EQUITABLE

CANADA'S CHALLENGER BANK™

First Quarter Report 2019

For the three months ended March 31, 2019

Equitable Group Inc.

TSX.EQB | EQB.PR.C

EQUITABLE GROUP INC.

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

For the three months ended March 31, 2019

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of the consolidated operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") ended March 31, 2019. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2019, together with accompanying notes, which have been prepared in accordance with International Accounting Standard ("IAS") 34. This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018, together with accompanying notes. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at May 9, 2019. The Company's continuous disclosure materials, including interim filings, annual MD&A and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

Reporting Changes

Effective Q1 2019, we are reporting the financial results of our businesses based on two portfolios: Retail and Commercial. This reporting structure better aligns our assets with our customer segments and the way in which we manage the businesses. It is also more consistent with market practice. We have updated all historical figures contained in our Q1 2019 MD&A and consolidated financial statements to conform to this new reporting format. Please refer to Note 2(f) to the interim consolidated financial statements for further details. To allow our investors and analysts to understand the impact of this reporting change, we revised select tables from our Q4 2018 Supplementary Information and Regulatory Disclosures package on this basis, and this information is available on our website at www.equitablebank.ca.

Adoption of IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") issued by the International Accounting Standards Board ("IASB"), which replaced IAS 17 Leases ("IAS 17"). IFRS 16 introduces a single, on-balance sheet accounting model for leases that requires recognition of a Right-of-Use ("ROU") asset and a corresponding lease liability. The Company used the modified retrospective approach and recognized a $0.8 million opening retained earnings adjustment on January 1, 2019, resulting in a $0.05 reduction in our book value per common share upon adoption. The Company also changed its accounting policies relating to its operating leases, and added $15.3 million ROU assets and $17.1 million lease liabilities to Other assets and Other Liabilities, respectively, in the interim consolidated balance sheet as at March 31, 2019. Please refer to Note 3 to the interim consolidated financial statements for a summary of the Company's accounting policies as it relates to IFRS 16. We did not restate the comparative periods, as permitted by the standard. Therefore, current year period disclosures are not directly comparable to prior year period disclosures, although the overall impact is deemed immaterial.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q1 2019 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Capital Management – Equitable Bank", and "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may", "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, changes in accounting standards, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" herein and in the Company's documents filed on SEDAR at www.sedar.com.

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

BUSINESS PROFILE AND OBJECTIVES

OVERVIEW

Equitable Group Inc. (TSX: EQB and EQB.PR.C) is a growing Canadian financial services business that operates through its wholly-owned subsidiary, Equitable Bank (the "Bank"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total Assets Under Management[(1)] of approximately $31 billion. We serve retail and commercial customers across Canada with a range of savings solutions and lending products, offered under the Equitable Bank and *EQ Bank* brands. Measured by assets, Equitable Bank is the ninth largest independent Schedule I Bank in Canada.

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

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

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

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

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

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

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	Three months ended				
	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
RESULTS OF OPERATIONS					
Net income	**$ 41,661**	$ 40,116	4%	$ 40,167	4%
Adjusted net income[1]	**46,579**	45,535	2%	40,071	16%
Net income available to common shareholders	**40,470**	38,926	4%	38,976	4%
Net interest income ("NII")	**105,352**	94,591	11%	81,270	30%
Total revenue	**271,494**	239,568	13%	200,786	35%
EPS – basic	**2.44**	2.35	4%	2.36	3%
EPS – diluted	**2.42**	2.33	4%	2.34	3%
Adjusted EPS – diluted[1]	**2.72**	2.66	2%	2.34	16%
ROE	**13.4%**	12.9%	0.5%	14.5%	(1.1%)
Adjusted ROE[1]	**15.0%**	14.7%	0.3%	14.5%	0.5%
Return on average assets[1]	**0.7%**	0.7%	-%	0.8%	(0.1%)
Net interest margin ("NIM")	**1.67%**	1.58%	0.09%	1.60%	0.07%
Efficiency Ratio[1][2]	**41.1%**	41.7%	(0.6%)	37.9%	3.2%
BALANCE SHEET					
Total assets	**26,327,464**	25,037,145	5%	21,054,763	25%
Assets Under Management	**30,830,162**	29,410,999	5%	25,259,152	22%
Loans receivable	**24,446,452**	23,526,404	4%	19,676,690	24%
Loans Under Management[1]	**28,848,831**	27,800,546	4%	23,794,216	21%
Shareholders' equity	**1,313,968**	1,280,027	3%	1,181,472	11%
CREDIT QUALITY					
Provision for credit losses[3]	**9,628**	628	1,433%	770	1,150%
Provision for credit losses – rate[1]	**0.16%**	0.01%	0.15%	0.02%	0.14%
Net impaired Loans as a % of total loan assets	**0.49%**	0.16%	0.33%	0.13%	0.36%
Allowance for credit losses as a % of total loan assets	**0.13%**	0.11%	0.02%	0.13%	-%
SHARE CAPITAL					
Common shares outstanding	**16,642,685**	16,554,018	1%	16,515,238	1%
Book value per common share[1][4]	**74.59**	72.94	2%	67.14	11%
Common share price – close	**64.73**	59.12	9%	53.68	21%
Common share market capitalization	**1,077,281**	978,674	10%	886,538	22%
EQUITABLE BANK CAPITAL RATIOS[1]					
CET1 Ratio	**12.9%**	13.5%	(0.06%)	14.7%	(1.8%)
Tier 1 Capital Ratio	**13.7%**	14.3%	(0.06%)	15.7%	(2.0%)
Total Capital Ratio	**14.0%**	14.5%	(0.05%)	16.0%	(2.0%)
Leverage Ratio	**4.7%**	5.0%	(0.3%)	5.5%	(0.8%)

[1] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[2] *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
[3] *The Q1 2019 Provision for credit losses includes $8.6 million of provisions for equipment leases acquired through the Bennington acquisition.*
[4] *The adoption of IFRS 16 resulted in a $0.05 decrease in our book value per common share as at January 1, 2019.*

Q1 2019 HIGHLIGHTS

PERFORMANCE AGAINST STRATEGIC PRIORITIES

Equitable produced record adjusted earnings and a strong ROE in Q1 2019, primarily due to continued asset growth. Adjusted EPS was $2.72, $0.06 higher than the adjusted results in Q4 2018 and $0.38 above Q1 2018. Adjusted ROE was 15.0%, an increase from 14.7% in the prior quarter and 14.5% a year ago. Adjusted Q1 2019 results exclude the negative impact of an IFRS 9 related $5.7 million provision for credit losses on performing leases recorded immediately after the acquisition of Bennington Financial Corp ("Bennington") and mark-to-market losses of $0.9 million on certain preferred share investments and derivative transactions. Including these items, reported EPS was $2.42, compared to $2.33 in Q4 2018 and $2.34 in Q1 2018.

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

Strategic Objectives for 2019	Accomplishments
Grow our existing businesses with better service and innovation	• Grew our Retail loan portfolio by 25% over Q1 2018 • Increased our Commercial loan portfolio by 24% over the prior year, 7% of which relates to the Bennington acquisition • Grew brokered term deposit principal by 24% over the prior year and 9% over the preceding quarter • Doubled deposits from strategic partnerships in the quarter to $315 million • Successfully issued $150 million 2-year fixed rate deposit note in April 2019
Further diversify through our leasing, reverse mortgage, and CSV loan businesses	• Continued to build awareness of the *PATH Home Plan™* reverse mortgage product and CSV lines of credit, and refined our offering in response to market feedback • Completed the acquisition of Bennington, a profitable and growing company servicing the brokered equipment leasing market in Canada
Expand and enhance *EQ Bank*	• Grew *EQ Bank* deposit balances to $2.2 billion, an increase of 28% from last year • Redesigned our customer onboarding, making it faster and easier for customers • Enhanced the customer experience with a website modernization and redesign • Improved our product offering by introducing unlimited Interac® eTransfers
Pursue AIRB and improve the sophistication of our capital management	• Substantially completed our AIRB implementation plan in preparation for the next phase of this initiative • Reported a CET1 Ratio of 12.9%, which is still ahead of the regulatory minimum and most competitive benchmarks despite the acquisition of Bennington
Enhance our capabilities through technology and people	• Sustained an industry leading Efficiency Ratio(1) while investing in strategic initiatives • Continued to upgrade our core banking systems and enhance our infrastructure through various initiatives including the migration of our core banking platform to the cloud

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

ITEMS OF NOTE

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

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

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

- $7.4 million of mark-to-market losses on certain of our preferred shares and derivative instruments.

Q1 2018 financial results were impacted by the following items, on a pre-tax basis:

- $0.5 million of fair value gains on derivative financial instruments related to securitization activities; and
- $0.4 million of mark-to-market losses on certain preferred share holdings.

DIVIDENDS

On May 9, 2019, the Company's Board of Directors (the "Board") declared a quarterly dividend in the amount of $0.31 per common share, payable on June 28, 2019, to common shareholders of record at the close of business on June 14, 2019. This dividend represents a 15% increase over dividends declared in May 2018.

In addition, on May 9, 2019, the Company's Board declared a quarterly dividend in the amount of $0.396875 per preferred share, payable on June 28, 2019, to preferred shareholders of record at the close of business on June 14, 2019.

BUSINESS OUTLOOK

Equitable believes that our strategy, including our disciplined approach to capital allocation, will continue to deliver value to shareholders and protect the money that depositors have trusted to the Bank. Our asset quality remains high and our diversified business model presents profitable growth opportunities. We expect adjusted earnings to increase in the range of 15% to 17% in 2019 due to loan growth, higher margins, and our Bennington acquisition. This expectation excludes the $5.7 million provision related to the Bennington acquisition that Equitable recorded through its Consolidated Income Statement in Q1 2019. 2019 ROE should be approximately 15%; a high rate of return but below our ten-year average of 17.0% due to investments that we are making in key strategic initiatives.

The backstop liquidity facility that we obtained from a syndicate of Canada's big-6 banks in 2017 matures in June. In advance of the maturity, we will reduce the size of the facility from $850 million to $400 million, effective May 13, 2019. We feel comfortable reducing the facility size because of continued stability in funding markets and other actions that we have taken to reinforce our liquidity profile since 2017. Our intention is to renew the facility at this level and at a lower cost in June for an additional two years.

Regulatory Developments

In Q1 2019, the Government of Canada proposed three changes related to our sector, none of which should have a material impact on our operating model or profitability.

The first two changes were included in the recent Federal budget and are aimed at helping first-time homebuyers access the housing market. Specifically, the Government increased the maximum withdrawal under the federal Homebuyer's Plan to $35,000 from the current $25,000. In addition, the Government announced a new First-Time Homebuyer's Incentive through which CMHC will provide up to 10% of the purchase price of a home, subject to certain limits. These proposals may have a marginally positive impact on market activity and on Equitable's origination volumes.

The third proposed change relates to OSFI's Liquidity Adequacy Guideline, the framework that it uses to assess the liquidity position of regulated Canadian deposit taking institutions ("DTIs"). Revisions issued in April will increase the minimum regulatory requirements for the quantity of liquid assets that DTIs hold. Equitable maintains a conservative liquidity profile and, as such, we do not believe that the proposed changes will cause us to hold higher levels of liquid assets. Our internal liquidity models generally dictate that we hold higher levels of liquid assets than do the regulatory guidelines, and that should continue to be the case even under the revised standards.

Asset Growth

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

As a result of our continued emphasis on service quality and the addition of the Bennington leasing business, we expect that balance sheet assets will grow at a rate between 10% and 12% in 2019. We describe our growth expectations for individual asset categories in detail below.

