TSX:EQB | EQB.PR.C

EQB Inc. | Second Quarter Report 2023

RETURNS
+16% ROE 10-YEAR AVERAGE

GROWTH
11.4% EPS GROWTH 10-YEAR CAGR

WEALTH
305% 10-YEAR TSR

DRIVE CHANGE
TO ENRICH PEOPLE'S LIVES

INNOVATION
TECHNOLOGY TO BETTER SERVE CANADIANS

SCALE
EQB WELCOMES CONCENTRA BANK

GAINS
543K CUSTOMERS

SUSTAINABILITY
CARBON NEUTRAL IN SCOPE 1 & 2 GHG EMISSIONS

For the three months and six months ended June 30, 2023

Note: all cover measures as at December 31, 2022, except customer number as at June 30, 2023

Canada's Challenger Bank ™

EQB | EQ Bank | Equitable Bank

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Caution regarding forward-looking statements

Statements made in the sections of this report including those entitled “EQB corporate profile”, “Overall business performance and outlook”, “Provision for credit losses”, “Credit portfolio quality”, “Liquidity investments and equity securities”, “Capital position”, “Risk management”, and in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws (forward-looking statements). These statements include, but are not limited to, statements about EQB’s objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to EQB’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”, “guidance”, “planned”, “estimates”, “forecasts”, “outlook”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases which state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will be taken”, “occur”, “be achieved”, “will likely” or other similar expressions of future or conditional verbs.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of EQB to be materially different from those expressed or implied by such forward- looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions including, without limitation, impacts as a result of COVID-19, global geopolitical risk, business acquisition, 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 EQB’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 EQB and the Canadian economy. Although EQB 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 EQB in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its loan business, a continuation of the current level of economic uncertainty that affects real estate market conditions including, without limitation, impacts as a result of COVID-19, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. EQB does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

“The image on the cover of this report is a powerful expression of our commitment to challenge the status quo in Canadian banking. We believe the confidence depicted is synonymous with EQB’s bold ambition to drive change that enriches people’s lives. Our approach is unique in the market and is clearly demonstrated with the strikingly beautiful image presented.”

Our strategy

Anchored in our proven business model, we use our strategy and approach to deliver on our mission to drive change in Canadian banking to enrich people's lives:

Customer and service mission
Being the best at service, from building great digital experiences to our customer-facing teams empowered to solve customer needs

Differentiated value creation model
We deliver long-term shareholder value through disciplined capital allocation and business management that generates 15-17% ROE(1) annually

Innovating and advocating for Canadians
We innovate across product and technology as Canada's first native digital bank and advocate for regulatory change to benefit Canadians including Open Banking

Robust risk management
We are guided by our prudent risk appetite, benefit from decades of underwriting expertise, and consistently achieve the lowest credit losses of all Canadian bank peers

Quick facts

> 543,000
Customers directly served by Equitable Bank, growing by hundreds every day

7th largest bank
in Canada by assets, and owner of Concentra Trust – 7th largest trust company in Canada

$108 billion
Assets under Management & Assets under Administration(1), diversified across Personal Banking, Commercial Banking and Trust company services

~6 million
Canadians indirectly served with products and services as members of Canadian Credit Unions

WORLD'S BEST BANKS
Forbes 2021 – 2023
POWERED BY STATISTA
RANKED NO. 1 BANK IN CANADA

Carbon neutral
Scope 1 and 2 carbon neutral and first Canadian bank to disclose Scope 3 carbon emissions

(1) See Glossary and Non-GAAP financial measures and ratios section of this MD&A.
Note: Quick facts as at June 30, 2023

EQB corporate profile

EQB Inc. (TSX: EQB and EQB.PR.C,) operates through its wholly owned subsidiary, Equitable Bank, Canada's Challenger Bank™. Equitable Bank's mission is to drive change in Canadian banking to enrich people's lives.

Equitable Bank ("The Bank") serves 543,000 Canadians and 200 Canadian credit unions with nearly six million members, through two main business lines of Personal Banking including EQ Bank - the leading digital bank in Canada, and Commercial Banking. As a leader in Canadian banking, EQ Bank was chosen by Forbes and Canadian consumers as Canada's Top Schedule I Bank in 2021, 2022 and now 2023.

As of June 30, 2023, EQB's total assets under management and administration[1] were $108 billion with total assets on EQB's balance sheet of over $53 billion. Equitable Bank and Concentra Bank are regulated by the Office of the Superintendent of Financial Institutions Canada.

EQB is a member of the S&P/TSX Composite, the S&P/TSX Bank, S&P/TSX Dividend Aristocrats, S&P/TSX Small Cap, S&P Canada BMI, and MSCI Small Cap (Canada) indices. In Q4 2022, Equitable Bank's credit rating was upgraded by DBRS to BBB (high) and in Q2 2023 Fitch affirmed its BBB- rating, raising outlook to 'stable', a signal of the Bank's strength and stability on the back of consistent profitability, sound credit fundamentals and diversified assets and funding.

For more details on our business lines and products, please refer to the Business Overview and Outlook section in our report for the fourth quarter and 12 months ended December 31, 2022.

Canadians choose Equitable Bank for smarter products, unmatched value, and exceptional service. To deliver all three, the Bank specializes in market segments where it can improve the banking experience and deliver unique value. As Canada's Challenger Bank, the Bank rethinks conventional approaches and pushes for smarter ways to do business. Equitable differentiates by providing a host of challenger bank retail services, single-family mortgage lending, reverse mortgage lending, insurance lending, commercial real estate mortgage lending, specialized commercial financing, equipment financing, credit union services and trust services.

The Bank's challenger approach has allowed it to become a leading single-family residential lender in Canada and the country's largest multi-residential insured securitizer.

Innovations in the independent mortgage broker channel reflect the Bank's long-term focus on providing great service. As a branchless digital bank, EQ Bank remains lean and nimble, allowing it to act quickly and profitably on new opportunities.

EQ Bank is the first-born all-digital bank in Canada and the first to move to a cloud-based platform. The digital platform technology is proven, differentiated and supports cost-effective product development and fintech collaborations.

The Bank operates with a fintech mindset and collaborates with partners to innovate rapidly to deliver best-in-class digital banking services to Canadian consumers. The Bank's relationships with market leaders like Wise, Wealthsimple, nesto, Ratehub, Flinks, Borrowell, Neo Financial, FinanceIT, ClearEstate and other fintechs continue to help the Bank reach new customers and deliver value to Canadians.

A strategic advantage in the Bank's business model is the ability to consistently and profitably deploy deposits within diverse lending operations. Equitable operates with an integrated balance sheet and lends across a growing range of personal and commercial asset categories. This approach to diversifying assets and deposit funding sources allows the Bank to achieve its corporate growth objectives and reduces its risk profile.

Equitable Bank's talented teams are the foundation of its success. With the addition of Concentra Bank, the Bank now employs over 1,700 challengers who are aligned to drive change in Canadian banking. Equitable Bank's inclusive, welcoming, and pride-inducing workplace earned it the honour of being recognized as one of the top 50 organizations on the 2023 list of Canada's Best Workplaces™.

(1) This is a Non-GAAP measure, see Non-GAAP financial measures and ratios section of this MD&A.

Selected Financial Highlights

Select financial and other highlights	As at or for the three months ended					For the six months ended		
	30-Jun-23	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**	**30-Jun-23**	**30-Jun-22**	**Change**
Adjusted results ($000s)[1]								
Net interest income	**251,699**	236,630	6%	167,604	50%	**488,329**	330,690	48%
Non-interest revenue	**32,883**	27,975	18%	(2,528)	n.m.	**60,858**	22,918	166%
Revenue	**284,582**	264,605	8%	165,076	72%	**549,187**	353,608	55%
Non-interest expenses	**121,910**	120,262	1%	75,567	61%	**242,172**	145,367	67%
Pre-provision pre-tax income[2]	**162,672**	144,343	13%	89,509	82%	**307,015**	208,241	47%
Provision for credit losses	**13,042**	6,248	109%	5,233	149%	**19,290**	5,108	278%
Income before income taxes	**149,630**	138,095	8%	84,276	78%	**287,725**	203,133	42%
Income tax expense	**34,124**	36,366	(6%)	22,742	50%	**70,490**	49,189	43%
Net income	**115,506**	101,729	14%	61,534	88%	**217,235**	153,944	41%
Earnings per share – diluted ($)	**2.98**	2.62	14%	1.75	70%	**5.60**	4.40	27%
Return on equity (%)[3]	**18.3**	16.9	1.4	12.1	6.2	**17.5**	15.6	1.9
Efficiency ratio (%)[3][4]	**42.8**	45.4	(2.6)	45.8	(3.0)	**44.1**	41.1	3.0
Net interest margin (%)[2]	**1.99**	1.92	0.07	1.81	0.18	**1.95**	1.84	0.11
Reported results ($000s)								
Net interest income	**251,699**	240,797	5%	166,657	51%	**492,496**	328,829	50%
Non-interest revenue	**60,848**	27,034	125%	(2,528)	n.m.	**87,882**	22,918	283%
Revenue	**312,547**	267,831	17%	164,129	90%	**580,378**	351,747	65%
Non-interest expenses	**127,030**	126,548	0%	78,276	62%	**253,578**	153,209	66%
Pre-provision pre-tax income[2]	**185,517**	141,283	31%	85,853	116%	**326,800**	198,538	65%
Provision for credit losses	**13,042**	6,248	109%	5,233	149%	**19,290**	5,108	278%
Income before income taxes	**172,475**	135,035	28%	80,620	114%	**307,510**	193,430	59%
Income tax expense	**41,550**	35,516	17%	21,784	91%	**77,066**	46,647	65%
Net income	**130,925**	99,519	32%	58,836	123%	**230,444**	146,783	57%
Earnings per share ($) – basic	**3.41**	2.58	32%	1.69	102%	**6.00**	4.24	42%
Earnings per share ($) – diluted	**3.39**	2.56	32%	1.67	103%	**5.95**	4.19	42%
Return on equity (%)	**20.8**	16.5	4.3	11.6	9.2	**18.6**	14.9	3.7
Efficiency ratio (%)	**40.6**	47.2	(6.6)	47.7	(7.1)	**43.7**	43.6	0.1
Net interest margin (%)[2]	**1.99**	1.95	0.04	1.80	0.19	**1.97**	1.83	0.14
Revenue per average full time equivalent ($)[3]	**180**	159	13%	122	48%			
Balance sheet and other information ($ millions)								
Total assets	**53,319**	51,793	3%	39,418	35%			
Assets under management[2]	**65,910**	63,336	4%	45,767	44%			
Loans – Personal & Commercial	**47,437**	46,580	2%	36,246	31%			
Loans under management[2]	**60,011**	58,152	3%	42,492	41%			
Assets under administration[2]	**42,037**	41,469	1%	-	n.m.			
Total deposit principal	**31,783**	31,278	2%	23,533	35%			
EQ Bank deposit principal	**8,204**	8,097	1%	7,588	8%			
Total risk-weighted assets[3]	**19,427**	18,981	2%	14,748	32%			
Credit quality (%)								
Reported provision for credit losses – rate[3]	**0.11**	0.05	0.06	0.06	0.05	**0.08**	0.03	0.05
Net impaired loans as a % of total loan assets	**0.47**	0.32	0.15	0.18	0.29			
Net allowance for credit losses as a % of total loan assets	**0.20**	0.19	0.01	0.14	0.06			

n.m. - not meaningful

Select financial and other highlights	As at or for the three months ended					For the six months ended		
	30-Jun-23	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**	**30-Jun-23**	**30-Jun-22**	**Change**
Share information								
Common share price – close ($)	**70.00**	58.30	20%	53.15	32%			
Book value per common share ($)[3]	**67.33**	64.47	4%	59.25	14%			
Common shares outstanding (thousand)	**37,730**	37,680	0%	34,161	10%			
Common share market capitalization ($ millions)	**2,641**	2,197	20%	1,816	45%			
Common shareholders' equity ($ millions)[3]	**2,538**	2,429	4%	2,024	25%			
Dividends declared – common share ($)	**0.37**	0.35	6%	0.29	28%	**0.72**	0.57	26%
Dividends declared – preferred share – Series 3 ($)	**0.37**	0.37	-%	0.37	-%	**0.74**	0.74	-%
Dividend yield – common shares (%)[3]	**2.3**	2.3	-	1.9	0.4	**2.3**	1.7	0.6
Capital ratios and leverage ratio (%)[5]								
Common equity tier 1 ratio	**14.1**	14.0	0.1	13.5	0.6			
Tier 1 capital ratio	**14.8**	15.0	(0.2)	14.0	0.8			
Total capital ratio	**15.4**	15.5	(0.1)	14.3	1.1			
Leverage ratio	**5.2**	5.3	(0.1)	5.1	0.1			
Business information								
Employees – average full time equivalent	**1,740**	1,685	3%	1,352	29%			
EQ Bank customers	**367,790**	336,457	9%	279,939	31%			

(1) Adjusted measures and ratios are Non-Generally Accepted Accounting Principles (GAAP) measures and ratios. Adjusted measures and ratios are calculated in the same manner as reported measures and ratios, except that financial information included in the calculation of adjusted measures and ratios is adjusted to exclude the impact of the Concentra Bank acquisition and integration related costs, and other non-recurring items which management determines would have a significant impact on a reader's assessment of business performance. For additional information and a reconciliation of reported results to adjusted results, see Adjustments to financial results section, and Non-GAAP financial measures and ratios section of this MD&A.

(2) These are non-GAAP measures, see Non-GAAP financial measures and ratios section of this MD&A.

(3) See Glossary section of this MD&A.

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

(5) Regulatory capital requirements for Equitable Bank are determined in accordance with OSFI's Capital Adequacy Requirements (CAR) Guideline, which is based on the capital standards developed by the Basel Committee on Banking Supervision. Leverage ratio is calculated using OSFI's Leverage Requirements (LR) Guideline. See Glossary section of this MD&A.

Selected financial highlights – eight quarters

Select financial highlights	2023		2022				2021	
	Q2	Q1	Q4[3]	Q3	Q2	Q1	Q4	Q3
Adjusted results ($000s)[1]								
Net interest income	**251,699**	236,630	218,775	187,264	167,604	163,086	155,952	150,852
Non-interest revenue	**32,883**	27,975	16,317	9,481	(2,528)	25,446	15,911	11,248
Revenue	**284,582**	264,605	235,092	196,745	165,076	188,532	171,863	162,100
Non-interest expenses	**121,910**	120,262	102,259	78,903	75,567	69,800	69,702	67,442
Pre-provision pre-tax income[2]	**162,672**	144,343	132,833	117,842	89,509	118,732	102,161	94,658
Provision for credit losses (recoveries)	**13,042**	6,248	7,776	5,354	5,233	(125)	(1,420)	(3,500)
Income before income taxes	**149,630**	138,095	125,057	112,488	84,276	118,857	103,581	98,158
Income tax expense	**34,124**	36,366	32,562	30,339	22,742	26,447	22,985	25,685
Net income	**115,506**	101,729	92,495	82,149	61,534	92,410	80,596	72,473
Earnings per share – diluted ($)	**2.98**	2.62	2.46	2.35	1.75	2.64	2.30	2.07
Return on equity (%)	**18.3**	16.9	15.9	15.6	12.1	19.2	17.1	16.0
Efficiency ratio (%)	**42.8**	45.4	43.5	40.1	45.8	37.0	40.6	41.6
Net interest margin (%)[2]	**1.99**	1.92	1.87	1.94	1.81	1.87	1.81	1.83
Reported results ($000s)								
Net interest income	**251,699**	240,797	218,325	186,251	166,657	162,172	155,952	150,852
Non-interest revenue	**60,848**	27,034	16,382	9,481	(2,528)	25,446	15,911	11,248
Revenue	**312,547**	267,831	234,707	195,732	164,129	187,618	171,863	162,100
Non-interest expenses	**127,030**	126,548	139,180	84,082	78,276	74,933	70,427	67,442
Pre-provision pre-tax income[2]	**185,517**	141,283	95,527	111,650	85,853	112,685	101,436	94,658
Provision for credit losses (recoveries)	**13,042**	6,248	26,796	5,354	5,233	(125)	(1,420)	(3,500)
Income before income taxes	**172,475**	135,035	68,731	106,296	80,620	112,810	102,856	98,158
Income tax expense	**41,550**	35,516	22,912	28,717	21,784	24,863	22,795	25,685
Net income	**130,925**	99,519	45,819	77,579	58,836	87,947	80,061	72,473
Earnings per share ($) – basic	**3.41**	2.58	1.20	2.24	1.69	2.55	2.32	2.10
Earnings per share ($) – diluted	**3.39**	2.56	1.19	2.22	1.67	2.51	2.29	2.07
Return on equity (%)	**20.8**	16.5	7.7	14.8	11.6	18.3	17.0	16.0
Efficiency ratio (%)	**40.6**	47.2	59.3	43.0	47.7	39.9	41.0	41.6
Net interest margin (%)[2]	**1.99**	1.95	1.85	1.93	1.80	1.86	1.81	1.83
Revenue per average full-time equivalent ($)[3]	**180**	159	139	141	122	155	148	149
Balance sheet and other information ($ millions)								
Total assets	**53,319**	51,793	51,145	40,150	39,418	37,150	36,159	34,425
Assets under management[2]	**65,910**	63,336	61,569	47,331	45,767	43,422	42,020	40,172
Loans – Personal & Commercial	**47,437**	46,580	46,510	36,792	36,246	34,217	32,901	31,475
Loans under management[2]	**60,011**	58,152	57,008	43,853	42,492	40,393	38,663	37,121
Asset under administration[2]	**42,037**	41,469	41,234	-	-	-	-	-
Total deposits principal	**31,783**	31,278	30,831	23,824	23,533	22,080	20,695	19,758
EQ Bank deposits principal	**8,204**	8,097	7,923	7,562	7,588	7,261	6,968	6,914
Total risk-weighted assets	**19,427**	18,981	18,926	15,459	14,748	14,018	13,310	12,427

Select financial highlights

	2023		2022				2021	
	Q2	**Q1**	**Q4(3)**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Credit quality (%)								
Reported provision for credit losses – rate	**0.11**	0.05	0.35	0.06	0.06	(0.001)	(0.02)	(0.05)
Net impaired loans as a % of total loan assets	**0.47**	0.32	0.28	0.23	0.18	0.22	0.27	0.23
Net Allowance for credit losses as a % of total loan assets	**0.20**	0.19	0.18	0.15	0.14	0.14	0.15	0.17
Share information								
Common share price – close ($)	**70.00**	58.30	56.73	46.44	53.15	71.74	68.91	71.45
Book value per common share ($)	**67.33**	64.47	62.65	61.14	59.25	57.64	55.24	52.90
Common shares outstanding (thousands)	**37,730**	37,680	37,564	34,205	34,161	34,130	34,071	34,029
Common shareholders market capitalization ($ millions)	**2,641**	2,197	2,131	1,588	1,816	2,449	2,348	2,431
Common shareholders' equity ($ millions)	**2,538**	2,429	2,354	2,091	2,024	1,967	1,882	1,800
Dividends – common share ($)	**0.37**	0.35	0.33	0.31	0.29	0.28	0.19	0.19
Dividends – preferred share – Series 3 ($)	**0.37**	0.37	0.37	0.37	0.37	0.37	0.37	0.37
Dividend yield – common shares (%)	**2.3**	2.3	2.5	2.3	1.9	1.5	1.0	1.0
Capital ratios and leverage ratio (%)								
Common Equity Tier 1 ratio	**14.1**	14.0	13.7	13.3	13.5	13.5	13.3	13.7
Tier 1 capital ratio	**14.8**	15.0	14.7	13.7	14.0	14.0	13.9	14.3
Total capital ratio	**15.4**	15.5	15.1	14.0	14.3	14.3	14.2	14.6
Leverage ratio	**5.2**	5.3	5.3	5.1	5.1	5.1	4.9	5.0
Business information								
Employees – average full time equivalent	**1,740**	1,685	1,635	1,373	1,295	1,219	1,191	1,121
EQ Bank customers	**367,790**	336,457	308,286	292,715	279,939	266,188	250,423	237,358

(1) Adjusted measures and ratios are Non-GAAP measures and ratios. For additional information, see Adjustments to financial results section, and Non-GAAP financial measures and ratios section of this MD&A.

(2) These are non-GAAP measures and ratios, see Non-GAAP financial measures and ratios section of this MD&A.

(3) Q4 2022 results included two months of Concentra Bank's contribution to income statement measures and to denominators of several measures.

