Equity Financial Holdings Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Ended June 30, 2013

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EQUITY FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Second Quarter Ended June 30, 2013

August 13, 2013

(all dollar amounts, except per-share amounts, are in 000s unless otherwise stated)

We have prepared this MD&A with reference to National Instrument 51-102 "*Continuous Disclosure Obligations*" of the Canadian Securities Administrators ("NI 51-102"), and it should be read in conjunction with our unaudited interim financial statements and notes thereto for the period ended June 30, 2013. This MDA should also be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2012 (the "2012 Audited Financial Statements"). Except as otherwise indicated, all financial information in this MD&A is determined in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are in Canadian dollars. Except as otherwise indicated, the information in this MD&A is current to August 13, 2013.

FORWARD-LOOKING STATEMENTS

Certain portions of this MD&A as well as other public statements by Equity Financial Holdings Inc. (the "Corporation") contain "forward-looking information" within the meaning of applicable Canadian securities legislation, which is also referred to as "forward-looking statements", which may not be based on historical fact. Wherever possible, words such as "will", "plans", "expects", "targets", continue", "estimates", "scheduled", "anticipates", "believes", "intends", "may", "could", "would", "might" or "will" have been used to identify forward-looking information. Such forward-looking statements include, without limitation, the Corporation's expectations in respect of earnings, fee income, expense levels, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets activities, the Corporation's expected need for equity or debt financing, business competition, technological change, changes in government regulations and regulatory guidelines, unexpected judicial or regulatory proceedings, catastrophic events, and the Corporation's ability to complete strategic transactions and integrate acquisitions and other factors.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate and liquidity conditions affecting the Corporation and the Canadian economy, retail mortgage markets, housing sales, and equity and capital markets, operations and financial results and assumptions relating to the Corporation's capital and financing requirements. Certain material factors or assumptions are applied by the Corporation in making forward-looking statements, including without limitation, factors and assumptions regarding interest rates, housing sales and retail mortgage borrowing activities, availability of key personnel, the effect of competition, government regulation of its business, computer failure or security breaches, future capital and funding requirements, its ability to fund its mortgage business, the value of mortgage originations, the competitive nature of the alternative mortgage market, the expected margin between the interest earned on its mortgage portfolio and the interest to be paid on its deposits, the relative continued health of real estate markets, acceptance of its products in the marketplace, as well as the Corporation's operating cost structure and the current tax regime.

Forward-looking statements reflect the Corporation's current views with respect to future events and are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. Readers should not place undue reliance on such forward-looking statements as they reflect the Corporation's current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Corporation, are inherently subject to significant business, economic, regulatory, competitive, political and social uncertainties and contingencies. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among others a significant downturn in the economy as a whole, errors or omissions by the Corporation in providing services to its customers, significant increases in the cost of complying with applicable regulatory requirements, civil unrest, economic recession, pandemics, war and acts of terrorism which may adversely impact the North American and global economic and financial markets, inability to raise funds through public or private financing in the event that the Corporation incurs operating losses or requires substantial capital investment in order to respond to unexpected competitive pressures, significant changes in interest rates, failure by Equity Financial Trust Company ("EFT") to meet ongoing regulatory obligations, failure by the Corporation to generate or obtain sufficient cash or cash equivalents in a timely manner and at a reasonable price or to meet its mortgage portfolio management practices for changing circumstances, failure by the Corporation to attract and to retain the necessary employees to meet its needs, failure by EFT to adequately monitor the services provided by third party service providers or to establish alternative arrangements if required, failure by EFT to secure sufficient deposits from securities dealers or a sufficient level of mortgage origination from its mortgage broker network, a failure of the computer systems of the Corporation or one or more of its service providers or the risks detailed from time-to-time in the Corporation's quarterly filings, annual information forms, annual reports and annual filings with securities regulators. The Corporation disclaims any intent or obligation to update or revise publicly any forward-looking statements whether as a result of new information, estimates, future events or results, or otherwise, unless required to do so by applicable laws.

Except as otherwise indicated or as the context otherwise require, the terms "we", "us" and "our" refer to the Corporation and its consolidated subsidiaries. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

DESCRIPTION OF THE BUSINESS

Equity Financial Holdings Inc. is a financial services company and we operate through our wholly-owned subsidiary Equity Financial Trust ("EFT"), offering alternative residential mortgage loans funded through the issuance of retail deposits. EFT is a deposit-taking institution regulated by the Office of the Superintendent of Financial Institutions of Canada ("OSFI") and is a member of the Canada Deposit Insurance Corporation ("CDIC"). We believe that potential new entrants to our market segment face steep regulatory barriers to entry if they wish to gain access to the retail deposit market.

Alternative residential mortgages are loans to borrowers who do not conform to major banks' standards of creditworthiness. Such mortgages are typically granted to self-employed business people, immigrants and borrowers with imperfect credit histories and are often more profitable than insured mortgages. We estimate the size of the total Canadian alternative mortgage market to be between $57 billion and $117 billion based on Statistics Canada data and we believe this market is underserved by existing lenders relative to the size of the opportunity. EFT's mortgage loan portfolio currently consists of single family dwellings in the Greater Golden Horseshoe area and Greater Ottawa area.

EFT sources its loans through mortgage brokers, who collectively originate approximately 30% of Canada's residential mortgages, and uses securities dealers and their networks of investment advisors to generate deposits. We estimate the potential supply of retail deposits accessible through the investment dealer distribution channel is equal to the size of the alternative mortgage market; thus ample liquidity is available for CDIC members.

For a full description of the Corporation's organizational structure and our continuing and discontinued business lines please refer to our Management Discussion & Analysis for the year ended December 31, 2012.

THE TRANSACTION

On April 5, 2013, we completed the previously announced sale of the assets of our transfer agent and corporate trust services business, including corporate trust foreign exchange services, to an affiliate of the TMX Group Inc. for cash consideration of $64,000 received at closing (the "Transaction", see "Discontinued Operations" section below). The net proceeds from the Transaction have significantly increased the regulatory capital base of EFT.

The Transaction is important for the Corporation as it positioned us to focus exclusively on our growing mortgage and deposit-taking business, thereby clarifying our strategic direction and value proposition to our investors. Management believes the most attractive opportunities are available to us under our mortgage and deposit-taking business and realizing on the inherent value of our transfer agent and corporate trust business allows us to allocate our resources accordingly.