Summary of Expectations for Asset Growth for 2019

<table>
<tr><th>Portfolio</th><th>Expectations[1]</th><th>Rationale and Assumptions[1]</th></tr>
<tr><td colspan="3">Forecasting near-term asset growth remains more challenging than usual given ongoing changes in regulatory, competitive, and market conditions. The outlook and comments below reflect our current views and are subject to change over time.</td></tr>
<tr><td colspan="3">Retail</td></tr>
<tr><td>Alternative Single Family</td><td>• Assets grow at a rate between 11% and 13% for the full year</td><td>• Employment will be stable and overall economic growth low but positive
• Overall housing market activity will be consistent with 2018 and prices will be down slightly in our key markets
• Originations and attrition have been tracking to our expectations year-to-date</td></tr>
<tr><td>Prime Single Family</td><td>• Assets grow at year-over-year rates between 30% and 40% in Q2 and Q3
• Growth rates slow to approximately 10% in Q4</td><td>• The economy and housing market perform as indicated above for Alternative Single Family
• We do not source material volumes of mortgages through third parties as we did in late 2018</td></tr>
<tr><td colspan="3">Commercial</td></tr>
<tr><td>Conventional Commercial</td><td>• Assets grow at a rate between 8% and 10% for the full year</td><td>• The market continues to present quality origination opportunities and competition does not intensify
• Originations are just below the record levels achieved in 2018 while attrition rates are slightly higher</td></tr>
<tr><td>CMHC Insured Multi-Unit Residential (“Multi”)</td><td>• Balance sheet assets grow at a rate between 2% and 4% for the full year</td><td>• We will use our fixed rate CMB capacity (approximately $300 million to $375 million per quarter) for Multi renewals and originations
• We will derecognize in the range of $150 million to $200 million of securitized Multis each quarter</td></tr>
<tr><td>Equipment Leasing</td><td>• Assets grow at year-over-year rates between 9% and 11%</td><td>• The overall economy and the leasing markets will grow modestly
• Originations will increase as we continue to deliver high quality service to brokers and begin to leverage our flexible, lower cost funding base</td></tr>
</table>

[1] *All growth rates listed in this table are with reference to the prior year unless noted otherwise.*

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

Revenue

Management believes that NII will increase at year-over-year rates between 25% and 30% in each of the remaining quarters of 2019. In addition to high levels of mortgage growth, the acquisition of Bennington and reduced secured backstop funding facility costs will contribute to the increase. We expect Bennington to add between $7 million and $8 million of NII per quarter.

Adding to these effects, our quarterly NIM should gradually increase over the course of the year, reaching a range of 1.75% to 1.80% by Q4, up from 1.67% in Q1. This NIM increase will occur for several reasons:

- Backstop facility costs in the remaining quarters of 2019 should be approximately $12 million lower than in the same period of 2018. The 2018 expense includes a $5.9 million write-down of unamortized commitment fees in Q2 2018

- Our Alternative Single Family and Commercial lending margins should expand, partly due to favourable funding rates in recent months
- An increase in prepayment income from the levels recorded in Q1 2019

Quarterly NIM may fluctuate and differ from our expectations due to prepayment income volatility and other factors such as seasonal variations in our liquidity holdings.

Non-Interest Expenses

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

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

Capital

Our capital ratios were below the lower end of our normal operating range at the end of Q1, due to the strategic acquisition of Bennington. We remain confident that we can build our capital organically, returning to the mid-point of our target range of 13% to 14% by the end of 2019, while still growing our business. Further, even at current levels, our capital ratios are above regulatory standards and the levels of the eight larger, publicly listed Schedule I banks in Canada.

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

Funding

We believe that our current sources of funding – most notably brokered term deposits and *EQ Bank* – will be adequate to support our asset growth in 2019. Our deposit balances have grown by 47% since Q1 2017 and we believe this trend will continue for the foreseeable future, even with what we expect to be a heightened level of competition in the deposit market.

Management will continue to diversify the Bank's funding profile for risk management purposes. For example, when it begins operating this spring, our new subsidiary, Equitable Trust, will be a new issuer of deposits that are eligible for insurance through the CDIC and we will build its distribution network throughout 2019. These and other new funding sources may eventually be required to deliver on the Company's longer-term growth aspirations.

Credit Quality

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

The Bennington acquisition will cause 2019 arrears rates and provisions for credit losses to increase from our historical levels. The equipment leasing business has a higher risk profile than does the mortgage business, but we are compensated for that risk through higher yields. We anticipate that the longer-term annualized loss rate on this portfolio will be in the range of 1.5% to 2%. This level of loss is within our risk appetite and ROE on the business exceeds our thresholds. Bennington's impaired loan balances should increase over time in-line with the overall lease portfolio.

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

Nonetheless, we believe that risks still exist in the mortgage market and we are actively monitoring market activity. Our prudent risk appetite and approach to lending should allow us to effectively manage through any negative changes in market conditions. For example, the low LTV ratios on our uninsured mortgages are designed to protect the Bank in the event of a softening real estate market and escalating borrower defaults caused by higher levels of unemployment. The weighted average LTV ratio of 66% on our uninsured residential mortgage portfolio at the end of Q1 offers us protection against defaults and significant decreases in house prices.

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

FINANCIAL REVIEW – EARNINGS

Table 2: Income statement highlights

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Three months ended Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Net income	**$ 41,661**	$ 40,116	4%	$ 40,167	4%
Adjusted net income	**46,579**	45,535	2%	40,071	16%
EPS – diluted	**2.42**	2.33	4%	2.34	3%
Adjusted EPS - diluted	**2.72**	2.66	2%	2.34	16%
Net interest income	**105,352**	94,591	11%	81,270	30%
Provision for credit losses	**9,628**	628	1,433%	770	1,150%
Non-interest expenses	**46,111**	39,233	18%	33,810	36%

NET INTEREST INCOME

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

Table 3: Net interest income

	Three months ended					
	Mar 31, 2019		Dec 31, 2018		Mar 31, 2018	
($ THOUSANDS, EXCEPT PERCENTAGES)	**Revenue/ Expense**	**Average rate[1]**	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]
Revenues derived from:						
Cash and equivalents	**$ 6,379**	**1.93%**	$ 5,124	1.84%	$ 3,805	1.34%
Equity securities[2]	**1,376**	**4.30%**	1,615	4.48%	1,046	4.07%
Alternative single family mortgages	**126,348**	**4.78%**	121,683	4.65%	102,846	4.43%
Prime single family mortgages	**32,803**	**2.37%**	29,516	2.29%	19,619	2.04%
Other retail loans	**71**	**6.28%**	39	6.19%	2	5.80%
Total Retail loans	**159,222**	**3.95%**	151,238	3.87%	122,467	3.73%
Conventional commercial loans	**58,355**	**6.10%**	54,183	5.80%	40,268	5.52%
Equipment leases[3]	**12,215**	**11.88%**	N/A	N/A	N/A	N/A
Insured multi-unit residential mortgages	**27,059**	**3.23%**	27,876	3.30%	25,256	3.34%
Total Commercial loans	**97,629**	**5.14%**	82,059	4.61%	65,524	4.42%
Average interest earning assets	**264,606**	**4.20%**	240,036	4.00%	192,842	3.80%
Expenses related to:						
Deposits	**92,363**	**2.66%**	84,432	2.54%	61,145	2.17%
Secured backstop funding facility[4]	**2,249**	**N/A**	2,273	N/A	5,293	N/A
Securitization liabilities	**62,903**	**2.63%**	55,898	2.59%	43,562	2.36%
Others	**1,739**	**3.67%**	2,842	2.32%	1,572	2.05%
Average interest bearing liabilities	**159,254**	**2.70%**	145,445	2.59%	111,572	2.35%
Net interest income and margin	**$ 105,352**	**1.67%**	$ 94,591	1.58%	$ 81,270	1.60%

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

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

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

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

Q1 2019 v Q1 2018

NII was up 30% year over year primarily due to growth in our average asset balances of 24% and a 7 bp increase in our NIM. The increase in NIM was primarily driven by the addition of higher spread equipment leases acquired through the Bennington acquisition and lower liquidity management costs.

Table 4(a): Factors affecting Q1 2019 v Q1 2018 NIM

	Impact (in bps)	**Drivers of change**
Equipment leases	9	• Addition of higher spread equipment leases from the Bennington acquisition
Liquidity actions undertaken in Q2 2017	9	• Lower fees associated with our downsized secured backstop funding facility • Lower net insurance premium amortization related to the $892 million of Alternative Single Family loans insured in May 2017
Business mix	(4)	• Mix shift toward lower spread Prime mortgages, which was affected by the high levels of originations in the latter half of 2018, offset to some extent by: • Funding mix shift towards our lower cost *EQ Bank* deposits
Rates/spread[1]	(4)	• Lower margins on our Alternative Single Family portfolio mortgages, offset in part by: • Higher spreads on recent Commercial Lending originations
Loan prepayment income	(3)	• Reduced levels of early discharges on Alternative Single Family and insured multi-unit residential mortgages
Change in Total NIM	7	

[1] *The rate effect is calculated after adjusting for the impact of asset and funding mix changes.*

Q1 2019 v Q4 2018

NII increased 11% from last quarter mainly driven by 7% growth in average assets and a 9 bp increase in our NIM.

Table 4(b): Factors affecting Q1 2019 v Q4 2018 NIM

	Impact (in bps)	**Drivers of change**
Equipment leases	9	• Addition of higher spread equipment leases from the Bennington acquisition
Rates/spread[1]	1	• Higher spreads on our Commercial portfolio, offset to some extent by: • Lower spreads on our Alternative Single Family portfolio
Loan prepayment income	(3)	• Reduced levels of early discharges on Alternative Single Family and insured multi-unit residential mortgages
Business mix	(1)	• Mix shift toward lower spread Prime mortgages, which was affected by the high levels of originations in the latter half of 2018
Other	3	• Includes the effect of 2 fewer days in the quarter
Change in Total NIM	9	

[1] *The rate effect is calculated after adjusting for the impact of asset and funding mix changes.*

PROVISION FOR CREDIT LOSSES

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

($ THOUSANDS, EXCEPT PERCENTAGES)			Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
				Three months ended			
	Equitable	Bennington	Consolidated				
Stage 1 and 2 provision	$ 230	$ 300	$ 530	$ 73	626%	$ 419	26%
Stage 3 provision	819	2,530	3,349	555	503%	351	854%
Provision for Credit Losses – Normalized	1,049	2,830	3,879	628	518%	770	404%
One-time Bennington acquisition related	-	5,749	5,749	-	N/A	-	N/A
Provision for credit losses – Reported	1,049	8,579	9,628	628	1,433%	770	1,150%
Provision for credit losses – Normalized rate	0.02%	2.55%	0.06%	0.01%	0.05%	0.02%	0.04%
Provision for credit losses – Reported rate	0.02%	7.74%	0.16%	0.01%	0.15%	0.02%	0.14%
Allowance for credit losses	$ 25,731	$ 6,537	$ 32,268	$ 25,298	28%	$ 24,815	30%

The total Provision for Credit Losses increased in Q1 2019, largely because of a one-time provision recorded on the acquisition of Bennington. IFRS 9 required us to establish an allowance for credit losses on all performing leases acquired, immediately after the leases came on to our balance sheet. This accounting provision does not change management's view on the quality of the underlying business or the acquired lease portfolio.

Excluding the effect of the one-time provision, and as expected, our normalized PCL increased from prior periods. The majority of the increase was due to $2.8 million of provisions on Bennington's lease portfolio. The equipment leasing business has a higher risk profile than our traditional mortgage business but earns a higher margin to compensate for this risk. The PCL on our mortgage portfolio was only $1.0 million or 0.02% of average loan principal, in-line with our historical PCL rates.