Overall business performance and outlook

In Q2 2023, EQB results reflected stability and growth in all key earnings metrics, delivered through consistent credit, liquidity, interest rate risk and capital management. Total lending portfolio growth was aligned to expectations and non-interest revenue continued to increase with higher fee-based revenue and gains on sale from multi-unit residential securitization. Earnings and EQB efficiency reflected earnings from Concentra Bank and the outcome of achieving the full annualized synergy targets ahead of schedule. Reported revenue was also higher due to a one-time strategic investment gain.

The outcome of this progress was Return on Equity (ROE) of 18.3%, above historical averages and 2023 annual guidance, +14% y/y book value per share (BVPS) growth to $67.33, and adjusted after-tax earnings at a record $115.5 million, +88% y/y and +14% q/q:

- **Revenue**(1): +8% q/q to $284.6 million adjusted (+17% q/q to $312.5 million reported). With continued tailwind from benefits of funding diversification with EQ Bank deposits and covered bond funding, and allocating capital to higher margin lending portfolios, net interest margin expanded +7bps sequentially to 1.99%. Aligned to strategy, non-interest revenue increased to 12% of total revenue (19% reported including the one-time strategic investment gain of $28 million).
- **Efficiency**(1): improved to 42.8% adjusted (40.6% reported) with 7% adjusted sequential positive operating leverage reflecting non-interest expenses increasing +1% q/q (reported +0.4%). Moderating expense growth represented the net effect of investing more in EQ Bank products, services and marketing, offset by the benefits of synergy capture from integrating Concentra Bank.
- **PCLs and Impaired loans:** Q2 2023 PCL $13.0 million or 11bps, due to organic portfolio growth, changes to macroeconomic forecasts and associated loss modelling. Of the $13.0 million, Stage 1 was 32%, Stage 2 13% and Stage 3 55% of the total. Total net allowance for credit losses as of June 30, 2023 was $95.4 million representing 0.20% of total loan assets[2], relative to 0.19% in Q1 2023. Of $10.6 million in stage 3 net allowances at the end of Q2, 35% was associated with Equipment Financing where pricing reflects higher expected losses than other parts of the lending book. Net impaired loans represented 0.47% of total loan assets[2] with total net realized losses of $4.6 million for the quarter or 0.04% of total loan assets[2] on an annualized basis (total realized losses for secured real estate lending represented $0.2 million or 0.001% of total loan assets[2]).
- **Liquidity, interest rate risk and capital management**: Liquid assets represented 7.7% of total assets. This covered 69% of all demand deposits with sufficient contingent funding to cover the rest, including access to committed ABCP funding programs, access to CMHC's MBS and CMB Programs, and the Bank of Canada's Standing Term Liquidity Facility. EQB manages a target duration of equity to approximately one year to control its exposure to interest rate movements. EQB's interest rate sensitivity of Economic Value of Shareholder's Equity (EVE) of (1.0%) associated with an immediate and sustained 100 bps parallel increase in interest rates. Equitable Bank's capital increased to 14.1% CET1 with capital growth driven by retained earnings.
- **Commercial real estate**: The Bank prioritizes lending against multi-unit rental properties, including affordable housing. Due to the strong demand in Canada for housing and the Bank's focus and capabilities in the insured lending market, over 70% of total Commercial loans under management are insured. By design, less than 1% of EQB's assets are offices with an average LTV of 60%. Office lending is largely restricted to properties located in major urban centres and smaller buildings that often have tenants like medical and professional practices.

EQB's first quarter report included additional detail and perspective on how EQB manages its enterprise risks with specific focus on credit risk, market risk and liquidity risk management. While turbulence in the U.S. banking industry has moderated, as regular EQB practice, it continues to actively manage these risks, and details can be reviewed in the Enterprise Risk Management section of this MD&A.

(1) Adjusted measures and ratio are Non-GAAP measures and ratios. For additional information, see Adjustments to financial results and Non-GAAP financial measures and ratios in this MD&A. (2) This is a Non-GAAP measure, see Non-GAAP financial measures and ratios section of this MD&A.

On July 11, 2023, the Office of the Superintendent of Financial Institutions announced a consultation on proposed changes to the Capital Adequacy Requirements to address risks to banks related to mortgage in negative amortization. This challenge arises where customers have fixed monthly payments and as interest rates rise, these fixed payments no longer cover the interest required and outstanding principal increases. Equitable Bank and Concentra Bank do not offer products with this structure. In the case of Equitable's Adjustable-Rate Mortgages (ARM), payments adjust as rates change in order to maintain the amortization schedule. Equitable Bank does not offer amortization periods more than 30 years.

In Budget 2023, the government announced that it is considering consolidating Canada Mortgage Bonds (CMBs) into the regular Government of Canada (GoC) borrowing program. The Department of Finance Canada has conducted a consultation on this initiative and is expected to provide an update in the fall of 2023. Equitable Bank was a participant in these consultations.

Change of EQB's Fiscal Year End

As shared in prior quarters, EQB will change its current fiscal reporting period to end on October 31, 2023 rather than December 31, 2023. With this change, EQB's reporting regimen will be consistent with Canada's publicly traded Canadian banks. As an outcome, 2023 will be a 10-month reporting year. Fiscal year 2023 and a four month "Q4" will be reported in December, reflecting the reporting period of July 1 to October 31. For Q4 2023 and fiscal year-end reporting, comparisons will be presented relative to the three-month period from October to December 2022, and comparing the 12-month period for 2022 and 10-month period for fiscal year 2023.

With this change to a one-time 10-month reporting period for 2023, financial guidance has been refined to reflect this shorter time period and when certain earnings and growth would normally be expected to be earned.

Despite changes to its fiscal calendar, EQB will maintain the same dividend payment schedule for future periods (March 31, June 30, September 30, December 31). Dividend payments scheduled for December 31, 2023 will be approved and declared alongside the new Q4 and October 31, 2023 fiscal year end results.

Updated and upgraded 2023 guidance with 10-month addendum

For 2023 YTD, EQB is performing ahead of original 2023 guidance on key measures. The updated 12-month guidance (below) reflects this higher performance and represents an upgrade of 12-month growth expectations on all profitability measures (ROE, PPPT, EPS), which contribute to higher book value per share growth by December 2023.

Guidance for the 10-month period to October 31, 2023 (Fiscal Year 2023) is presented for ease of comparison to fiscal year-end results when reported in early December 2023.

The table below summarizes EQB's key adjusted financial metrics(1) at June 30, 2023 and guidance:

	Actual Results YTD June 2023 Growth reflects YTD y/y	**Original guidance 2023 12-month to December 31, 2023(3)** Growth reflects annual y/y	**Updated guidance 2023 12-month to December 31, 2023(3)** Growth reflects annual y/y	**Guidance for 2023 10-month period to October 31, 2023**
Return on equity (ROE)(1)	**17.5%**	15%+	**16%+**	16%+
Pre-Provision Pre-tax Income (PPPT) (1)	**47%**	25-35%	**30-35%**	$490-520 million
Diluted EPS (1)	**27%**	10-15%	**18-21%**	$9.0-9.2 /share
Dividend Growth	**26%**	20-25%	**20-25%**	20-25%
BVPS Growth(2)	**7.5%** (YTD)	12-15%	**14-16%**	11-13%
CET1 Ratio	**14.1%**	13%+	**13%+**	13%+

(1) Adjusted measures and ratio are Non-GAAP measures and ratios. For additional information, see Adjustments to financial results and Non-GAAP financial measures and ratios in this MD&A. (2) BVPS refers to book value per common share. (3) 2023 Guidance represents expected growth rates from December 31, 2022 to December 31, 2023.

The tables below summarizes key portfolio metrics at June 30, 2023. Total conventional lending growth across Personal and Commercial Banking was +34% y/y and +2% q/q, inclusive of Concentra.

($ billions)	**30-Jun-23**	**YTD growth**	**Original guidance 2023 12-month to December 31, 2023**	**2023 10-month guidance to October 31, 2023**
EQ Bank deposits	**8.2**	4%	20-30%	5-10%
Personal Conventional Lending(1)	**21.4**	3%	7-10%	5-8%
Commercial Conventional Lending(1)	**9.6**	5%	10-15%	8-12%

(1) This is a non-GAAP measure, see Non-GAAP financial measures and ratios section of this MD&A.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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 EQB Inc. (EQB) for the three months (quarter) and six months ended June 30, 2023. This MD&A should be read in conjunction with EQB's unaudited interim consolidated financial statements as at and for the six months ended June 30, 2023, together with accompanying notes, which have been prepared in accordance with International Accounting Standard (IAS) 34. All amounts are in Canadian dollars. This report, and the information provided herein, is dated as at August 1, 2023. EQB's continuous disclosure materials, including interim filings, annual MD&A and Consolidated Financial Statements, Annual Information Form, Environmental, Social, and Governance (ESG) Performance Report, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on EQB's website at eqbank.investorroom.com and on SEDAR at www.sedar.com.

Acquisition of Concentra Bank

On November 1, 2022, Equitable Bank completed its acquisition of Concentra Bank. Both Q1 and Q2 2023 results include full three-month contributions from Concentra Bank and Concentra Trust. Q2 results contain several items related to transaction and integration adjustments. Refer to "Adjustments to financial results" for the income statement impact and Note 5 to the financial statements for details of the purchase price allocation.

Contents:

Adjustments to financial results

Adjustments impacting current and prior periods:

To enhance comparability between reporting periods, increase consistency with other financial institutions, and provide the reader with a better understanding of EQB's performance, adjusted results were introduced starting in Q1 2022. Adjusted results are non-GAAP financial measures.

Adjustments listed below are presented on a pre-tax basis:

Q2 2023

- $28.0 million related to a strategic investment,
- $3.4 million acquisition and integration-related costs,
- $0.9 million intangible asset amortization, and
- $0.9 million other expenses.

Q1 2023

- $3.2 million net fair value amortization adjustments,
- $4.7 million acquisition and integration-related costs, and
- $1.5 million intangible asset amortization.

Q2 2022

- $2.7 million of acquisition and integration-related costs, and
- $0.9 million interest expenses paid to subscription receipt holders[1].

(1) The interest expense refers to the dividend equivalent amount paid to subscription receipt holders. The subscription receipt holders are entitled to receive a payment equal to the common share dividend declared multiplied by the number of subscription receipts held on the common share dividend payment date. These subscription receipts were converted into common shares at a 1:1 ratio upon the closing of the Concentra acquisition.

The following table presents a reconciliation of GAAP reported financial results to non-GAAP adjusted financial results. For additional adjusted measures and information regarding non-GAAP financial measures, please refer to the Non-GAAP financial measures and ratios section of this MD&A.

Reconciliation of reported and adjusted financial results	**For the three months ended**			**For the six months ended**	
($000, except share and per share amounts)	**30-Jun-23**	**31-Mar-23**	**30-Jun-22**	**30-Jun-23**	**30-Jun-22**
Reported results					
Net interest income	**251,699**	240,797	166,657	**492,496**	328,829
Non-interest revenue	**60,848**	27,034	(2,528)	**87,882**	22,918
Revenue	**312,547**	267,831	164,129	**580,378**	351,747
Non-interest expense	**127,030**	126,548	78,276	**253,578**	153,209
Pre-provision pre-tax income[4]	**185,517**	141,283	85,853	**326,800**	198,538
Provision for credit loss	**13,042**	6,248	5,233	**19,290**	5,108
Income tax expense	**41,550**	35,516	21,784	**77,066**	46,647
Net income	**130,925**	99,519	58,836	**230,444**	146,783
Net income available to common shareholders	**128,594**	97,201	57,750	**225,795**	144,608
Adjustments					
Net interest income – fair value amortization/adjustments	**-**	(4,167)	-	**(4,167)**	-
Net interest income – paid to subscription receipt holders[1]	**-**	-	947	**-**	1,861
Non-interest revenue – strategic investment	**(27,965)**	-	-	**(27,965)**	-
Non-interest revenue – fair value amortization/adjustments	**-**	941	-	**941**	-
Non-interest expenses – acquisition-related costs	**(3,377)**	(4,744)	(2,709)	**(8,121)**	(7,842)
Non-interest expenses – other expenses	**(858)**	-	-	**(858)**	-
Non-interest expenses – fair value amortization/adjustments	**-**	(66)	-	**(66)**	-
Non-interest expenses – intangible asset amortization	**(885)**	(1,476)	-	**(2,361)**	-
Pre-tax adjustments	**(22,844)**	3,060	3,656	**(19,784)**	9,703
Income tax expense – tax impact on above adjustments[2]	**(7,425)**	850	958	**(6,575)**	2,542
Post-tax adjustments	**(15,419)**	2,210	2,698	**(13,209)**	7,161
Adjusted results					
Net interest income	**251,699**	236,630	167,604	**488,329**	330,690
Non-interest revenue	**32,883**	27,975	(2,528)	**60,858**	22,918
Revenue	**284,582**	264,605	165,076	**549,187**	353,608
Non-interest expense	**121,910**	120,262	75,567	**242,172**	145,367
Pre-provision pre-tax income[3]	**162,672**	144,343	89,509	**307,015**	208,241
Provision for credit loss	**13,042**	6,248	5,233	**19,290**	5,108
Income tax expenses	**34,124**	36,366	22,742	**70,490**	49,189
Net income	**115,506**	101,729	61,534	**217,235**	153,944
Net income available to common shareholders	**113,175**	99,411	60,448	**212,586**	151,769
Diluted earnings per share					
Weighted average diluted common shares outstanding	**37,975,115**	37,910,348	34,479,387	**37,942,911**	34,512,207
Diluted earnings per share – reported	**3.39**	2.56	1.67	**5.95**	4.19
Diluted earnings per share – adjusted	**2.98**	2.62	1.75	**5.60**	4.40
Diluted earnings per share – adjustment impact	**(0.41)**	0.06	0.08	**(0.35)**	0.21

(1) The interest expense refers to the dividend equivalent amount paid to subscription receipt holders. The subscription receipt holders are entitled to receive a payment equal to the common share dividend declared multiplied by the number of subscription receipts held on the common share dividend payment date. These subscription receipts were converted into common shares at a 1:1 ratio upon the closing of the Concentra acquisition.

(2) Income tax expense associated with non-GAAP adjustment was calculated based on the statutory tax rate applicable for that period, taking into account the federal tax rate increase.

(3) This is a non-GAAP measure, see Non-GAAP financial measures and ratios section of this MD&A.

Detailed financial summary

Income statement and earnings summary

Table 1: Income Statement highlights

($000s, except per share amounts)	For the three months ended					For the six months ended		
	30-Jun-23	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**	**30-Jun-23**	**30-Jun-22**	**Change**
Adjusted results[1]								
Revenue	**284,582**	264,605	8%	165,076	72%	**549,187**	353,608	55%
Non-interest expenses	**121,910**	120,262	1%	75,567	61%	**242,172**	145,367	67%
Provision for credit losses	**13,042**	6,248	109%	5,233	149%	**19,290**	5,108	278%
Income tax expenses	**34,124**	36,366	(6%)	22,742	50%	**70,490**	49,189	43%
Net income	**115,506**	101,729	14%	61,534	88%	**217,235**	153,944	41%
Earnings per share – diluted ($)	**2.98**	2.62	14%	1.75	70%	**5.60**	4.40	27%
Reported results								
Revenue	**312,547**	267,831	17%	164,129	90%	**580,378**	351,747	65%
Non-interest expenses	**127,030**	126,548	0%	78,276	62%	**253,578**	153,209	66%
Provision for credit losses	**13,042**	6,248	109%	5,233	149%	**19,290**	5,108	278%
Income tax expenses	**41,550**	35,516	17%	21,784	91%	**77,066**	46,647	65%
Net income	**130,925**	99,519	32%	58,836	123%	**230,444**	146,783	57%
Earnings per share – diluted ($)	**3.39**	2.56	32%	1.67	103%	**5.95**	4.19	42%

(1) Adjusted measures and ratios are Non-GAAP measures and ratios. For additional information, see Adjustments to financial results section, and Non-GAAP financial measures and ratios section of this MD&A.

Net interest income

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

Table 2: Net interest income

($000s, except percentages)	For the three months ended						For the six months ended			
	30-Jun-23		31-Mar-23		30-Jun-22		30-Jun-23		30-Jun-22	
	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]	Revenue/ Expense	Average rate[1]
Revenues derived from:										
Cash and debt securities	**39,111**	**4.60%**	36,025	4.51%	8,074	1.74%	**75,136**	**4.56%**	13,653	1.51%
Equity securities	**828**	**4.74%**	990	5.65%	835	4.07%	**1,818**	**5.20%**	1,970	4.19%
Single family mortgages–insured[3]	**91,534**	**3.34%**	92,078	3.35%	43,215	2.08%	**183,612**	**3.34%**	83,683	1.99%
Single family mortgages–uninsured[3]	**285,560**	**5.96%**	259,653	5.56%	142,644	3.86%	**545,213**	**5.76%**	272,528	3.83%
Decumulation loans	**19,585**	**6.85%**	17,150	6.69%	4,971	4.67%	**36,735**	**6.78%**	8,399	4.47%
Consumer lending	**23,899**	**11.77%**	22,221	11.04%	-	-	**46,120**	**11.40%**	-	-
Total Personal loans	**420,578**	**5.24%**	391,102	4.96%	190,830	3.25%	**811,680**	**5.11%**	364,610	3.17%
Commercial loans	**187,053**	**9.13%**	173,061	8.89%	83,291	5.35%	**360,114**	**9.01%**	152,466	5.13%
Equipment financing	**29,375**	**9.45%**	28,233	9.31%	19,278	9.49%	**57,608**	**9.38%**	37,588	9.81%
Insured multi-unit residential mortgages	**40,303**	**2.85%**	40,473	2.89%	30,971	2.70%	**80,776**	**2.87%**	59,232	2.70%
Total Commercial loans	**256,731**	**6.81%**	241,767	6.63%	133,540	4.59%	**498,498**	**6.72%**	249,286	4.49%
Average interest-earning assets	**717,248**	**5.66%**	669,884	5.43%	333,279	3.60%	**1,387,132**	**5.55%**	629,519	3.50%
Expenses related to:										
Deposits	**322,503**	**4.12%**	294,403	3.84%	106,221	1.87%	**616,906**	**3.98%**	188,383	1.73%
Securitization liabilities	**118,416**	**3.11%**	118,157	2.89%	53,741	1.75%	**236,573**	**3.00%**	103,031	1.71%
Others	**24,630**	**5.21%**	20,694	5.04%	5,713	1.55%	**45,324**	**5.13%**	7,415	1.03%
Average interest-bearing liabilities	**465,549**	**3.84%**	433,254	3.56%	165,675	1.82%	**898,803**	**3.70%**	298,829	1.69%
Adjusted net interest income and margin[2]	**251,699**	**1.99%**	236,630	1.92%	167,604	1.81%	**488,329**	**1.95%**	330,690	1.84%
Interest paid to subscription receipt holders	**-**		-		(947)		**-**		(1,861)	
Net fair value amortization – assets	**-**		2,976		-		**2,976**		-	
Net fair value amortization – liabilities	**-**		1,191		-		**1,191**		-	
Reported net interest income and margin	**251,699**	**1.99%**	240,797	1.95%	166,657	1.80%	**492,496**	**1.97%**	328,829	1.83%

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

(2) Adjusted measures and ratios are Non-GAAP measures and ratios. For additional information, see Adjustments to financial results section, and Non-GAAP financial measures and ratios section of this MD&A.

(3) The presentation has changed for single family mortgages from previous quarters from "alternative and prime" to "uninsured and insured" to better align characteristics of mortgages within each lending portfolio, including both asset yield and capital required. Prior period comparatives have been updated to conform to current period's presentation.

Q2 2023 v Q1 2023

Adjusted net interest income[1] +6% (reported +5%), Overall growth in net interest income was primarily driven by EQB asset growth across its conventional loan portfolios and 7bps increase in adjusted NIM (reported +4bps).

The NIM expansion primarily driven by growing asset yields on the conventional loan portfolios, higher levels of prepayment income, offset by growing funding costs due to prime rate increases.

Q2 2023 v Q2 2022

Adjusted and reported net interest income[1] in Q2 2023 were $251.7 million +50% (reported +51%), mainly benefiting from asset growth, contributions from Concentra Bank and higher NIM.

Adjusted NIM[1] +18bps (reported +19bps) for the reasons noted above, plus multiple prime rate increases during the period and asset mix shifting towards higher spread conventional loans, partially offset by reduced prepayment income.

YTD 2023 v YTD 2022

Adjusted net interest income was $488.3 million (reported $492.5 million), +48% (reported +50%). Overall growth in net interest income was primarily driven by EQB asset growth across its conventional loan portfolios and contributions from Concentra Bank.

Adjusted NIM +11bps (reported +14bps), driven by growing asset yields on the conventional loan portfolio and mix shifting towards higher spread conventional loans, despite reduced prepayment income.