OVERALL PERFORMANCE FOR THE SECOND QUARTER ENDED JUNE 30, 2013

Table 1: Financial Highlights

($000s, except share, per share and percentage amounts)	For the three months ended			For the six months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
OPERATIONS					
Net earnings (loss)					
Continuing	**$ 1**	$ (388)	$ (515)	**$ (387)**	$ (1,179)
Discontinued	**42,747**	(638)	789	**42,109**	1,499
	42,748	(1,026)	274	**41,722**	320
Net interest income and other income, net of provision	**2,342**	1,854	1,011	**4,196**	1,839
Earnings per share - basic/diluted					
Continuing	**$ -/-**	$ (0.04)/(0.04)	$ (0.06)/(0.06)	**$ (0.04)/(0.04)**	$ (0.13)/(0.13)
Discontinued	**4.66/4.60**	(0.07)/(0.07)	0.09/0.09	**4.59/4.53**	0.17/0.17
	4.66/4.60	(0.11)/(0.11)	0.03/0.03	**4.55/4.49**	0.04/0.04
Net interest margin	**3.16%**	3.21%	3.09%	**3.20%**	3.14%
ROE from continuing operations (annualized) [1]	**0.0%**	(3.0%)	(4.0%)	**(1.1%)**	(4.7%)

As at	**June 30, 2013**	March 31, 2013	December 31, 2012	June 30, 2012
BALANCE SHEET				
Total assets	**$ 337,923**	$ 282,179	$ 251,442	$ 212,543
Mortgages	**276,550**	226,876	198,147	138,679
Deposits	**230,840**	224,913	192,757	152,218
Shareholders' Equity	**95,193**	51,339	52,267	51,830
FINANCIAL STRENGTH				
Capital Measures [2]				
Regulatory Capital (transitional basis)	**$ 86,132**	$ 34,467	$ 35,001	$ 23,952
Assets-to-Capital Multiple	**3.81**	7.68	6.64	7.54
Common Equity Tier 1 Ratio	**57.0%**	23.8%	28.7%	24.2%
Share Information				
Book value per common share	**$ 10.28**	$ 5.61	$ 5.71	$ 5.66
Common share price - close	**$ 10.45**	$ 9.89	$ 8.00	$ 8.99
Common shares outstanding	**9,264,340**	9,155,840	9,155,007	9,153,007
Market Capitalization	**$ 96,812**	$ 90,551	$ 73,240	$ 82,286

[1] See definition of return on equity under Non-IFRS financial measures section
[2] These figures relate to the Corporation's operating subsidiary, Equity Financial Trust and are calculated under Basel III for 2013 and Basel II for 2012 (see Capital Management below).

For the second quarter of 2013, we had net earnings of $42,748, driven primarily by the gain on sale from the Transaction of $43,850. The gain on sale has resulted in our shareholders' equity increasing from $51,339 at the end of March 2013 to $95,193 as at June 30, 2013, resulting in book value per share of $10.28 as at June 30, 2013. Also as a result of the Transaction, EFT's regulatory capital calculated on the transitional basis increased from $34,467 as at March 31, 2013 to $86,132 as at June 30, 2013 (see Capital Management below). This capital base is expected to provide support for the expansion of our mortgage loan portfolio.

Our mortgage lending and deposit-taking business unit continued to expand in the second quarter and our ending mortgage portfolio balance as at June 30, 2013 was $276,550, an increase of 40% compared to December 31, 2012 and an increase of 99% compared to June 30, 2012. As a result of the increase in our mortgage portfolio balance, net interest income for the second quarter increased by 117% compared to the second quarter of 2012 and increased by 114% for the six months year to date. Other income for the second quarter increased by 216% compared to the second quarter of 2012 and increased by 226% for the six months year to date

Profitability remains muted due to corporate overhead costs previously allocated to our discontinued transfer agent and corporate trust and foreign exchange operations which are now fully absorbed by our mortgage operations. These overhead costs include executive management, administration and risk and control functions which remain critical to support our strategy of growing our mortgage operation.

We have reported break-even net earnings for our continuing operations for the second quarter, compared to a net loss of $515 for the same period in 2012 and this is also an improvement compared to the net loss of $388 experienced in the first quarter of 2013.

For the second quarter of 2013 we have reported net earnings from discontinued operations of $42,747, primarily reflecting the gain on sale of $43,850 from the Transaction and a net loss before the gain on sale of $1,103. The net loss before the gain on sale reflects the recognition of one-time expenses for staffing costs related to the successful completion of the Transaction.

BUSINESS OUTLOOK

The Corporation is in the midst of a transitional period as we work to execute our new strategy that is now focused solely on our mortgage lending and deposit taking business and efficiently transfer the business unit sold in accordance with the terms of the Transaction. The transition of the businesses sold to TMX has progressed well to date, however, there remains some reputational risk associated with the transition period (see Risks).

We have invested in a corporate infrastructure to meet what we believe to be the regulatory and business requirements necessary for sustainable growth and we expect net interest income and other income to continue growing as our mortgage portfolio expands. We are pleased with the pace of our mortgage originations for the year to date and our expectation is that by the end of 2013 our mortgage loan portfolio will have expanded 80% to 90% compared to the balance at the end of 2012. Whereas we previously disclosed that our mortgage loan portfolio would be approximately double year over year by the end of 2013, we have refined our expectation to include the impact of higher portfolio run-off experienced in the second quarter. We believe the credit quality of our loan book, while positive in terms of our history of no loan losses to date, makes loan retention at the time of renewal more difficult as borrowers with higher credit scores can consider other alternatives.

Despite the fact it is now absorbing overhead costs previously allocated between three operating segments, we anticipate our continuing mortgage business segment to be modestly profitable in 2013. Thereafter we expect to see improvement in our profitability and increasing returns on equity as our mortgage portfolio builds on the expanded capital base provided by the Transaction.

FINANCIAL PERFORMANCE REVIEW

Table 2: Income Statement Highlights

	For the three months ended							For the six months ended			
($000s, except per share and percentage amounts)	**June 30, 2013**	March 31, 2013	$ Change	% Change	June 30, 2012	$ Change	% Change	**June 30, 2013**	June 30, 2012	$ Change	% Change
Operating Results											
Net interest income	**$ 2,306**	$ 1,808	$ 498	28%	$ 1,061	$ 1,245	117%	**$ 4,114**	$ 1,918	$ 2,196	114%
Provision for credit losses	**(176)**	(101)	(75)	74%	(117)	(59)	50%	**(277)**	(189)	(88)	47%
Net interest income, net of provision	**2,130**	1,707	423	25%	944	1,186	126%	**3,837**	1,729	2,108	122%
Other income	**212**	147	65	44%	67	145	216%	**359**	110	249	226%
Net interest income and other income, net of provision	**2,342**	1,854	488	26%	1,011	1,331	132%	**4,196**	1,839	2,357	128%
Non interest expenses	**2,315**	2,321	(6)	0%	1,720	595	35%	**4,636**	3,395	1,241	37%
Earnings (loss) before income taxes	**27**	(467)	494	106%	(709)	736	104%	**(440)**	(1,556)	1,116	72%
Income tax expense (recovery)	**26**	(79)	105	133%	(194)	220	113%	**(53)**	(377)	324	86%
Net earnings (loss) and comprehensive income:											
Continuing operations	**1**	(388)	389	100%	(515)	516	100%	**(387)**	(1,179)	792	67%
Discontinued operations	**42,747**	(638)	43,385	*	789	41,958	*	**42,109**	1,499	40,610	*
Total net earnings (loss) and comprehensive income	**$ 42,748**	$ (1,026)	$ 43,774	*	$ 274	$ 42,474	*	**$ 41,722**	$ 320	$ 41,402	*
Earnings (loss) per share, basic:											
Continuing operations	**$ -**	$ (0.04)	$ 0.04	100%	(0.06)	0.06	100%	**$ (0.04)**	$ (0.13)	$ 0.09	69%
Discontinued operations	**4.66**	(0.07)	4.73	*	0.09	4.57	*	**4.59**	0.17	4.42	*
Total earnings (loss) per share, basic	**4.66**	(0.11)	4.77	*	0.03	4.63	*	**4.55**	0.04	4.51	*
Earnings (loss) per share, diluted:											
Continuing operations	**$ -**	$ (0.04)	$ 0.04	100%	(0.06)	0.06	100%	**$ (0.04)**	$ (0.13)	$ 0.09	69%
Discontinued operations	**4.60**	(0.07)	4.67	*	0.09	4.51	*	**4.53**	0.17	4.36	*
Total earnings (loss) per share, diluted	**4.60**	(0.11)	4.71	*	0.03	4.57	*	**4.49**	0.04	4.45	*
Return on equity from continuing operations (annualized)	**0.0%**	(3.0%)			(4.0%)			**(1.1%)**	(4.7%)		