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

OTHER INCOME

Table 6: Other income

($ THOUSANDS)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
		Three months ended			
Fees and other income:					
Fees and other income	$ 5,041	$ 3,776	34%	$ 4,080	24%
Income from successor issuer activities	603	686	(12%)	1,297	(54%)
Net loss on investments	(821)	(3,754)	78%	(370)	(122%)
Securitization activities:					
Gains on securitization and income from retained interests	2,186	2,442	(10%)	2,437	(10%)
Fair value (losses) gains on derivative financial instruments	(121)	(3,618)	97%	500	(124%)
Total	$ 6,888	$ (468)	1,572%	$ 7,944	(13%)

Q1 2019 v Q1 2018

Other income decreased compared with Q1 2018, mainly due to:

- Reduced income from successor issuer activities, representing income earned from certain assets that we acquired from Maple Bank in Q4 2016 and which is expected to be recurring on a diminishing basis through 2020;
- Unrealized fair value losses on our investments in certain preferred shares; and

- Mark-to-market losses on derivative financial instruments related to securitization activities, which compares to gains in the prior year quarter;

Offset by:

- Higher fees and other income, primarily from our acquired equipment leasing portfolio.

Q1 2019 v Q4 2018

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

- A decrease in unrealized fair value losses on derivative transactions and certain investments in our preferred share portfolio; and
- Higher fee and other income due to the addition of the Bennington equipment leasing portfolio.

NON-INTEREST EXPENSES

Table 7: Non-interest expenses and Efficiency Ratio

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES AND FTE)	**Mar 31, 2019**	Dec 31, 2018	Change	Mar 31, 2018	Change
Compensation and benefits	**$ 24,284**	$ 20,021	21%	$ 18,603	31%
Technology and system costs	**7,429**	5,858	27%	4,901	52%
Regulatory, legal and professional fees	**4,674**	4,303	9%	2,749	70%
Product costs	**3,842**	3,372	14%	3,055	26%
Marketing and corporate expenses	**3,654**	3,830	(5%)	2,962	23%
Premises	**2,228**	1,849	20%	1,540	45%
Total non-interest expenses	**$ 46,111**	$ 39,233	18%	$ 33,810	36%
Efficiency Ratio[(1)]	**41.1%**	41.7%	(0.6%)	37.9%	3.2%
Full-time employee ("FTE") – period average	**795**	665	20%	604	32%

[(1)] *Efficiency Ratio are reported excluding TEB adjustments.*

We continue to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Overall, non-interest expenses were $6.9 million or 18% higher than the prior quarter and up $12.3 million or 36% from a year ago. The consolidation of Bennington added $5.4 million of expenses in the quarter, $3.2 million of which related to compensation and benefits.

Q1 2019 v Q1 2018

Excluding Bennington's operating expenses, total non-interest expenses increased $6.9 million or 20% from last year mainly because of:

- Higher Compensation and benefits costs which resulted from several factors including 11% growth in our FTE and annual inflationary salary adjustments;
- An increase in Technology and system costs mainly for support, maintenance and enhancement of our core banking systems and *EQ Bank* platform; and
- Higher Regulatory, legal and professional fees mainly because of an increase in CDIC's standard premium rates, higher deposit balances, and business growth. This increase in CDIC's standard premium rates is expected to be the last in a series of market-wide rate increases that began in 2014.

Q1 2019 v Q4 2018

Expenses were up by $1.5 million or 4%, excluding Bennington, primarily because of:

- Higher Compensation and benefits costs that resulted from headcount growth, a seasonal increase in benefit costs, and annual inflationary salary adjustments; and
- Growth in Technology and system costs as we continued to upgrade our core banking system and enhance our technology infrastructure.

INCOME TAXES

Q1 2019 v Q1 2018

Our statutory income tax rate for the quarter was 26.6%, consistent with last year. Our effective income tax rate for the quarter decreased slightly to 26.3% from 26.5% a year ago mainly due to higher tax-exempt dividend income earned from our preferred share investments and other adjustments.

Q1 2019 v Q4 2018

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

FINANCIAL REVIEW – BALANCE SHEET

Table 8: Balance sheet highlights

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Total assets	$ 26,327,464	$ 25,037,145	5%	$ 21,054,763	25%
Loan principal – Retail	16,629,554	16,102,163	3%	13,356,064	25%
Loan principal – Commercial	7,716,579	7,324,529	5%	6,233,763	24%
Deposit principal	14,637,787	13,522,012	8%	11,880,772	23%
Total liquid assets as a % of total assets[1]	7.8%	5.6%	2.2%	8.4%	(0.6%)

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

TOTAL LOAN PRINCIPAL

Our strategy is to maintain a diverse portfolio of loan assets in order to optimize our ROE while reducing our credit risk. Table 9 presents our loan principal by lending business and Table 10 provides continuity schedules for our on-balance sheet loan assets for Q1 2019 and the comparative periods.

Table 9: Loan Principal by lending business

($ THOUSANDS)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Alternative single family mortgages	$ 10,920,051	$ 10,602,110	3%	$ 9,497,132	15%
Prime single family mortgages	5,703,570	5,496,655	4%	3,858,527	48%
Other retail loans	5,933	3,398	75%	405	136%
Total Retail – on Balance Sheet	16,629,554	16,102,163	3%	13,356,064	25%
Conventional commercial loans	3,890,853	3,871,337	1%	3,129,365	24%
Equipment leases	448,812	-	N/A	-	N/A
Insured multi-unit residential mortgages	3,376,914	3,453,192	(2%)	3,104,398	9%
Total Commercial – on Balance Sheet	7,716,579	7,324,529	5%	6,233,763	24%
Total Loans – on Balance Sheet	24,346,133	23,426,692	4%	19,589,827	24%
Insured multi-unit residential mortgages – derecognized	4,502,698	4,373,854	3%	4,204,389	7%
Total Loans – off Balance Sheet	4,502,698	4,373,854	3%	4,204,389	7%
Total Loans Under Management	$ 28,848,831	$ 27,800,546	4%	$ 23,794,216	21%

Table 10: On-Balance Sheet loan principal continuity schedule

($ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended March 31, 2019		
	Retail	**Commercial**	**Total**
Q4 2018 closing balance	**$ 16,102,163**	**$ 7,324,529**	**$ 23,426,692**
Originations	**1,050,157**	**1,042,935**	**2,093,092**
Derecognition	**-**	**(172,330)**	**(172,330)**
Net repayments	**(522,766)**	**(478,555)**	**(1,001,321)**
Q1 2019 closing balance	**$ 16,629,554**	**$ 7,716,579**	**$ 24,346,133**
% Change from Q4 2018	**3%**	**5%**	**4%**
% Change from Q1 2018	**25%**	**24%**	**24%**
Net repayments percentage[1]	**3.2%**	**6.5%**	**4.3%**

($ THOUSANDS, EXCEPT PERCENTAGES)	Three months ended March 31, 2018		
	Retail	Commercial	Total
Q4 2017 closing balance	$ 13,210,550	$ 6,004,151	$ 19,214,701
Originations	689,071	774,101	1,463,172
Derecognition	-	(236,297)	(236,297)
Net repayments	(543,557)	(308,192)	(851,749)
Q1 2018 closing balance	$ 13,356,064	$ 6,233,763	$ 19,589,827
% Change from Q4 2017	1%	4%	2%
Net repayments percentage[1]	4.1%	5.1%	4.4%

[1] *Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.*

Q1 2019 v Q1 2018

Total loan principal increased by $4.8 billion or 24%, driven by growth in both our Retail and Commercial business.

Within our Retail business, Alternative single family mortgages grew 15% due to strong origination volumes and continued low levels of attrition over the past 12 months. Growth in Prime single family was 48%, driven by originations sourced through third parties in the latter half of 2018 and growing levels of mortgages originated internally.

Our Commercial business also grew significantly year-over-year with loan principal increasing by 24%. This growth was driven by a variety of Commercial asset classes and the addition of Bennington's Equipment lease portfolio. Conventional commercial loans grew $761 million or 24% while Insured Multi-unit residential mortgages were up by $273 million or 9%. The increase in Commercial reflects our strategic decision to deploy additional capital into this business during 2018 and demonstrates our continued success in growing the breadth and depth of our relationships with brokers and business partners.

Q1 2019 v Q4 2018

Total loan principal increased $0.9 billion or 4% from the preceding quarter due to growth in both our Retail and Commercial businesses.

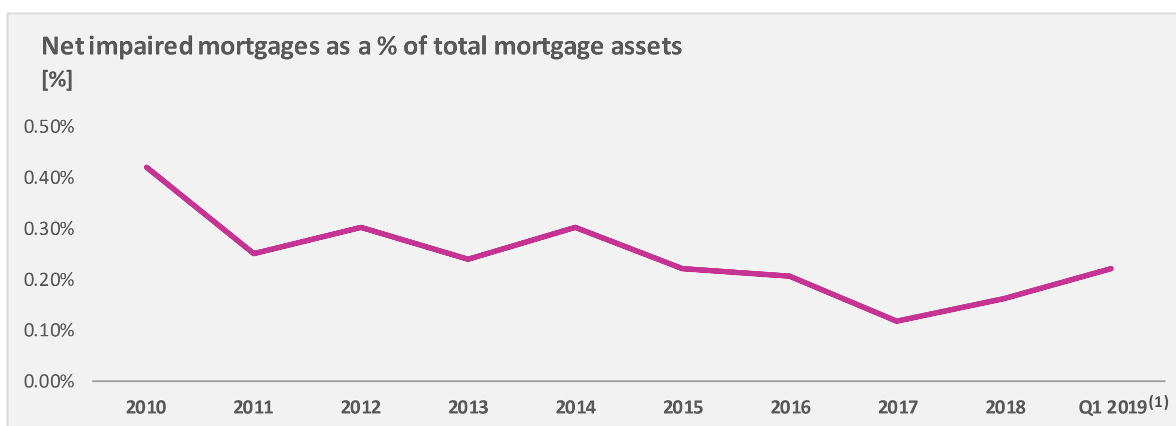
Our Retail balances continued to grow due to both high originations, despite a decline from the preceding quarter's record level, and sustained low attrition levels in Alternative single family mortgages. Commercial growth was driven by the addition of Bennington's equipment lease portfolio.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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

Impaired loan increased during the quarter, as expected, due to the acquisition of Bennington. The equipment leasing business has a higher risk profile than our traditional mortgage business but earns a higher margin to compensate for this risk. Of note, we acquired the majority of the $27.7 million of impaired leases in the purchase and, as such, appropriately discounted them to determine the final purchase price. Impaired loans balances increased further because of a default on a $39.3 million commercial mortgage. This loan is secured by a high-quality commercial property in Vancouver and has a current LTV of 39%, and accordingly management does not expect to realize a loss on this property. The balance of impaired loans relates to a number of residential or smaller commercial mortgages, which in aggregate represent 22 basis points of overall mortgage assets.

Normalizing for the one large commercial loan, the impairment rate on our mortgage portfolio represents a return to more normal levels. The following graph highlights that even at 22 basis points our impairment rate is at or below the levels realized in 2016 and earlier, even though it may be above the trough levels of the past two years.