Non-interest revenue

Table 3: Non-interest revenue[1]

($000s)	For the three months ended					For the six months ended		
	30-Jun-23	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**	**30-Jun-23**	**30-Jun-22**	**Change**
Fees and other income[3]	**14,489**	13,550	7%	7,866	84%	**28,387**	13,899	104%
Gains (losses) on strategic investments	**27,933**	(2,613)	n.m.	(8,655)	n.m.	**25,320**	7,246	n.m.
Net gains (losses) on other investments[3]	**1,726**	(339)	n.m.	(165)	n.m.	**1,039**	(2,077)	n.m.
Gain on sale and income from retained interests	**16,104**	14,332	12%	2,197	633%	**30,436**	7,241	320%
Net gains (losses) on securitization activities and derivatives	**596**	2,104	n.m.	(3,771)	n.m.	**2,700**	(3,391)	n.m.
Total non-interest revenue– reported	**60,848**	27,034	125%	(2,528)	n.m.	**87,882**	22,918	283%
Fair value amortization adjustment on other investments	**-**	941	n.m.	-	n.m.	**941**	-	n.m.
Gains on strategic investments	**(27,965)**	-	n.m.	-	n.m.	**(27,965)**		n.m.
Total non-interest revenue – adjusted[2]	**32,883**	27,975	18%	(2,528)	n.m.	**60,858**	22,918	166%

n.m. - not meaningful

(1) Prior period comparatives have been reclassified to conform to current period presentation. (2) Adjusted measures and ratios are Non-GAAP measures and ratios. For additional information, see Adjustments to financial results section, and Non-GAAP financial measures and ratios section of this MD&A.
(3) The grouping for certain gains reported under Net gains (losses) on loans and investments in Q1, was changed to Fees and other income in Q2. Prior period grouping has not been changed.

Q2 2023 v Q1 2023

Total adjusted non-interest revenue (NIR)[1] $32.9 million, +18% sequentially, largely due to a 7% increase in fee-based revenue and a 12% increase in gains on sale and income related to retained interests.

Reported NIR for Q2 2023 included a gain associated with a strategic investment of $28.0 million, which is removed from adjusted non-interested revenue. Net gains on strategic investments, other investments and securitization activities (excluding this strategic investment gain) were $2.3 million for the quarter, +$0.5 million vs. Q1 2023.

Q2 2023 v Q2 2022

Total adjusted non-interest revenue $32.9 million, compared to a $2.5 million loss in Q2 2022, primarily driven by higher fees income, lower net marked-to-market losses on strategic investments, increased gain on sale revenue, and net gains on security holdings and derivative instruments.

Fees and other income +84%, driven primarily by the full-quarter contribution by Concentra Bank.

Gain on sale revenue +$13.9MM or 633% vs. Q2 2022, driven by increased activity in EQB's insured residential business and continued growth in funding available to support these markets, as well as higher margin.

YTD 2023 v YTD 2022

Adjusted NIR[1] more than doubled, mainly for the same reasons stated above when comparing Q2 2023 with Q2 2022.

Provision for credit losses

Table 4: Provision for credit losses

($000s, except percentages)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change	30-Jun-23	30-Jun-22	Change
Stage 1 and 2 provision	**5,883**	2,746	114%	3,547	66%	**8,629**	2,324	271%
Stage 3 provision	**7,159**	3,502	104%	1,686	325%	**10,661**	2,784	283%
Provision for credit losses – reported	**13,042**	6,248	109%	5,233	149%	**19,290**	5,108	278%

The Provision for Credit Losses represents the net addition to EQB's Allowance for Credit Losses (ACL), accounting for any recoveries during the period. The ACL is the reserve set aside on the balance sheet to absorb future expected losses and is discussed in detail in the "Credit portfolio quality" section of this MD&A.

Q2 2023 v Q1 2023

Total provision for credit losses was $13.0 million, an increase from $6.2 million in Q1 2023. Total Stage 1 and 2 provision was $5.9 million, vs. $2.7 million in Q1 2023, reflecting growth in the lending portfolio alongside changes in the macroeconomic forecasts used in EQB's loss modeling, which leverages variables like interest rate volatility and housing market pricing that could be impacted by central bank monetary policy.

Stage 3 provisions are related to impaired loans and represented $7.2 million in Q2 2023, relative to $3.5 million in Q1. Management carefully reviews each impaired loan to assess the adequacy of its allowances and concluded that this level of provision and the resulting allowance for credit losses appropriately reflects the estimates of likely credit losses on EQB's impaired loan balances.

Q2 2023 v Q2 2022

Total Stage 1 and 2 provision was $5.9 million, vs. $3.5 million in Q2 2022, reflecting growth in the lending portfolio including the addition of Concentra Bank's loan assets, alongside changes in the macroeconomic forecasts used in EQB's loss modeling, which leverages variables like interest rate volatility and housing market pricing that could be impacted by central bank monetary policy.

The Stage 3 increase was associated with higher impaired loan balance at quarter end.

YTD 2023 v YTD 2022

The movement in PCLs was due to the same reasons cited above when comparing Q2 2023 to Q2 2022.

Non-interest expenses

Table 5: Non-interest expenses and efficiency ratio

($000s, except percentages and FTE)	For the three months ended					For the six months ended		
	30-Jun-23	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**	**30-Jun-23**	**30-Jun-22**	**Change**
Compensation and benefits	**59,707**	58,362	2%	40,067	49%	**118,069**	76,839	54%
Technology and system costs	**17,937**	18,174	(1%)	11,250	59%	**36,111**	23,200	56%
Regulatory, legal and professional fees	**12,419**	12,863	(3%)	8,492	46%	**25,282**	18,577	36%
Product costs	**18,866**	17,957	5%	8,090	133%	**36,823**	15,301	141%
Marketing and corporate expenses	**15,455**	14,671	5%	6,564	135%	**30,126**	11,629	159%
Premises	**2,646**	4,521	(41%)	3,813	(31%)	**7,167**	7,663	(6%)
Total non-interest expenses – reported	**127,030**	126,548	0%	78,276	62%	**253,578**	153,209	66%
Less:								
Integration related costs and intangible amortization	**(4,262)**	(6,286)	n.m.	(2,709)	n.m.	**(10,548)**	(7,842)	n.m.
Other expenses	**(858)**	-	n.m.	-	n.m.	**(858)**	-	n.m.
Total non-interest expenses – adjusted(1)	**121,910**	120,262	1%	75,567	61%	**242,172**	145,367	67%
Efficiency ratio – reported	**40.6%**	47.2%	(6.6%)	47.7%	(7.1%)	**43.7%**	43.6%	0.1%
Efficiency ratio – adjusted(1)	**42.8%**	45.4%	(2.6%)	45.8%	(3.0%)	**44.1%**	41.1%	3.0%
Full-time employee equivalent (FTE) – period average	**1,740**	1,685	3%	1,295	34%	**1,716**	1,247	38%

n.m. not meaningful

(1) Adjusted measures and ratios are Non-GAAP measures and ratios. For additional information, see Adjusted financial results section, and Non-GAAP financial measures and other financial and banking measures and terms section of this MD&A.

Q2 2023 v Q1 2023

Adjusted non-interest expenses[1] +1% sequentially (reported remained consistent) leading to an improvement in adjusted efficiency ratio from 45.4% to 42.8% (reported 47.2% to 40.6%) led by revenue growth and +7% sequential operating leverage. Q2 non-interest expense growth included:

- **Compensation and benefits:** staffing-related expenses +2% q/q on a reported basis representing the net impacts of synergies associated with the Concentra Bank acquisition and continued investment in growing the EQB team.
- **Product, marketing and innovation:** product costs +5% resulting from higher transaction costs associated with the growth of the Bank. Marketing and corporate expenses +33% associated with growth of the business as well as increased spend related to EQ Bank advertising activities.
- **Premises:** -41% due to a temporary reduction in office space prior to moving to EQB's new headquarters in Toronto.

Q2 2023 v Q2 2022

Adjusted non-interest expenses[1] +61% (reported 62%) with the addition of Concentra Bank:

- **Compensation & benefits:** +45% resulting primarily from the inclusion of staff from Concentra Bank, staffing growth over the last year and inflationary adjustments.
- **Product, marketing and innovation:** product costs +133%, reflecting the addition of Concentra Bank, innovation spending and operating costs to grow the EQ Bank customer base. Marketing and corporate expenses increased +122% mainly attributable to EQ Bank promotion and customer acquisition, and Concentra Bank's corporate expenses.
- **Technology:** system costs +58% to maintain and enhance digital capabilities and cloud-first technology, much of which was contributed by the acquisition of Concentra Bank.
- **Regulatory and professional fees:** +73% mainly related to business advisory services rendered, including those incurred by Concentra Bank.
- **Premises:** -31% related to a temporary office space reduction prior to moving to EQB's new headquarters in Toronto.

YTD 2023 v YTD 2022

Adjusted non-interest expenses[1] +67% (reported +66%), primarily for the same reasons stated above when comparing to Q2 2022.

Balance sheet review

Balance sheet summary

Table 6: Balance sheet highlights

($ millions, except percentages)	30-Jun-23	31-Mar-23	Change	31-Dec-22	Change	30-Jun-22	Change
Total assets	**53,319**	51,793	3%	51,145	4%	39,418	35%
Loan principal – Personal(1)	**32,297**	32,187	0%	32,043	1%	24,005	35%
Loan principal – Commercial(1)	**15,123**	14,423	5%	14,541	4%	12,137	25%
Total deposits principal(1)	**31,783**	31,278	2%	30,831	3%	23,533	35%
EQ Bank deposit principal(1)	**8,204**	8,097	1%	7,923	4%	7,588	8%
Total liquid assets as a % of total assets(2)	**7.7%**	7.5%	0.2%	7.7%	0%	7.8%	(0.1%)

(1) The principal numbers are reported on a consolidated basis, including Concentra, prior to any acquisition-related fair value adjustments that are captured in balance sheet measures. (2) This is a Non-GAAP measure, refer to the Non-GAAP financial measures and ratios section of this MD&A.

Total assets + 35% from a year ago reflecting both organic growth of the EQB portfolio and the acquisition of Concentra Bank. Overall growth of on-balance sheet loans within the Personal Banking and Commercial Banking portfolios was +35% and +25%, respectively.

Total loan principal

EQB's strategy is to maintain a diverse portfolio of loans to optimize ROE and manages credit risk rigorously. Table 7 presents EQB's loan principal by lending business and Table 8 provides continuity schedules for on-balance sheet loan portfolio.

Table 7: Loan principal by lending business(1)

($000s)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Single family mortgages – insured(3)	**10,863,782**	11,109,325	(2%)	8,113,893	34%
Single family mortgages – uninsured(3)	**19,414,981**	19,204,814	1%	15,396,888	26%
Decumulation loans	**1,139,800**	1,029,087	11%	494,625	130%
Consumer lending	**878,493**	843,922	4%	-	n.m.
Total Personal Lending – on balance sheet	**32,297,056**	32,187,148	0%	24,005,406	35%
Commercial loans	**8,321,156**	8,015,424	4%	6,483,352	28%
Equipment financing	**1,320,927**	1,264,212	4%	902,054	46%
Insured multi-unit residential mortgages	**5,480,425**	5,142,900	7%	4,751,791	15%
Total Commercial Lending – on balance sheet	**15,122,508**	14,422,536	5%	12,137,197	25%
Total Loans – on balance sheet	**47,419,564**	46,609,684	2%	36,142,603	31%
Insured multi-unit residential mortgages – derecognized	**12,591,570**	11,542,502	9%	6,349,413	98%
Total Commercial Lending – loans under management	**27,714,078**	25,965,038	7%	18,486,610	50%
Total Loans under management(2)	**60,011,134**	58,152,186	3%	42,492,016	41%

n.m. not meaningful

(1) The principal numbers are reported on a consolidated basis, including Concentra, excluding any acquisition-related fair value adjustments that are captured in balance sheet measures. (2) This is a non-GAAP measure, see Non-GAAP financial measures and ratios section of this MD&A. (3) The presentation has changed for single family mortgages from previous quarters from "alternative and prime" to "uninsured and insured" to better align characteristics of mortgages within each portfolio, including both asset yield and capital required. Prior period comparatives have been updated to conform to current period's presentation.

Q2 2023 v Q1 2023

During the quarter, loan portfolio grew $110 million and $700 million within the Personal and Commercial Banking businesses respectively, driven by the net effects of slower originations brought on by tighter monetary policy offset by stronger renewal / lower attrition levels.

The increase in the total commercial on balance-sheet amount mainly reflected Commercial Finance Group and Business Enterprise Solutions activity. Equitable's insured multi-unit mortgages under management increased by $1.4 billion to $18 billion in the quarter.

Q2 2023 v Q2 2022

Total on-balance sheet loan principal +31%, driven by growth in conventional lending across both Personal Banking and Commercial Banking and the acquisition of Concentra Bank.

Of $5.5 billion uninsured Personal loan growth, the single-family mortgage portfolio contributed $4.0 billion. Growth was driven by the net impacts of slower originations driven by dynamics in the housing market offset by strong renewal rates through the year, and the addition of single-family mortgage and consumer portfolios of Concentra Bank. The growth of insured single-family mortgages was mainly due to the addition of Concentra's insured portfolio.

Commercial loans increased by $3.0 billion, driven by growth within its three business lines: Commercial Finance Group, Business Enterprise Solutions, and Specialized Finance. This includes the impact of Concentra. Insured multi-unit mortgages growth was mainly driven by strong activity in affordable housing segment.

The Equipment Financing portfolio grew $419 million, benefiting from the business acquired from Concentra and higher origination of leasing market compared to prior periods.

Table 8: On-Balance Sheet loan principal continuity schedule(1)

($000s, except percentages)	As at or for the three months ended June 30, 2023		
	Personal	**Commercial**	**Total**
Q1 2023 closing balance	**32,187,148**	**14,422,536**	**46,609,684**
Originations	**2,199,122**	**2,809,782**	**5,008,904**
Derecognition	**-**	**(1,437,979)**	**(1,437,979)**
Net repayments	**(2,089,214)**	**(671,831)**	**(2,761,045)**
Q2 2023 closing balance	**32,297,056**	**15,122,508**	**47,419,564**
% Change from Q1 2023	**0%**	**5%**	**2%**
% Change from Q2 2022	**35%**	**25%**	**31%**
Net repayments percentage(2)	**6.5%**	**4.7%**	**5.9%**

($000s, except percentages)	As at or for the three months ended June 30, 2022		
	Personal	**Commercial**	**Total**
Q1 2022 closing balance	23,204,641	10,916,342	34,120,983
Originations	2,241,542	2,300,864	4,542,406
Derecognition	-	(390,240)	(390,240)
Net repayments	(1,440,777)	(689,769)	(2,130,546)
Q2 2022 closing balance	24,005,406	12,137,197	36,142,603
% Change from Q1 2022	3%	11%	6%
Net repayments percentage(2)	19%	25%	21%

(1) The principal numbers are reported on a consolidated basis, including Concentra, prior to acquisition-related fair value adjustments that are captured in balance sheet measures. (2) Net repayments percentage is calculated by dividing net repayments by the previous period's closing balance.

Credit portfolio quality

Equitable Bank regularly evaluates the profile of its loan portfolio and adjusts decisions and activities based on a range of inputs. These include borrower behaviours and external variables, including real estate values, equipment resale values, and economic conditions. When judging that the risk associated with a particular region or product is no longer acceptable, the Bank adjusts underwriting criteria so that the policies continue to be prudent and reflective of current and expected economic conditions, thereby safeguarding the future health of the portfolio.

There are several aspects of the Bank's risk management approach and existing loan portfolios that have and will continue to help mitigate the risk of credit losses. The Bank remains appropriately reserved for credit losses given the composition of its loan portfolios and current economic forecasts. Allowances for Credit Losses, net of cash reserves, as a percentage of total loan assets equaled 20bps at Q2 2023 compared to 19bps at Q1 2023 and 14bps a year ago.

Equitable Bank's general approach to lending is sound and the Bank has modest exposure to higher risk lending markets:

- The Bank focuses on lending in urban and suburban markets that have diversified employment bases and more liquid real estate markets. This approach results in lower risk as it reduces both the probability that borrowers will default and the loss in the event they do.
- Commercial Banking lending, including equipment financing, is diversified across industries and geographies. Commercial Banking has defined asset-class exposure limits and focuses on assets that the Bank believes will be resilient through an economic cycle, such as multi-unit residential and mixed-use properties. These segments make up 45% of the Commercial loan portfolio, while categories such as shopping centres and hotels, which the Bank believes are more sensitive to economic conditions, comprise 3.3% and 0.3% of Commercial loans or 1.1% and 0.1% of the total loan portfolio, respectively. Similarly, less than 1% of the Bank's assets are offices with an average LTV of 60%, where lending is largely restricted to properties located in major urban centres and smaller buildings.
- In Equitable Bank's Equipment Financing business, a cash security deposit is required on most, higher-risk leases and in some cases additional real assets are pledged.

Equitable Bank's loan portfolios have protection beyond a borrower's ability to repay:

- Underwriting focuses foremost on a borrower's ability to repay a loan. The average Beacon score of the Bank's uninsured single family residential borrowers, inclusive of Concentra Bank, was 714 at June 30, 2023, consistent with the prior quarter and up 1 bp from last year. Similarly, the average Beacon score of small business mortgage borrowers was 733. These credit scores are indicative of a borrower's positive repayment histories and lower propensity to default under normal economic conditions.
- 51% of loans under management are insured against credit losses, ultimately with the backing of the Government of Canada.
- Over 98% of the Bank's uninsured loan portfolio is secured by assets. Uninsured mortgage loans are supported by first-position claims on real estate and our leases by first position claims on equipment, so EQB has a real asset with tangible value behind almost every loan. While the consumer portfolio is not secured, relationships with origination partners include preferential return against lending receivables.
- If the prices of the assets securing mortgage loans decline, the Bank is further protected by a portfolio with a low overall loan to value (LTV) ratio. The average LTV on the Bank's uninsured residential mortgage portfolio was 63% at June 30, 2023, inclusive of Concentra Bank.
- Further to this collateral, almost all uninsured commercial mortgage borrowers and the majority of leases are backed by personal and/or corporate covenants. In the mortgage business, due diligence on borrowers and guarantors involves assessing their financial capacity.

Allowance for Credit Losses

Total allowance for credit losses, net of cash reserves, increased year over year mostly due to adding Concentra Bank's allowances on its loan assets. In addition, EQB increased reserves for Stage 1 and 2 loans and equipment financing based on the expected loss rates in those businesses.

Stage 3 allowances are determined loan by loan, and management believes that they are adequate at the end of Q2 2023. Stage 3 allowances on the Bank's mortgages are generally supported by up-to-date, independent property appraisals.

Table 9: Loan credit metrics – Allowance for Credit Losses (ACL)

($000s, except percentages)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Stage 1 and 2 allowance for credit losses	**98,961**	92,607	7%	48,685	103%
Stage 3 allowance for credit losses	**11,319**	8,835	28%	2,955	283%
Total Allowance for Credit Losses	**110,280**	101,442	9%	51,640	114%
Net ACL – total net of cash reserves(1)	**95,385**	86,996	10%	51,640	85%
Net ACL as a % of total loan assets	**0.20%**	0.19%	0.01%	0.14%	0.06%
Net ACL as a % of uninsured loan assets	**0.34%**	0.30%	0.04%	0.23%	0.11%
Net ACL as a % of gross impaired	**41%**	55%	(14%)	76%	(35%)

(1) The newly acquired consumer lending portfolio is backed by a cash reserve of $14.9 million (March 31, 2023 - $14.4 million, June 30, 2022 – $nil) held for a limited financial guarantee provided by a third party.

