).

Cash flow hedges:

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

($000s)				**2020**
	Gains (losses) on hedging instrument	**Gains (losses) on hedged Item**	**Hedge ineffectiveness recognized in income**	**Hedging gain or loss recognized in OCI**
Cash flow hedges:				
Interest rate risk:				
Bond forwards	**(11,888)**	**10,440**	**(1,410)**	**(10,478)**
Interest rate swaps	**(15,609)**	**15,609**	**-**	**(15,609)**
Equity price risk:				
Total return swaps	**(941)**	**941**	**-**	**(941)**
	(28,438)	**26,990**	**(1,410)**	**(27,028)**

($000s)				2019
	Gains (losses) on hedging instrument	Gains (losses) on hedged Item	Hedge ineffectiveness recognized in income	Hedging gain or loss recognized in OCI
Cash flow hedges:				
Interest rate risk:				
Bond forwards	(6,045)	5,852	(250)	(5,795)
Interest rate swaps	(450)	450	-	(450)
Equity price risk:				
Total return swaps	5,351	(5,351)	-	5,351
	(1,144)	951	(250)	(894)

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

($000s)						**2020**
					Balance in cash flow hedge AOCI	
	AOCI as at January 1, 2020	**Net gains (losses) recognized in OCI**	**Amount reclassified to income as the hedged item affects income**	**AOCI as at December 31, 2020**	**Active hedges**	**Discontinued hedges**
Cash flow hedges:						
Interest rate risk:						
Bond forwards	**(8,056)**	**(10,478)**	**1,150**	**(17,384)**	**(999)**	**(16,385)**
Interest rate swaps	**5,959**	**(15,609)**	**(1,038)**	**(10,688)**	**(7,952)**	**(2,736)**
Equity price risk:						
Total return swaps	**2,123**	**(941)**	**(490)**	**692**	**692**	**-**
	26	**(27,028)**	**(378)**	**(27,380)**	**(8,259)**	**(19,121)**

($000s)						2019
					Balance in cash flow hedge AOCI	
	AOCI as at January 1, 2019	Net gains (losses) recognized in OCI	Amount reclassified to income as the hedged item affects income	AOCI as at December 31, 2019	Active hedges	Discontinued hedges
Cash flow hedges:						
Interest rate risk:						
Bond forwards	(4,187)	(5,795)	1,926	(8,056)	881	(8,937)
Interest rate swaps	7,488	(450)	(1,079)	5,959	4,568	1,391
Equity price risk:						
Total return swaps	7	5,351	(3,235)	2,123	2,119	4
	3,308	(894)	(2,388)	26	7,568	(7,542)

Fair value hedges:

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

($000s)							**2020**
	Hedge ineffectiveness			**Carrying amounts for hedged items[(1)]**		**Accumulated amount of fair value hedge gains (losses) on the hedged item**	
	Gains (losses) on hedging instrument	**Gains (losses) on hedged item**	**Total**	**Active hedges**	**Discontinued hedges**	**Active hedges**	**Discontinued hedges**
Fair value hedges:							
Interest rate risk:							
Loans	**(12,634)**	**13,548**	**914**	**2,098,308**	**446,182**	**11,026**	**291**
Deposits	**19,050**	**(19,990)**	**(940)**	**(200,234)**	**(2,052,379)**	**(234)**	**(20,424)**
Securitization liabilities	**4,582**	**(4,248)**	**334**	**(12,775)**	**(213,995)**	**(1,084)**	**(2,137)**
Bonds	**(863)**	**836**	**(27)**	**40,836**	**-**	**836**	**-**
	10,135	**(9,854)**	**281**	**1,926,135**	**(1,820,192)**	**10,544**	**(22,270)**

($000s)							2019
	Hedge ineffectiveness			Carrying amounts for hedged items[(1)]		Accumulated amount of fair value hedge gains (losses) on the hedged item	
	Gains (losses) on hedging instrument	Gains (losses) on hedged item	Total	Active hedges	Discontinued hedges	Active hedges	Discontinued hedges
Fair value hedges:							
Interest rate risk:							
Loans	2,187	(2,122)	65	234,037	-	(2,122)	-
Securitization liabilities	(779)	139	(640)	(80,439)	(142,177)	1,252	(319)
Deposits	11,914	(11,930)	(16)	(795,454)	(1,689,817)	(510)	(10,305)
	13,322	(13,913)	(591)	(641,856)	(1,831,994)	(1,380)	(10,624)

(1) Represents the carrying value of hedged items designated in qualifying hedging relationships.