(1) *Excludes the impact of a $39.3 million impaired Commercial loan in Q1 2019 on which management does not expect to realize a loss.*

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

Table 11: Loan credit metrics

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Gross impaired loan assets	$ 121,888	$ 38,931	$ 27,033
Net impaired loan assets	119,671	37,405	26,194
Net impaired loan assets as a % of total loan assets	0.49%	0.16%	0.13%
Allowance for credit losses	32,268	25,298	24,815
Allowance for credit losses as a % of total loan assets	0.13%	0.11%	0.13%
Allowances for credit losses as a % of gross impaired loan assets	26%	65%	92%

Q1 2019 v Q1 2018

In aggregate, our loan portfolio remained healthy and within our risk appetite in Q1 2019:

- Impaired loan balances grew by $94.9 million from the same period of the previous year as a result of the reasons cited above.
- The allowance for credit losses increased in both dollar terms and as a percentage of total loan assets, primarily because of a $6.5 million allowance recorded on acquired equipment leases in the current quarter. The allowance for credit losses remains sufficient in the opinion of management and well above the company's 10-year average loss rate on its mortgage book of 5 basis points.
- Allowances for credit losses as a percentage of gross impaired loan assets declined from the prior year as a result of the increase in gross impaired assets discussed above and management's belief that there will not be a corresponding increase in credit losses. This view is supported by our normal and extensive review of impaired loans, the low LTVs on our mortgages, and the quality of the collateral underpinning these loans.

Q1 2019 v Q4 2018

The movement in our credit metrics when comparing Q1 2019 to the preceding quarter is largely due to the same factors cited above when comparing Q1 2019 to the same quarter of 2018.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

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

The size and composition of our liquidity portfolio at any point in time is influenced by several factors, such as our expected future cash needs and the availability of our various funding sources. Further, we apply a strategic approach to liquidity management through rigorous asset-liability matching analysis and stress testing. Even with this liquidity risk management framework, a significant or protracted disruption to funding markets could require the Company to take further liquidity protection measures, as we did in Q2 2017. Please refer to the Risk Management section of this document for more detail on the Company's Liquidity and Funding Risk policies and procedures.

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

Table 12: Liquid assets

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Eligible deposits with regulated financial institutions[1]	**$ 485,991**	$ 472,488	$ 698,208
Debt securities	**68,269**	55,336	-
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**547,620**	250,000	-
Loans held in the form of debt securities guaranteed by Government of Canada[2], net of obligations under repurchase agreements	**829,371**	502,015	940,780
Liquid assets held for regulatory purposes	**1,931,251**	1,279,839	1,638,988
Other deposits with regulated financial institutions	**431**	4,755	151
Equity securities[3]	**115,214**	121,998	136,320
Total liquid assets	**$ 2,046,896**	$ 1,406,592	$ 1,775,459
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**7.3%**	5.1%	7.8%
Total liquid assets as a % of total assets	**7.8%**	5.6%	8.4%

(1) *Eligible deposits with regulated financial institutions represents deposits of Equitable Bank which are held at major Canadian financial institutions and excludes $10.6 million (December 31, 2018 – $6.9 million, March 31, 2018 – $20.5 million) of restricted cash held as collateral with third parties for the Company's interest rate swap transactions and $370.6 million (December 31, 2018 – $320.2 million, March 31, 2018 – $313.0 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

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

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

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio ("LCR")[1]. At March 31, 2019, our LCR was well in excess of the regulatory minimum of 100%.

Liquid asset balances were up from both Q1 and Q4 2018. Liquid assets increased primarily because deposit rates were favourable in Q1 and the Company chose to take advantage of those conditions by raising more funding in advance of the spring mortgage market this year.

DEPOSITS

Table 13: Deposit principal

($ THOUSANDS)	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Brokered deposits:			
Term	**$ 11,316,137**	$ 10,345,979	$ 9,104,613
Demand	**637,777**	679,147	891,783
	11,953,914	11,025,126	9,996,396
EQ Bank deposits:			
Term	**529,144**	753,687	32,677
Demand	**1,689,463**	1,434,494	1,701,617
	2,218,607	2,188,181	1,734,294
Strategic partnerships	**315,266**	158,705	51
Deposit notes	**150,000**	150,000	150,000
Total	**$ 14,637,787**	$ 13,522,012	$ 11,880,741

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

Total deposit principal was up by $1.1 billion or 8% compared to Q4 2018 and $2.8 billion or 23% over Q1 2018. A significant portion of this growth was in brokered term deposits. We continue to have strong relationships with our deposit agents and brokers, and our distribution network remains as broad as that of any non-big 6 bank.

Also contributing to the growth of our deposits was the *EQ Bank* platform, which grew its deposits to $2.2 billion. Growth in *EQ Bank* deposit principal over the last year was driven by the addition of approximately 22,000 customers and the GIC product that was introduced last March. We expect to continue growing our customer base and balances as we enhance the platform, maintain a highly competitive deposit rate, and provide superior service.

As part of strengthening the stability of our funding position, the Bank has entered into strategic distribution partnerships. The deposits obtained through these channels are reported as "Strategic partnerships" and grew to $315 million in the year since their inception. These relationships demonstrate the success of our fintech partnership strategy and have allowed us to reach new customers across Canada.

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

CAPITAL MANAGEMENT – EQUITABLE BANK

Management believes that the Bank's current level of capital and earnings in future periods will be sufficient to support our strategic objectives and ongoing growth. Equitable Bank's Capital Ratios at Q1 2019 exceeded regulatory minimums. Despite continued organic growth of our capital, our Capital Ratios declined from last year and the prior quarter, because of asset growth and the inclusion of equipment lease assets, which also carry higher risk-weightings.

Canadian banks are required to report on OSFI's Leverage Ratio which is based on Basel III guidelines. OSFI has established Leverage Ratio targets on a confidential and institution-by-institution basis. Equitable Bank's Leverage Ratio was 4.7% at Q1 2019 and the Bank remains fully compliant with our regulatory requirements. Our Leverage Ratio decreased relative to prior quarters due to high asset growth, partly driven by our insured Prime Single Family portfolio and our Bennington acquisition.

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

Table 14: Capital measures of Equitable Bank

($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Mar 31, 2018
Total risk-weighted assets ("RWA")	**$ 9,229,237**	$ 8,802,891	$ 7,396,553
Common Equity Tier 1 Capital:			
Common shares	**206,418**	203,270	201,602
Contributed surplus	**7,999**	8,127	7,401
Retained earnings	**1,045,960**	1,011,052	902,092
Accumulated other comprehensive (loss) income ("AOCI")[1]	**(18,607)**	(17,565)	(6,308)
Less: Regulatory adjustments to Common Equity Tier 1 Capital	**(53,324)**	(20,684)	(17,592)
Common Equity Tier 1 Capital	**1,188,446**	1,184,200	1,087,195
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**1,261,000**	1,256,754	1,159,749
Tier 2 Capital:			
Eligible Stage 1 and 2 allowance	**30,051**	23,772	23,976
Tier 2 Capital	**30,051**	23,772	23,976
Total Capital	**$ 1,291,051**	$ 1,280,526	$ 1,183,725
Capital ratios:			
CET1 Ratio	**12.9%**	13.5%	14.7%
Tier 1 Capital Ratio	**13.7%**	14.3%	15.7%
Total Capital Ratio	**14.0%**	14.5%	16.0%
Leverage Ratio	**4.7%**	5.0%	5.5%

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

SUMMARY OF QUARTERLY RESULTS

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

Table 15: Summary of quarterly results

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2019[1] Q1	2018[1] Q4	2018[1] Q3	2018[1] Q2	2018[1] Q1	2017 Q4	2017 Q3	2017 Q2
RESULTS OF OPERATIONS								
Net income	**$ 41,661**	$ 40,116	$ 47,806	$ 37,537	$ 40,167	$ 40,446	$ 37,869	$ 38,909
Adjusted net income	**46,579**	45,535	45,662	41,510	40,071	40,807	36,772	38,882
Net income available to common shareholders	**40,470**	38,926	46,615	36,346	38,976	39,256	36,678	37,718
Net interest income	**105,352**	94,591	93,024	79,496	81,270	79,697	71,964	78,349
Total revenue	**271,494**	239,568	232,410	214,958	200,786	197,648	189,290	183,025
EPS – basic[2]	**2.44**	2.35	2.82	2.20	2.36	2.38	2.23	2.29
EPS – diluted[2]	**2.42**	2.33	2.80	2.19	2.34	2.36	2.21	2.28
Adjusted EPS – diluted[2]	**2.72**	2.66	2.67	2.43	2.34	2.38	2.15	2.27
ROE	**13.4%**	12.9%	15.9%	13.0%	14.5%	14.9%	14.4%	15.6%
Adjusted ROE	**15.0%**	14.7%	15.2%	14.4%	14.5%	15.0%	14.0%	15.6%
Return on average assets	**0.7%**	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%	0.8%
NIM	**1.67%**	1.58%	1.66%	1.50%	1.60%	1.56%	1.45%	1.63%
Efficiency Ratio	**41.1%**	41.7%	36.5%	43.2%	37.9%	37.5%	37.6%	39.4%
BALANCE SHEET								
Total assets	**26,327,464**	25,037,145	23,147,614	21,944,721	21,054,763	20,634,250	20,221,205	19,795,986
Assets Under Management	**30,830,162**	29,410,999	27,495,398	26,142,735	25,259,152	24,652,969	24,274,172	23,641,546
Loans receivable	**24,446,452**	23,526,404	21,671,338	20,455,377	19,676,690	19,298,548	18,787,348	18,263,623
Loans Under Management	**28,848,831**	27,800,546	25,935,686	24,568,457	23,794,216	23,233,420	22,753,938	22,013,453
Shareholders' equity	**1,313,968**	1,280,027	1,259,875	1,212,952	1,181,472	1,138,117	1,098,325	1,060,852
Liquid assets	**2,046,896**	1,406,592	1,439,394	1,782,905	1,775,459	1,479,429	1,459,711	1,570,532
CREDIT QUALITY								
Provision for credit losses	**9,628**	628	517	168	770	387	40	378
Provision for credit losses – rate	**0.16%**	0.01%	0.01%	0.003%	0.02%	0.01%	0.001%	0.01%
Net impaired loans as a % of total loan assets	**0.49%**	0.16%	0.16%	0.13%	0.13%	0.12%	0.13%	0.16%
Allowance for credit losses as a % of total loan assets	**0.13%**	0.11%	0.11%	0.12%	0.13%	0.17%	0.18%	0.19%

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

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

Table 15: Summary of quarterly results (continued)

($ THOUSANDS, EXCEPT SHARE, PER SHARE AMOUNTS AND PERCENTAGES)	2019[1]	2018[1]				2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
SHARE CAPITAL								
Common shares outstanding								
Weighted average basic	**16,573,522**	16,553,212	16,528,351	16,517,020	16,507,603	16,486,677	16,478,314	16,477,456
Weighted average diluted	**16,702,520**	16,672,512	16,654,209	16,603,186	16,629,832	16,625,927	16,570,256	16,567,699
Book value per common share	**74.59**	72.94	71.73	69.03	67.14	64.57	62.25	59.98
Common share price – close	**64.73**	59.12	68.87	59.56	53.68	71.50	56.00	59.48
Common share market capitalization	**1,077,281**	978,674	1,140,013	983,968	886,538	1,179,996	922,826	980,091
Dividends declared per:[2]								
Common share	**0.30**	0.28	0.27	0.27	0.26	0.25	0.24	0.23
Preferred share – Series 3	**0.40**	0.40	0.40	0.40	0.40	0.40	0.40	0.40
EQUITABLE BANK CAPITAL RATIOS								
CET1 Ratio	**12.9%**	13.5%	13.8%	14.3%	14.7%	14.8%	14.8%	14.8%
Tier 1 Capital Ratio	**13.7%**	14.3%	14.7%	15.3%	15.7%	15.9%	15.8%	15.9%
Total Capital Ratio	**14.0%**	14.5%	15.0%	15.6%	16.0%	16.3%	17.2%	17.4%
Leverage Ratio	**4.7%**	5.0%	5.3%	5.4%	5.5%	5.4%	5.3%	5.3%

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

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

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by the Company in the Q1 2019 interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2018, except for the adoption of IFRS 16 and the adoption of new accounting policies as a result of acquisition of a subsidiary, effective January 1, 2019. Please refer to Note 3 to the interim consolidated financial statements for further discussion.