The table below provides allowance metrics that illustrate stage migration and loss rate dynamics:

Table 10: Stage 1 and 2 loan credit metrics

	30-Jun-23	31-Mar-23	31-Dec-22	30-Sep-22	30-Jun-22
Stage 1 – proportion of loan assets(1)	**78.3%**	77.5%	78.5%	82.1%	87.6%
Stage 1 – effective allowance rate(2)	**0.12%**	0.12%	0.11%	0.09%	0.09%
Stage 2 – proportion of loan assets	**21.2%**	22.3%	21.2%	17.7%	12.2%
Stage 2 – effective allowance rate	**0.38%**	0.35%	0.37%	0.36%	0.43%

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

Table 11: Stage 1 and 2 Allowance for credit losses by lending business

($000s, except percentages and bps)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Uninsured Personal loans – stage 1 & 2 allowances	**26,191**	23,742	10%	11,450	129%
as a % of uninsured personal loans (bps)	***13***	*12*	*1*	*7*	*6*
Consumer lending – stage 1 & 2 allowances net of cash reserves(1)	**6,959**	6,618	5%	-	n.m.
as a % of consumer lending (bps)	***80***	*80*	-	-	*n.m.*
Uninsured Commercial loans – stage 1 & 2 allowances	**26,846**	25,292	6%	20,080	34%
as a % of uninsured commercial loans (bps)	***39***	*37*	*2*	*34*	*5*
Equipment financing – stage 1 & 2 allowances	**23,214**	21,619	7%	17,069	36%
as a % of equipment financing (bps)	***176***	*172*	*4*	*194*	*(18)*
Insured Personal and Commercial loans – stage 1 & 2 allowances	**1,602**	1,659	(3%)	86	1,763%
as a % of insured personal and commercial loans (bps)	***0.9***	*1.0*	*(0.1)*	*0.1*	*0.8*
Total loans – stage 1 & 2 allowances net of cash reserves	**84,814**	78,930	7%	48,685	74%
as a % of total loans (bps)	***18***	*17*	*1*	*13*	*5*

n.m. – not meaningful

(1) The newly acquired consumer lending portfolio is backed by a cash reserve of $14.9 million (March 31, 2023 - $14.4 million, June 30, 2022 – $nil) held for a limited financial guarantee provided by a third party.

On a year-over-year basis, Stage 1 and 2 allowances against uninsured Personal loans, uninsured Commercial loans and equipment financing increased by $14.7 million, $6.8 million, and $6.1million, respectively. The Bank leverages macroeconomic forecasts from Moody's Analytics and uses them in credit loss modelling. For a summary of key forecast assumptions for each scenario, please refer to Note 8 (d & e) to the Q2 2023 interim consolidated financial statements.

The following table presents expected credit losses by macroeconomic scenario. IFRS 9 requires EQB to weight these scenarios to determine its expected loss. The scenario weightings remain unchanged since December 31, 2021.

Impaired loans

Table 12: Impaired loan metrics

($000s, except percentages)	**30-Jun-23**	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**
Gross impaired loan assets	**233,297**	156,863	49%	67,728	244%
Net impaired loan assets	**221,978**	148,028	50%	64,773	243%
Net impaired loan assets as a % of total loan assets	**0.47%**	0.32%	0.15%	0.18%	0.29%

Net impaired loans at the end of the quarter were $222.0 million, +$157.2 million from Q2 2022 and +$73.9 million from Q1 2023.

Q2 2023 v Q1 2023

The change was mainly attributable to growth of the portfolio, with increases occurring in the following businesses: residential mortgages (+$21 million), conventional commercial loans (+$48 million), and equipment financing (+$5 million).

Management has evaluated each impaired loan and the business actively manages loans in order to mitigate losses, including leveraging secured assets when necessary.

Q2 2023 v Q2 2022

The change was mainly attributable to growth of the portfolio, including the acquisition of Concentra Bank. Excluding the $24 million net impaired loans acquired from Concentra Bank, the remaining $133 million increase occurred in the following businesses: residential mortgages (+$47 million), conventional commercial loans (+$91 million), offset by a reduction in equipment financing ($5 million).

Deposits and funding

Equitable Bank's deposits provide a reliable and diversified base of funding that can be effectively matched against loan maturities. Term deposits contribute 81% of total funding with demand deposits representing the remaining 19% of principal balances.

Credit union deposits are primarily sourced through the credit union's excess liquidity and are typically subject to seasonal fluctuations. The sequential decline in Q2 reflects expected seasonality of net operating cash needs of customers of the credit union system, often related to their agricultural customers.

Table 13: Deposit principal

($000s)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Term deposits:					
Brokered	**15,718,746**	15,405,626	2%	11,869,556	32%
EQ Bank	**4,272,539**	4,161,586	3%	2,306,170	85%
Credit unions	**2,159,688**	2,323,444	(7%)	-	n.m.
Deposit notes	**1,943,910**	1,967,938	(1%)	1,922,576	1%
Covered bonds	**1,665,211**	1,259,708	32%	856,340	94%
Corporate and institutional	**101,955**	139,502	(27%)	-	n.m.
Total	**25,862,049**	25,257,804	2%	16,954,642	53%
Share of term deposits of total (%)	***81%***	*81%*		*72%*	
Demand deposits:					
Brokered	**614,775**	725,201	(15%)	918,097	(33%)
EQ Bank	**3,931,305**	3,935,798	(0%)	5,281,371	(26%)
Credit unions	**443,303**	639,025	(31%)	-	n.m.
Strategic partnerships	**735,868**	551,937	33%	379,096	94%
Corporate and institutional	**195,361**	167,961	16%	-	n.m.
Total	**5,920,612**	6,019,922	(2%)	6,578,564	(10%)
Share of demand deposits of total (%)	***19%***	*19%*		*28%*	
Total deposit principal	**31,782,661**	31,277,726	2%	23,533,206	35%
EQ Bank deposit principal	**8,203,844**	8,097,384	1%	7,587,541	8%

n.m. - not meaningful

Liquidity investments and equity securities

Retail and securitization funding markets continue to be liquid and efficient.

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

In addition to assets that are held for the purpose of providing liquidity protection, the Bank maintains a portfolio of liquid equity securities (64% of which are investment-grade preferred shares) to yield tax-preferred dividend income. The Bank is able to liquidate this portfolio in the event of financial stress.

Table 14: Liquid assets

($000s, except percentages)	**30-Jun-23**	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**
Eligible deposits with regulated financial institutions[1]	**371,750**	342,900	8%	538,636	(31%)
Debt securities	**61,361**	47,481	29%	27,969	119%
Debt instruments issued or guaranteed by Government of Canada or provincial governments:					
Investments purchased under reverse repurchase agreements	**1,208,930**	732,608	65%	420,009	188%
Loans and investments held in the form of debt securities[2], net of obligations under repurchase agreements	**2,400,769**	2,691,456	(11%)	1,991,215	21%
Liquid assets held for regulatory purposes	**4,042,810**	3,814,445	6%	2,977,829	36%
Other deposits with regulated financial institutions[3]	**1,938**	2,903	(33%)	872	122%
Equity securities[4]	**56,218**	64,858	(13%)	88,898	(37%)
Total	**4,100,966**	3,882,206	6%	3,067,599	34%
Total assets held for regulatory purposes as a % of total Equitable Bank assets	**7.6%**	7.4%	0.2%	7.6%	0%
Total liquid assets as a % of total assets	**7.7%**	7.5%	0.2%	7.8%	(0.1%)

n.m. not meaningful

(1) Eligible deposits with regulated financial institutions represent deposits of Equitable Bank and its subsidiaries, which are held at major Canadian financial institutions and excludes $248.4 million (March 31, 2023 – $225.6 million, June 30, 2022 – $130.5 million) of restricted cash held as collateral with third parties for Equitable Bank's interest rate swap transactions, issuance of letters of credit, loan origination and servicing activities, BIN sponsorship and banking settlements in the normal course of business and $621.9 million (March 31, 2023 – $441.0 million, June 30, 2022 – $426.8 million) of cash held in trust accounts and deposits held with banks as collateral for Equitable Bank's securitization activities.

(2) Loans held in the form of debt securities represent loans securitized and retained by Equitable Bank and are reported in our Loans receivable balances. Investments held in the form of debt securities include Mortgage-Backed Securities (MBS) and Canada Mortgage Bonds (CMB) purchased from third parties, and provincial bonds. The investments' reported values represent the fair market values associated with these securities.

(3) Other deposits with regulated financial institutions are deposits held by EQB Inc.

(4) Equity securities are 64% investment-grade publicly traded preferred shares and 36% publicly traded common shares.

To ensure institutions have sufficient high-quality liquid assets to survive a significant stress scenario lasting thirty calendar days, OSFI has mandated that Canadian deposit-taking institutions monitor and report their Liquidity Coverage Ratio (LCR)[(1)]. At June 30, 2023, Equitable Bank's LCR was well in excess of the regulatory minimum of 100%.

Liquid assets[(2)] were $4.1 billion at Q2 2023, +6% from Q1 2023 and +34% from Q2 2022, reflecting the level of liquidity required due to growth in demand deposits and anticipated cash flow needs for upcoming quarters.

Off-balance sheet arrangements

EQB engages in certain financial transactions that, for accounting purposes, are not recorded on its interim consolidated balance sheets. Off-balance sheet transactions are generally undertaken for risk, capital, and funding management purposes. These include certain securitization transactions, the commitments EQB makes to fund its pipeline of loan originations, and letters of credit issued in the normal course of business (see Note 22 to the annual audited consolidated financial statements in EQB's report for the second quarter and 6 months of 2023).

Securitization of financial assets

Certain securitization transactions qualify for derecognition when EQB has transferred substantially all of the risks and rewards, or control associated with the securitized assets. The outstanding securitized loan principal that qualified for derecognition totaled $12.6 billion at June 30, 2023 (March 31, 2023 – $11.5 billion, June 30, 2022 – $6.3 billion).

The securitization liabilities associated with these transferred assets were approximately $12.1 billion at June 30, 2023 (March 31, 2023 – $11.6 billion, June 30, 2022 – $6.7 billion). The securitization retained interests recorded with respect to certain securitization transactions were $474.5 million at June 30, 2023 (March 31, 2023 – $410.4 million, June 30, 2022 – $227.0 million) and the associated servicing liability was $70.4 million at June 30, 2023 (March 31, 2023 – $63.6 million, June 30, 2022 – $40.0 million).

Commitments and letters of credit

The Bank provides commitments to extend credit to borrowers and had outstanding commitments to fund $5.3 billion of loans (March 31, 2023 – $4.4 billion, June 30, 2022 – $3.9 billion) and $0.02 billion of investments in the ordinary course of business at June 30, 2023 (March 31, 2023 – $0.03 billion, June 30, 2022 – $0.03 billion).

The Bank also issues letters of credit which represent assurances that it will make payments in the event that a borrower cannot meet its obligations to a third party. Letters of credit in the amount of $97.7 million were outstanding at June 30, 2023 (March 31, 2023 – $84.8 million, June 30, 2022 – $51.1 million), none of which were drawn.

Related party transactions

Certain of EQB's key management personnel have transacted with it and/or invested in its deposits, and/or the Series 3 preferred shares in the ordinary course of business. See Note 23 to the annual audited consolidated financial statements in EQB's report for the second quarter and 6 months of 2023.

(1) See Glossary section of this MD&A. (2) This is a Non-GAAP measure, see Non-GAAP financial measures and ratios section of this MD&A.

Capital position

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

Regulatory Capital Development

Effective April 1, 2023, Equitable Bank adopted Basel III banking reforms in accordance with the Office of the Superintendent of Financial Institution (OSFI)'s announced revised capital, leverage, liquidity, and disclosure requirements to help Canadian deposit-taking institutions (DTIs) more effectively manage risks and sustain resilience. The Basel III reforms implemented include:

- Capital Adequacy Requirements (CAR) with revised standard approach for credit risk and operational risk
- Leverage Requirements (LR)
- Liquidity Adequacy Requirements (LAR)
- Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Capital and Liquidity Requirements
- Pillar 3 Disclosures

Q2 2023 reflects the revised Basel III disclosures and prior periods have not been restated.

Table 15: Capital measures of Equitable Bank

($000s, except percentages)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Common Equity Tier 1 Capital (CET1):					
Common shares	**932,509**	928,367	0%	353,819	164%
Contributed surplus	**13,760**	13,094	5%	11,198	23%
Retained earnings	**2,035,296**	1,931,789	5%	1,772,898	15%
Accumulated other comprehensive loss (AOCI)(2)	**(50,567)**	(32,349)	56%	(30,311)	67%
Less: Regulatory adjustments to CET1 Capital	**(187,475)**	(183,547)	2%	(111,370)	68%
Common Equity Tier 1 Capital(1)	**2,743,523**	2,657,354	3%	1,996,234	37%
Additional Tier 1 capital (AT1):					
Non-cumulative preferred shares	**72,554**	72,554	0%	72,554	0%
Additional Tier 1 capital issued by a subsidiary to third parties (amount allowed in AT1)	**64,099**	110,987	(42%)	-	n.m.
Tier 1 Capital(1)	**2,880,176**	2,840,895	1%	2,068,788	39%
Tier 2 Capital:					
Eligible Stage 1 and 2 allowance	**98,963**	92,605	7%	48,685	103%
Additional Tier 1 capital issued by a subsidiary to third parties (amount allowed in Tier 2)	**8,311**	-	n.m.	-	n. m.
Less: Transitional adjustment in response to COVID-19(3)	**-**	-	n.m.	(3,213)	n. m.
Tier 2 Capital(1)	**107,274**	92,605	16%	45,472	136%
Total Capital(1)	**2,987,450**	2,933,500	2%	2,114,260	41%
Total risk-weighted assets (RWA)(1)	**19,427,469**	18,980,786	2%	14,748,207	32%
Capital ratios and Leverage ratio:(1)					
CET1 ratio	**14.1%**	14.0%	0.1%	13.5%	0.6%
Tier 1 capital ratio	**14.8%**	15.0%	(0.2%)	14.0%	0.8%
Total capital ratio	**15.4%**	15.5%	(0.1%)	14.3%	1.1%
Leverage ratio	**5.2%**	5.3%	(0.1%)	5.1%	0.1%

n.m. not meaningful

(1) See Glossary section of this MD&A. (2) 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 value is excluded.
(3) This transitional adjustment was discontinued starting Q1 2023. On March 27, 2020, OSFI announced several actions to address operational issues stemming from the economic impact of COVID-19, including the introduction of a transitional arrangement for expected credit loss provisioning on capital. This transitional arrangement results in a portion of allowances that would otherwise be included in Tier 2 capital of Equitable Bank to be included in CET1 capital. The adjustment is equal to the increase in Stage 1 and Stage 2 allowances relative to December 31, 2019. This increase is tax-effected and subject to a scaling factor that will decrease over time. The scaling factor has been set at 70% for 2020, 50% for 2021, and 25% for 2022. This phase-out arrangement has ended at the end of 2022 and thus there would be no impact on Equitable Bank's CET1 and Tier 2 capital starting Q1 2023.

Management believes that Equitable Bank's current level of capital and earnings in future periods will be sufficient to support strategic objectives and ongoing growth. Equitable Bank's Capital ratios at June 30, 2023 exceeded the regulatory minimums and target levels. Equitable Bank's CET1 ratio was 14.1%, + 60bps from last year mainly due to increased capital related to the acquisition of Concentra Bank. CET1 ratio also increased 10bps from last quarter as organic capital through retained earnings outpaced growth in RWA.

Canadian banks are required to report on OSFI's Leverage Ratio based on Basel III guidelines. OSFI has established minimum Leverage Ratio targets on a confidential and institution-by-institution basis. Equitable Bank remained fully compliant with its regulatory requirements and its Leverage Ratio was 5.2% at June 30, 2023, + 10bps from a year ago mainly a result of capital growth.

As part of capital management process, Equitable Bank stress tests the loan portfolio on a regular basis to understand the potential impact of extreme but plausible adverse economic scenarios. Equitable Bank uses 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 Equitable Bank's financial position across a range of economic scenarios.

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

Shareholders' equity

Common and preferred shares

At June 30, 2023, EQB had 37,729,584 common shares and 2,911,800 Series 3 preferred shares issued and outstanding. In addition, there were 1,291,071 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $68.6 million. For additional information on outstanding stock options and their associated exercise prices, please refer to Note 16 (a) to the Q2 2023 interim consolidated financial statements.

Normal course issuer bid (NCIB)

During the first six months of 2023, no common or preferred shares were purchased or cancelled under the NCIB.

Common share dividends

On August 1, 2023, EQB's Board declared a quarterly dividend of $0.38 per common share, payable on September 30, 2023, to common shareholders of record at the close of business on September 15, 2023. This dividend represents a 3% increase over dividends declared in July 2023 and 23% year over year.

On February 7, 2022, EQB's Board of Directors reinstated EQB's common share Dividend Reinvestment Plan (DRIP). Participation in the plan is optional under the terms of the plan. Shareholders may elect to reinvest their cash dividends to purchase additional common shares at a 2% discount to the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. Common shares issued through the DRIP are from treasury. EQB maintains the right to suspend the DRIP in future periods.

Despite changes to its fiscal calendar, EQB will maintain the same dividend payment schedule for future periods (March 31, June 30, September 30, December 31). Dividend payments scheduled for December 31, 2023 will be approved and declared alongside the new Q4 and October 31, 2023 fiscal year end results.

Preferred shares of EQB

On August 1, 2023, the Board declared a quarterly dividend of $0.373063 per preferred share, payable on September 30, 2023, to preferred shareholders of record at the close of business on September 15, 2023.

Preferred shares of Concentra Bank

As at June 30, 2023, Concentra Bank has $111 million in preferred shares issued and outstanding.

Accounting standards and policies

Accounting policy changes

EQB's significant accounting policies are essential to an understanding of its reported results of operations and financial position. Accounting policies applied by EQB in the Q2 2023 interim consolidated financial statements are the same as those applied by EQB as at and for the year ended December 31, 2022.

Future Changes in Accounting Policies

On December 16, 2021, the Canadian Alternative Reference Rate working group (CARR) recommended the administrator, Refinitiv Benchmark Services UK Limited (RBSL), cease publication of Canadian Dollar Offered Rate (CDOR) settings immediately after June 30, 2024, using a two-stage transition approach. By the end of the first stage on June 30, 2023, they expect all new derivative contracts and securities to have transitioned to the Canadian Overnight Repo Rate Average (CORRA), with the exception of derivatives that hedge or reduce CDOR derivatives or securities transacted before June 30, 2023, or for loans before June 30, 2024. All remaining CDOR exposures should be transitioned to CORRA by June 30, 2024, marking the end of the second stage.

Following public consultation, on May 16, 2022, RBSL announced that all remaining CDOR settings will cease publication immediately after June 30, 2024 according to the CARR recommendation. EQB continues to assess the impact of this announcement.

Please refer to Note 3 to the interim consolidated financial statements for a summary of EQB's other significant accounting policies.

Critical accounting estimates

The preparation of the interim 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 interim 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 EQB's interim Consolidated Financial Statements affect the assessment of the allowance for credit losses on loans, impairment of goodwill and 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, fair values of net identifiable assets acquired, liabilities assumed and intangible assets recognized in a business combination, and income taxes.

In making estimates and judgments, management uses external information and observable market inputs where possible, supplemented by internal analysis as required. These estimates and judgments have been made taking into consideration the economic impact of the current market volatility and uncertainty due continued geopolitical unrest, the interest rate environment, and inflationary pressures. Actual results could differ materially from these estimates, in which case the impact would be recognized in the interim Consolidated Financial Statements in future periods.

Allowance for credit losses under IFRS 9

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

As a result of ongoing geopolitical unrest, the current interest rate environment, and inflationary pressures, the macroeconomic environment continues to experience volatility and uncertainty. This has resulted in a direct impact on forward-looking macroeconomic variables which management uses as part of its underlying assumptions for calculating ECL. Management has used the latest forward-looking macroeconomic variables provided by Moody's Analytics economic forecasting services for calculating ECL.

Fair value of assets, liabilities and intangible assets on Concentra Bank's acquisition

On November 1, 2022, Equitable Bank acquired 100% ownership in Concentra Bank (Concentra) by paying $495,369 in purchase consideration and recognized assets, liabilities, intangible assets and goodwill on its Balance Sheet (Refer note 5). For the loans and receivables acquired and deposit liabilities assumed, management has carried out valuation adjustments to principal book values by applying an income approach that requires the cash flows relating to the financial instruments to be discounted to present value at prevailing market interest rates at the valuation date. In determining these cash flows, management has exercised significant judgment in determining estimates relating to liquidation rates, prepayment rates and repricing adjustments, including credit spreads.

EQB has recognized some of Concentra's core deposits and Trust relationships as intangible assets. Core deposits are expected to provide a stable, low-cost source of funding to EQB, and existing Trust relationships with credit unions and individual trust clients will provide a new source of revenue and generate new clients for EQB by generating trust income. The valuation of core deposit intangibles asset is carried out using the differential income approach, being the difference between the cost of funds for the acquired deposits and the cost of funds from alternative sources (deposit spread). The valuation of core deposit intangible assets requires management to make significant judgments and estimates relating to cash flow discount rates and deposit spreads.

For further information regarding critical accounting estimates, please refer to Notes 2(d) and 8(d) to (f) to the interim consolidated financial statements.

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. EQB has in place appropriate information systems and procedures to ensure that information used internally and disclosed externally is materially complete and reliable.

In addition, EQB's Audit Committee, on behalf of the Board, performs an oversight role with respect to all public financial disclosures 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 EQB's internal control over financial reporting that occurred during Q2 2023 that have materially affected, or are reasonably likely to materially affect, EQB's internal control over financial reporting.