Note 12 – Offsetting Financial Assets and Financial Liabilities

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

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

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

The Bank pledges and in certain cases receives collateral in the form of cash or securities in respect of the financial instruments. Such collateral is subject to the credit support agreement associated with ISDA agreements, or subject to global master repurchase agreements. Under these agreements, cash or securities pledged/received as collateral can be sold during the term of the transaction but must be returned when the collateral is no longer required and/or on maturity. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

As of December 31, 2020, the approximate market value of cash and securities collateral pledged by the Bank that are subject to credit support agreements was $279,045 (December 31, 2019 – $514,870).

As of December 31, 2020, the approximate market value of cash and securities collateral accepted that may be sold or repledged by the Bank was $451,703 (December 31, 2019 – $158,195). There was no collateral sold or repledged in 2020 and 2019.

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

($000s)						**2020**
				Related amounts not offset on the consolidated balance sheets		
Types of financial assets	**Gross amounts of recognized financial assets**	**Gross amounts of recognized financial liabilities offset on the consolidated balance sheets**	**Net amounts of financial assets presented on the consolidated balance sheets**	**Financial instruments**	**Financial collateral (including cash collateral received)**	**Net amount**
Derivatives held for risk management:						
Interest rate swaps	**22,081**	**-**	**22,081**	**-**	**(21,144)**	**937**
Total return swaps	**4,889**	**-**	**4,889**	**-**	**(3,801)**	**1,088**
Securities purchased under reverse repurchase agreements	**450,203**	**-**	**450,203**	**-**	**(450,203)**	**-**
	477,173	**-**	**477,173**	**-**	**(475,148)**	**2,025**

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

($000s)						**2020**
				Related amounts not offset on the consolidated balance sheets		
Types of financial liabilities	**Gross amounts of recognized financial liabilities**	**Gross amounts of recognized financial assets offset on the consolidated balance sheets**	**Net amounts of financial liabilities presented on the consolidated balance sheets**	**Financial instruments**	**Financial collateral (including cash collateral received)**	**Net amount**
Derivatives held for risk management:						
Interest rate swaps	**30,098**	**-**	**30,098**	**-**	**(26,103)**	**3,995**
Total return swaps	**17,192**	**-**	**17,192**	**-**	**(17,192)**	**-**
Foreign exchange forwards	**709**	**-**	**709**	**-**	**(548)**	**161**
Obligations under repurchase agreements	**251,877**	**-**	**251,877**	**(251,877)**	**-**	**-**
	299,876	**-**	**299,876**	**(251,877)**	**(43,843)**	**4,156**

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

($000s)						2019
				Related amounts not offset on the consolidated balance sheets		
Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset on the consolidated balance sheets	Net amounts of financial assets presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	14,468	-	14,468	-	(8,098)	6,370
Total return swaps	6,686	-	6,686	-	(4,034)	2,652
Securities purchased under reverse repurchase						
agreements	150,069	-	150,069	-	(150,069)	-
	171,223	-	171,223	-	(162,201)	9,022

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

($000s)						2019
				Related amounts not offset on the consolidated balance sheets		
Types of financial liabilities	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset on the consolidated balance sheets	Net amounts of financial liabilities presented on the consolidated balance sheets	Financial instruments	Financial collateral (including cash collateral received)	Net amount
Derivatives held for risk management:						
Interest rate swaps	4,959	-	4,959	-	(3,530)	1,429
Total return swaps	7,083	-	7,083	-	(3,283)	3,800
Obligations under repurchase agreements	507,044	-	507,044	(507,044)	-	-
	519,086	-	519,086	(507,044)	(6,813)	5,229