CRITICAL ACCOUNTING ESTIMATES

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

In making estimates and judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments or events that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these interim consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Refer to Note 2(d) to the Q1 2019 interim consolidated financial statements for further discussion.

OFF-BALANCE SHEET ACTIVITIES

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

SECURITIZATION OF FINANCIAL ASSETS

Certain securitization transactions qualify for derecognition when the Company has transferred substantially all of the risks and rewards or control associated with the securitized assets. The outstanding securitized loan principal that qualified for derecognition totalled $4.5 billion at March 31, 2019 (December 31, 2018 – $4.4 billion, March 31, 2018 – $4.2 billion). The securitization liabilities associated with these transferred assets were approximately $4.5 billion at March 31, 2019 (December 31, 2018 – $4.4 billion, March 31, 2018 – $4.1 billion). The securitization retained interests recorded with respect to certain securitization transactions were $119.2 million at March 31, 2019 (December 31, 2018 – $115.3 million, March 31, 2018 – $106.2 million) and the associated servicing liability was $26.7 million at March 31, 2019 (December 31, 2018 – $26.8 million, March 31, 2018 – $25.8 million).

COMMITMENTS AND LETTERS OF CREDIT

The Company provides commitments to extend credit to our borrowers. The Company had outstanding commitments to fund $1.8 billion of loans in the ordinary course of business at March 31, 2019 (December 31, 2018 – $1.5 billion, March 31, 2018 – $1.4 billion).

The Company issues letters of credit which represent assurances that the Company will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $18.6 million were outstanding at March 31, 2019 (December 31, 2018 – $15.5 million, March 31, 2018 – $9.9 million), none of which were drawn upon.

RELATED PARTY TRANSACTIONS

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

RISK MANAGEMENT

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

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

CREDIT RISK

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

The Company's primary lending business is providing first mortgages on real estate located across Canada. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses of this MD&A.

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

We also invest in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 41% or $47 million of the total equity securities portfolio at March 31, 2019, compared to 41% or $54 million a year earlier. Preferred share securities rated P-3 (mid) or higher comprised 98% of the total equity securities portfolio at the end of Q1 2019.

Table 16: Credit risk exposure ratings scale

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

Management has assessed the credit quality of the Company's assets as at March 31, 2019 on the basis of the above mapping of internal and external risk ratings to the credit risk exposure categories.

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

Table 17: Credit quality analysis

				March 31, 2019
($ THOUSANDS)	Stage 1	Stage 2	Stage 3	Total
Loans receivable:				
Low risk	$ 11,060,757	$ 520,457	$ -	$ 11,581,214
Standard risk	9,910,348	2,560,629	-	12,470,977
High risk	163,392	141,249	-	304,641
Impaired	-	-	121,888	121,888
Total	$ 21,134,497	$ 3,222,335	$ 121,888	$ 24,478,720
Less allowance	(19,545)	(10,364)	(2,217)	(32,126)
	$ 21,114,952	$ 3,211,971	$ 119,671	$ 24,446,594
Loan commitments:				
Low risk	$ 182,918	$ -	$ -	$ 182,918
Standard risk	709,413	216,875	-	926,288
High risk	-	-	-	-
Total	$ 892,331	$ 216,875	$ -	$ 1,109,206
Less allowance	(112)	(30)	-	(142)
	$ 892,219	$ 216,845	$ -	$ 1,109,064

LIQUIDITY AND FUNDING RISK

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

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

MARKET RISK

Market Risk consists of Interest Rate and Equity Price risk. Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's profitability or financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at March 31, 2019, see Note 17 to the interim consolidated financial statements.

The Company closely monitors interest rates and acts upon any mismatches in a timely manner to ensure that any sudden or prolonged change in rates would not adversely affect the Company's economic value of shareholders' equity ("EVE") and its NII. The table below illustrates the results of management's sensitivity modelling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on NII during the 12-month period following March 31, 2019. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 18: Net interest income shock

($ THOUSANDS, EXCEPT PERCENTAGE)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	$ 17,691	$ (10,177)
Impact on EVE	(3,817)	8,235
EVE impact as a % of common shareholders' equity	(0.3%)	0.7%
200 basis point shift		
Impact on net interest income	$ 32,867	$ (14,461)
Impact on EVE	(6,400)	19,120
EVE impact as a % of common shareholders' equity	(0.5%)	1.5%

[1] *Interest rate is not allowed to decrease beyond a floor of 0% and is therefore not allowed to be negative.*

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

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

UPDATED SHARE INFORMATION

At May 9, 2019, the Company had 16,648,111 common shares and 3,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 715,271 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $41.2 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

NON-GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

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

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

Reconciliation of Adjusted net income

			Three months ended		
($ THOUSANDS)	**Mar 31, 2019**	Dec 31, 2018	Change	Mar 31, 2018	Change
Net income	**$ 41,661**	$ 40,116	4%	$ 40,167	4%
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 preferred shares and derivatives	**692**	5,419	(87%)	(96)	821%
Adjusted net income	**$ 46,579**	$ 45,535	2%	$ 40,071	16%

Reconciliation of Adjusted EPS – diluted

			Three months ended		
($ PER SHARE AMOUNTS)	**Mar 31, 2019**	Dec 31, 2018	Change	Mar 31, 2018	Change
EPS – diluted	**$ 2.42**	$ 2.33	4%	$ 2.34	3%
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 preferred shares and derivatives	**0.04**	0.33	(88%)	-	100%
Adjusted EPS – diluted	**$ 2.72**	$ 2.66	2%	$ 2.34	16%

Reconciliation of Adjusted Return on shareholders' equity

			Three months ended		
($ THOUSANDS, EXCEPT PERCENTAGES)	**Mar 31, 2019**	Dec 31, 2018	Change	Mar 31, 2018	Change
Net income available to common shareholders	**$ 40,470**	$ 38,926	4%	$ 38,976	4%
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 preferred shares and derivatives	**692**	5,419	(87%)	(96)	821%
Adjusted income available to common shareholders	**45,388**	44,345	2%	38,880	17%
Adjusted weighted average common equity	**1,225,556**	1,200,093	2%	1,090,587	12%
Adjusted return on shareholders' equity	**15.0%**	14.7%	0.3%	14.5%	0.5%

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

($ THOUSANDS)		Mar 31, 2019		Dec 31, 2018	Change		Mar 31, 2018	Change
Total assets on the consolidated balance sheet	$	26,327,464	$	25,037,145	5%	$	21,054,763	25%
Loan principal derecognized		4,502,698		4,373,854	3%		4,204,389	7%
Assets Under Management	$	30,830,162	$	29,410,999	5%	$	25,259,152	22%

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

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)		Mar 31, 2019		Dec 31, 2018	Change		Mar 31, 2018	Change
Shareholders' equity	$	1,313,968	$	1,280,027	3%	$	1,181,472	11%
Preferred shares		(72,557)		(72,557)	-%		(72,557)	-%
Common shareholders' equity	$	1,241,411	$	1,207,470	3%	$	1,108,915	12%
Common shares outstanding		16,642,685		16,554,018	1%		16,515,238	1%
Book value per common share	$	74.59	$	72.94	2%	$	67.14	11%

- **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 allowances. Total Capital equals to Tier 1 plus Tier 2 Capital.
  - **Leverage Ratio:** this measure is calculated by dividing Tier 1 Capital by an exposure measure. The exposure measure consists of total assets (excluding items deducted from Tier 1 Capital) and certain off-balance sheet items converted into credit exposure equivalents. Adjustments are also made to derivatives and secured financing transactions to reflect credit and other risks.

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

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

							Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)		Mar 31, 2019		Dec 31, 2018	Change		Mar 31, 2018	Change
Non-interest expenses	$	46,111	$	39,233	18%	$	33,810	36%
Net revenue		112,240		94,123	19%		89,214	26%
Efficiency Ratio		41.1%		41.7%	(0.6%)		37.9%	3.2%

- **Liquid assets:** is a measure of the Company's cash or assets that can be readily converted into cash, which are held for the purposes of funding loans, deposit maturities, and the ability to collect other receivables and settle other obligations. A detailed calculation can be found in Table 12 of this MD&A.

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

- **Loans Under Management ("LUM"):** is the sum of loan principal reported on the consolidated balance sheet and loan principal derecognized but still managed by the Company.

($ THOUSANDS)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Loan principal – recognized on the consolidated balance sheet	$ 24,346,133	$ 23,426,692	4%	$ 19,589,827	24%
Loan principal – derecognized	4,502,698	4,373,854	3%	4,204,389	7%
Loans Under Management	$ 28,848,831	$ 27,800,546	4%	$ 23,794,216	21%

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

- **Net revenue:** is calculated as the sum of net interest income and other income.

				Three months ended	
($ THOUSANDS)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Net interest income	$ 105,352	$ 94,591	11%	$ 81,270	30%
Other income	6,888	(468)	1,572%	7,944	(13%)
Net revenue	$ 112,240	$ 94,123	19%	$ 89,214	26%

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

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Provision for credit losses	$ 9,628	$ 628	1,433%	$ 770	1,150%
Divided by: average loan principal	24,105,462	22,507,297	7%	19,402,264	24%
Provision for credit losses – rate	0.16%	0.01%	0.15%	0.02%	0.14%

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

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Net income	$ 41,661	$ 40,116	4%	$ 40,167	4%
Average total assets	25,722,083	24,068,090	7%	20,802,555	24%
Return on average assets	0.7%	0.7%	-%	0.8%	(0.1%)

- **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.

				Three months ended	
($ THOUSANDS, EXCEPT PERCENTAGES)	Mar 31, 2019	Dec 31, 2018	Change	Mar 31, 2018	Change
Net income available to common shareholders	$ 40,470	$ 38,926	4%	$ 38,976	4%
Weighted average common equity outstanding	1,223,097	1,197,384	2%	1,090,635	12%
Return on shareholders' equity	13.4%	12.9%	0.5%	14.5%	(1.1%)

- **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.