Risk management

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

The "Credit Risk", "Liquidity and Funding Risk", and "Market Risk" sections below form an integral part of the interim Consolidated Financial Statements as they present required IFRS disclosures as set out in IFRS 7 Financial Instruments: Disclosures, which permits cross-referencing between the notes to the financial statements and the MD&A.

For a detailed discussion of our approach to risk management and the risks that affect EQB, please refer to the section entitled Risk Management in EQB's report for the fourth quarter and 12 months of 2022 which is available on EQB's website at eqbank.investorroom.com and on SEDAR at sedar.com.

Credit risk

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

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

The Bank invests in corporate bonds to diversify its liquidity holdings and to generate returns. These investments also expose the Bank to credit risk, should the issuer of these securities be unable to make timely interest payments or, under a worst-case scenario, if the issuer becomes insolvent. To limit its exposure to this credit risk, the Bank establishes policies with exposure limits based on credit rating and investment type. Securities rated BBB- and higher (which is considered "low risk") comprised 100% of the Bank's corporate bond portfolio at June 30, 2023 (March 31, 2023 – 93%, June 30, 2022 – 100%).

The Bank invests in equity securities to generate returns that meet certain internally acceptable ROE thresholds. Preferred share securities rated P-2 or higher comprised 5% or $6 million of the total equity securities portfolio at June 30, 2023, compared to 20% or $28 million a year ago. Preferred share securities rated P-3 or higher comprised 28% of the total equity securities portfolio at the end of Q2 2023.

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 assessed the credit quality of the Bank's assets at June 30, 2023 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 Bank's debt instruments, for which a loss allowance is calculated, including contractual amounts of undrawn loan commitments, based on the Bank's credit risk exposure rating scale.

Table 17: Credit quality analysis

($000s)				**June 30, 2023**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans receivable:				
Low risk	15,724,439	1,492,422	-	**17,216,861**
Standard risk	21,032,327	8,034,283	-	**29,066,610**
High risk	474,886	555,756	-	**1,030,642**
Impaired	-	-	233,297	**233,297**
Total	37,231,652	10,08,2461	233,297	**47,547,410**
Less allowance	(57,072)	(40,315)	(11,319)	**(108,706)**
	37,174,580	10,042,146	221,978	**47,438,704**
Loan commitments:				
Low risk	2,297,178	18,669	-	**2,315,847**
Standard risk	1,522,894	428,796	-	**1,951,690**
High risk	2,631	24,334	-	**26,965**
Total	3,822,703	471,799	-	**4,294,502**
Less allowance	(1,359)	(215)	-	**(1,574)**
	3,821,344	471,584	-	**4,292,928**

The table below provides a breakdown of Equitable Bank's loan principal by insured vs uninsured and by lending business.

Table 18: Loan principal by lending business

($000s, except percentages)	**30-Jun-23**	**31-Mar-23**	**Change**	**30-Jun-22**	**Change**
Insured:					
Personal	**10,863,782**	11,109,325	(2%)	8,113,893	34%
Commercial	**6,933,999**	6,265,073	11%	5,254,149	32%
Total loan principal outstanding	**17,797,781**	17,374,398	2%	13,368,042	33%
Total loan principal outstanding percentage	**38%**	37%	1%	37%	1%
Uninsured:					
Personal	**21,433,274**	21,077,823	2%	15,891,513	35%
Commercial	**8,188,509**	8,157,463	0%	6,883,048	19%
Total loan principal outstanding	**29,621,783**	29,235,286	1%	22,774,561	30%
Total loan principal outstanding percentage	**62%**	63%	(1%)	63%	(1%)

As part of Equitable Bank's risk management, it lends at lower LTV's, adding further credit loss protection to its loan portfolio. The average LTV on the Bank's uninsured residential mortgage portfolio was 63% at June 30, 2023 (March 31, 2023, 2022 – 65%, June 30, 2022 – 57%). The table below presents the Bank's average uninsured residential LTVs on existing loans by province.

Table 19: Average loan-to-value of existing uninsured residential mortgages(1)(2)(3)(4)

($000s, except percentages)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Alberta	**63%**	63%	-%	62%	1%
British Columbia	**64%**	65%	(1%)	58%	6%
Manitoba	**63%**	65%	(2%)	57%	6%
Ontario	**63%**	66%	(3%)	56%	7%
Saskatchewan	**51%**	53%	(2%)	48%	3%
Other Provinces	**64%**	66%	(2%)	58%	6%
Total Canada	**63%**	65%	(2%)	57%	6%

(1) Geographic location based on the address of the property mortgaged. (2) Based on property values estimated using the Teranet National Bank House Price Indices (as of June 30, 2023), adjusting for the Bank's unique portfolio by using sub-indices corresponding to the 11 cities in Teranet-National Bank National Composite 11 to estimate property values loan by loan. The index is based on actual transaction dates and prices, which EQB believes to be most accurate and representative; however, may lag other indices leveraging data tied to date of sale. (3) The LTV of our HELOC (HELOC, SHELOC and Reverse Mortgage) products is not included in this table. (4) Equitable Bank has arrangements with other lenders to participate in its single-family residential loans in certain circumstances, namely if Equitable Bank wants to cap the value of its own exposure to stay within the boundaries of its risk appetite while still meeting a borrower's needs. The arrangements, which have been entered into in the normal course of business at arm's length and on market terms, are structured such that the other lenders' participation would always bear the first loss on the mortgage. The loan-to-value ratios above therefore do not take into account the other lenders' participation in order to reflect both the substance and legal form of Equitable Bank's exposure. Equitable Bank underwrites the loans based on the total value of its own advance and the other lender's participation to ensure that the borrower is able to service the aggregate amount of the loan. Other lenders' participation in Equitable Bank's (including Concentra) single family residential loans was $89.7 million at June 30, 2023.

Within Commercial Banking, the Bank prioritizes lending against multi-unit rental properties, including affordable housing. Due to the strong demand in Canada for housing and the Bank's focus and capabilities in the insured lending market, over two thirds of the Bank's total Commercial loans are backed by credit insurance. By design, less than 1% of total bank assets are offices with an average LTV of 60%. The Bank is selective in lending to commercial offices, largely restricting loans to properties located in major urban centres and smaller buildings. The Bank has limited exposure to hotels, shopping malls, big box retail and large commercial office. The Bank restricts LTVs, today averaging 63% for uninsured commercial loans.

Table 20: Commercial loans under management by business(1)

($000s, except percentages)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Mortgages – to Corporates	**2,895,401**	2,845,597	2%	2,611,121	11%
Mortgages – to Small Business	**1,351,892**	1,333,971	1%	1,228,665	10%
Specialized financing loans	**1,026,748**	1,097,176	(6%)	738,675	39%
Construction loans(3)	**3,047,115**	2,738,680	11%	1,904,891	60%
Equipment financing	**1,320,927**	1,264,212	4%	902,054	46%
Insured multi-unit residential mortgages(2)	**18,071,995**	16,685,402	8%	11,101,204	63%
Total	**27,714,078**	25,965,038	7%	18,486,610	50%

(1) The numbers in this table are reported on consolidated basis, including Concentra, prior to acquisition-related fair value adjustments that are captured in balance sheet measures. (2) Insured against credit loss by the Canada Mortgage and Housing Corporation. (3) 46% of construction loans is insured by CMHC.

Liquidity and funding risk

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

Management has a low tolerance for liquidity and funding risk and adheres to a Liquidity and Funding Risk Management policy that requires Equitable Bank to maintain a pool of high-quality liquid assets. The Bank closely monitors the liquidity position daily and ensures that the level of liquid resources held, together with the Bank's ability to raise new deposits, is sufficient to meet funding commitments, deposit and bond maturity obligations, and properly discharge other financial obligations. Despite these precautions, there is a risk that a disruption in funding markets may be so severe or prolonged that the Bank may need to take further actions to protect its liquidity position, which may even include curtailing lending activity or drawing on its government-managed funding programs.

Market risk

Market Risk consists of interest rate risk, equity price risk, and currency risk. Market Risk is broadly defined as the possibility that changes in either market interest rates or equity prices may have an adverse effect on profitability or financial condition. Interest rate risk may be affected if assets or liabilities have unmatched terms, interest rates or other attributes. Overall, Equitable Bank has a 'low' appetite for market risk.

The Bank defines its low risk tolerance for market risk and applies capital for these risks within its Internal Capital Adequacy Assessment Plan (ICAAP). The Bank monitors market risk at several management committees: quarterly at the Enterprise Management Committee (ERM), at least 10 months per year at the Asset Liability Committee (ALCO) and weekly at the Treasury Committee. In addition, the Board reviews reports from both the ALCO and ERM quarterly. The responsibility for management of the Bank's interest rate risk resides with the ALCO. ALCO has delegated to Treasury the day-to-day responsibility for the measurement and management of market risks. The ALCO meets regularly to review and approve Treasury related policies, to review key market risk metrics including compliance to established limits, and to provide direction on market risk management.

The Bank has immaterial exposure to foreign currency risk arising from general business activities. The covered bond program is dependent on foreign funding sources, and the related FX risks are fully hedged. Differences in how the issuance and hedges are accounted may result in some income timing differences in the financial statements.

Equity price risk represents the risk to the value of the securities portfolio, which are impacted by a variety of factors which are beyond the Bank's control, such as interest rates, credit spreads, and general market sentiment. Equity price risk is incorporated into the Bank's ICAAP modeling.

EQB's Interest rate risk exposure as at June 30, 2023 is reported in Table 21 and Note 19 to the consolidated financial statements.

With Interest Rate Risk in the Banking Book (IRRBB), EQB's objective is to manage and control interest rate risk exposures within its low risk tolerance. EQB's key measure of interest rate exposure is dollar duration. The primary method of reducing interest rate risk involves funding assets with liabilities with similar repricing terms. EQB uses interest rate derivatives to mitigate residual interest rate risk. EQB has established a target for the duration of equity, and actively manages excess exposures at each key rate through its hedging program.

We monitor interest rate risk by utilizing cashflow and valuation models with simulated interest rate changes. These models estimate the effects of various interest rate changes on net interest income and on the economic value of shareholders' equity (EVE). EVE is a calculation of the present value of EQB's asset cash flows, less the present value of liability cash flows on a pre-tax basis. EQB models various market rate scenarios, including parallel and non-parallel yield curve changes and regulator-prescribed interest rate shock scenarios. EVE exposure is a critical measure for measuring and managing risk. Management considers this measure to be more comprehensive than measuring changes in net interest income, as it captures all interest rate mismatches across all terms. EQB's policy establishes limits for the permissible change in EVE as well as changes in net interest income for specified rate shock to interest rates.

EQB's models contain numerous assumptions intended to reflect the contractual and expected behavior of its assets and liabilities. Certain assumptions are based on historical experience while other assumptions are based on business judgement. Below are further details on modeling.

The table below illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest-rate changes on EVE and net interest income during the month period following June 30, 2023. The estimate of sensitivity to interest rate changes is dependent on several assumptions that could result in a different outcome in the event of an actual interest rate change.

Table 21: Net interest rate sensitivity

($000s, except percentages)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point shift		
Impact on net interest income	**5,779**	**(4,826)**
Impact on Economic Value of Shareholder's Equity (EVE)[1]	**(26,329)**	**(12,901)**
EVE impact as a % of common shareholders' equity	**(1.0%)**	**(0.5%)**

(1) EVE numbers are reported on a pre-tax basis.

Reported EVE sensitivities above include assumptions about the behaviour of embedded options such as mortgage commitments. These sensitivities are intended to measure the impact of immediate and sustained 100bps shocks. In practice, hedges are rebalanced frequently, mitigating the likelihood of such an impact.

Equity Price Risk is defined as the risk of loss from an adverse movement in the value of Equitable Bank's securities portfolio due to volatility in financial markets. The Bank mitigates this risk by investing only in high-quality, liquid shares and actively monitors the investment portfolio.

The Asset and Liability Committee ("ALCO") reviews the investment performance, composition, and quality of the portfolio at least 10 times a year. This information is reviewed by a Committee of the Board each quarter.

Glossary

- **Book value per common share:** is calculated by dividing common shareholders' equity by the number of common shares outstanding.
- **Capital ratios:** A detailed calculation of all Capital ratios can be found in Table 15 of this MD&A.
  - **CET1 ratio:** this measure of capital strength is defined as CET1 Capital as a percentage of total risk weighted assets. This ratio is calculated for Equitable 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 Equitable 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, as well as additional Tier 1 capital issued by a subsidiary to third parties that is allowed in Tier 1, to CET1 capital. Tier 2 Capital is equal to Equitable Bank's eligible Stage 1 and 2 allowance plus additional Tier 1 capital issued by a subsidiary to third parties that is allowed in Tier 2 capital. 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.
- **Dividend yield:** is calculated on an annualized basis and is defined as dividend per common share divided by average of daily closing price per common share for the period.
- **Economic value of shareholders' equity (EVE):** is a calculation of the present value of EQB's asset cash flows, less the present value of liability cash flows on a pre-tax basis. EVE is a comprehensive measure of our exposure to interest rate changes than net interest income because it captures all interest rate mismatches across all terms.
- **Efficiency ratio:** this measure is used to assess the efficiency of EQB's cost structure relative to revenue generation. This ratio is derived by dividing non-interest expenses by revenue. A lower efficiency ratio reflects a more efficient cost structure.
- **Liquidity coverage ratio (LCR):** this ratio, calculated according to OSFI's Liquidity Adequacy Requirements, measures Equitable Bank's ability to meet its liquidity needs for a thirty-calendar day liquidity stress scenario. It is equal to high-quality liquid assets divided by expected total net cash outflows over the next thirty calendar days.
- **Provision for credit losses (PCL) – rate:** this credit quality metric is calculated on an annualized basis and is defined as the provision for credit losses as a percentage of average loan principal outstanding during the period.
- **Return on equity (ROE):** this profitability measure is calculated on an annualized basis and is defined as net income available to common shareholders as a percentage of weighted average common shareholders' equity outstanding during the period.
- **Revenue per full time equivalent (FTE):** is calculated as revenue for the period divided by the average number of full-time equivalent employees during that period.
- **Risk-weighted assets (RWA):** represents Equitable Bank's assets and off-balance sheet exposures, weighted according to risk as prescribed by OSFI under the CAR Guideline.

Non-Generally Accepted Accounting Principles (GAAP) financial measures and ratios

This section provides further discussion regarding the variety of financial measures to evaluate EQB's performance.

Non-GAAP measures

In addition to GAAP prescribed measures, we also use certain non-GAAP measures that we believe provide useful information to investors regarding EQB'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 addition to the adjusted results that are presented in the "Adjustments to financial result" section of this MD&A, additional adjusted financial measures and ratios are described as follows:

- **Adjusted efficiency ratio:** it is derived by dividing adjusted non-interest expenses by adjusted revenue. A lower adjusted efficiency ratio reflects a more efficient cost structure.
- **Adjusted return on equity (ROE):** it is calculated on an annualized basis and is defined as adjusted net income available to common shareholders as a percentage of weighted average common shareholders' equity (reported) outstanding during the period.

Other non-GAAP financial measures and ratios:

- **Assets under administration (AUA):** is sum of (1) assets over which EQB's subsidiaries have been named as trustee, custodian, executor, administrator or other similar role; (2) loans held by credit unions for which EQB's subsidiaries act as servicer.
- **Assets under management (AUM):** is the sum of total assets reported on the consolidated balance sheet and loan principal derecognized but still managed by EQB.

($000s)	30-Jun-23	31-Mar-23	Change	30-Jun-22	Change
Total assets on the consolidated balance sheet	**53,318,703**	51,793,019	3%	39,417,758	35%
Loan principal derecognized	**12,591,570**	11,542,502	9%	6,349,413	98%
Assets under management	**65,910,273**	63,335,521	4%	45,767,171	44%

- **Conventional lending:** are the total on-balance sheet loan principal excluding insured single-family mortgages and insured multi-unit residential mortgages.
- **Liquid assets:** is a measure of EQB'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 14 of this MD&A.
- **Loans under management (LUM):** is the sum of loan principal reported on the consolidated balance sheet and loan principal derecognized but still managed by EQB. A detailed calculation can be found in Table 7 of this MD&A.
- **Net interest margin (NIM):** this profitability measure is calculated on an annualized basis by dividing net interest income by the average total interest earning assets for the period. A detailed calculation can be found in Table 2 of this MD&A.
- **Pre-provision pre-tax income (PPPT):** this is the difference between revenue and non-interest expenses.
- **Total loan assets:** this is calculated on a gross basis (prior to allowance for credit losses) as the sum of both **Loans – Personal** and **Loans – Commercial** on the balance sheet and adding their associated allowance for credit losses**.**

Consolidated balance sheet (unaudited)

($000s) As at	Note	**June 30, 2023**	December 31, 2022	June 30, 2022
Assets:				
Cash and cash equivalents		**373,492**	495,106	539,509
Restricted cash		**870,247**	737,656	557,283
Securities purchased under reverse repurchase agreements		**1,208,930**	200,432	420,009
Investments	7	**2,235,530**	2,289,618	1,097,004
Loans – Personal	8,9	**32,333,611**	31,996,950	24,122,303
Loans – Commercial	8,9	**15,103,519**	14,513,265	12,123,469
Securitization retained interests	9	**474,542**	373,455	227,013
Deferred tax assets(1)	12	**14,392**	-	-
Other assets	10	**704,440**	538,475	331,168
		53,318,703	51,144,957	39,417,758
Liabilities and Shareholders' Equity				
Liabilities:				
Deposits	11	**32,137,347**	31,051,813	23,708,958
Securitization liabilities	9	**15,397,103**	15,023,627	11,366,847
Obligations under repurchase agreements	9	**875,718**	665,307	814,494
Deferred tax liabilities	12	**106,723**	72,675	64,180
Funding facilities	13	**1,487,008**	1,239,704	711,380
Subscription receipts		**-**	-	230,821
Other liabilities	14	**594,952**	556,876	426,527
		50,598,851	48,610,002	37,323,207
Shareholders' equity:				
Preferred shares	15	**181,411**	181,411	70,424
Common shares	15	**466,711**	462,561	234,372
Contributed surplus	16	**12,668**	11,445	10,106
Retained earnings		**2,065,478**	1,870,100	1,773,658
Accumulated other comprehensive (loss) income		**(6,416)**	9,438	5,991
		2,719,852	2,534,955	2,094,551
		53,318,703	51,144,957	39,417,758

See accompanying notes to the interim Consolidated Financial Statements.

(1) Effective January 1, 2023, EQB changed the presentation of the line items under the non-interest revenue (refer to Note 2(g)). Prior period presentation has been updated accordingly.

Consolidated statement of income (unaudited)

($000s, except per share amounts)	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Interest income:					
Loans – Personal		**420,578**	190,830	**812,394**	364,610
Loans – Commercial		**256,731**	133,540	**498,499**	249,286
Investments		**18,856**	3,351	**40,749**	7,206
Other		**21,083**	5,558	**38,435**	8,417
		717,248	333,279	**1,390,077**	629,519
Interest expense:					
Deposits		**322,503**	110,413	**615,734**	194,885
Securitization liabilities		**118,416**	53,741	**236,590**	103,031
Funding facilities		**11,891**	2,468	**19,809**	2,774
Other		**12,739**	-	**25,448**	-
		465,549	166,622	**897,581**	300,690
Net interest income		**251,699**	166,657	**492,496**	328,829
Non-interest income[1]:					
Fees and other income[2]		**14,489**	7,866	**28,387**	13,899
Net gains (losses) on loans and investments[2]		**29,659**	(16,839)	**26,359**	(12,041)
Gains on sale and income from retained interests	9	**16,104**	6,445	**30,436**	21,060
Net gains on securitization activities and derivatives		**596**	-	**2,700**	-
		60,848	(2,528)	**87,882**	22,918
Revenue		**312,547**	164,129	**580,378**	351,747
Provision for credit losses		**13,042**	5,233	**19,290**	5,108
Revenue after provision for credit losses		**299,505**	158,896	**561,088**	346,639
Non-interest expenses:					
Compensation and benefits		**59,707**	40,067	**118,069**	76,839
Other		**67,323**	38,209	**135,509**	76,370
		127,030	78,276	**253,578**	153,209
Income before income taxes		**172,475**	80,620	**307,510**	193,430
Income taxes:	12				
Current		**26,612**	22,091	**55,263**	45,607
Deferred		**14,938**	(307)	**21,803**	1,040
		41,550	21,784	**77,066**	46,647
Net income		**130,925**	58,836	**230,444**	146,783
Dividends on preferred shares		**2,331**	1,086	**4,649**	2,175
Net income available to common shareholders		**128,594**	57,750	**225,795**	144,608
Earnings per share:	17				
Basic		**3.41**	1.69	**6.00**	4.24
Diluted		**3.39**	1.67	**5.95**	4.19

See accompanying notes to the interim Consolidated Financial Statements.