Note 13 – Other Assets

($000s)	**December 31, 2020**	December 31, 2019
Intangible assets	**71,198**	53,536
Receivable relating to securitization activities	**18,108**	16,589
Goodwill	**16,944**	16,944
Property and equipment	**15,324**	17,754
Prepaid expenses and other	**14,162**	14,648
Right-of-use assets	**10,708**	13,554
Income taxes receivable	**10,059**	-
Accrued interest and dividends on non-loan assets	**3,709**	3,008
Real estate owned	**863**	1,551
Deferred cost – Contingent liquidity facility	**-**	411
Derivative financial instruments:		
Interest rate swaps	**22,081**	14,468
Total return swaps	**4,889**	6,686
Bond forwards	**-**	1,939
	188,045	161,088

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

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

($000s)	**2020**	2019
Carrying amount of right-of-use assets	**10,708**	13,554
Depreciation charge for right-of-use assets	**2,433**	2,506
Cash outflows for lease liabilities	**3,053**	3,162
Interest expense on lease liabilities	**718**	811

During the year, the Bank entered into an early termination agreement for some of its leased office premises located in Toronto. These leases were scheduled to expire in December 2025, but will now be early terminated in March 2023. As a result of the early termination, the Bank has derecognized $1,590 of its right-of-use assets, $1,949 of related right-of-use liabilities and has recognized a gain of $359 in the Non-interest expenses in the Consolidated Statements of Income.

Note 14 – Deposits

($000s)	**December 31, 2020**	December 31, 2019
Term and other deposits	**16,376,011**	15,231,888
Accrued interest	**235,260**	241,406
Deferred deposit agent commissions	**(26,228)**	(31,087)
	16,585,043	15,442,207

Note 15 – Income Taxes

(a) Income tax provision:

($000s)	**2020**	2019
Current tax expense:		
Current year	**69,984**	73,810
Adjustments for prior years	**514**	67
	70,498	73,877
Deferred tax expense:		
Reversal of temporary differences	**7,521**	(818)
Adjustments for prior years	**(1,235)**	(80)
Changes in tax rates	**(95)**	(361)
	6,191	(1,259)
Total income tax expense	**76,689**	72,618

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:

(Percentages)	**2020**	2019
Canadian statutory income tax rate	**26.3%**	26.5%
Increase (decrease) resulting from:		
Tax-exempt income	**(0.8%)**	(0.6%)
Future tax rate changes	**-**	(0.1%)
Non-deductible expenses and other	**-**	0.2%
Effective income tax rate	**25.5%**	26.0%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

($000s)	**December 31, 2020**	December 31, 2019
Deferred income tax assets:		
Tax losses[1]	**7,455**	11,068
Allowance for credit losses	**11,452**	6,657
Share issue expenses	**5**	101
Net loan fees	**372**	2,440
Other	**2,606**	2,507
	21,890	22,773
Deferred income tax liabilities:		
Securitization activities	**51,249**	39,907
Leasing activities[2]	**19,257**	25,465
Deposit agent commissions	**6,143**	7,929
Net origination fees	**-**	-
Intangible costs	**3,300**	2,222
Other	**2,821**	1,939
	82,770	77,462
Net deferred income tax liabilities	**60,880**	54,689

(1) Deferred tax asset pertains to income tax losses of approximately $29,220 from the finance lease business. (2) The deferred tax liability relating to leasing activities pertain to the temporary difference resulting from difference in accounting treatment versus tax treatment for finance lease receivable.

Note 16 – Other Liabilities

($000s)	**December 31, 2020**	December 31, 2019
Accounts payable and accrued liabilities	**68,605**	86,917
Loan realty taxes	**43,546**	50,302
Securitized loan servicing liability	**35,060**	27,774
Right-of-use liabilities	**12,363**	15,478
Loan commitments	**26**	209
Income taxes payable	**-**	21,120
Derivative financial instruments:		
Interest rate swaps	**30,098**	4,959
Total return swaps	**17,192**	7,083
Bond forwards	**1,253**	-
Foreign exchange forwards	**709**	-
	208,852	213,842

Accounts payable and accrued liabilities include $2,575 (December 31, 2019 – $26,230) relating to obligations associated with the purchase of the Maple portfolio in 2016.

Note 17 – Bank Facilities

(a) Operating credit facility:

The Bank has a $35,000 credit facility in place with a major Schedule I Canadian bank. The facility is secured by a portion of the Bank's investments in equity securities. There was no outstanding balance as at December 31, 2020 and December 31, 2019.