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2019

With comparative figures as at December 31, 2018 and March 31, 2018

($ THOUSANDS)

	Note	**March 31, 2019**	December 31, 2018	March 31, 2018
Assets:				
Cash and cash equivalents		**$ 486,422**	$ 477,243	$ 698,359
Restricted cash		**381,144**	327,097	333,097
Securities purchased under reverse repurchase agreements		**547,620**	250,000	-
Investments	*7*	**198,321**	193,399	148,072
Loans – Retail[(1)]	*8, 9*	**16,734,424**	16,203,137	13,465,350
Loans – Commercial[(1)]	*8, 9*	**7,712,028**	7,323,267	6,211,340
Securitization retained interests		**119,183**	115,331	106,222
Other assets	*10*	**148,322**	147,671	92,323
		$ 26,327,464	$ 25,037,145	$ 21,054,763
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	*11*	**$ 14,821,107**	$ 13,668,521	$ 11,999,157
Securitization liabilities	*9*	**9,926,375**	9,236,045	7,554,866
Obligations under repurchase agreements	*9*	**-**	342,010	104,652
Deferred tax liabilities	*12*	**59,366**	42,610	38,162
Other liabilities	*13*	**206,648**	177,961	176,454
Bank facilities		**-**	289,971	-
		25,013,496	23,757,118	19,873,291
Shareholders' equity:				
Preferred shares		**72,557**	72,557	72,557
Common shares		**204,492**	200,792	199,123
Contributed surplus		**6,907**	7,035	6,309
Retained earnings		**1,049,208**	1,014,559	906,235
Accumulated other comprehensive loss		**(19,196)**	(14,916)	(2,752)
		1,313,968	1,280,027	1,181,472
		$ 26,327,464	$ 25,037,145	$ 21,054,763

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

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2019

With comparative figures for the three month period ended March 31, 2018

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

		Three months ended	
	Note	**March 31, 2019**	March 31, 2018
Interest income:			
Loans – Retail[1]		**$ 159,222**	$ 122,467
Loans – Commercial[1]		**97,629**	65,524
Investments		**1,821**	1,046
Other		**5,934**	3,805
		264,606	192,842
Interest expense:			
Deposits		**93,696**	62,284
Securitization liabilities		**62,903**	43,562
Bank facilities		**2,655**	5,726
		159,254	111,572
Net interest income		**105,352**	81,270
Provision for credit losses	*8*	**9,628**	770
Net interest income after provision for credit losses		**95,724**	80,500
Other income:			
Fees and other income		**5,644**	5,377
Net loss on investments		**(821)**	(370)
Gains on securitization activities and income from securitization retained interests	*9*	**2,065**	2,937
		6,888	7,944
Net interest and other income		**102,612**	88,444
Non-interest expenses:			
Compensation and benefits		**24,284**	18,603
Other		**21,827**	15,207
		46,111	33,810
Income before income taxes		**56,501**	54,634
Income taxes:			
Current		**13,576**	14,320
Deferred		**1,264**	147
		14,840	14,467
Net income		**$ 41,661**	$ 40,167
Dividends on preferred shares		**1,191**	1,191
Net income available to common shareholders		**$ 40,470**	$ 38,976
Earnings per share:	*15*		
Basic		**$ 2.44**	$ 2.36
Diluted		**$ 2.42**	$ 2.34

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

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2019

With comparative figures for the three month period ended March 31, 2018

($ THOUSANDS)

	Three months ended	
	March 31, 2019	March 31, 2018
Net income	**$ 41,661**	$ 40,167
Other comprehensive income – items that will be reclassified subsequently to income:		
Debt instruments at Fair Value through Other Comprehensive Income:		
Net unrealized gains/(losses) from change in fair value	**402**	(3)
Other comprehensive income – items that will not be reclassified subsequently to income:		
Equity instruments designated at Fair Value through Other Comprehensive Income:		
Net unrealized (losses)/gains from change in fair value	**(1,832)**	889
Reclassification of net gains/(losses) to retained earnings	**11**	(6)
	(1,419)	880
Income tax recovery/(expense)	**377**	(233)
	(1,042)	647
Cash flow hedges:		
Net unrealized losses from change in fair value	**(4,589)**	(604)
Reclassification of net losses to income	**179**	1,154
	(4,410)	550
Income tax recovery/(expense)	**1,172**	(146)
	(3,238)	404
Total other comprehensive (loss)/income	**(4,280)**	1,051
Total comprehensive income	**$ 37,381**	$ 41,218

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2019

With comparative figures for the three month period ended March 31, 2018

($ THOUSANDS)

								March 31, 2019
					Accumulated other comprehensive income (loss)			
	Preferred shares	**Common shares**	**Contributed surplus**	**Retained earnings**	**Cash flow hedges**	**Financial instruments at FVOCI**	**Total**	**Total**
Balance, beginning of period	**$ 72,557**	**$ 200,792**	**$ 7,035**	**$ 1,014,559**	**$ 2,649**	**$ (17,565)**	**$ (14,916)**	**$ 1,280,027**
Cumulative effect of adopting IFRS 16[(1)]	**-**	**-**	**-**	**(840)**	**-**	**-**	**-**	**(840)**
Restated balance as at January 1, 2019	**72,557**	**200,792**	**7,035**	**1,013,719**	**2,649**	**(17,565)**	**(14,916)**	**1,279,187**
Net income	**-**	**-**	**-**	**41,661**	**-**	**-**	**-**	**41,661**
Transfer of gains on sale of equity instruments	**-**	**-**	**-**	**8**	**-**	**(8)**	**(8)**	**-**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(3,238)**	**(1,034)**	**(4,272)**	**(4,272)**
Exercise of stock options	**-**	**3,133**	**-**	**-**	**-**	**-**	**-**	**3,133**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(1,191)**	**-**	**-**	**-**	**(1,191)**
Common shares	**-**	**-**	**-**	**(4,989)**	**-**	**-**	**-**	**(4,989)**
Stock-based compensation	**-**	**-**	**439**	**-**	**-**	**-**	**-**	**439**
Transfer relating to the exercise of stock options	**-**	**567**	**(567)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**$ 72,557**	**$ 204,492**	**$ 6,907**	**$ 1,049,208**	**$ (589)**	**$ (18,607)**	**$ (19,196)**	**$ 1,313,968**

								March 31, 2018
					Accumulated other comprehensive income (loss)			
	Preferred shares	Common shares	Contributed surplus	Retained earnings	Cash flow hedges	Financial instruments at FVOCI	Total	Total
Balance, beginning of period	$ 72,557	$ 198,660	$ 6,012	$ 866,109	$ 3,153	$ (8,374)	$ (5,221)	$ 1,138,117
Cumulative effect of adopting IFRS 9	-	-	-	5,450	-	1,418	1,418	6,868
Restated balance as at January 1, 2018	72,557	198,660	6,012	871,559	3,153	(6,956)	(3,803)	1,144,985
Net income	-	-	-	40,167	-	-	-	40,167
Transfer of losses on sale of equity instruments	-	-	-	(6)	-	6	6	-
Other comprehensive income, net of tax	-	-	-	-	404	641	1,045	1,045
Exercise of stock options	-	374	-	-	-	-	-	374
Dividends:								
Preferred shares	-	-	-	(1,191)	-	-	-	(1,191)
Common shares	-	-	-	(4,294)	-	-	-	(4,294)
Stock-based compensation	-	-	386	-	-	-	-	386
Transfer relating to the exercise of stock options	-	89	(89)	-	-	-	-	-
Balance, end of period	$ 72,557	$ 199,123	$ 6,309	$ 906,235	$ 3,557	$ (6,309)	$ (2,752)	$ 1,181,472

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

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2019

With comparative figures for the three month period ended March 31, 2018

($ THOUSANDS)

	Three months ended	
	March 31, 2019	March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 41,661**	$ 40,167
Adjustments for non-cash items in net income:		
Financial instruments at fair value through income	**2,075**	3,265
Amortization of premiums/discount on investments	**1,329**	2,290
Amortization of capital assets and intangible costs	**3,898**	2,335
Provision for credit losses	**9,628**	770
Securitization gains	**(1,780)**	(2,937)
Stock-based compensation	**439**	386
Income taxes	**14,840**	14,467
Securitization retained interests	**7,334**	6,734
Changes in operating assets and liabilities:		
Restricted cash	**(11,469)**	32,941
Securities purchased under reverse repurchase agreements	**(297,620)**	-
Loans receivable, net of securitizations	**(499,679)**	(375,137)
Other assets	**50,466**	5,302
Deposits	**1,138,365**	886,837
Securitization liabilities	**300,697**	(10,287)
Obligations under repurchase agreements	**(342,010)**	(347,349)
Bank facilities	**(320,421)**	(128,871)
Other liabilities	**(7,207)**	(24,741)
Income taxes paid	**(13,157)**	(18,343)
Cash flows from operating activities	**77,389**	87,829
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	**3,133**	374
Dividends paid on preferred shares	**(1,191)**	(1,191)
Dividends paid on common shares	**(9,623)**	(4,124)
Cash flows used in financing activities	**(7,681)**	(4,941)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(12,507)**	(42,670)
Acquisition of subsidiary	**(47,065)**	-
Proceeds on sale or redemption of investments	**4,140**	45
Net change in Canada Housing Trust re-investment accounts	**136**	19
Purchase of capital assets and system development costs	**(4,600)**	(2,853)
Cash flows used in investing activities	**(59,896)**	(45,459)
Net increase in cash and cash equivalents	**9,812**	37,429
Cash and cash equivalents, beginning of period	**476,610**	660,930
Cash and cash equivalents, end of period	**$ 486,422**	$ 698,359
Cash flows from operating activities include:		
Interest received	**$ 256,470**	$ 191,269
Interest paid	**(100,160)**	(63,903)
Dividends received	**1,553**	1,102

See accompanying notes to the interim consolidated financial statements.

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance:

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

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on May 9, 2019.

(b) Basis of measurement:

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

(c) Functional currency:

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

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

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

In making estimates and judgments, management uses external information and observable market conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments or events that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these interim consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

Allowance for credit losses under IFRS 9

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

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

(e) Consolidation

The interim consolidated financial statements as at and for the three months ended March 31, 2019 and March 31, 2018 include the assets, liabilities and results of operations of the Company and its subsidiaries, after the elimination of intercompany transactions and balances. The Company has control of its subsidiaries as it is exposed to and has rights to variable returns from its involvement with the subsidiaries and it has the ability to affect those returns through its power over their relevant activities.

(f) Change in presentation

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

Note 3 – Significant Accounting Policies

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

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

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

Changes in accounting policies

IFRS 16 - As a Lessee

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

Identification of a lease

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

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

Recognition

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

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

Subsequent measurement

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

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

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

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

Short-term leases and leases of low-value assets

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

New accounting policies adopted

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

IFRS 16 - As a Lessor

Identification of a lease

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

Recognition

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

Subsequent measurement

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

Business combinations and goodwill

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

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

Purchased loans

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

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

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

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

Note 4 – Risk Management

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

Note 5 – Business Combination

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

The Company paid $47,065 in an all cash transaction and recognized goodwill of $11,258. The purchase price allocation may be refined as the Company completes its valuation of the fair value of assets acquired and liabilities assumed. The following table presents the estimated fair values of the assets and liabilities acquired as of the date of acquisition.