**Percentage results are not meaningful as a result of the sale of discontinued operations*

Net interest income

Table 3: Net Interest Income and Net Interest Margin[1]

	For the three months ended								
($000s, except percentage amounts)	**June 30, 2013**			March 31, 2013			June 30, 2012		
	Average Balance	**Revenue/ Expense**	**Average rate**	Average Balance	Revenue/ Expense	Average rate	Average Balance	Revenue/ Expense	Average rate
Assets									
Cash and cash equivalents	**$ 82,523**	**$ 269**	**1.30%**	$ 29,486	$ 87	1.18%	$ 24,319	$ 76	1.25%
Mortgage receivable	**248,266**	**3,260**	**5.27%**	209,701	2,810	5.36%	125,184	1,618	5.17%
Total interest earning assets	**$ 330,789**	**$ 3,529**	**4.28%**	$ 239,187	$ 2,897	4.84%	$ 149,503	$ 1,694	4.54%
Liabilities									
Deposits	**$ 224,268**	**$ 1,223**	**2.19%**	$ 202,605	$ 1,089	2.15%	$ 117,692	633	2.08%
Total interest bearing liabilities	**224,268**	**1,223**	**2.19%**	202,605	1,089	2.15%	117,692	633	2.08%
Net interest income per financial statements		**2,306**			1,808			1,061	
Net interest margin for mortgage portfolio			**3.16%**			3.21%			3.09%

	For the six months ended					
($000s, except percentage amounts)	**June 30, 2013**			June 30, 2012		
	Average Balance	**Revenue/ Expense**	**Average rate**	Average Balance	Revenue/ Expense	Average rate
Assets						
Cash and cash equivalents	**$ 56,139**	**$ 355**	**1.28%**	20,358	$ 124	1.23%
Mortgage receivable	**228,978**	**6,071**	**5.35%**	110,677	2,861	5.17%
Total interest earning assets	**$ 285,117**	**$ 6,426**	**4.54%**	131,035	$ 2,985	4.59%
Liabilities						
Deposits	**$ 211,376**	**$ 2,312**	**2.21%**	100,493	1,067	2.03%
Total interest bearing liabilities	**211,376**	**2,312**	**2.21%**	100,493	1,067	2.03%
Net interest income per financial statements		**4,114**			1,918	
Net interest margin for mortgage portfolio			**3.20%**			3.14%

Q2 2013 v Q2 2012 - net interest income increased $1,245 or 117% to $2,306, reflecting the significant growth in our mortgage loan portfolio. The average net interest margin earned during the second quarter on our mortgage portfolio increased year over year from 3.09% to 3.16%. The improvement in average net interest margin reflects an increased amount of internal cash (due to the Transaction) to fund mortgages, which has a lower cost of funds than retail deposits.

[1] See definition of net interest margin under Non-IFRS Financial measures below

Q2 2013 v Q1 2013 - net interest income for the quarter was $2,306, an increase of $498 or 28%, reflecting a corresponding level of growth in our mortgage loan portfolio. The average net interest margin on our mortgage portfolio decreased quarter over quarter from 3.21% to 3.16%. The decrease in average net interest margin compared to the first quarter reflects a decision to focus on loans with higher credit quality.

YTD 2013 v YTD 2012 - net interest income increased $2,196 or 114% to $4,114, reflecting the growth in our mortgage loan portfolio. The average net interest margin earned for the six months year to date on our mortgage portfolio increased year over year from 3.14% to 3.20%, which reflects our increased use of internal cash to fund mortgages in the second quarter of 2013.

Over time we expect our average net interest margin to normalize toward 3.0%, however, during 2013 we expect to continue earning a net interest margin higher than 3.0% because of the lower average cost of funds achieved through funding a portion of our mortgage originations using internal cash.

Provision and allowance for credit losses

Table 4: Provision for Credit Losses

	For the three months ended			For the six months ended	
($000s)	**June 30, 2013**	March 31, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Collective provision	**$ 176**	$ 101	$ 117	**$ 277**	$ 189
Individual provision	**-**	-	-	**-**	-
Total provision	**$ 176**	$ 101	$ 117	**$ 277**	$ 189

Our provision for credit losses increased to $176 for the quarter ended June 30, 2013 due to the increase in our mortgage portfolio balance. Since the inception of operations in our mortgage business, our provision for credit losses has been entirely based on building our collective allowance, the sufficiency of which management assesses based on available data, including the composition and credit performance of the loan portfolio, external economic factors and industry benchmarks. We classify a mortgage receivable as impaired when there is reasonable doubt as to the collectability of principal or interest. To date we have not required any specific allowances for individually impaired loans and have not experienced any write-offs on our mortgage loan portfolio.

Table 5: Allowances and Past-due Loans

($000s, except percentage amounts)	**June 30, 2013**	March 31, 2013	December 31, 2012
Allowance for credit losses			
Collective Allowance	**$ 971**	$ 795	$ 694
Individual Allowance	**-**	-	-
Total	**$ 971**	$ 795	$ 694
Total Allowance as a percentage of gross loans	**0.35%**	0.35%	0.35%
Past-due loans			
31-60 days	**$ 1,817**	$ 934	$ 815
61-90 days	**1,147**	386	107
> 90 days	**-**	1,127	580
Total	**$ 2,964**	$ 2,447	$ 1,502

We have established what we believe to be a prudent allowance for credit losses of $971 as at June 30, 2013. We have estimated a collective allowance based on the characteristics of the portfolio and industry standards but have not identified any loans for which an individual allowance is required and as at June 30, 2013, there were no impaired mortgages.