(b) Secured funding facilities:

The Bank has two credit facilities totaling $600,000 with major Schedule I Canadian banks to finance insured residential loans prior to securitization. The Bank also has access to several liquidity facilities sponsored by the Government of Canada, namely the Bank of Canada's Standing Term Liquidity Facility, Emergency Lending Assistance facility, and Contingent Term Repo Facility, as well as Canada Mortgage and Housing Corporation's Insured Mortgage Purchase Program. As at December 31, 2020, the Bank had no outstanding balance (December 31, 2019 – $nil) on these facilities.

(c) Backstop funding facility:

On December 11, 2020, the Bank reduced the secured backstop funding facility to nil, and subsequently cancelled the facility in January 2021. As at December 31, 2019, the Bank had this secured backstop funding facility in place for $400,000. The terms of the facility included a 0.55% standby fee on any unused portion of the facility, and an interest rate on the drawn portion of the facility equal to 3 month CDOR + 1.25%. The Bank did not make any draws on this facility since its inception.

Note 18 – Shareholders' Equity

(a) Capital stock:

Authorized:

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

Issued and outstanding shares:

($000's, except shares and per share amounts)						
			2020			2019
	Number of shares	**Amount**	**Dividends per share[(1)]**	Number of shares	Amount	Dividends per share[(1)]
Preferred Shares, Series 3:						
Balance, beginning of year	**3,000,000**	**72,577**	**-**	3,000,000	72,577	-
Treasury Preferred Shares, Series 3 cancelled	**(3,300)**	**(80)**	**-**	-	-	-
Balance, end of year	**2,996,700**	**72,477**	**1.49**	3,000,000	72,577	1.56
Common shares:						
Balance, beginning of year	**16,797,593**	**213,277**		16,554,018	200,792	
Contributions from exercise of stock options	**76,481**	**4,122**		220,364	10,825	
Issuance under DRIP	**-**	**-**		23,211	-	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**767**		-	1,660	
Balance, end of year	**16,874,074**	**218,166**	**1.48**	16,797,593	213,277	1.29

(b) Preferred shares:

Series 3 – 5-year rate reset preferred shares

Holders of Series 3 preferred shares were entitled to receive a fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, at a per annum rate of 6.35% per share for an initial 5-year period ended September 30, 2019. Thereafter, the dividend rate was reset at a level of 4.78% per share over the then five-year Government of Canada bond yield. The rate was reset to 5.969% per share per annum on September 30, 2019. Series 3 preferred shares are redeemable in cash at the Bank's option, subject to prior regulatory approval, on September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 3 preferred shares are convertible at the holder's option to non-cumulative floating rate preferred shares, Series 4 (Series 4 preferred shares), subject to certain conditions, on September 30 every five years thereafter.

Series 4 – floating rate preferred shares

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

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

(c) Dividend reinvestment plan:

The Bank had activated a dividend reinvestment plan in Q1 2019 and later suspended it in Q1 2020. Participation in the plan was optional and under the terms of the plan, cash dividends on common shares were used to purchase additional common shares at the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date, adjusted with discount. At the option of the Bank, the common shares may have been issued from the Bank's treasury or acquired from the open market at market prices.

(d) Dividend restrictions:

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

(e) Normal course issuer bid (NCIB):

On December 21, 2020, the Bank announced that the Toronto Stock Exchange has approved a NCIB pursuant to which the Bank may repurchase for cancellation up to 1,144,245 of its common shares and 297,250 of its Series 3 – 5-year rate reset preferred shares, representing 10% of its public float of each class of shares. The Bank only intends to purchase a maximum of 630,000 common shares under the terms of the NCIB. The actual number of preferred shares purchased under the NCIB and the timing of any such purchases will be at the Bank's discretion. As at December 31, 2020, the Bank repurchased and cancelled 3,300 Series 3 – 5-year rate reset preferred shares at a volume weighted average price of $24.91.