(1) Effective January 1, 2023, EQB changed the presentation of the line items under the non-interest revenue (refer to Note 2(g)). Prior period presentation has been updated accordingly. (2) The grouping for certain gains reported under Net gains (losses) on loans and investments in Q1, has been changed to Fees and other income in Q2. Prior period grouping has not been changed.

Consolidated statement of comprehensive income (unaudited)

($000s)	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Net income	**130,925**	58,836	**230,444**	146,783
Other comprehensive income – items that will be reclassified subsequently to income:				
Debt instruments at Fair Value through Other Comprehensive Income:				
Reclassification of losses from AOCI on sale of investment	**-**	(926)	**-**	(926)
Net unrealized losses from change in fair value	**(31,474)**	(8,011)	**(17,584)**	(29,380)
Reclassification of net losses to income	**32,302**	2,729	**21,180**	5,006
Other comprehensive income – items that will not be reclassified subsequently to income:				
Equity instruments designated at Fair Value through Other Comprehensive Income:				
Net unrealized losses from change in fair value	**(30,989)**	(5,278)	**(31,782)**	(6,703)
Reclassification of net losses to retained earnings	**4,936**	1,836	**4,914**	3,045
	(25,225)	(9,650)	**(23,272)**	(28,958)
Income tax recovery	**7,005**	2,531	**6,464**	7,594
	(18,220)	(7,119)	**(16,808)**	(21,364)
Cash flow hedges:				
Net unrealized gains from change in fair value	**28,856**	19,668	**13,040**	45,909
Reclassification of net (gains) losses to income	**(11,082)**	1,944	**(11,704)**	2,373
	17,774	21,612	**1,336**	48,282
Income tax expense	**(4,936)**	(5,667)	**(382)**	(12,660)
	12,838	15,945	**954**	35,622
Total other comprehensive (loss) income	**(5,382)**	8,826	**(15,854)**	14,258
Total comprehensive income	**125,543**	67,662	**214,590**	161,041

See accompanying notes to the interim Consolidated Financial Statements.

Consolidated statement of changes in shareholders' equity (unaudited)

($000s) Three month period ended								June 30, 2023
					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	181,411	463,862	12,002	1,954,394	30,132	(31,166)	(1,034)	2,610,635
Net Income	-	-	-	130,925	-	-	-	130,925
Realized Loss on Sale of investment securities	-	-	-	(3,565)	-	-	-	(3,565)
Other comprehensive income, net of tax	-	-	-	-	12,838	(18,220)	(5,382)	(5,382)
Exercise of stock options	-	2,707	-	-	-	-	-	2,707
Dividends:								
Preferred shares	-	-	-	(2,331)	-	-	-	(2,331)
Common shares	-	-	-	(13,945)	-	-	-	(13,945)
Stock-based compensation	-	-	808	-	-	-	-	808
Transfer relating to the exercise of stock options	-	142	(142)	-	-	-	-	-
Balance, end of period	181,411	466,711	12,668	2,065,478	42,970	(49,386)	(6,416)	2,719,852

($000s) Three month period ended								June 30, 2022
Balance, beginning of period	70,607	232,854	9,357	1,727,169	20,357	(22,508)	(2,151)	2,037,836
Net Income	-	-	-	58,836	-	-	-	58,836
Realized Loss on Sale of investment securities	-	-	-	(1,355)	-	(684)	(684)	(2,039)
Other comprehensive income, net of tax	-	-	-	-	15,945	(7,119)	8,826	8,826
Exercise of stock options	-	1,463	-	-	-	-	-	1,463
Purchase of treasury preferred shares	(183)	-	-	-	-	-	-	(183)
Net loss on cancellation of treasury preferred shares	-	-	-	(6)	-	-	-	(6)
Dividends:								
Preferred shares	-	-	-	(1,086)	-	-	-	(1,086)
Common shares	-	-	-	(9,900)	-	-	-	(9,900)
Stock-based compensation	-	-	804	-	-	-	-	804
Transfer relating to the exercise of stock options	-	55	(55)	-	-	-	-	-
Balance, end of period	70,424	234,372	10,106	1,773,658	36,302	(30,311)	5,991	2,094,551

See accompanying notes to the Interim Consolidated Financial Statements.

Consolidated statement of changes in shareholders' equity (unaudited)

($000s) Six month period ended								**June 30, 2023**
					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	**181,411**	**462,561**	**11,445**	**1,870,100**	**42,016**	**(32,578)**	**9,438**	**2,534,955**
Net Income	**-**	**-**	**-**	**230,444**	**-**	**-**	**-**	**230,444**
Realized loss on sale of investment securities	**-**	**-**	**-**	**(3,294)**	**-**	**-**	**-**	**(3,294)**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**954**	**(16,808)**	**(15,854)**	**(15,854)**
Exercise of stock options	**-**	**6,470**	**-**	**-**	**-**	**-**	**-**	**6,470**
Share issuance cost, net of tax	**-**	**(2,908)**	**-**	**-**	**-**	**-**	**-**	**(2,908)**
Dividends:								
Preferred shares	**-**	**-**	**-**	**(4,649)**	**-**	**-**	**-**	**(4,649)**
Common shares	**-**	**-**	**-**	**(27,123)**	**-**	**-**	**-**	**(27,123)**
Stock-based compensation	**-**	**-**	**1,811**	**-**	**-**	**-**	**-**	**1,811**
Transfer relating to the exercise of stock options	**-**	**588**	**(588)**	**-**	**-**	**-**	**-**	**-**
Balance, end of period	**181,411**	**466,711**	**12,668**	**2,065,478**	**42,970**	**(49,386)**	**(6,416)**	**2,719,852**

($000s) Six month period ended								June 30, 2022
Balance, beginning of period	70,607	230,160	8,693	1,650,757	680	(8,263)	(7,583)	1,952,634
Net Income	-	-	-	146,783	-	-	-	146,783
Realized loss on sale of investment securities	-	-	-	(2,251)	-	(684)	(684)	(2,935)
Other comprehensive income, net of tax	-	-	-	-	35,622	(21,364)	14,258	14,258
Exercise of stock options	-	3,867	-	-	-	-	-	3,867
Purchase of treasury preferred shares	(183)	-	-	-	-	-	-	(183)
Net loss on cancellation of treasury preferred shares	-	-	-	(6)	-	-	-	(6)
Dividends:								
Preferred shares	-	-	-	(2,175)	-	-	-	(2,175)
Common shares	-	-	-	(19,450)	-	-	-	(19,450)
Stock-based compensation	-	-	1,758	-	-	-	-	1,758
Transfer relating to the exercise of stock options	-	345	(345)	-	-	-	-	-
Balance, end of period	70,424	234,372	10,106	1,773,658	36,302	(30,311)	5,991	2,094,551

See accompanying notes to the Consolidated Financial Statements.

Consolidated statement of cash flows (unaudited)

($000s)	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**130,925**	58,836	**230,444**	146,783
Adjustments for non-cash items in net income:				
Financial instruments at fair value through income	**56,610**	3,103	**18,184**	1,376
Amortization of premiums/discount on investments	**2,439**	330	**4,223**	630
Amortization of capital assets and intangible costs	**11,919**	9,211	**24,163**	18,044
Provision for credit losses	**13,042**	5,233	**19,290**	5,108
Securitization gains	**(13,690)**	(1,620)	**(26,435)**	(6,248)
Stock-based compensation	**808**	804	**1,811**	1,758
Dividend income earned, not received	**(27,964)**	-	**(27,964)**	-
Income taxes	**41,550**	21,784	**77,066**	46,647
Securitization retained interests	**22,055**	12,742	**41,912**	25,160
Changes in operating assets and liabilities:				
Restricted cash	**(203,717)**	(108,652)	**(132,591)**	(95,119)
Securities purchased under reverse repurchase agreements	**(476,322)**	(420,009)	**(1,008,498)**	130,021
Loans receivable, net of securitizations	**(943,719)**	(2,000,934)	**(997,836)**	(3,344,734)
Other assets	**(65,068)**	3,162	**(91,517)**	(1,105)
Deposits	**549,817**	1,493,378	**1,053,768**	2,903,026
Securitization liabilities	**89,135**	401,333	**373,523**	(227)
Obligations under repurchase agreements	**(28,940)**	(65,709)	**210,411**	(562,269)
Funding facilities	**718,291**	386,805	**247,304**	511,252
Subscription receipts	**-**	435	**-**	230,821
Other liabilities	**57,750**	(33,605)	**6,635**	13,092
Income taxes paid	**(34,342)**	(28,616)	**(81,859)**	(93,658)
Cash flows used in operating activities	**(99,421)**	(261,989)	**(57,966)**	(69,642)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of common shares	**2,707**	1,463	**3,562**	3,867
Dividends paid on preferred shares	**(2,331)**	(1,086)	**(4,649)**	(2,176)
Dividends paid on common shares	**(13,945)**	(9,900)	**(27,123)**	(19,450)
Cash flows used in financing activities	**(13,569)**	(9,523)	**(28,210)**	(17,759)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**(162,220)**	(926)	**(709,528)**	(58,826)
Proceeds on sale or redemption of investments	**374,215**	122,300	**762,277**	233,768
Net change in Canada Housing Trust re-investment accounts	**(58,762)**	(21,882)	**(67,579)**	(295,103)
Purchase of capital assets and system development costs	**(12,372)**	(13,752)	**(20,608)**	(26,180)
Cash flows from (used in) investing activities	**140,861**	85,740	**(35,438)**	(146,341)
Net increase (decrease) in cash and cash equivalents	**27,871**	(185,772)	**(121,614)**	(233,742)
Cash and cash equivalents, beginning of period	**345,621**	725,281	**495,106**	773,251
Cash and cash equivalents, end of period	**373,492**	539,509	**373,492**	539,509
Cash flows from operating activities include:				
Interest received	**743,478**	289,106	**1,233,302**	560,154
Interest paid	**(432,654)**	(143,009)	**(667,566)**	(265,080)
Dividends received	**1,022**	899	**2,063**	2,170

See accompanying notes to the Consolidated Financial Statements.

Notes to Consolidated Financial Statements

($000s, except per share amounts)

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of compliance

These interim Consolidated Financial Statements of EQB have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and International Accounting Standard 34, *Interim Financial Reporting* (IAS 34) 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 EQB's 2022 annual audited Consolidated Financial Statements.

EQB has a 100% ownership interest in Equitable Bank. Equitable Bank is the parent company of its wholly owned subsidiaries, Equitable Trust, Concentra Bank, Concentra Trust, Bennington Financial Services, EQB Covered Bond (Legislative) GP Inc., and EQB Covered Bond (Legislative) Guarantor Limited Partnership. All these subsidiaries have been consolidated in these interim Consolidated Financial Statements as at June 30, 2023.

These interim Consolidated Financial Statements were approved for issuance by EQB's Board of Directors on August 1, 2023.

(b) Basis of measurement

The interim Consolidated Financial Statements have been prepared on a 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 EQB 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 interim 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 interim 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 EQB's interim Consolidated Financial Statements affect the assessment of the allowance for credit losses on loans, impairment of goodwill and 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, fair values of net identifiable assets acquired, liabilities assumed and intangible assets recognized in a business combination, and income taxes.

In making estimates and judgments, management uses external information and observable market inputs where possible, supplemented by internal analysis as required. These estimates and judgments have been made taking into consideration the economic impact of the current market volatility and uncertainty due continued geopolitical unrest, the interest rate environment, and inflationary pressures. Actual results could differ materially from these estimates, in which case the impact would be recognized in the interim Consolidated Financial Statements in future periods.

Allowance for credit losses under IFRS 9

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

As a result of ongoing geopolitical unrest, the current interest rate environment, and inflationary pressures, the macroeconomic environment continues to experience volatility and uncertainty. This has resulted in a direct impact on forward-looking macroeconomic variables which management uses as part of its underlying assumptions for calculating ECL. Management has used the latest forward-looking macroeconomic variables provided by Moody's Analytics economic forecasting services for calculating ECL. Please refer to note 8(d).

Fair values of assets, liabilities and Intangible assets on Concentra Bank's acquisition

On November 1, 2022, EQB acquired 100% ownership in Concentra Bank (Concentra) by paying $495,369 in purchase consideration and recognized assets, liabilities, intangible assets and goodwill on its Balance Sheet (Refer note 5). For the loans and receivables acquired and deposit liabilities assumed, management has carried out valuation adjustments to principal book values by applying an income approach that requires the cash flows relating to the financial instruments to be discounted to present value at prevailing market interest rates at the valuation date. In determining these cash flows, management has exercised significant judgment in determining estimates relating to liquidation rates, prepayment rates and repricing adjustments, including credit spreads.

EQB has recognized some of Concentra's core deposits and Trust relationships as intangible assets. Core deposits are expected to provide a stable, low-cost source of funding to EQB, and existing Trust relationships with credit unions and individual trust clients will provide a new source of revenue and generate new clients for EQB by generating trust income. The valuation of core deposit intangibles asset are carried out using the differential income approach, being the difference between the cost of funds for the acquired deposits and the cost of funds from alternative sources (deposit spread). The valuation of core deposit intangible assets requires management to make significant judgments and estimates relating to cash flow discount rates and deposit spreads.

(e) Consolidation

The interim Consolidated Financial Statements as at and for the three and six months ended June 30, 2023 and June 30, 2022 include the assets, liabilities and results of operations of EQB and its subsidiaries, after the elimination of intercompany transactions and balances. EQB has control over its subsidiaries as it is exposed to and has rights to variable returns from its involvement with the subsidiaries and it has the ability to affect those returns through its power over their relevant activities.

(f) Change in presentation – Deferred taxes

Effective January 1, 2023, EQB has changed the presentation of its Deferred tax assets and liabilities. The net deferred tax assets and liabilities at the group level are now presented separately for each legal entity, and are netted at the legal entity level. The change in presentation is prospective, as the comparative prior period balances were immaterial.

(g) Change in presentation non-interest revenue

Effective January 1, 2023, EQB has changed the presentation of the line items under its Non-interest revenue in the interim Consolidated Statement of Income. In prior periods, EQB presented three line items under its Non-interest revenue i.e. “Fees and other income”, “Net gains (losses) on loans and investments”, and “Gains on securitization activities and income from securitization retained interests”. EQB will now present four line items under its Non-interest revenue as presented in the interim Consolidated Statement of Income. The comparative balances have been updated accordingly. The change in presentation does not constitute a restatement.

Note 3 – Significant Accounting Policies

The significant accounting policies applied by EQB in these interim Consolidated Financial Statements are the same as those applied by EQB as at and for the year ended December 31, 2022, as described in Note 3 of the audited Consolidated Financial Statements in EQB’s 2022 Annual Report.

Note 4 – Risk Management

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

A discussion of EQB’s risk exposures and how it manages those risks can be found in the Risk Management section of the Management’s Discussion & Analysis of EQB’s 2022 Annual Report and the 2023 second quarter report.

Note 5 – Business Combination

On November 1, 2022, EQB acquired 100% ownership in Concentra, Canada’s 13th largest Schedule I bank. Concentra is domiciled in Canada and is regulated by OSFI. Concentra provides commercial and retail banking and trust services to Canadian credit unions and retail and commercial clients. Concentra has also been providing fiduciary and trustee services for over 65 years to registered plans, corporate trusts and personal trusts and estates through its federally regulated subsidiary, Concentra Trust. EQB’s acquisition of Concentra accelerates its growth, diversifies its funding and revenue sources, and provides a strong growth platform to serve the Credit Unions.

EQB paid $495,369 in purchase consideration for the acquisition and recognized goodwill of $40,651. The purchase price was financed through a combination of new equity issuance of $230,000 via subscription receipts and a $275,000 draw down from an unsecured Term Loan facility from a consortium of Schedule I banks (refer to note 13). The purchase price consideration is subject to final closing purchase price adjustments. The purchase price allocation may be refined as EQB 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:

($000s)	November 1, 2022
Assets:	
Cash and cash equivalents	**56,280**
Restricted cash	**81,872**
Investments	**1,238,591**
Loans – Personal	**7,534,498**
Loans – Commercial	**1,080,093**
Securitization retained interests	**74,526**
Other assets	**167,585**
	10,233,445
Liabilities:	
Deposits	**6,699,826**
Securitization liabilities	**2,733,001**
Preferred shares	**110,988**
Deferred tax liabilities	**97,073**
Funding facilities	**79,107**
Other liabilities	**75,345**
	9,795,340
Fair value of identifiable net assets acquired	**438,105**
Intangible assets recognized	**23,000**
Deferred tax on intangible assets	**(6,387)**
Goodwill	**40,651**
Total purchase consideration	**495,369**

Goodwill of $40,651 comprises the value of expected synergies arising from the acquisition, mainly pertaining to accelerated growth in the asset base, diversified revenue through new services and distribution, and new sources of funding that have not been separately recognized as an intangible asset. The core deposit base acquired as part of the acquisition that provides long term, stable, low-cost source of funds to EQB has been separately recognized as an intangible asset. Some other deposit sources with higher interest rates and potential lack of stability as a long-term funding source have not been included as part of the core deposit base for being separately recognized as an intangible asset. None of the goodwill recognized is expected to be deductible for income tax purposes.

Note 6 – Financial Instruments

EQB's business activities result in a interim Consolidated Balance Sheets that consist primarily of financial instruments. The majority of EQB'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 carrying value due to their short term nature.

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

(ii) Financial instruments classified as at Fair Value through Other Comprehensive Income (FVOCI) and Fair value through Profit and Loss (FVTPL)

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

(iii) Loans receivable

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

(iv) Deposits

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

(v) Securitization liabilities

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

(vi) Derivatives

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

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at June 30, 2023 and December 31, 2022. The tables do not include assets and liabilities that are not financial instruments.

($000s)						June 30, 2023
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	-	-	-	373,492	373,492	373,492
Restricted cash	-	-	-	870,247	870,247	870,247
Securities purchased under reverse repurchase agreements	-	-	-	1,208,930	1,208,930	1,208,930
Investments	195,874	1,706,537	68,180	264,939	2,235,530	2,211,531
Loans – Personal	-	-	-	32,333,611	32,333,611	31,720,619
Loans – Commercial(1)	825,582	-	-	12,987,654	13,813,236	13,616,634
Securitization retained interests	-	-	-	474,542	474,542	464,133
Other assets:						
Derivative financial instruments(2):						
Interest rate swaps	171,732	-	-	-	171,732	171,732
Cross-currency interest rate swaps	34,489	-	-	-	34,489	34,489
Total return swaps	11,384	-	-	-	11,384	11,384
Bond forwards	16,355	-	-	-	16,355	16,355
Foreign exchange forwards	424	-	-	-	424	424
Other	-	-	-	79,806	79,806	79,806
Total financial assets	1,255,840	1,706,537	68,180	48,593,221	51,623,778	50,779,776
Financial liabilities:						
Deposits	-	-	-	32,137,347	32,137,347	31,832,540
Securitization liabilities	-	-	-	15,397,103	15,397,103	14,851,056
Obligations under repurchase agreements	-	-	-	875,718	875,718	875,718
Funding facilities	-	-	-	1,494,482	1,494,482	1,494,482
Other liabilities:						
Derivative financial instruments(2):						
Interest rate swaps	136,223	-	-	-	136,223	136,223
Cross-currency interest rate swaps	56,551	-	-	-	56,551	56,551
Total return swaps	5,650	-	-	-	5,650	5,650
Bond forwards	3,643	-	-	-	3,643	3,643
Foreign exchange forwards	4,490	-	-	-	4,490	4,490
Loan commitments	3,774	-	-	-	3,774	3,774
Other	-	-	-	319,126	319,126	319,126
Total financial liabilities	210,331	-	-	50,223,776	50,434,107	49,583,253

(1) Loans – Commercial does not include $1,290,283 (December 31, 2022 – $1,196,033) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9. (2) Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

($000s)						December 31, 2022
	FVTPL – Mandatorily	FVOCI – Debt instruments	FVOCI – Equity instruments	Amortized cost	Total carrying value	Fair value
Financial assets:						
Cash and cash equivalents	-	-	-	495,106	495,106	495,106
Restricted cash	-	-	-	737,656	737,656	737,656
Securities purchased under reverse repurchase agreements	-	-	-	200,432	200,432	200,432
Investments	209,486	1,781,445	60,168	238,519	2,289,618	2,287,200
Loans – Personal	-	-	-	31,996,950	31,996,950	31,386,026
Loans – Commercial(1)	431,107	-	-	12,886,125	13,317,232	13,116,633
Securitization retained interests	-	-	-	373,455	373,455	364,806
Other assets:						
Derivative financial instruments(2):						
Interest rate swaps	166,601	-	-	-	166,601	166,601
Cross-currency interest rate swaps	38,982	-	-	-	38,982	38,982
Total return swaps	14,513	-	-	-	14,513	14,513
Bond forwards	9,579	-	-	-	9,579	9,579
Foreign exchange forwards	5,744	-	-	-	5,744	5,744
Other	-	-	-	27,542	27,542	27,542
Total financial assets	876,012	1,781,445	60,168	46,955,785	49,673,410	48,850,820
Financial liabilities:						
Deposits	-	-	-	31,051,813	31,051,813	30,742,559
Securitization liabilities	-	-	-	15,023,627	15,023,627	14,546,013
Obligations under repurchase agreements	-	-	-	665,307	665,307	665,064
Other liabilities:						
Derivative financial instruments(2):						
Interest rate swaps	161,623	-	-	-	161,623	161,623
Cross-currency interest rate swaps	48,514	-	-	-	48,514	48,514
Total return swaps	7,267	-	-	-	7,267	7,267
Bond forwards	258	-	-	-	258	258
Foreign exchange forwards	2,157	-	-	-	2,157	2,157
Loan commitments	935	-	-	-	935	935
Funding facilities	-	-	-	1,247,010	1,247,010	1,247,008
Other	-	-	-	334,458	334,458	333,458
Total financial liabilities	220,754	-	-	48,322,215	48,542,969	47,754,856

(1) Loans – Commercial does not include $1,290,283 (December 31, 2022 – $1,196,033) of Finance leases, as these are specifically excluded for classification and measurement under IFRS 9. (2) Derivative financial instruments are non-trading, and include derivatives held in hedge accounting relationships.