A loan is considered past due when a borrower has not made a payment by the contractual due date. However, loans past due 30 days or less are not administratively past due and are not presented in the analysis below. The table above presents the carrying value of mortgages that are past due but not classified as impaired either because they are less than 90 days past due, collection efforts are reasonably expected to result in repayment, or they have been restored to current status in accordance with our collection policy since the balance sheet date.

Other income

Other income includes fees charged for administration and servicing of our mortgage portfolio. For the second quarter we earned other income of $212, an increase of $145 or 216% compared to the second quarter of 2012 and an increase of $65 or 44% compared to the first quarter of 2013. For the six months year to date, other income increased $249 or 226% to $359.

Non-interest expenses

Our financial statement presentation of the consolidated statement of operations has been re-aligned in the second quarter of 2013 compared to previous reporting periods to reflect the significant change in our business. As such our provision for credit losses is now discussed separately from non-interest expenses. Non-interest expenses now includes staffing costs and other operating expenses which are comprised of rent, selling general and administration costs, as well as amortization and depreciation expenses.

Q2 2013 v Q2 2012 - non-interest expenses increased $595 or 35% to $2,315. Two thirds of this increase relates to staffing costs as we increased our staff count from thirty-three to forty-five year over year, mainly to build up our mortgage originations and servicing teams as required for the growth in our mortgage portfolio. Other operating expenses also increased, as overhead costs previously shared amongst three business units are now being absorbed entirely by our continuing mortgage operation as a result of the Transaction.

Q2 2013 v Q1 2013 - non-interest expenses were flat quarter over quarter. We increased our staff count from forty to forty-five to reach the level we anticipate will allow us to meet our goals for the remainder of the fiscal year. The increase related to staffing costs was offset by savings on rent expense as a result of reduced space requirements upon completion of the Transaction.

YTD 2013 v YTD 2012 – non-interest expenses increased $1,241 or 37% to $4,636. Half of this increase relates to staffing costs as we increased our staff count from thirty-three to forty-five year over year, mainly to build up our mortgage originations and servicing teams as required for the growth in our mortgage portfolio. Other operating expenses also increased, as overhead costs previously shared amongst three business units are now being absorbed entirely by our continuing mortgage operation as a result of the Transaction. Significant items include cumulative mark-to-market adjustments on outstanding Deferred Share Units of $152 and increased amortization and depreciation of $157.

Discontinued Operations

Table 6: Results of Discontinued Operations

	For the three months ended			For the six months ended	
($000s)	**June 30, 2013**	March 31, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Net earnings (loss) before gain on sale	**$ (1,103)**	$ (638)	$ 790	**$ (1,741)**	$ 1,500
Gain on sale, net of tax	**43,850**	-	-	**43,850**	-
Earnings (loss) from discontinued operations	**$ 42,747**	$ (638)	$ 790	**$ 42,109**	$ 1,500

As a result of the Transaction and related wind down of our foreign exchange operations, we have reclassified the results of our previously reportable transfer agent and corporate trust business and foreign exchange business segments to discontinued operations. For the second quarter of 2013 we experienced net earnings from discontinued operations of $42,747, comprised of a net loss before the gain on sale of $1,103 and an after-tax gain on sale from the Transaction of $43,850. In calculating the gain on sale, we disposed of net assets of approximately $11,600 and recognized selling costs and income tax expense of approximately $8,600 against proceeds of $64,000. The purchase price of $64,000 remains subject to a post-closing adjustment based on capital requirements of the transfer agent and corporate trust service business, which could result in a purchase price reduction of up to $1,000 or in further proceeds receivable. Management's best estimate of the fair value of this contingency at closing was $nil and this estimate remains unchanged as at June 30, 2013. As a result, no contingent purchase price adjustment is recorded in the consolidated financial statements.

For the second quarter of 2013, the net loss before the gain on sale of $1,103 includes bonuses and vacation payouts related to closing the Transaction and for the year to date, the net loss before the gain on sale of $1,741 also includes selling expenses and wind-down costs recognized in the first quarter of 2013. For further information on our discontinued operations and the gain on sale see note 10 of our interim consolidated financial statements.

Net earnings and earnings per share

Table 7: Earnings Per Share

	For the three months ended					For the six months ended		
($000s,except per share amounts)	**June 30, 2013**	March 31, 2013	$ Change	June 30, 2012	$ Change	**June 30, 2013**	June 30, 2012	$ Change
Net earnings (loss)								
Continuing operations	**$ 1**	$ (388)	$ 389	$ (515)	$ 516	**$ (387)**	$ (1,179)	$ 792
Discontinued operations	**42,747**	(638)	43,385	789	41,958	**42,109**	1,499	40,610
Net earnings (loss) and comprehensive income	**42,748**	(1,026)	43,774	274	42,474	**41,722**	320	41,402
Basic earnings (loss) per share from								
Continuing operations	**$ -**	$ (0.04)	$ 0.04	$ (0.06)	0.06	**$ (0.04)**	$ (0.13)	$ 0.09
Discontinued operations	**4.66**	(0.07)	4.73	0.09	4.57	**4.59**	0.17	4.42
Basic earnings (loss) per share	**4.66**	(0.11)	4.77	0.03	4.63	**4.55**	0.04	4.51
Diluted earnings (loss) per share from								
Continuing operations	**$ -**	$ (0.04)	$ 0.04	$ (0.06)	0.06	**$ (0.04)**	$ (0.13)	$ 0.09
Discontinued operations	**4.60**	(0.07)	4.67	0.09	4.51	**4.53**	0.17	4.36
Diluted earnings (loss) per share	**4.60**	(0.11)	4.71	0.03	4.57	**4.49**	0.04	4.45

We generated consolidated net earnings of $42,748 for the second quarter of 2013, compared to a net loss of $1,026 in the first quarter, and net earnings of $274 in the second quarter last year. The main factor leading to the net earnings for the second quarter of 2013 is the after-tax gain on sale of $43,850 from the Transaction. As a result we had basic and diluted earnings per share of $4.66 and $4.60, respectively, compared to basic and diluted loss per share of $0.11 in the prior quarter, and basic and diluted earnings per share of $0.03 in the comparable period last year.

For the six months ended June 30, 2013, we generated net earnings of $41,722, compared to net earnings of $320 in the comparable period last year. The current period result is primarily due to gain on sale from the Transaction.

Our continuing mortgage operations experienced net earnings of $1 for the second quarter of 2013, compared to a net loss of $388 in the first quarter, and a net loss of $515 for the second quarter last year. This resulted in a basic and diluted earnings per share of $nil for the second quarter of 2013 compared to a basic and diluted loss per share of $0.04 in the first quarter and $0.06 for the second quarter last year. The improving trend in quarterly net earnings reflects increased net interest income and other income as our mortgage business grows. Profitability remains muted as a portion of corporate overhead costs previously allocated to our discontinued transfer agent and corporate trust and foreign exchange operations are now fully absorbed by our mortgage operations. These overhead costs include executive management, administration and risk and control functions, which provide the foundational infrastructure to support our strategy to grow our mortgage operation. Despite the fact it is now absorbing overhead costs previously allocated between three operating segments we anticipate our mortgage business to be modestly profitable in 2013.