Note 19 – Stock-based Compensation

(a) Stock-based compensation plan:

Under the Bank's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years and vest over a four-year period. As at December 31, 2020, the maximum number of common shares available for issuance under the plan was 2,000,000 (December 31, 2019 − 2,000,000). The outstanding options expire on various dates to November 2027. A summary of the Bank's stock option activity and related information for the years ended December 31, 2020 and December 31, 2019 is as follows:

($000's, except share, per share and stock option amounts)		**2020**		2019
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**577,012**	**60.75**	671,332	52.59
Granted	**119,402**	**90.84**	144,967	69.37
Exercised	**(76,481)**	**53.89**	(220,364)	41.15
Forfeited/cancelled	**(3,609)**	**79.73**	(18,923)	65.43
Outstanding, end of year	**616,324**	**67.32**	577,012	60.75
Exercisable, end of year	**336,788**	**60.50**	279,692	56.99

The following table summarizes information relating to stock options outstanding and exercisable as at December 31, 2020:

		Options outstanding	Options exercisable
Exercise price ($)	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Number exercisable**
52.90	**43,327**	**0.2**	**43,327**
59.98	**54,536**	**1.2**	**54,536**
55.32	**6,700**	**1.9**	**6,700**
53.15	**80,123**	**2.2**	**80,123**
71.68	**83,658**	**3.2**	**63,348**
55.25	**4,500**	**3.6**	**3,250**
55.66	**96,387**	**4.2**	**45,114**
67.77	**123,553**	**5.2**	**32,190**
92.41	**2,000**	**5.2**	**500**
113.26	**4,000**	**5.9**	**1,000**
90.96	**100,694**	**6.2**	**6,701**
65.66	**1,500**	**6.4**	**-**
77.72	**1,500**	**6.6**	**-**
93.92	**12,500**	**6.9**	**-**
95.60	**1,346**	**6.9**	**-**

Under the fair value-based method of accounting for stock options, the Bank recorded compensation expense in the amount of $1,887 (2019 − $1,598) related to grants of options under the stock option plan. This amount was credited to Contributed surplus. The fair value of options granted during 2020 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

(Percentages, except per share amount and number of years)	**2020**	2019
Risk-free rate	**1.4%**	1.8%
Expected option life (years)	**4.8**	4.8
Expected volatility	**27.2%**	27.8%
Expected dividends	**1.8%**	1.8%
Weighted average fair value of each option granted	**18.88**	15.22

(b) Employee share purchase plan:

The Bank has an ESP plan for eligible employees. Under the plan, eligible employees can contribute between 1% and 10% of their annual base salary towards the purchase of common shares of the Bank. For each eligible contribution, the Bank contributes 50% of the employee's contribution to purchase common shares of the Bank up to a certain maximum per employee. During the year, the Bank expensed $1,066 (2019 − $986) under this plan.

(c) Deferred share unit plan:

The Bank has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. Directors can elect, on a one-time annual basis, to receive up to 100% of their annual compensation in the form of DSUs, allocated at each quarter and on a pro-rata basis. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Bank. When an individual ceases to be a Director, the (Separation Date), the individual may elect up to two separate redemption dates to be paid out the value of the DSUs. The redemption date elected

by the participant is a date after the Separation Date and no later than December 15 of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Bank on the TSX for the five trading days immediately prior to the redemption date.

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

The Bank hedges the risk of change in future cash flows related to the DSU plan. Please refer to Note 12 – Derivative Financial Instruments for further details.

A summary of the Bank's DSU activity for the years ended December 31, 2020 and December 31, 2019 is as follows:

	2020	2019
	Number of DSUs	Number of DSUs
Outstanding, beginning of year	**54,237**	42,697
Granted	**12,701**	10,593
Dividend Reinvested	**1,281**	947
Outstanding, end of year	**68,219**	54,237

During the year no DSUs were paid out (2019 – nil). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the year ended December 31, 2020 amounted to $877 (2019 – $882). The liability associated with DSUs outstanding as at December 31, 2020 was $6,808 (December 31, 2019 – $6,062) and was included in other liabilities on the Consolidated Balance Sheets.

(d) Restricted share unit plan:

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

The Bank hedges the risk of change in future cash flows related to the RSU and PSU plans. Please refer to Note 12 – Derivative Financial Instruments for further details.