(b) Fair value hierarchy

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

The fair value hierarchy has the following levels:

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

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

Level 3: valuation techniques with significant unobservable market inputs.

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

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

($000s) **June 30, 2023**	**Level 1**	**Level 2**	**Level 3**	**Total financial assets/financial liabilities at fair value**
Financial assets:				
Investments	**1,658,961**	**483,125**	**69,445**	**2,211,531**
Loans – Personal	**-**	**-**	**31,720,619**	**31,720,619**
Loans – Commercial	**-**	**825,582**	**12,791,052**	**13,616,634**
Securitization retained interests	**-**	**464,133**	**-**	**464,133**
Other assets:				
Derivative financial instruments(1):				
Interest rate swaps	**-**	**171,732**	**-**	**171,732**
Cross-currency interest rate swaps	**-**	**34,489**	**-**	**34,489**
Total return swaps	**-**	**964**	**10,420**	**11,384**
Foreign exchange forwards	**-**	**424**	**-**	**424**
Bond forwards	**-**	**16,355**	**-**	**16,355**
Other	**-**	**79,806**	**-**	**79,806**
Total financial assets	**1,658,961**	**2,076,610**	**44,591,536**	**48,327,107**
Financial liabilities:				
Deposits	**-**	**31,832,540**	**-**	**31,832,540**
Securitization liabilities	**-**	**12,445,364**	**2,405,692**	**14,851,056**
Subscription receipts	**-**	**1,494,482**	**-**	**1,494,482**
Funding Facilities				
Other liabilities:				
Derivative financial instruments(1):				
Interest rate swaps	**-**	**136,223**	**-**	**136,223**
Cross-currency interest rate swaps	**-**	**56,551**	**-**	**56,551**
Total return swaps	**-**	**595**	**5,055**	**5,650**
Bond forwards	**-**	**3,643**	**-**	**3,643**
Foreign exchange forwards	**-**	**4,490**	**-**	**4,490**
Loan Commitments	**-**	**-**	**3,774**	**3,774**
Other	**-**	**319,126**	**-**	**319,126**
Total financial liabilities	**-**	**46,293,014**	**2,414,521**	**48,707,535**

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

($000s) December 31, 2022	Level 1	Level 2	Level 3	Total financial assets/financial liabilities at fair value
Financial assets:				
Investments	1,200,491	1,025,210	61,499	2,287,200
Loans – Personal	-	-	31,386,026	31,386,026
Loans – Commercial	-	431,107	12,685,526	13,116,633
Securitization retained interests	-	364,806	-	364,806
Other assets:				
Derivative financial instruments(1):				
Interest rate swaps	-	166,601	-	166,601
Cross currency interest rate swaps	-	38,982	-	38,982
Total return swaps	-	-	14,513	14,513
Bond forwards	-	9,579	-	9,579
Foreign exchange forwards	-	5,744	-	5,744
Other	-	27,542	-	27,542
Total financial assets	1,200,491	2,069,571	44,147,564	47,417,626
Financial liabilities:				
Deposits	-	30,742,559	-	30,742,559
Securitization liabilities	-	12,375,544	2,170,469	14,546,013
Other liabilities:				
Derivative financial instruments(1):				
Interest rate swaps	-	161,623	-	161,623
Cross-currency interest rate swaps	-	48,514	-	48,514
Total return swaps	-	2,670	4,597	7,267
Bond forwards	-	258	-	258
Foreign exchange forwards	-	2,157	-	2,157
Loan Commitments	-	-	935	935
Funding facilities	-	1,247,008	-	1,247,008
Other	-	334,458	-	334,458
Total financial liabilities	-	44,914,791	2,176,001	47,090,792

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

Note 7 – Investments

Carrying value of investments is as follows:

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Equity securities measured at FVOCI	**68,180**	60,168	62,372
Equity securities measured at FVTPL	**14,122**	21,274	18,271
Debt securities measured at FVOCI	**1,706,537**	1,781,445	454,218
Debt securities measured at FVTPL	**181,752**	188,212	181,943
Debt securities measured at AMC	**264,939**	238,519	380,200
	2,235,530	2,289,618	1,097,004

EQB has elected to designate certain Equity securities to be measured at FVOCI as these investments are expected to be held for the long term. For the period ended June 30, 2023, EQB earned dividends of $29,624 (June 30, 2022 − $1,686) on these Equity securities. During the period, EQB redeemed/sold Equity securities of $12,798 (June 30, 2022 − $24,165) and recognized a loss on sale of $4,914 (June 30, 2022 − $3,045) in Retained earnings.

As at June 30, 2023 EQB had a commitment to invest $22,933 (June 30, 2022 − $25,892) in certain investment securities measured at FVTPL.

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

($000s)	**June 30, 2023**	June 30, 2022
Equity securities measured at FVOCI	**(26,868)**	(3,658)
Equity securities measured at FVTPL	**(139)**	(20,104)
Debt securities measured at FVOCI	**10,538**	(25,300)
Debt securities measured at FVTPL	**(1,077)**	(7,594)

Note 8 – Loans Receivable

(a) Loans receivable

($000s)						**June 30, 2023**
	Gross amount	**Allowance for credit losses**				**Net amount**
		Stage 1	**Stage 2**	**Stage 3**	**Total**	
Loans – Personal	**32,386,644**	**30,138**	**18,356**	**4,539**	**53,033**	**32,333,611**
Loans – Commercial	**15,160,766**	**28,293**	**22,174**	**6,780**	**57,247**	**15,103,519**
	47,547,410	**58,431**	**40,530**	**11,319**	**110,280**	**47,437,130**

($000s)						December 31, 2022
	Gross amount	Allowance for credit losses				Net amount
		Stage 1	Stage 2	Stage 3	Total	
Loans – Personal	32,041,682	28,303	13,432	2,997	44,732	31,996,950
Loans – Commercial	14,565,315	23,430	24,766	3,854	52,050	14,513,265
	46,606,997	51,733	38,198	6,851	96,782	46,510,215

($000s)						June 30, 2022
	Gross amount	Allowance for credit losses				Net amount
		Stage 1	Stage 2	Stage 3	Total	
Loans – Personal	24,134,289	5,171	6,281	534	11,986	24,122,303
Loans – Commercial	12,163,123	24,252	12,981	2,421	39,654	12,123,469
	36,297,412	29,423	19,262	2,955	51,640	36,245,772

Loans – Personal include certain uninsured residential loans with a carrying value of $2,640,508 (December 31, 2022 – $1,576,832, June 30, 2022 – $1,251,412) that have been sold but are not derecognized. Equitable Bank issues Euro denominated covered bonds in Europe by securitizing uninsured residential loans on properties in Canada. These uninsured residential loans are sold and held in a separate guarantor entity i.e. EQB Covered Bond (Legislative) Guarantor Limited Partnership (Guarantor LP), established by Equitable Bank exclusively for the Covered Bonds Program (the Program). The legal title on the uninsured residential loans that are secured under the Program are held by the Guarantor LP. The residential loans sold to the Guarantor LP under the Program do not qualify for derecognition as Equitable Bank continues to be exposed to substantially all of the risks and rewards associated with the transferred assets and retains control of the assets. A key risk associated with transferred loans to which Equitable Bank remains exposed after the transfer in the Program is the risk of prepayment. As a result, the loans continue to be recognized on EQB's interim Consolidated Balance Sheet at amortized cost and are accounted for as collateral for the secured funding arrangement, with the corresponding liability presented under Deposits.

As at June 30, 2023, Loans – Commercial include certain loans measured at FVTPL with changes in fair value included in gains on securitization activities and derivatives. As at June 30, 2023, the carrying value of these loans was $824,784 (December 31, 2022 – $430,253, June 30, 2022 – $364,491) and included fair value adjustment of ($2,754) (December 31, 2022 – ($2,555), June 30, 2022 – ($15,618)).

Loans – Commercial also include certain loans measured at FVTPL with changes in fair value included in Non-interest revenue in the Consolidated Statement of Income. As at June 30, 2023, the carrying amount of these loans was $798 (December 31, 2022 – $854, June 30, 2022 – $908) and included fair value adjustment of ($82) (December 31, 2022 – ($81), June 30, 2022 – ($78)).

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

($000s)	**June 30, 2023**	June 30, 2022
Net losses in fair values for loans measured at FVTPL included in gains on securitization activities	**(4,313)**	(12,123)
Net gains (losses) in fair values for loans measured at FVTPL and recognized in net gains or losses on loans and investments	**-**	1

Loans – Commercial include loans of $762,841 (December 31, 2022 – $774,377, June 30, 2022 – $671,669) invested in certain asset-backed structured entities. EQB holds a senior position in these investments and the maximum exposure to loss is limited to the carrying value of the investment. EQB 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, EQB does not control these structured entities and has not consolidated them.

Loans – Commercial also include EQB's net investment in equipment financing of $1,290,282 (December 31, 2022 – $1,196,033, June 30, 2022 – $883,914).

At June 30, 2023, EQB had commitments to fund a total of $5,335,828 (December 31, 2022 − $4,255,117, June 30, 2022 – $3,855,188) loans in the ordinary course of business.

(b) Impaired and past due loans

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

($000s)			**June 30,2023**	December 31, 2022	June 30, 2022
	Gross(1)	**Allowance for credit losses**	**Net**	Net	Net
Loans – Personal	**83,465**	**4,539**	**78,926**	49,154	16,482
Loans – Commercial – Conventional and Insured	**125,911**	**3,052**	**122,859**	62,170	28,435
Loans – Commercial – Equipment financing	**23,921**	**3,728**	**20,193**	20,338	19,856
	233,297	**11,319**	**221,978**	131,662	64,773

(1) Gross balances include insured loan balances of $9,691 (December 31, 2022 − $11,332, June 30, 2022 – $5,273).

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

($000s)				**June 30, 2023**
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Loans – Personal	**130,109**	**46,778**	**3,789**	**180,676**
Loans – Commercial – Conventional and Insured	**41,760**	**16,789**	**-**	**58,549**
Loans – Commercial – Finance Leases	**27,942**	**12,053**	**-**	**39,995**
	199,811	**75,620**	**3,789**	**279,220**

($000s)				December 31, 2022
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Personal	75,685	21,843	3,729	101,257
Loans – Commercial – Conventional and Insured	1,820	4,096	-	5,916
Loans – Commercial – Finance Leases	13,186	3,508	-	16,694
	90,691	29,447	3,729	123,867

($000s)				June 30, 2022
	30 – 59 days	60 – 89 days	90 days or more	Total
Loans – Personal	33,940	13,197	-	47,137
Loans – Commercial – Conventional and Insured	12,030	-	-	12,030
Loans – Commercial – Finance Leases	6,116	4,605	-	10,721
	52,086	17,802	-	69,888

(c) Allowance for credit losses

($000s)				**June 30, 2023**
	12 months ECL	**Lifetime non-credit impaired**	**Lifetime credit impaired**	
Loans – Personal	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of period	**28,303**	**13,432**	**2,997**	**44,732**
Provision for credit losses:				
Transfers to (from) Stage 1	**2,427**	**(2,368)**	**(59)**	**-**
Transfers to (from) Stage 2	**(5,308)**	**5,912**	**(604)**	**-**
Transfers to (from) Stage 3	**(1,091)**	**(8,351)**	**9,442**	**-**
Re-measurement[(1)]	**3,299**	**11,213**	**(6,342)**	**8,170**
Originations	**5,245**	**-**	**-**	**5,245**
Discharges	**(2,737)**	**(1,482)**	**-**	**(4,219)**
Realized losses	**-**	**-**	**(1,499)**	**(1,499)**
Recoveries	**-**	**-**	**604**	**604**
Balance, end of period	**30,138**	**18,356**	**4,539**	**53,033**

($000s)				**June 30, 2023**
	12 months ECL	**Lifetime non-credit impaired**	**Lifetime credit impaired**	
Loans – Commercial	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of period	**23,430**	**24,766**	**3,854**	**52,050**
Provision for credit losses:				
Transfers to (from) Stage 1	**8,504**	**(8,471)**	**(33)**	**-**
Transfers to (from) Stage 2	**(2,925)**	**2,969**	**(44)**	**-**
Transfers to (from) Stage 3	**(412)**	**(1,302)**	**1,714**	**-**
Re-measurement(1)	**(4,125)**	**6,351**	**6,977**	**9,203**
Originations	**5,726**	**-**	**-**	**5,726**
Discharges	**(1,905)**	**(2,139)**	**-**	**(4,044)**
Write-off	**-**	**-**	**(7,817)**	**(7,817)**
Realized losses	**-**	**-**	**(229)**	**(229)**
Recoveries	**-**	**-**	**2,358**	**2,358**
Balance, end of period	**28,293**	**22,174**	**6,780**	**57,247**

($000s)				June 30, 2022
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
Loans – Personal	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	6,502	4,944	632	12,078
Provision for credit losses:				
Transfers to (from) Stage 1	2,153	(1,966)	(187)	-
Transfers to (from) Stage 2	(2,048)	2,058	(10)	-
Transfers to (from) Stage 3	(4)	(11)	15	-
Re-measurement(1)	(3,059)	1,810	101	(1,148)
Originations	2,159	-	-	2,159
Discharges	(532)	(554)	-	(1,086)
Write-off	-	-	-	-
Realized losses	-	-	(71)	(71)
Recoveries	-	-	54	54
Balance, end of period	5,171	6,281	534	11,986

($000s)				June 30, 2022
	12 months ECL	Lifetime non-credit impaired	Lifetime credit impaired	
Loans – Commercial	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	21,411	13,504	1,956	36,871
Provision for credit losses:				
Transfers to (from) Stage 1	5,640	(5,109)	(531)	-
Transfers to (from) Stage 2	(1,170)	1,327	(157)	-
Transfers to (from) Stage 3	(28)	(458)	486	-
Re-measurement(1)	(5,803)	4,479	3,067	1,743
Originations	6,747	-	-	6,747
Discharges	(2,545)	(762)	-	(3,307)
Write-off	-	-	(1,841)	(1,841)
Realized losses	-	-	(571)	(571)
Recoveries	-	-	12	12
Balance, end of period	24,252	12,981	2,421	39,654

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

The Stage 1 and 2 allowance for credit losses includes allowance on loan commitments amounting to $1,574 (June 30, 2022 − $294).

(d) Key inputs, assumptions and model techniques

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

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

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

In considering the assumptions for calculating ECL, EQB has also considered the geo-political unrest, the current interest rate environment, and inflationary pressures. EQB has applied experienced credit judgment in the assessment of underlying credit deterioration and migration of balances to progressive stages.

(e) Forward-looking macroeconomic scenarios

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

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

										June 30, 2023
					Downside Scenarios					
	Base-Case Scenario		**Upside Scenario**		**Scenario 1**		**Scenario 2**		**Scenario 3**	
	Next 12 months	**2 to 5 years(1)**	**Next 12 months**	**2 to 5 years(1)**	**Next 12 months**	**2 to 5 years(1)**	**Next 12 months**	**2 to 5 years(1)**	**Next 12 months**	**2 to 5 years(1)**
Unemployment rate (%)	**5.6**	**5.5**	**4.6**	**5.0**	**6.7**	**5.9**	**7.7**	**6.4**	**9.1**	**7.3**
Real GDP growth rate (%)	**1.8**	**8.7**	**3.4**	**10.5**	**0.1**	**8.8**	**(0.5)**	**7.4**	**(1.9)**	**6.3**
Home Price Index growth rate (%)(2)	**(2.5)**	**(0.6)**	**(0.7)**	**2.6**	**(3.8)**	**(2.9)**	**(10.4)**	**(3.4)**	**(15.7)**	**(9.8)**
Commercial Property Index growth rate (%)	**(0.4)**	**2.2**	**2.0**	**4.0**	**(2.5)**	**1.5**	**(8.9)**	**2.4**	**(14.4)**	**(0.7)**
Household income growth rate (%)	**(0.6)**	**1.4**	**0.4**	**3.3**	**(1.9)**	**0.8**	**(2.8)**	**(0.7)**	**(3.7)**	**(3.0)**
Canadian Equity index %	**8.7**	**(4.6)**	**13.0**	**(5.0)**	**(2.4)**	**6.4**	**(15.2)**	**13.8**	**(34.9)**	**42.9**
West Texas Intermediate oil price %	**2.7**	**15.1**	**12.9**	**10.3**	**(16.9)**	**14.4**	**(33.4)**	**22.2**	**(41.2)**	**36.2**

(1) The value presented represents the change from the beginning of year 2 to the end of year 5. (2) The Home Price Index growth rate % used by EQB is the Moody's Analytics Home and Land Price Index.

	December 31, 2022									
					Downside Scenarios					
	Base-Case Scenario		Upside Scenario		Scenario 1		Scenario 2		Scenario 3	
	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years
Unemployment rate %	5.9	5.7	4.9	5.1	7.0	6.0	8.0	6.6	9.4	7.6
Real GDP growth rate %	0.5	8.5	2.3	10.0	(1.3)	8.7	(1.9)	7.0	(3.4)	5.7
Home Price Index growth rate %(1)	(2.0)	(2.7)	(0.1)	0.5	(3.2)	(5.1)	(10.0)	(5.8)	(15.2)	(12.2)
Commercial Property Index growth rate %	(1.5)	1.3	1.6	3.2	(4.1)	0.7	(11.9)	1.6	(18.5)	(2.0)
Household incomegrowth rate %	(2.2)	(0.6)	(1.1)	1.5	(3.5)	(1.6)	(4.6)	(2.7)	(5.8)	(4.7)
Canadian Equity index %	(4.9)	4.1	1.8	4.1	(18.2)	3.5	(29.1)	5.7	(33.7)	4.3
West Texas Intermediate oil price %	(10.2)	(5.4)	(12.9)	(4.8)	(18.2)	(2.5)	(12.3)	(4.1)	(15.0)	(2.9)

	June 30, 2022									
					Downside Scenarios					
	Base-Case Scenario		Upside Scenario		Scenario 1		Scenario 2		Scenario 3	
	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years	Next 12 months	2 to 5 years
Unemployment rate (%)	5.9	5.8	5.4	4.8	6.5	6.6	6.9	7.6	7.7	9.1
Real GDP growth rate (%)	3.3	1.9	4.2	2.6	2.7	1.7	2.5	1.2	1.9	0.4
Home Price Index growth rate (%)(1)	4.8	0.2	5.7	1.3	4.0	(0.6)	0.5	(1.7)	(2.9)	(4.0)
Commercial Property Index growth rate (%)	4.6	1.2	6.1	2.1	3.4	0.6	(0.5)	(0.4)	(4.2)	(2.2)
Household income growth rate (%)	(1.2)	0.1	(0.8)	0.8	(2.0)	(0.1)	(2.6)	(0.6)	(3.5)	(1.3)

(1) The value presented represents the change from the beginning of year 2 to the end of year 5. (2) The Home Price Index growth rate % used by EQB is the Moody's Analytics Home and Land Price Index.