For the six months ended June 30, 2013 we generated a net loss from continuing operations of $387 compared to a net loss of $1,179 in the comparable 2012 period. The improved performance is primarily due to significant growth of our mortgage loan portfolio and improved net interest margin over the same period last year.

FINANCIAL POSITION REVIEW

Table 8: Balance Sheet Highlights

	As at			Change over			
($000s, except percentage amounts)	**June 30, 2013**	March 31, 2013	December 31, 2012	Jun 2013-Mar 2013 $	%	Jun 2013-Dec 2012 $	%
Assets							
Cash and cash equivalents	**$ 55,507**	$ 37,463	$ 34,429	$ 18,044	48%	$ 21,078	61%
Mortgages receivable	**276,550**	226,876	198,147	49,674	22%	78,403	40%
Assets held for sale	**-**	12,444	13,305	(12,444)	(100%)	(13,305)	(100%)
Other assets	**5,866**	5,396	5,561	470	9%	305	5%
Total Assets	**$ 337,923**	$ 282,179	$ 251,442	$ 55,744	20%	86,481	34%
Liabilities							
Customer deposits	**$ 230,840**	$ 224,913	$ 192,757	$ 5,927	3%	38,083	20%
Liabilities held for sale	**-**	1,292	1,965	(1,292)	(100%)	(1,965)	(100%)
Other liabilities	**11,890**	4,635	4,453	7,255	157%	7,437	167%
Total liabilities	**242,730**	230,840	199,175	11,890	5%	43,555	22%
Shareholders' equity	**95,193**	51,339	52,267	43,854	85%	42,926	82%
Total liabilities and shareholders' equity	**$ 337,923**	$ 282,179	$ 251,442	$ 55,744	20%	$ 86,481	34%

Total assets as at June 30, 2013 were $337,923, an increase of $55,744 or 20% compared to the balance as at March 31, 2013 and an increase of $86,481 or 34% compared to the balance as at December 31, 2012. The main elements of the change during the second quarter were increases in mortgages receivable and cash and cash equivalents of $49,674 and $18,044 respectively. For the year to date, mortgages receivable and cash and cash equivalents increased by $78,403 and $21,078 respectively. Total liabilities as at June 30, 2013 were $242,730, an increase of $11,890 or 5% compared to the balance as at March 31, 2013 and an increase of $43,555 or 22% compared to the balance as at December 31, 2012. The increase in total liabilities over the three and six months ended June 30, 2013 primarily reflect the increases in customer deposits of $5,927 and $38,083 respectively, plus accrued taxes related to the Transaction of $7,955.

Cash Resources

Table 9: Cash and cash equivalents

	As at			Change over			
($000s, except percentage amounts)	**June 30, 2013**	March 31, 2013	December 31, 2012	Jun 2013 - March 2013 $	%	Jun 2013 - Dec 2012 $	%
Cash and cash equivalents	**$ 55,507**	$ 37,463	$ 34,429	$ 18,044	48%	$ 21,078	61%

Cash and cash equivalents as at June 30, 2013 increased by $18,044 and $21,078 compared to March 31, 2013 and December 31, 2012 respectively, as a result of the inflows and outflows described below.

For the six months year to date, we have funded new residential mortgage loans through cash proceeds from the sale of discontinued operations and through our deposit-taking activities, specifically by issuing Guaranteed Investment Certificates ("GICs").

Table 10: Sources and Uses of Cash

	For the six months ended		Change	
($000s, except percentage amounts)	**June 30, 2013**	June 30, 2012	$	%
Cash flow from (used in) operating activities	**(43,652)**	29,247	(72,899)	(249%)
Cash flow from financing activities	**871**	1,242	(371)	(30%)
Cash flow from (used in) investing activities	**63,859**	(918)	64,777	(7056%)

Cash used in operating activities

Cash used in operating activities increased by $72,899 or 249%, to $43,652 for the six months ended June 30, 2013. GIC deposits and mortgage originations constitute the primary sources of operating inflows and outflows respectively. The main elements of the net outflow for the six month period ended June 30, 2013 were net inflows of $38,082 from GIC deposits against net outflows of $78,680 to fund mortgages receivable. The main elements of the net inflow for the six months ended June 30, 2012 were net outflows of $54,088 and $3,080 to fund mortgages receivable and corporate income taxes, respectively, against net inflows from GIC deposits of $85,355.

Cash flow from financing activities

Cash flow from financing activities for the six months ended June 30, 2013 decreased by $371 or 30%, to $871. Cash flows from financing activities in the six-month period of both the current and prior year represent proceeds from the exercise of employee stock options.

Cash flow from investing activities

Cash flow from investing activities for the six months ended June 30, 2013 increased by $64,777 to $63,859. Cash flow from investing activities in the six months ended June 30, 2013 is mainly comprised of proceeds received from the sale of discontinued operations of $64,000. Cash used in investing activities in same period in 2012 primarily relate to enhancing our information technology systems.

Mortgages receivable

Table 11: Mortgage Production & Portfolio Highlights

	For the three months ended				For the six months ended	
($000s, except percentage and year figures)	**June 30, 2013**	March 31, 2013	December 31, 2012	June 30, 2012	**June 30, 2013**	June 30, 2012
Mortgage originations	**$ 72,662**	$ 39,531	$ 41,651	$ 40,698	**$ 112,193**	$ 54,527
Average loan-to-value ratio	**73.4%**	72.6%	73.0%	71.8%	**73.1%**	72.9%
As at						
Mortgage receivable	**276,550**	226,876	198,147	138,679		
Mortgage receivable due in one year	**201,124**	164,962	145,774	102,248		
Average term to maturity in years	**0.9**	0.9	0.9	0.9		
Average effective interest rate	**5.31%**	5.34%	5.34%	5.42%		
Average amortization period in years	**33.1**	33.0	33.1	33.5		

Mortgages receivable consist of uninsured loans for terms of one to five years for the purchase or refinancing of single-family homes in Ontario, located in the Greater Golden Horseshoe Area, the Greater Ottawa area and immediately adjacent urban and suburban communities.

During the second quarter of 2013 we originated mortgages of $72,662, an increase of $33,131 or 84% compared to originations for the first quarter and $31,964 or 79% compared to originations for the second quarter last year. Our mortgage receivable balance increased $49,674 or 22% compared to March 31, 2013. The difference between originations for the second quarter and the growth in our mortgage receivable balance represents portfolio run-off, which was higher than expected in the second quarter. We believe the credit quality of our loan book, while positive in terms of our history of no loan losses to date, makes loan retention at the time of renewal more difficult as borrowers with higher credit scores can consider other alternatives.