A summary of the Bank's RSU and PSU activity for the years ended December 31, 2020 and December 31, 2019 is as follows:

	December 31, 2020	December 31, 2019
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of year	**86,335**	67,180
Granted	**43,888**	47,241
Dividend reinvested	**2,343**	1,896
Vested and paid out	**(42,578)**	(25,066)
Forfeited/cancelled	**(5,980)**	(4,916)
Outstanding, end of year	**84,008**	86,335

During the year, 42,578 (2019 – 25,066) RSUs and PSUs were vested and paid out for a total value of $4,244 (2019 – $3,057). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the year ended December 31, 2020 amounted to $3,701 (2019 – $2,381). The liability associated with RSUs and PSUs outstanding as at December 31, 2020 was $4,024 (December 31, 2019 – $4,463) and was included in other liabilities on the Consolidated Balance Sheets.

Note 20 – Earnings Per Share

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

($000's, except share, per share and stock option amounts)	**2020**	2019
Earnings per common share − basic:		
Net income	**223,804**	206,479
Dividends on preferred shares	**4,477**	4,691
Net income available to common shareholders	**219,327**	201,788
Weighted average basic number of common shares outstanding	**16,815,716**	16,672,068
Earnings per common share − basic	**13.04**	12.10
Earnings per common share − diluted:		
Net income available to common shareholders	**219,327**	201,788
Weighted average basic number of common shares outstanding	**16,815,716**	16,672,068
Adjustment to weighted average number of common shares outstanding:		
Stock options	**126,911**	185,294
Weighted average diluted number of common shares outstanding	**16,942,627**	16,857,362
Earnings per common share − diluted	**12.95**	11.97

For the year ended December 31, 2020, the calculation of the diluted earnings per share excluded 145,385 (2019 – 115,883) average options outstanding with a weighted average exercise price of $83.58 (2019 − $69.66) as the exercise price of these options was greater than the average price of the Bank's common shares.

Note 21 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements' Basel Committee on Banking Supervision. OSFI's Capital Adequacy Requirements (CAR) Guideline details how Basel III rules apply to Canadian banks. OSFI has mandated that all Canadian-regulated financial institutions meet target Capital Ratios: those being a CET1 Ratio of 7.0%, a Tier 1 Capital Ratio of 8.5%, and a Total Capital Ratio of 10.5%. In order to govern the quality and quantity of capital necessary based on the Bank's inherent risks, Equitable Bank utilizes an Internal Capital Adequacy Assessment Process (ICAAP).

The Bank's CET1 Ratio was 14.6% as at December 31, 2020, while Tier 1 Capital and Total Capital Ratios were 15.3% and 15.8% respectively. The Bank's Capital Ratios at December 31, 2020 exceeded the regulatory minimums.

During the year, the Bank complied with all internal and external capital requirements.

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

($000s)	**December 31, 2020**	December 31, 2019
Common Equity Tier 1 Capital:		
Common shares	**215,536**	213,995
Contributed surplus	**9,184**	8,065
Retained earnings	**1,386,197**	1,191,562
Accumulated other comprehensive loss[(1)]	**(19,009)**	(18,827)
Less: Regulatory adjustments	**(66,448)**	(66,591)
Common Equity Tier 1 Capital	**1,525,460**	1,328,204
Additional Tier 1 Capital:		
Non-cumulative preferred shares	**72,554**	72,554
Tier 1 Capital	**1,598,014**	1,400,758
Tier 2 Capital:		
Eligible stage 1 and 2 allowance	**46,760**	31,844
Tier 2 Capital	**46,760**	31,844
Total Capital	**1,644,774**	1,432,602

Note 22 – Commitments and Contingencies

(a) Lease commitments:

The Bank is committed to leases for its office premises located in Toronto, Calgary, Montreal and Vancouver, and IT colocation. The future minimum lease payments under these leases are as follows:

($000s)	**December 31, 2020**	December 31, 2019
Less than 1 year	**8,169**	3,632
1-5 years	**40,121**	16,854
Greater than 5 years	**97,592**	432
	145,882	20,918

The lease commitments for December 31, 2020 include the commitments relating to a new office premises lease, signed in February 2020. The new office premises is located in Toronto, and the lease commences in September 2023 for a period of 15 years.

In addition to these minimum lease payments for premises rental, the Bank will pay its share of common area maintenance and realty taxes over the terms of the leases. Lease expense recognized in the Consolidated Statements of Income for 2020 amounted to $9,549 (2019 – $7,219).