(f) Sensitivity of allowance for credit losses

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

Impact of probability-weighting on ACL

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

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
ACL – Five probability-weighted macroeconomic scenarios (actual)	**98,962**	89,931	48,685
ACL – Base-case scenario only	**91,898**	84,088	45,869
ACL – Protracted slump only	**175,322**	156,576	79,343
Difference – Actual versus base-case scenario only	**7,064**	5,843	2,816
Difference – Actual versus Protracted slump only	**(76,360)**	(66,645)	(30,658)

Impact of staging on ACL

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

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
ACL – Loans in Stage 1 and Stage 2 (actual)	**98,961**	89,931	48,685
ACL – Assuming all loans in Stage 1	**87,555**	79,221	46,464
Lifetime ACL impact	**11,406**	10,710	2,221

Note 9 – Derecognition of Financial Assets

In the normal course of business, EQB 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 EQB's continuing involvement. EQB transfers its financial assets through its securitization activities and sale of assets under repurchase agreements. For further details, refer to Note 10 to the audited Consolidated Financial Statements in EQB's 2022 Annual Report.

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

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

($000s)	**June 30, 2023**		December 31, 2022		June 30, 2022	
	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	**15,950,174**	**875,718**	15,540,197	665,307	11,421,931	814,494
Carrying amount of associated liability	**15,397,103**	**875,718**	15,023,627	665,307	11,366,847	814,494
Carrying value, net position	**553,071**	**-**	516,570	-	55,084	-
Fair value of assets	**15,386,501**	**875,718**	15,068,979	665,064	11,052,201	814,494
Fair value of associated liability	**14,851,056**	**875,718**	14,546,013	665,064	10,949,557	814,494
Fair value, net position	**535,445**	**-**	522,966	-	102,644	-

The carrying amount of assets includes $nil (December 31, 2022 – $nil, June 30, 2022 – $2,385) of EQB's net investment in finance leases that were securitized and not derecognized. The carrying value of associated liability includes $nil (December 31, 2022 – $nil, June 30, 2022 – $1,226) of liabilities pertaining to finance leases securitized.

EQB's outstanding securitization liabilities are as follows:

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Securitization principal	**15,500,567**	15,127,536	11,398,553
Deferred net discount and issuance costs	**(134,041)**	(132,681)	(51,531)
Accrued interest	**30,577**	28,772	19,825
	15,397,103	15,023,627	11,366,847

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

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

($000s)	**June 30, 2023**	June 30, 2022
Loans securitized and sold	**2,626,154**	878,598
Carrying value of Securitization retained interests	**142,804**	44,285
Carrying value of Securitized loan servicing liability	**19,096**	6,562
Gains on loans securitized and sold	**26,435**	6,248
Income from securitization activities and retained interests	**4,732**	14,812

Note 10 – Other Assets

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Intangible assets	**153,109**	145,495	109,815
Prepaid expenses and other	**97,175**	42,733	22,307
Income Taxes receivable	**89,104**	12,004	530
Goodwill	**57,595**	57,595	16,944
Accrued interest and dividends on non-loan assets	**35,714**	7,559	1,616
Property and equipment	**28,026**	27,646	12,939
Right-of-use assets	**6,505**	8,529	5,771
Receivable relating to securitization activities	**2,743**	1,120	762
Real estate owned	**84**	375	-
Loan commitments	**-**	-	1,215
Derivative financial instruments:			
Interest rate swaps	**206,222**	205,583	126,170
Bond forwards	**16,355**	9,579	9,900
Total return swaps	**11,384**	14,513	18,714
Foreign exchange forwards	**424**	5,744	4,485
	704,440	538,475	331,168

Intangible assets include system, and software development costs relating to EQB's information systems, and core deposits and customer listings related intangibles recognized on acquisition of Concentra.

Note 11 – Deposits

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Term and other deposits	**31,782,661**	30,830,817	23,533,206
Fair value of acquisition	**(90,086)**	(123,751)	-
Accrued interest	**480,532**	380,628	214,753
Deferred deposit agent commissions	**(35,760)**	(35,881)	(39,001)
	32,137,347	31,051,813	23,708,958

Deposits also include $1,671,858 (December 31, 2022 – $1,245,294, June 30, 2022 – $853,175) of funding from the covered bond program. This funding is secured against $2,643,043 (December 31, 2022 – $1,577,979, June 30, 2022 – $1,252,114) of Loans – Personal.

Note 12 – Income Taxes

(a) Income tax provision:

($000s)	**June 30, 2023**	June 30, 2022
Current tax expense:		
Current year	**54,249**	43,413
Adjustments for prior years	**1,014**	2,194
	55,263	45,607
Deferred tax expense:		
Reversal of temporary differences	**22,522**	3,192
Adjustments for prior years	**(827)**	(2,162)
Changes in tax rates	**108**	10
	21,803	1,040
Total income tax expense	**77,066**	46,647

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

(Percentages)	**June 30, 2023**	June 30, 2022
Canadian statutory income tax rate	**27.3%**	26.1%
Increase (decrease) resulting from:		
Tax-exempt income	**(2.6%)**	(3.0%)
Non-deductible expenses and other	**0.4%**	1.0%
Effective income tax rate	**25.1%**	24.1%

(b) Deferred tax(1):

Net deferred income tax liabilities are comprised of:

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Deferred income tax assets:			
Allowance for credit losses	**18,203**	15,930	8,499
Other	**11,277**	6,684	4,997
Tax losses(2)	**9,421**	8,734	3,153
Leasing activities	**8,563**	9,817	-
Share issue expenses	**3,033**	2,324	-
Net loan fees	**1,314**	3,296	7,423
	51,811	46,785	24,072
Deferred income tax liabilities:			
Securitization activities	**113,765**	92,749	62,489
Intangible costs	**21,193**	19,364	9,907
Deposit agent commissions	**6,685**	7,234	7,593
Leasing activities(3)	**2,499**	-	8,263
Equipment financing activities	**-**	113	-
	144,142	119,460	88,252
Net deferred income tax liabilities	**92,331**	72,675	64,180

(1) The corresponding amounts to the change in deferred tax balances is a tax charge to Statement of Income of $21,803 and a tax recovery of $2,147 to Stockholders' Equity. (2) Deferred tax asset pertains to income tax losses of approximately $36,512 from Equitable Trust Company and Covered Bond Guarantor LP. (3) The deferred tax liability relating to leasing activities pertains to the temporary difference resulting from difference in accounting treatment versus tax treatment for finance lease receivables

Deferred income tax assets and liabilities are reflected on the Consolidated Balance Sheet as follows:

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Deferred tax assets	**14,392**	-	-
Deferred tax liabilities	**106,723**	72,675	64,180
Net deferred tax liabilities	**92,331**	72,675	64,180

Note 13 – Funding Facilities

(a) Secured funding facilities:

EQB has two credit facilities totaling $1,600,000 with major Schedule I Canadian banks to finance residential loans prior to securitization. Equitable Bank also has access to liquidity facilities sponsored by the Government of Canada, namely the Bank of Canada's Standing Term Liquidity Facility and Emergency Lending Assistance program. As at June 30, 2023, EQB had an outstanding balance of $994,690 (December 31, 2022 – $737,040, June 30, 2022 – $588,073) on facilities from the Schedule I Canadian banks. The facilities from Schedule I Canadian banks carry interest rates at 1-month CDOR plus 0.70% to 0.85%.

Concentra Bank maintains a $400,000 secured credit facility with a syndicate of major Schedule I Canadian banks to backstop issued letters of credit and for general liquidity management. The credit facility carries interest rates at Banker's Acceptance plus 0.50%. Concentra Bank also maintains $100,000 secured line of credit with SaskCentral which is used primarily for settlement and clearing purposes. The line of credit carries interest rates at Prime less 0.50%. As at June 30, 2023, Concentra Bank had an outstanding balance of $24,972 (December 31, 2022 – $nil) on the secured line of credit from SaskCentral, and there were no amounts outstanding on the credit facilities with the major Schedule I Canadian banks (December 31, 2022 – $nil).

(b) Unsecured funding facilities:

EQB has a funding agreement with a consortium of Schedule I banks for senior unsecured funding facilities comprising of a revolving facility (Revolving Facility) of up to $200,000 and a term loan facility (Term Loan) of up to $275,000. As at June 30, 2023, EQB had an outstanding balance of $467,527 (December 31, 2022 – $467,701, June 30, 2022 – $123,307) on the Revolving Facility including deferred cost of $589 (December 31, 2022 – $609, June 30, 2022 – $477), prepaid interest of $6,885 (December 31, 2022 – $6,697, June 30, 2022 – $1,216). The Revolving and Term Loan facilities carry interest rates at 1-month CDOR plus applicable margins.

Concentra Bank has established Bearer Deposit Notes (BDN) program through which it issues short-term unsecured notes. As at June 30, 2023 there was no outstanding balance for the notes issued under BDN program (December 31, 2022 – $34,963, June 30, 2022 – $nil). The interest rate on outstanding BDN issuance was 4.78% (December 31, 2022 – Ranged from 1.16% to 1.40%).

Note 14 – Other Liabilities

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
Accounts payable and accrued liabilities	**240,654**	207,651	216,037
Securitized loan servicing liability	**70,432**	58,180	39,953
Income taxes payable	**44,163**	-	-
Unearned revenue	**12,948**	2,417	1,093
Right-of-use liabilities	**8,385**	10,333	7,239
Loan realty taxes	**8,039**	57,541	3,500
Loan commitments	**3,774**	935	1,711
Derivative financial instruments:			
Interest rate swaps	**192,774**	210,137	146,840
Total return swaps	**5,650**	7,267	7,104
Foreign exchange forwards	**4,490**	2,157	191
Bond forwards	**3,643**	258	2,859
	594,952	556,876	426,527

Note 15 – Shareholder’s Equity

Normal course issuer bid (NCIB):

On December 21, 2020, EQB announced that the Toronto Stock Exchange had approved a NCIB pursuant to which EQB may repurchase for cancellation up to 2,288,490 of its common shares and 297,250 of its Series 3 – 5-year rate reset preferred shares, representing 10% of its public float of each class of shares. On December 21, 2022, the NCIB was renewed and approved by the Toronto Stock Exchange, pursuant to which EQB may repurchase for cancellation up to 3,025,798 of its common shares and 288,680 of its Series 3 – 5-year rate reset preferred shares, representing 10% of its public float of each class of shares. EQB only intends to purchase a maximum of 1,150,000 common shares under the terms of the NCIB. The actual number of preferred shares purchased under the NCIB and the timing of any such purchases will be at EQB’s discretion. During the six months ended June 30, 2023, EQB did not repurchase and cancel any of its Series 3 – 5-year rate reset preferred shares (December 31, 2022 – 88,200, at a volume weighted average price of $25.91, June 30, 2022 – 7,600 at a volume weighted average price of $24.93). No common shares have been purchased and cancelled under the NCIB.

Note 16 – Stock-based Compensation

(a) Stock-based compensation plan:

Under EQB's stock option plan, options on common shares are periodically granted to eligible participants for terms of seven years or ten years and vest over a four-year period. As at June 30, 2023, the maximum number of common shares available for issuance under the plan was 4,000,000. The outstanding options expire on various dates to May 2033. A summary of EQB's stock option activity and related information for the periods ended June 30, 2023 and June 30, 2022 is as follows:

($000s, except share, per share and stock option amounts)		**June 30, 2023**		June 30, 2022
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**1,229,851**	**49.02**	1,123,002	41.75
Granted	**195,937**	**67.07**	241,816	74.65
Exercised	**(112,160)**	**28.38**	(54,370)	32.04
Forfeited/cancelled	**(22,557)**	**74.25**	(3,271)	65.77
Outstanding, end of period	**1,291,071**	**53.11**	1,307,177	48.18
Exercisable, end of period	**752,067**	**42.87**	713,280	35.31

Under the fair value-based method of accounting for stock options, EQB has recorded compensation expense in the amount of $1,811 (June 30, 2022 – $1,758) related to grants of options under the stock option plan. This amount has been credited to Contributed surplus. The fair value of options granted during the period ended June 30, 2023 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

(Percentages, except per share amount and number of years)	**June 30, 2023**	June 30, 2022
Risk-free rate	**3.1%**	1.7%
Expected option life (years)	**5.5**	4.8
Expected volatility	**31.1%**	30.4%
Expected dividends	**2.2%**	1.8%
Weighted average fair value of each option granted	**17.90**	17.66

(b) Other stock based plans:

EQB has an Employee share purchase (ESP) plan, a Restricted share unit (RSU and PSU) plan for eligible employees, and a Deferred share unit (DSU) plan for Directors. For details on the plans, refer to Note 19 to the audited Consolidated Financial Statements in EQB's 2022 Annual Report.

Under the DSU plan, the activity for the periods ended June 30, 2023 and June 30, 2022 is as follows:

	June 30, 2023	June 30, 2022
	Number of DSUs	Number of DSUs
Outstanding, beginning of period	**145,695**	138,379
Granted	**14,169**	12,162
Dividend reinvested	**1,424**	1,211
Paid out	**(5,536)**	-
Outstanding, end of period	**155,752**	151,752

The liability associated with DSUs outstanding as at June 30, 2023 was $10,215 (June 30, 2022 – $8,214). Compensation expense, including offsetting hedges, relating to DSUs outstanding during the six months ended June 30, 2023 amounted to $1,104 (June 30, 2022 – $777).

Under EQB's RSU and PSU plan, the activity for the periods ended June 30, 2023 and June 30, 2022 is as follows:

	June 30, 2023	June 30, 2022
	Number of RSUs and PSUs	Number of RSUs and PSUs
Outstanding, beginning of period	**132,179**	131,994
Granted	**134,734**	84,122
Dividend reinvested	**3,102**	1,965
Vested and paid out	**(512)**	(310)
Forfeited/cancelled	**(7,378)**	(5,210)
Outstanding, end of period	**262,125**	212,561

The liability associated with RSUs and PSUs outstanding as at June 30, 2023 was $6,601 (June 30, 2022 – $5,450). Compensation expense, including offsetting hedges, relating to RSUs and PSUs outstanding during the six months ended June 30, 2023 amounted to $2,212 (June 30, 2022 – $1,567).

Effective January 1, 2023, EQB has granted Treasury Share Units (TSUs) to eligible employees in the form of Treasury Performance Share Units (TPSUs), under the TSU plan adopted in 2022, for a term of ten years. Under the plan, 50% of the TPSUs cliff vest after 3 years, and the remaining 50% cliff vest after 4 years, subject to performance conditions. Under the plan, each TPSU represents one notional common share and earns notional dividends, which are reinvested into additional TPSUs when cash dividends are paid on EQB's common shares. When the TPSUs vest, the eligible employee can elect to settle in shares issued from treasury, or in cash.

As at June 30, 2023, the maximum number of common shares available for issuance under the TSU plan was 300,000. The outstanding TPSUs expire in February 2033.

Under EQB's TSU plan, the activity for the periods ended June 30, 2023 and June 30, 2022 is as follows:

	June 30, 2023	June 30, 2022
	Number of TPSUs	Number of TPSUs
Outstanding, beginning of period	-	-
Granted	47,936	-
Dividend reinvested	560	-
Forfeited/cancelled	(787)	-
Outstanding, end of period	47,709	-

The liability associated with TPSUs outstanding as at June 30, 2023 was $334 (June 30, 2022 – $nil). Compensation expense, including offsetting hedges, relating to TPSUs outstanding during the six months ended June 30, 2023 amounted to $341 (June 30, 2022 – $nil).

Note 17 – 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 period, taking into account the dilution effect of stock options using the treasury stock method.

($000s, except share, per share and stock option amounts)	June 30, 2023	June 30, 2022
Earnings per common share − basic:		
Net income	230,444	146,783
Dividends on preferred shares	4,649	2,175
Net income available to common shareholders	225,795	144,608
Weighted average basic number of common shares outstanding	37,647,141	34,109,261
Earnings per common share − basic	6.00	4.24
Earnings per common share − diluted:		
Net income available to common shareholders	225,795	144,608
Weighted average basic number of common shares outstanding	37,647,141	34,109,261
Adjustment to weighted average number of common shares outstanding:		
Stock options	295,770	402,946
Weighted average diluted number of common shares outstanding	37,942,911	34,512,207
Earnings per common share − diluted	5.95	4.19

For the period ended June 30, 2023, the calculation of the diluted earnings per share excluded 635,248 (June 30, 2022 – 398,830) average options outstanding with a weighted average exercise price of $70.84 (June 30, 2022 − $72.26) as the exercise price of these options was greater than the average price of EQB's common shares during the period.

Note 18 – Capital Management

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

Equitable Bank's CET1 Ratio was 14.1% as at June 30, 2023, while Tier 1 Capital and Total Capital Ratios were 14.8% and 15.4%, respectively. Equitable Bank's Capital Ratios as at June 30, 2023 exceeded the regulatory minimums.

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

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

($000s)	**June 30, 2023**	December 31, 2022	June 30, 2022
	Revised Basel III(1)	Basel III	Basel III
Common Equity Tier 1 Capital (CET1):			
Common shares	**932,509**	928,778	353,819
Contributed surplus	**13,760**	12,537	11,198
Retained earnings	**2,035,296**	1,856,084	1,772,898
Accumulated other comprehensive loss(1)	**(50,567)**	(33,759)	(30,311)
Less: Regulatory adjustments	**(187,475)**	(170,504)	(111,370)
Common Equity Tier 1 Capital	**2,743,523**	2,593,136	1,996,234
Additional Tier 1 Capital (AT1):			
Non-cumulative preferred shares	**72,554**	183,541	72,554
Additional Tier 1 capital issued by a subsidiary to third parties (amount allowed in AT1)	**64,099**	-	-
Tier 1 Capital	**2,880,176**	2,776,677	2,068,788
Tier 2 Capital:			
Eligible stage 1 and 2 allowance	**98,963**	79,284	48,685
Additional Tier 1 capital issued by a subsidiary to third parties (amount allowed in Tier 2)	**8,311**	-	-
Less: Regulatory adjustments	**-**	-	(3,213)
Tier 2 Capital	**107,274**	79,284	45,472
Total Capital	**2,987,450**	2,855,961	2,114,260

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

Note 19 – Interest Rate Sensitivity

The following table shows EQB's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at June 30, 2023.

($000s, except percentages)								**June 30, 2023**
	Floating rate	**0 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Greater than 5 years**	**Non-interest sensitive(1)**	**Total**
Total assets	**12,545,301**	**5,346,812**	**10,430,891**	**28,323,004**	**20,903,108**	**2,715,782**	**1,376,809**	**53,318,703**
Total liabilities and shareholders' equity	**(1,181,979)**	**(16,083,411)**	**(13,826,470)**	**(31,091,860)**	**(17,482,066)**	**(1,091,850)**	**(3,652,927)**	**(53,318,703)**
Off-balance sheet items(3)	**-**	**(2,730,832)**	**4,953,901**	**2,223,069**	**(1,408,310)**	**(814,759)**	**-**	**-**
Interest rate sensitivity gap	**11,363,322**	**(13,467,431)**	**1,558,322**	**(545,787)**	**2,012,732**	**809,173**	**(2,276,118)**	**-**
Cumulative gap(2)	**11,363,322**	**(2,104,109)**	**(545,787)**	**(545,787)**	**1,466,945**	**2,276,118**	**-**	**-**
Cumulative gap as a percentage of total assets	**21.31%**	**(3.95%)**	**(1.02%)**	**(1.02%)**	**2,75%**	**4.27%**	**-%**	**-%**

($000s, except percentages)								December 31, 2022
	Floating rate	0 to 3months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive(1)	Total
Cumulative gap(2)(3)	11,743,190	312,955	(41,811)	(41,811)	1,383,478	2,271,909	-	-
Cumulative gap as a percentage of total assets	22.96%	0.61%	(0.08%)	(0.08%)	2.71%	4.44%	-%	-%

($000s, except percentages)								June 30, 2022
	Floating rate	0 to 3months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive(1)	Total
Cumulative gap(2)(3)	9,073,311	(603,401)	38,074	38,074	1,339,631	2,033,085	-	-
Cumulative gap as a percentage of total assets	23.02%	(1.53%)	0.10%	0.10%	3.40%	5.16%	-%	-%

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

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

Analyst Conference Call and Webcast
Wednesday, August 2, 2023,
8:30 a.m. EST
Live: 416.764.8609
Replay: 416.764.8677
(code 360024)
Archive: www.equitablebank.ca

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

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Dividend Reinvestment Plan

EQB's dividend reinvestment plan allows common shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage and commission fees. For information about participation in the plan, please contact the Transfer Agent and Registrar.

Eligible dividends

EQB designates all common and preferred share dividends paid to Canadian residents as "eligible dividends" as defined in the Income Tax Act (Canada), unless otherwise indicated.

Online
For product, corporate, financial and shareholder information:
www.equitablebank.ca