For the year to date 2013 we have originated mortgages of $112,193, an increase of $57,666 or 106% compared to the prior year. Our mortgage receivable balance increased $78,403 or 40% compared to December 31, 2012 and increased $137,871 or 99% compared to June 30, 2012. The Corporation has outstanding commitments to make future advances on mortgage loans of $42,800 at June 30, 2013. Commitments for the loans remain open for various dates through October 2013. Our expectation is that by the end of 2013 our mortgage loan portfolio will have expanded 80% to 90% compared to the balance at the end of 2012.

Customer Deposits

Table 12: Customer Deposits

	As at			
($000s)	**June 30, 2013**	March 31, 2013	December 31, 2012	June 30, 2012
Customer deposits	**230,840**	224,913	192,757	152,218

Customer deposits consist of GICs, which are sold through securities dealers, with fixed maturity dates and an average term to maturity of 0.8 years. As at June 30, 2013, the portion of customer deposits due within one year is $182,426 and the average effective interest rate is 2.17%.

For the second quarter of 2013, our customer deposits balance has increased $5,927 or 3% compared to March 31, 2013 and increased $38,083 or 20% compared to December 31, 2012. The smaller increase in customer deposits in the second quarter compared to the first quarter of 2013 reflects our decision to use cash proceeds from the Transaction to fund new mortgage originations.

Financial instruments

The use of financial instruments exposes us to credit risk, liquidity risk, and interest rate risk (see "Risks" below). A fuller discussion on our risk exposures and how we manage them can be found on pages 25-31 of our 2012 Annual Management Discussion & Analysis.

The carrying value of certain financial assets and financial liabilities corresponds to a reasonable approximation of fair value, primarily due to their short term nature. The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying values.

We determine the fair value of mortgages receivable by discounting the expected future cash flows of the mortgages at market rates for mortgages with similar terms and credit risks.

We determine the fair value of customer deposits by discounting the contractual cash flows using the market interest rates for deposits with similar terms and risks.

The following table presents the carrying value of each category of financial assets and liabilities and their estimated fair values. The table does not include assets and liabilities that are not considered financial instruments.

Table 13: Financial Assets and Liabilities

($000s) June 30, 2013	Fair value through profit and loss	Loans and receivables/ financial liabilities at cost or amortized cost	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ -	$ 55,507	$ 55,507	$ 55,507
Accounts receivable	-	941	941	941
Mortgages receivable	-	276,550	276,550	276,951
Total financial assets	$ -	$ 332,998	$ 332,998	$ 333,399
Financial liabilities:				
Accounts payable and accrued liabilities	$ -	$ 2,880	$ 2,880	$ 2,880
Customer deposits	-	230,840	230,840	233,258
Total financial liabilities	$ -	$ 233,720	$ 233,720	$ 236,138

Off-balance sheet arrangements

We have no off-balance sheet arrangements.

Contingent liabilities

EFT is named as a defendant in a legal proceeding related to its former transfer agent and corporate trust business operations.

In October 2011, a former officer and director of Coventree Inc. ("Coventree") and certain corporations affiliated with him commenced proceedings in the Ontario Superior Court of Justice against Coventree and against EFT related to the cancellation of certain shares of Coventree (the "Proceeding"). The amount claimed is approximately $3,300, plus pre-judgment interest and costs. EFT has filed a Statement of Defence and crossclaim against Coventree for contribution and indemnity. EFT intends to vigorously defend the Proceeding. Coventree has agreed, subject to certain limitations, to indemnify us for any liabilities we may incur in connection with the Proceeding, including legal fees and disbursements (the "Indemnity").

The inspectors and the liquidator in the court-supervised winding-up of Coventree have determined that the claims against Coventree and EFT will still be decided in the context of the Proceeding, notwithstanding the winding-up. EFT has filed a claim against Coventree under the claims procedure in the winding-up for the full amount of Coventree's potential exposure to it under the Indemnity. The liquidator has reserved the sum of $5,000 for the Proceeding. The Corporation has not recorded a liability related to this matter.

SUMMARY OF QUARTERLY RESULTS

Table 14: Summary of Quarterly Results

($000s, except per share amounts)	2013		2012				2011	
Operating results	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income	**$ 2,306**	$ 1,808	$ 1,549	$ 1,230	$ 1,061	$ 857	$ 641	$ 428
Provisions for credit losses	**(176)**	(101)	(113)	(94)	(117)	(72)	(111)	(137)
Other income	**212**	147	133	114	67	43	7	21
Net interest income and other income, net of provision	**2,342**	1,854	1,569	1,250	1,011	828	537	312
Non-interest expenses	**2,321**	2,321	2,045	1,801	1,720	1,675	1,644	1,670
Net earnings (loss) from continuing operations	**1**	(388)	(356)	(423)	(515)	(664)	(934)	(937)
Net earnings (loss) from discontinued operations	**42,747**	(638)	480	513	789	710	1,524	997
Total net earnings (loss) and comprehensive income	**42,748**	(1,026)	124	90	274	46	590	60
Basic earnings (loss) per share from continuing operations	**$ -**	$ (0.04)	$ (0.04)	$ (0.05)	$ (0.06)	$ (0.07)	$ (0.10)	$ (0.10)
Basic earnings (loss) per share discontinued operations	**4.66**	(0.07)	0.05	0.06	0.09	0.08	0.17	0.11
Basic earnings (loss) per share	**4.66**	(0.11)	0.01	0.01	0.03	0.01	0.07	0.01
Diluted earnings (loss) per share from continuing operations	**-**	(0.04)	(0.04)	(0.05)	(0.06)	(0.07)	(0.10)	(0.10)
Diluted earnings (loss) per share from discontinued operations	**4.60**	(0.07)	0.05	0.06	0.09	0.08	0.17	0.11
Diluted earnings (loss) per share	**4.60**	(0.11)	0.01	0.01	0.03	0.01	0.06	0.01
Dividends	-	-	-	-	-	-	-	-
Balance sheet highlights								
Cash and cash equivalents	**$ 55,507**	$ 37,463	$ 34,429	$ 44,382	$ 55,139	$ 17,332	$ 25,568	$ 35,536
Mortgage receivables	**276,550**	226,876	198,147	165,971	138,679	105,285	84,780	53,298
Total assets	**337,923**	282,179	251,442	229,418	212,543	140,707	129,736	111,958
Customer deposits	**230,840**	224,913	192,757	169,942	152,218	82,780	66,863	41,671
Total liabilities	**242,730**	230,840	199,175	177,385	160,713	89,290	79,738	62,685
Shareholders' equity	**95,193**	51,339	52,267	52,033	51,830	51,417	49,998	49,273

Net interest income has been increasing each quarter in line with the expansion of our mortgage portfolio. As our residential mortgage-lending business continues to grow, we also expect some seasonality to develop with higher origination volumes in the spring compared to lower volumes in the winter.

The results of our discontinued operations for the first quarter of 2013 reflect the costs incurred prior to closing the Transaction and results for the second quarter reflect the related gain on sale. Due to the completion of the Transaction, the quarterly fluctuations in prior periods that have resulted from large volume corporate trust and foreign exchange transactions and the inherent seasonality of the transfer agent business will cease to be a factor for us going forward.