(b) Credit commitments:

As at December 31, 2020, the Bank had outstanding commitments to fund $2,558,836 (December 31, 2019 – $1,935,712) of loans and investments in the ordinary course of business. Of these commitments, $1,220,893 (December 31, 2019 – $1,025,210) are expected to be funded within 1 year and $1,337,943 (December 31, 2019 – $910,502) after 1 year.

The Bank has issued standby letters of credit which represent assurances that the Bank will make payments in the event that a borrower cannot meet its obligations to a third party. Letter of credits in the amount of $29,584 were outstanding at December 31, 2020 (December 31, 2019 – $29,131).

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

(a) Contingencies:

In September 2013, the Bank entered into an agreement to resolve a litigation related to an alleged fraud committed against it, which was identified in 2011. The net outstanding receivable balance at the beginning of the year related to this litigation matter was $3,100. During the year, the Bank received an insurance settlement amounting to $4,300 and recorded a gain of $1,127 in Fees and other income.

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

Note 23 – Related Party Transactions

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

These financial statements present the consolidated results of the Bank and all its subsidiaries, therefore transactions with the subsidiaries are not reported as related party transactions.

(a) Key management personnel compensation table

($000s)	**2020**	2019
Short-term employee benefits	**3,789**	3,518
Post-employment benefits	**47**	48
Termination benefits	**933**	-
Share-based payments (net)	**2,776**	2,362
	7,545	5,928

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

As at December 31, 2020, key management personnel held 2,078,686 (December 31, 2019 – 2,096,145) common shares and 9,000 (December 31, 2019 – 9,000) preferred shares. These shareholdings include common shares of 1,827,300 (December 31, 2019 – 1,825,300) that were beneficially owned by the non-management Directors or held by related party entities whose controlling shareholders are Directors of the Bank. In addition, key management held 283,688 (December 31, 2019 – 317,078) options to purchase common shares of the Bank at prices ranging from $52.90 to $90.96.

(c) Other transactions:

As at December 31, 2020, deposits of $1,315 (December 31, 2019 – $1,395) were held by key management personnel and related party entities whose controlling shareholders are directors of the Bank and trusts beneficially owned by the Directors.

These investments and loans were made in the ordinary course of business at terms comparable to those offered to unrelated parties.

During the year, no loans (2019 – 803) were given to key management personnel for the purpose of purchasing shares of the Bank. No interest was earned on these loans during the year (2019 – $21), and the outstanding balance as at December 31, 2020 was $nil (December 31, 2019 – $nil).

Note 24 – Interest Rate Sensitivity

The following table shows the Bank's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at December 31, 2020.