	January 1, 2019
Assets:	
Restricted cash	$ 42,578
Loans – Commercial: Finance leases	417,270
Capital and intangible assets	9,411
Other assets	26,366
	495,625
Liabilities:	
Securitization liabilities	388,146
Deferred tax liabilities	15,955
Bank facilities	31,083
Accounts payable and accrued liabilities	24,634
	459,818
Fair value of identifiable net assets acquired	35,807
Goodwill	11,258
Total purchase consideration	$ 47,065

Note 6 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

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

(ii) Financial instruments classified as at FVOCI and FVTPL

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

(iii) Loans

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Derivatives

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

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

						March 31, 2019
	FVTPL - Mandatorily	FVOCI - Debt instruments	FVOCI - Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	$ -	$ -	$ -	$ 486,422	$ 486,422	$ 486,422
Restricted cash	-	-	-	381,144	381,144	381,144
Securities purchased under reverse repurchase agreements	-	-	-	547,620	547,620	547,620
Investments	28,894	71,278	94,625	3,524	198,321	198,321
Loans – Retail[(1)]	-	-	-	16,734,424	16,734,424	16,735,018
Loans – Commercial[(1)(2)]	210,132	-	-	7,059,622	7,269,754	7,309,201
Securitization retained interests	-	-	-	119,183	119,183	120,265
Other assets:						
Derivative financial instruments[(3)]:						
Interest rate swaps	25,409	-	-	-	25,409	25,409
Total return swaps	1,606	-	-	-	1,606	1,606
Bond forwards	44	-	-	-	44	44
Loan commitments	128	-	-	-	128	128
Other	-	-	-	10,352	10,352	10,352
Total financial assets	$ 266,213	$ 71,278	$ 94,625	$ 25,342,291	$ 25,774,407	$ 25,815,530
Financial liabilities:						
Deposits	$ -	$ -	$ -	$ 14,821,107	$ 14,821,107	$ 14,850,692
Securitization liabilities	-	-	-	9,926,375	9,926,375	9,962,157
Other liabilities:						
Derivative financial instruments[(3)]:						
Interest rate swaps	1,079	-	-	-	1,079	1,079
Total return swaps	6,694	-	-	-	6,694	6,694
Bond forwards	2,502	-	-	-	2,502	2,502
Other	-	-	-	195,904	195,904	195,904
Total financial liabilities	$ 10,275	$ -	$ -	$ 24,943,386	$ 24,953,661	$ 25,019,028

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

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

(2) *Loans – Commercial does not include $442,274 (December 31, 2018 - $nil) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9.*

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

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

that would have been determined by market participants acting at arm's length. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

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

				March 31, 2019
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Investments	$ 188,165	$ 2,179	$ 7,977	$ 198,321
Loans – Retail[1]	-	-	16,735,018	16,735,018
Loans – Commercial[1]	-	210,132	7,099,069	7,309,201
Securitization retained interests	-	120,265	-	120,265
Other assets:				
Derivative financial instruments[2]:				
Interest rate swaps	-	25,409	-	25,409
Total return swaps	-	1,021	585	1,606
Bond forwards	-	44	-	44
Loan commitments	-	-	128	128
Other	-	10,352	-	10,352
Total financial assets	$ 188,165	$ 369,402	$ 23,842,777	$ 24,400,344
Financial liabilities:				
Deposits	$ -	$ 14,850,692	$ -	$ 14,850,692
Securitization liabilities	-	8,933,584	1,028,573	9,962,157
Other liabilities:				
Derivative financial instruments[2]:				
Interest rate swaps	-	1,079	-	1,079
Total return swaps	-	79	6,615	6,694
Bond forwards	-	2,502	-	2,502
Other	-	195,904	-	195,904
Total financial liabilities	$ -	$ 23,983,840	$ 1,035,188	$ 25,019,028

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

(1) *Effective January 1, 2019, the Company has changed the presentation of its loan products (refer Note 2 (f)). Prior period numbers have been updated accordingly.*
(2) *Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.*

Note 7 – Investments

Carrying value of investments is as follows:

		March 31, 2019		December 31, 2018		March 31, 2018
Equity securities measured at FVOCI	**$**	**94,625**	$	100,607	$	107,409
Equity securities measured at FVTPL		**292**		292		283
Debt securities measured at FVTPL		**28,602**		30,531		34,511
Debt securities measured at AMC		**3,524**		3,658		3,579
Debt securities measured as at FVOCI		**71,278**		58,311		2,290
	$	**198,321**	$	193,399	$	148,072

The Company has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for the long term. For the period ended March 31, 2019, the Company earned dividends of $1,123 (March 31, 2018 – $837) on these Equity securities. During the period, the Company has sold Equity securities of $4,140 (March 31, 2018 – $nil) and recognized gains of $8 in Retained earnings.

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

	March 31, 2019	March 31, 2018
Equity securities measured at FVOCI	$ (1,822)	$ 883
Equity securities measured at FVTPL	-	(16)
Debt securities measured at FVOCI	402	(3)
Debt securities measured at FVTPL	(821)	(370)

Note 8 – Loans

(a) Loans receivable:

						March 31, 2019
		Allowance for credit losses				
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Retail	$ 16,740,610	$ 2,301	$ 2,215	$ 1,670	$ 6,186	$ 16,734,424
Loans – Commercial	7,738,110	17,356	8,179	547	26,082	7,712,028
	$ 24,478,720	$ 19,657	$ 10,394	$ 2,217	$ 32,268	$ 24,446,452

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

						March 31, 2018
		Allowance for credit losses				
	Gross amount	Stage 1	Stage 2	Stage 3	Total	Net amount
Loans – Retail	$ 13,470,723	$ 1,580	$ 2,911	$ 882	$ 5,373	$ 13,465,350
Loans – Commercial	6,230,782	12,390	7,095	(43)	19,442	6,211,340
	$ 19,701,505	$ 13,970	$ 10,006	$ 839	$ 24,815	$ 19,676,690

As at March 31, 2019, Loans – Commercial include certain loans measured as at FVTPL with changes in fair value included in gains on securitization activities and income from securitization retained interests. As at March 31, 2019, the carrying value of these loans is $93,948 (December 31, 2018 – $122,456, March 31, 2018 – $74,396) and includes fair value adjustment of $848 (December 31, 2018 – 1,027, March 31, 2018 – $315).

Loans – Commercial also include certain loans measured as at FVTPL with changes in fair value included in Interest income – Commercial. As at March 31, 2019, the carrying amount of these loans is $116,184 (December 31, 2018 – $121,398, March 31, 2018 – $143,018) and includes fair value adjustment of ($194) (December 31, 2018 – $774, March 31, 2018 – $260).

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

	March 31, 2019	March 31, 2018
Net (losses)/gains in fair values for loans measured as at FVTPL included in gains on securitization activities	**$ (179)**	$ 718
Net gains/(losses) in fair values for loans measured as at FVTPL and recognized in interest income – commercial	**555**	(391)

Loans – Commercial include loans of $158,961 (December 31, 2018 – $181,404, March 31, 2018 – $196,098) invested in certain asset-backed structured entities. The Company holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. The Company does not have the ability to direct the relevant activities of these structured entities and has no exposure to their variable returns, other than the right to receive interest income from these investments. Consequently, the Company does not control these structured entities and has not consolidated them.

Loans – Commercial also include the Company's net investment in finance leases of $442,274 (December 31, 2018 – $nil, March 31, 2018 – $nil).

At March 31, 2019, the Company had commitments to fund a total of $1,823,287 (December 31, 2018 − $1,544,683, March 31, 2018 – $1,381,954) loans in the ordinary course of business.

(b) Impaired and past due loans:

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

	March 31, 2019			December 31, 2018	March 31, 2018
	Gross	Allowance for credit losses	Net	Net	Net
Loans – Retail	$ 51,923	$ 1,670	$ 50,253	$ 36,956	$ 25,997
Loans – Commercial	69,965	547	69,418	449	197
	$ 121,888	$ 2,217	$ 119,671	$ 37,405	$ 26,194

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

				March 31, 2019
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	$ 41,694	$ 15,035	$ -	$ 56,729
Loans – Commercial	22,306	9,248	-	31,554
	$ 64,000	$ 24,283	$ -	$ 88,283

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

				March 31, 2018
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Retail	$ 32,761	$ 11,777	$ -	$ 44,538
Loans – Commercial	2,194	1,098	-	3,292
	$ 34,955	$ 12,875	$ -	$ 47,830

(c) Allowance for credit losses:

								March 31, 2019
		12 months ECL		Lifetime non-credit impaired		Lifetime credit impaired		
		Stage 1		**Stage 2**		**Stage 3**		**Total**
Balance, beginning of period	$	**14,596**	$	**9,176**	$	**1,526**	$	**25,298**
Provision for credit losses:								
Transfers to (from) Stage 1		**338**		**(287)**		**(51)**		**-**
Transfers to (from) Stage 2		**(224)**		**264**		**(40)**		**-**
Transfers to (from) Stage 3		**(1)**		**(5)**		**6**		**-**
Re-measurement[1]		**(142)**		**(49)**		**904**		**713**
Originations		**394**		**-**		**-**		**394**
Discharges		**(41)**		**(17)**		**-**		**(58)**
Finance leases acquired		**4,737**		**1,312**		**2,530**		**8,579**
Write-offs		**-**		**-**		**(2,042)**		**(2,042)**
Realized losses		**-**		**-**		**(661)**		**(661)**
Recoveries		**-**		**-**		**45**		**45**
Balance, end of period	$	**19,657**	$	**10,394**	$	**2,217**	$	**32,268**

								March 31, 2018
		12 months ECL		Lifetime non-credit impaired		Lifetime credit impaired		
		Stage 1		Stage 2		Stage 3		Total
Balance, beginning of period	$	13,930	$	9,627	$	1,327	$	24,884
Provision for credit losses:								
Transfers to (from) Stage 1		190		(116)		(74)		-
Transfers to (from) Stage 2		(200)		211		(11)		-
Transfers to (from) Stage 3		-		(2)		2		-
Re-measurement[1]		(201)		302		434		535
Originations		270		-		-		270
Discharges		(19)		(16)		-		(35)
Realized losses		-		-		(857)		(857)
Recoveries		-		-		18		18
Balance, end of period	$	13,970	$	10,006	$	839	$	24,815

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

The allowance for credit losses includes allowance on loan commitments amounting to $142 (March 31, 2018 – $86).

Note 9 – Derecognition of Financial Assets

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

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

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

	March 31, 2019		December 31, 2018		March 31, 2018	
	Securitized assets	**Assets sold under repurchase agreements**	Securitized assets	Assets sold under repurchase agreements	Securitized assets	Assets sold under repurchase agreements
Carrying amount of assets[1]	**$ 10,100,068**	**$ -**	$ 9,365,527	$ 342,010	$ 7,590,713	$ 104,652
Carrying amount of associated liability	**9,926,375**	**-**	9,236,045	342,010	7,554,866	104,652
Carrying amount, net position	**$ 173,693**	**$ -**	$ 129,482	$ -	$ 35,847	$ -
Fair value of assets	**$ 10,123,827**	**$ -**	$ 9,315,515	$ 342,010	$ 7,568,137	$ 104,652
Fair value of associated liability	**9,962,157**	**-**	9,218,609	342,010	7,528,675	104,652
Fair value, net position	**$ 161,670**	**$ -**	$ 96,906	$ -	$ 39,462	$ -

(1) The carrying amount of assets excludes securitized assets that were retained by the Company and not transferred to third parties of $838,290 (December 31, 2018 – $852,564, March 31, 2018 – $1,054,822).

The carrying amount of assets exclude loans held for securitization of $374,079 (December 31, 2018 – $759,507, March 31, 2018 – $268,707).

The carrying amount of assets includes $327,971 (December 31, 2018 – $nil, March 31, 2018 – $nil) of the Company's net investment in finance leases that were securitized and not transferred to third parties.