CAPITAL MANAGEMENT

EFT's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory requirements, is consistent with our risk appetite framework, and supports our business plans. Our internal capital adequacy assessment process ("ICAAP") is integral to our capital planning activities and incorporates a stress testing program that evaluates the impact potential scenarios have on income and capital. Regulatory capital requirements addressed by our policy include the Assets to Capital Multiple ("ACM") and risk based capital ratios (common equity tier 1, tier 1 and total capital).

EFT calculates regulatory capital and capital ratios based on the Capital Adequacy Requirements (CAR) Guidelines issued by OSFI in December 2012. The CAR Guidelines are based on "Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework" ("Basel III") issued by the Basel Committee on Banking Supervision ("BCBS") in December 2010. EFT adopted Basel III capital requirements effective January 1, 2013. EFT's total regulatory capital is comprised entirely of shareholder's equity (the total of share capital, contributed surplus and retained earnings less adjustments for intangible assets) which qualifies as common equity tier-1 capital ("CET1"). EFT derives its risk based CET1 ratio by dividing CET 1 capital by the sum of credit and operational risk-weighted assets. EFT calculates risk-weighted assets using the standardized approach for credit risk and the basic indicator approach for operational risk. EFT derives its ACM by dividing total net assets (total assets less adjustments for intangible assets) by CET1 capital.

In July 2013, OSFI issued the final version of its advisory on the implementation of required Pillar 3 disclosure requirements under Basel III. The advisory clarifies the disclosure requirements of the BCBS. OSFI requires all institutions to fully implement the disclosures starting in the third quarter 2013. EFT has adopted the new disclosure for the period ended June 30, 2013.

Under Basel III, capital is calculated two ways during a transitional period ending January 1, 2018. To measure compliance with minimum risk based capital ratio requirements, capital is calculated on the all-in basis, which includes all applicable deductions immediately. As at June 30, 2013, EFT held CET 1 on an "all-in" basis of $83,575 compared with $30,969 as at March 31, 2013 and $35,001 as at December 31, 2012. The increase reflects the gain from disposition of discontinued operations. ACM is evaluated using capital calculated on the transitional basis, which introduces certain capital deductions on a graduated basis during the transitional period. For the purpose of calculating the ACM, CET 1 capital on the transitional basis as at June 30, 2013 was $86,132.

Table 15: Regulatory Capital (Based on Equity Financial Trust)

	($000s, except percentage amounts)	As at				
		June 30, 2013		March 31, 2013		December 31, 2012
	Common Equity Tier 1 capital: instruments and reserves	**All-in**	**Transitional**	All-in	Transitional	Basel II
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	**31,606**	**31,606**	31,606	31,606	31,606
2	Retained earnings	**54,526**	**54,526**	7,142	7,142	7,651
6	**Common Equity Tier 1 capital before regulatory adjustments**	**86,132**	**86,132**	38,748	38,748	39,257
	Common Equity Tier 1 capital: regulatory adjustments					
28	Total regulatory adjustments to Common Equity Tier 1	**(2,557)**	**-**	(7,779)	(4,281)	(4,256)
29	**Common Equity Tier 1 capital (CET1)**	**83,575**	**86,132**	30,969	34,467	35,001
45	**Tier 1 capital**	**83,575**	**86,132**	30,969	34,467	35,001
59	**Total capital**	**83,575**	**86,132**	30,969	34,467	35,001
60	**Total risk-weighted assets**	**146,649**	**149,206**	130,340	133,838	121,799
	Capital ratios					
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**57.0%**	**57.7%**	23.8%	25.8%	28.7%
62	Tier 1 (as percentage of risk-weighted assets)	**57.0%**	**57.7%**	23.8%	25.8%	28.7%
63	Total capital (as percentage of risk-weighted assets)	**57.0%**	**57.7%**	23.8%	25.8%	28.7%
	Assets-to-Capital Multiple	**N/A**	**3.81**	N/A	7.68	6.64
	OSFI all-in target					
69	Common Equity Tier 1 capital all-in target ratio	**7.0%**	**N/A**	7.0%	N/A	7.0%
70	Tier 1 capital all-in target ratio	**8.5%**	**N/A**	8.5%	N/A	8.5%
71	Total capital all-in target ratio	**10.5%**	**N/A**	10.5%	N/A	10.5%

We expect that over time these ratios will gradually converge to levels consistent with those reported by other deposit-taking institutions in our peer group, but will at all times remain in excess of minimum regulatory standards, as generally expected of well-capitalized institutions.

Capital resources

As noted above, EFT's CET1 regulatory capital has increased significantly as a result of the Transaction. By retaining these funds in the business, EFT will have a strong capital base to support its growth objectives in alternative mortgage lending. We may, however, require further capital from time to time to pursue strategic initiatives or to develop future lines of business.

RISKS

The Corporation, like other financial institutions, is exposed to risks related to general economic conditions, operational errors, reliance on third party agents and outsourcing, competition, stock market volatility and government regulation, many of which are beyond the Corporation's direct control. A fuller discussion of the Corporation's risk exposures and how it manages those risks can be found on pages 25 to 31 of the Corporation's 2012 Annual Management Discussion and Analysis.

The use of financial instruments exposes the Corporation to credit risk, liquidity risk and interest rate risk, as described further below. Due to the wind-down of our foreign exchange business unit, the Corporation is no longer exposed to any significant risks related to those operations or to changes in foreign exchange rates. In respect of the Transaction, the Corporation's reputational risk factors have an added element as described below.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The nature of the business of lending creates an exposure to the possibility that loans will not be repaid. Our mortgage operations are subject to credit risk resulting from possible defaults in payment by its borrowers. There can be no assurances that our monitoring of credit risk and our efforts to mitigate credit risk through risk-based pricing, appropriate underwriting policies, and loss mitigation strategies will be sufficient to prevent an adverse effect on our profitability and financial condition. As part of the underwriting process, we rely heavily upon information supplied by third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, the credit risk associated with the transaction may be increased.

Our mortgage portfolio consists of uninsured mortgages. As a result our primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour its financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage**.** Our mortgages consist of alternative residential mortgages originated under lending programs designed to serve customers who have limited access to traditional financing. There is a higher risk of default associated with alternative mortgage borrowers than with traditional borrowers. The typical alternative borrower may have had previous financial difficulties or may not yet have established a sufficient credit history. Because we serve customers who are unable to meet the credit standards imposed by most traditional financing services, we charge interest at higher rates than those charged by those lenders. The factors to be used in determining borrowers' creditworthiness will be subject to change over time. An increase in loan losses beyond those expected and provided for could have a material adverse effect on our operating results. We mitigate this risk primarily by conducting thorough income verification and other due diligence on each borrower and by dealing only with known and reputable mortgage brokers. We are selective in the types of property we take as collateral, the reliability of the appraisal of the property, and its location.