($000's, except percentages)	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total
Assets:								
Cash and cash equivalents and restricted cash	1,037,742	24,040	-	1,061,782	-	-	-	1,061,782
Effective interest rate	*0.78%*	*0.60%*	-	*0.78%*	-	-	-	*0.78%*
Securities purchased under reverse purchase agreements	-	450,203	-	450,203	-	-	-	450,203
Effective interest rate	-	*0.05%*	-	*0.05%*	-	-	-	*0.05%*
Investments	14,610	152,525	49,978	217,113	254,853	119,869	(1,959)	589,876
Effective interest rate	*3.11%*	*0.96%*	*3.61%*	*1.72%*	*3.38%*	*2.46%*	*0.00%*	*2.59%*
Loan receivable – Personal	1,933,501	1,536,681	5,609,404	9,079,586	10,167,834	3,167	194,799	19,445,386
Effective interest rate	*2.12%*	*4.30%*	*4.03%*	*3.67%*	*3.30%*	*2.68%*	*0.00%*	*3.44%*
Loan receivable – Commercial	3,364,163	305,380	920,396	4,589,939	3,317,531	893,482	25,230	8,826,182
Effective interest rate	*4.98%*	*5.40%*	*4.94%*	*5.00%*	*3.84%*	*2.72%*	*0.00%*	*4.32%*
Securitized Retained Interest	-	-	-	-	-	-	184,844	184,844
Other assets	-	-	-	-	-	-	188,045	188,045
Total assets	6,350,016	2,468,829	6,579,778	15,398,623	13,740,218	1,016,518	590,959	30,746,318
Liabilities:								
Deposits[2]	1,812	7,418,922	3,758,158	11,178,892	5,182,378	8,504	215,269	16,585,043
Effective interest rate	*5.00%*	*1.56%*	*1.93%*	*1.68%*	*2.29%*	*2.46%*	*0.00%*	*1.85%*
Securitization liabilities	-	2,357,541	1,889,684	4,427,225	6,610,556	802,031	152,152	11,991,964
Effective interest rate	-	*1.02%*	*2.52%*	*1.66%*	*2.58%*	*2.62%*	*0.00%*	*2.21%*
Obligations Under REPO	-	251,877	-	251,877	-	-	-	251,877
Effective interest rate	-	*0.43%*	-	*0.43%*	-	-	-	*0.43%*
Other liabilities and deferred taxes	-	-	-	-	-	-	269,732	269,731
Shareholders' equity	-	-	-	-	75,000	-	1,572,702	1,647,702
Total liabilities and shareholders' equity	1,812	10,208,340	5,647,842	15,857,994	11,867,934	810,535	2,209,855	30,746,318
Off-balance sheet items[3]	-	2,160,357	(1,158,924)	1,001,433	(1,167,971)	166,538	-	-
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items	6,348,204	(5,579,154)	(226,988)	542,062	704,313	372,520	(1,618,896)	-
Total assets – 2019	5,914,731	2,547,877	7,413,396	15,606,004	11,287,480	984,120	514,848	28,392,452
Total liabilities and shareholders' equity – 2019	182	8,221,478	6,069,386	14,291,046	11,345,126	810,901	1,945,379	28,392,452
Off-balance sheet items – 2019	-	(522,149)	(311,613)	(833,762)	779,271	54,491	-	-
Excess (deficiency) of assets over liabilities, shareholders' equity and off-balance sheet items – 2019	5,914,549	(6,195,750)	762,397	481,196	721,625	227,710	(1,430,531)	-

(1) Accrued interest is included in "Non-interest sensitive" assets and liabilities. (2) Cashable GIC deposits are included in the "0 to 3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance. (3) Off-balance sheet items include the Bank's interest rate swaps, hedges on funded assets, as well as loan rate commitments that are not specifically hedged. Loan rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.

Note 25 – Business Combination

On January 1, 2019, the Bank 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 Bank's acquisition of Bennington diversifies it into an adjacent market and complements its other secured lending businesses and broker-led distribution model.

By the end of 2019, the Bank finalized the purchase consideration to $46,722 resulting in a goodwill amounting to $16,944. The following table presents the estimated fair values of the assets and liabilities acquired as of the date of acquisition.

($000s)	January 1, 2019
Assets:	
Restricted cash	42,578
Loans – Commercial: Finance leases	429,743
Capital and intangible assets	9,412
Other assets	5,761
	487,494
Liabilities:	
Securitization liabilities	388,147
Deferred tax liabilities	13,802
Bank facilities	31,083
Accounts payable and accrued liabilities	24,634
	457,666
Fair value of identifiable net assets acquired	29,828
Goodwill	16,944
Total purchase consideration	46,772

Directors

Eric Beutel
Vice-President, Oakwest Corporation Limited, an investment holding company

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

Susan Ericksen
Corporate Director

Diane Giard
Corporate Director

Kishore Kapoor
President and Chief Executive Officer, RF Capital Inc.

Yongah Kim
Associate Professor of Strategic Management, Rotman School of Management

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

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

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

Vincenza Sera
Corporate Director

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

Executive Officers

Andrew Moor
President and Chief Executive Officer

Ron Tratch
Senior Vice-President and Chief Risk Officer

Chadwick Westlake
Senior Vice-President and Chief Financial Officer

Dan Dickinson
Senior Vice-President and Chief Information Officer

Darren Lorimer
Senior Vice-President and Group Head, Commercial Banking

Mahima Poddar
Senior Vice-President and Group Head, Personal Banking

Jody Sperling
Senior Vice-President and Chief Human Resources Officer

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Preferred Shares: EQB.PR.C

Quarterly Conference Call and Webcast
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10:00 a.m. EST
Live: 647.427.7450
Replay: 416.849.0833
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Annual Meeting of Shareholders
Wednesday, May 12, 2021
10:00 a.m. ET
via live audio webcast online at https://web.lumiagm.com/260010064