The Company's outstanding securitization liabilities are as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Securitization principal	**$ 9,964,987**	$ 9,283,989	$ 7,585,916
Deferred net discount and issuance costs	**(65,724)**	(68,921)	(50,711)
Accrued interest	**27,112**	20,977	19,661
	$ 9,926,375	$ 9,236,045	$ 7,554,866

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

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

	March 31, 2019	March 31, 2018
Loans securitized and sold	**$ 172,330**	$ 236,297
Carrying value of Securitization retained interests	**2,090**	7,958
Carrying value of Securitized loan servicing liability	**1,616**	1,993
Gains on loans securitized and sold	**1,780**	1,889
Gains from securitization activities and retained interests	**285**	1,048

Note 10 – Other Assets

	March 31, 2019	December 31, 2018	March 31, 2018
Intangible assets	$ 44,961	$ 34,068	$ 27,801
Property and equipment	18,333	17,519	17,216
Right-of-use assets	15,284	-	-
Goodwill	11,258	-	-
Prepaid expenses and other	12,532	58,743	7,992
Receivable relating to securitization activities	9,758	12,026	10,731
Income taxes receivable	3,945	2,835	-
Real estate owned	2,623	1,368	2,191
Accrued interest and dividends on non-loan assets	1,779	1,174	988
Deferred cost – Contingent liquidity facility	662	1,864	12,867
Derivative financial instruments:			
Interest rate swaps	25,409	16,315	10,372
Total return swaps	1,606	1,704	2,013
Bond forwards	44	-	-
Loan commitments	128	55	152
	$ 148,322	$ 147,671	$ 92,323

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

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

	March 31, 2019
Carrying amount of right-of-use assets	$ 15,284
Depreciation on right-of-use assets for the period	647
Cash outflows for leases	795
Interest expense on lease liabilities	206

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

Note 11 – Deposits

	March 31, 2019	December 31, 2018	March 31, 2018
Term and other deposits	$ 14,637,787	$ 13,522,012	$ 11,880,741
Accrued interest	216,415	178,028	146,405
Deferred deposit agent commissions	(33,095)	(31,519)	(27,989)
	$ 14,821,107	$ 13,668,521	$ 11,999,157

Note 12 – Income Taxes

(a) Income tax provision:

	March 31, 2019	March 31, 2018
Current tax expense:	$ 13,576	$ 14,320
Deferred tax expense:		
Reversal of temporary differences	1,265	110
Changes in tax rates	(1)	37
	1,264	147
Total income tax expense	$ 14,840	$ 14,467

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:

	March 31, 2019	March 31, 2018
Canadian statutory income tax rate	26.6%	26.5%
Increase/(decrease) resulting from:		
Tax-exempt income	(0.6%)	(0.5%)
Non-deductible expenses and other	0.3%	0.5%
Effective income tax rate	26.3%	26.5%

(b) Deferred tax liabilities:

Net deferred income tax liabilities are comprised of:

	March 31, 2019	December 31, 2018	March 31, 2018
Deferred income tax assets:			
Tax losses	$ 7,541	$ -	$ -
Allowance for credit losses	6,422	6,356	6,392
Share issue expenses	174	198	535
Other	2,026	1,436	1,341
	16,163	7,990	8,268
Deferred income tax liabilities:			
Securitization activities	34,707	33,304	30,149
Leasing activities	22,186	-	-
Deposit agent commissions	8,793	8,364	7,397
Net origination fees	5,213	4,361	3,891
Intangible costs	2,537	2,666	2,823
Other	2,093	1,905	2,170
	75,529	50,600	46,430
Net deferred income tax liabilities	$ 59,366	$ 42,610	$ 38,162

Note 13 – Other Liabilities

	March 31, 2019	December 31, 2018	March 31, 2018
Accounts payable and accrued liabilities	$ 124,601	$ 79,242	$ 85,135
Loan realty taxes	45,108	58,594	46,942
Securitized mortgage servicing liability	26,663	26,822	25,817
Income taxes payable	-	-	3,714
Derivative financial instruments :			
Interest rate swaps	1,079	7,265	11,689
Total return swaps	6,695	3,707	1,896
Bond forwards	2,502	2,331	1,261
	$ 206,648	$ 177,961	$ 176,454

Accounts payable and accrued liabilities include $34,862 (December 31, 2018 - $39,356, March 31, 2018 - $52,705) relating to obligations associated with the purchase of the Maple portfolio in 2016.

Note 14 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years and vest over a four-year period. As at March 31, 2019, the maximum number of common shares available for issuance under the plan is 1,475,570. The outstanding options expire on various dates to March 2026. A summary of the Company's stock option activity and related information for the periods ended March 31, 2019 and March 31, 2018 is as follows:

	March 31, 2019		March 31, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	671,332	$ 52.59	619,771	$ 50.80
Granted	138,967	67.77	121,159	55.66
Exercised	(79,979)	32.27	(11,801)	31.64
Forfeited/cancelled	(6,221)	68.48	(13,300)	60.86
Outstanding, end of period	724,099	$ 57.61	715,829	$ 51.75
Exercisable, end of period	417,810	$ 53.42	428,631	$ 46.49

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $439 (March 31, 2018 – $386) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended March 31, 2019 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	March 31, 2019	March 31, 2018
Risk-free rate	1.8%	2.1%
Expected option life (years)	4.8	4.8
Expected volatility	27.8%	26.2%
Expected dividends	1.8%	1.5%
Weighted average fair value of each option granted	$ 14.7	$ 13.7

(b) Other stock based plans:

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

Under the DSU plan, the activity for the periods ended March 31, 2019 and March 31, 2018 is as follows:

	March 31, 2019	March 31, 2018
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**42,697**	32,915
Granted	**1,378**	-
Dividends reinvested	**389**	115
Outstanding, end of period	**44,464**	33,030

The liability associated with DSUs outstanding as at March 31, 2019 was $2,912 (March 31, 2018 – $1,767). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the three months ended March 31, 2019 amounted to $109 (March 31, 2018 – $8).

Under the Company's RSU and PSU plan, the activity for the periods ended March 31, 2019 and March 31, 2018 is as follows:

	March 31, 2019	March 31, 2018
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of period	**67,180**	56,762
Granted	**43,234**	44,021
Dividends reinvested	**820**	197
Vested and paid out	**(211)**	-
Forfeited/cancelled	**(1,671)**	(1,254)
Outstanding, end of period	**109,352**	99,726

The liability associated with RSUs and PSUs outstanding as at March 31, 2019 was $2,305 (March 31, 2018 – $1,784). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the three months ended March 31, 2019 amounted to $141 (March 31, 2018 – $698).

Note 15 – 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.

	March 31, 2019	March 31, 2018
Earnings per common share – basic:		
Net income	$ 41,661	$ 40,167
Dividends on preferred shares	1,191	1,191
Net income available to common shareholders	$ 40,470	$ 38,976
Weighted average basic number of common shares outstanding	16,573,522	16,507,603
Earnings per common share – basic	$ 2.44	$ 2.36
Earnings per common share – diluted:		
Net income available to common shareholders	$ 40,470	$ 38,976
Weighted average basic number of common shares outstanding	16,573,522	16,507,603
Adjustment to weighted average number of common shares outstanding:		
Stock options	128,998	122,229
Weighted average diluted number of common shares outstanding	16,702,520	16,629,832
Earnings per common share – diluted	$ 2.42	$ 2.34

For the period ended March 31, 2019, the calculation of the diluted earnings per share excluded 235,862 (March 31, 2018 – 130,845) average options outstanding with a weighted average exercise price of $69.38 (March 31, 2018 – $68.06) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 16 – Capital Management

Equitable Bank manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Basel Committee on Banking Supervision. For further details refer to the pages 21-22 of the MD&A.

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

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

	March 31, 2019	December 31, 2018	March 31, 2018
Common Equity Tier 1 Capital ("CET1"):			
Common shares	**$ 206,418**	$ 203,270	$ 201,602
Contributed surplus	**7,999**	8,127	7,401
Retained earnings	**1,045,960**	1,011,052	902,092
Accumulated other comprehensive loss[1]	**(18,607)**	(17,565)	(6,308)
Less: Regulatory adjustments	**(53,324)**	(20,684)	(17,592)
Common Equity Tier 1 Capital	**$ 1,188,446**	$ 1,184,200	$ 1,087,195
Additional Tier 1 capital:			
Non-cumulative preferred shares	**72,554**	72,554	72,554
Tier 1 Capital	**$ 1,261,000**	$ 1,256,754	$ 1,159,749
Tier 2 Capital:			
Eligible Stage 1 and 2 allowance	**30,051**	23,772	23,976
Tier 2 Capital	**30,051**	23,772	23,976
Total Capital	**$ 1,291,051**	$ 1,280,526	$ 1,183,725

(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 hedging of items that are not fair valued are excluded.*

Note 17 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at March 31, 2019.

								March 31, 2019
	Floating rate	**0 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Greater than 5 years**	**Non-interest sensitive[1]**	**Total[1]**
Total assets	**$ 5,831,064 $**	**3,093,209 $**	**6,468,219 $**	**15,392,492 $**	**9,236,389 $**	**1,202,881 $**	**495,702 $**	**26,327,464**
Total liabilities and equity[2]	**(182)**	**(7,313,170)**	**(5,542,983)**	**(12,856,335)**	**(10,545,388)**	**(1,207,641)**	**(1,718,100)**	**(26,327,464)**
Off-balance sheet items[3]	**-**	**(2,230,522)**	**168,942**	**(2,061,580)**	**1,929,777**	**131,803**	**-**	**-**
Interest rate sensitive gap	**$ 5,830,882 $**	**(6,450,483) $**	**1,094,178 $**	**474,577 $**	**620,778 $**	**127,043 $**	**(1,222,398) $**	**-**
Cumulative gap[2]	**$ 5,830,882 $**	**(619,601) $**	**474,577 $**	**474,577 $**	**1,095,355 $**	**1,222,398 $**	**- $**	**-**
Cumulative gap as a percentage of total assets	**22.15%**	**(2.35%)**	**1.80%**	**1.80%**	**4.16%**	**4.64%**	**-%**	**-%**

								December 31, 2018
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3]	$ 5,837,496 $	(490,256) $	468,480 $	468,480 $	911,722 $	1,163,529 $	- $	-
Cumulative gap as a percentage of total assets	23.32%	(1.96)%	1.87%	1.87%	3.64%	4.65%	-%	-%

								March 31, 2018
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3]	$ 4,531,010 $	(1,246,550) $	294,308 $	294,308 $	1,044,206 $	1,211,404 $	- $	-
Cumulative gap as a percentage of total assets	21.52%	(5.92%)	1.40%	1.40%	4.96%	5.75%	-%	-%

(1) *Accrued interest is included in "Non- interest sensitive" assets and liabilities.*
(2) *Cashable GIC deposits are included in the "0 to 3 months" as these are cashable by the depositor upon demand after 30 days from the date of issuance.*
(3) *Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.*

DIRECTORS

Eric Beutel
Vice-President, Oakwest Corporation Limited, an investment holding company

Michael Emory
President and Chief Executive Officer, Allied Properties REIT

Susan Ericksen
Corporate Director

Kishore Kapoor
Corporate Director

David LeGresley
Chair of the Board and a Corporate Director

Lynn McDonald
Corporate Director

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

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

Vincenza Sera
Corporate Director

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

OFFICERS

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President and Chief Executive Officer

Ron Tratch
Senior Vice-President and Chief Risk Officer

Tim Wilson
Senior Vice-President and Chief Financial Officer

Dan Dickinson
Senior Vice-President and Chief Information Officer

Kimberly Kukulowicz
Senior Vice-President, Residential Sales

Brian Leland
Senior Vice-President, Residential Lending

Darren Lorimer
Senior Vice-President, Commercial Lending

Mahima Poddar
Senior Vice-President, Marketing, Strategy and Digital Banking

Jody Sperling
Senior Vice-President, Human Resources

Aviva Braude
Vice-President, Mortgage Services

Daniel Broten
Vice-President, Technology

Tim Charron
Vice-President and Treasurer

Kasey Chauhan
Vice-President, Commercial Finance Group Origination

Lisa Cinelli
Vice-President and Chief Compliance Officer

Isabelle Farella
Vice-President, Internal Audit

Tamara Malozewski
Vice-President, Finance

Paul von Martels
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Mark McPhail
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Michael Mignardi
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Vice-President, Capital Markets

Rajesh Raut
Vice-President and Controller

John Simoes
Vice-President, Financial Planning and Reporting

Nicholas Strube
Vice-President, Treasury

Ashley Yantzi
Vice-President, Credit Risk

David Yu
Vice-President and Chief Information Security Officer

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Quarterly Conference Call and Webcast
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Live: 647.427.7450
Replay: 416.849.0833 (code 2794058)
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Annual and Special Meeting of Shareholders
Wednesday, May 15, 2019
10:00 a.m. EST
Equitable Bank Tower
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Toronto, Ontario, Canada, M4V 3A1