Other financial instruments potentially exposed to credit risk include cash and cash equivalents. We consider our exposure to credit risk over cash and cash equivalents to be remote as we hold cash deposits at Canadian Schedule I banks.

Liquidity Risk

Liquidity risk is defined as the possibility we will be unable to generate or maintain sufficient cash or cash equivalents, in a timely manner, to meet our commitments as they come due.

Managing liquidity risk requires management to keep sufficient liquid assets on hand at all times to pay our cash obligations, in a timely manner, such as maturing deposits and deposit interest, new mortgage commitments, accounts payables, accrued liabilities and other business activities.

EFT has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies EFT's liquidity risk tolerance and minimum liquidity requirement;
- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for a specified time horizon;
- Requirements for the diversification of funding sources;
- The maintenance of a liquidity reserve consisting of cash or highly-liquid assets;
- Daily reporting that measures compliance with Board-approved limits;
- Periodic stress testing of liquidity assumptions and forecasts which may include company-specific liquidity shocks, exogenous systemic disruptions, or combinations of both; and
- A liquidity contingency plan that anticipates a number of scenarios according to which EFT's liquidity operations could be disrupted and explains what actions will be followed under each.

EFT's Asset-Liability Committee (ALCO) is comprised of members of senior management and is charged with the monitoring of EFT's liquidity exposures. ALCO periodically reviews EFT's liquidity policies and procedures as appropriate to evolving business requirements and will make recommendations for policy amendments to the Board as required. ALCO also reviews the results of periodic stress tests and may direct management to temporarily alter its liquidity tactics accordingly.

EFT's Board has established liquidity minimum requirement limits using as a basis two measures which are currently being contemplated as part of the adoption of Basel III:

- Liquidity Coverage Ratio (LCR): the ratio of the EFT's cash reserve to net cash inflows and outflows for a specified time horizon; and
- Net Stable Funding Ratio (NSFR): the ratio of the EFT's assets to liabilities adjusted by factors that represent their inherent stability or permanence.

These measures may be subject to modification pending the outcome of consultations between regulators and financial institutions on the implementation of the Basel III liquidity framework.

The appropriateness of these limits is reviewed from time to time by ALCO in light of prevailing and anticipated business conditions.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect our financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes. The primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not significantly affect our net interest income. Any failure to appropriately match our asset and liability maturity profiles could negatively impact our operating results.

We use simulated interest rate change sensitivity models to estimate the effect of various interest rate change scenarios on economic value of shareholders' equity ("EVE") and on net interest income for the twelve months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the prepayment and renewal rates of mortgages, the volumes and maturity distributions of future mortgages and deposits, future interest margins earned on mortgages and paid on deposits, and the growth of other interest sensitive items such as cash.

The following table illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change, limited by the condition that interest rates cannot fall below zero.

Table 16: Impact of Interest Rate Shifts

(000s, except percentage amounts)	Increase	Decrease
	100 bps	
Impact on net interest income	$ 461	$ (474)
Impact on EVE	(445)	469
EVE impact as a % of common shareholders' equity	0.46%	0.49%
	200 bps	
Impact on net interest income	$ 851	$ (727)
Impact on EVE	(875)	935
EVE impact as a % of common shareholders' equity	0.91%	0.98%

Reputational Risk Related to the Transaction

Reputational risk is the potential that negative publicity, whether true or not, regarding an institution's business practices, actions or inaction will or may cause a decline in its value, liquidity or customer base. As a result of the Transaction, EFT's client relationships related to the discontinued operations are managed by a third-party, including the administration of segregated funds on behalf of EFT's clients. The impact of client dissatisfaction or mismanagement by the third-party may be damaging to EFT's continuing operations. Furthermore, if the third-party fails to meet its contractual or regulatory obligations, EFT could be subject to legal liability.

TRANSACTIONS WITH RELATED PARTIES

During the six months ended June 30, 2013, the Corporation entered into various transactions with companies related to directors and officers of the Corporation. The amounts of the transactions and the liabilities incurred were insignificant. All outstanding balances are due to be settled in cash after the period end date and are not secured.

ACCOUNTING STANDARDS AND POLICIES

The principal accounting policies adopted in preparing the Corporation's interim consolidated financial statements are the same accounting policies as compared with the 2012 annual consolidated audited financial statements with the exception of the following new accounting standards and amendments which the Corporation adopted effective January 1, 2013:

IFRS 7 – Financial Instruments: Disclosures

IFRS 10 – Consolidated Financial Statements

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 13 – Fair Value Measurement

IAS 19 – Employee Benefits

When IFRS 13 – Fair Value Measurement is adopted for the first time for the year ended December 31, 2013, additional disclosure will be required about fair values. Disclosures required under this standard are included in Note 5(c) of the interim consolidated financial statements. The adoption of the remaining standards noted above had no material impact on the interim consolidated financial statements.

The International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committees ("IFRIC") have previously issued a number of new or revised standards or interpretations that will become effective for future periods and have a potential implication for the Corporation. There have been no pronouncements in addition to those disclosed in the 2012 annual consolidated audited financial statements.

CONTROL REPORTING

Disclosure Controls and Procedures

Our disclosure controls and procedures ("DCP") are designed to provide reasonable assurance that all relevant information is identified and communicated to our Disclosure Committee so as to ensure that appropriate and timely decisions are made regarding public disclosure. Management has evaluated the effectiveness of our DCP and concluded they were effective. There were no material changes in our DCP during the six months ended June 30, 2013.

Internal Controls over Financial Reporting

Internal control over financial reporting ("ICFR") has been designed, based on the framework established in Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projecting an evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in our ICFR that occurred during the three months ended June 30, 2013 that materially affected or are reasonably likely to materially affect, the reliability of our financial reporting or the preparation of our financial statements for external purposes.

NON-IFRS FINANCIAL MEASURES

The Corporation employs certain financial measures to assess its performance that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. However, we believe financial analysts and investors view these as key measures of certain aspects of our performance. These measures should not be considered as an alternative to cash flows from operating activities nor to any other measures of performance presented in accordance with IFRS.

Net interest margin

Net interest margin is calculated by taking net interest income divided by average total assets generating the interest income.

Return on equity ("ROE")

ROE is calculated as net earnings divided by the simple average of reported shareholders' equity at the beginning and end of the period, multiplied by the appropriate factor to arrive at an annualized figure. ROE is used as an indicator of whether we use our capital resources efficiently.

DISCLOSURE OF OUTSTANDING SHARE DATA

Our common shares trade on the TSX under the symbol "**EQI**". Our authorized share capital consists of an unlimited number of common shares without par value. As at August 13, 2013, we had 9,275,840 common shares outstanding and 589,500 stock options to purchase up to an aggregate of 589,500 common shares, with a weighted average exercise price of $9.00, expiring from August 13, 2013 to May 17, 2018.

ADDITIONAL INFORMATION

Additional information relating to our company, including our most recent Annual Information Form, is available free of charge on our website at www.equityfinancialholdings.com and on the SEDAR website at www.sedar.com.