Equity Financial Holdings Inc.

MANAGEMENT DISCUSSION & ANALYSIS

SECOND QUARTER ENDED JUNE 30, 2014

ABOUT US

Equity Financial Holdings Inc. (“EQI” or the “Corporation”), is a Canadian company with its common shares listed and traded on the Toronto Stock Exchange under the stock symbol “EQI”. Through its federally regulated and wholly-owned subsidiary, Equity Financial Trust Company (“EFT” or “Equity Trust”), the Corporation offers alternative residential mortgage loans funded primarily through the issuance of retail deposits.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

We have prepared this Management Discussion & Analysis ("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 audited consolidated financial statements and notes thereto for the year ended December 31, 2013 (the "2013 Audited Financial Statements"). Except as otherwise indicated, all financial information in this MD&A is determined in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and all dollar amounts are in thousands of Canadian dollars unless otherwise indicated. Except as otherwise indicated, the information in this MD&A is current to August 13, 2014.

Forward-Looking Statements

Certain portions of this MD&A as well as other public statements by 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. Certain material factors or assumptions are applied by the Corporation in making forward-looking statements, including without limitation, factors and assumptions regarding interest rates, availability of key personnel, the effect of competition on the Corporation's business, government regulation of its business, computer failure or security breaches, future capital 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 its 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. The actual future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to a significant downturn in capital markets on 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, significant changes in interest rates, failure by the Corporation or its subsidiaries to meet ongoing regulatory obligations, the failure of borrowers or counterparties to honour their financial or contractual obligations to Equity Trust, failure by Equity Trust to adequately monitor and/or adjust its mortgage portfolio management practices for changing market circumstances, failure by the Corporation to attract and to retain the necessary employees to meet its needs, failure by Equity Trust to adequately monitor the services provided by third party service providers or to establish alternative arrangements if required, failure by Equity Trust 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 preceding list is not exhaustive of possible factors. 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.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement. Except as otherwise indicated or as the context otherwise requires, 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.

THE BUSINESS

The Corporation operates through its wholly-owned subsidiary Equity Trust, which offers alternative residential mortgage loans funded primarily through the issuance of retail deposits. Equity Trust 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.

Mortgage Lending

Equity Trust focuses on financing alternative residential mortgages, a market segment we believe is underserved by existing lenders relative to the demand for alternative mortgages in Canada. Alternative residential mortgages are loans to borrowers who do not meet major banks' standards of credit worthiness. Such mortgages are often granted to self-employed business people, new-comers to Canada and borrowers with an imperfect credit history. Equity Trust's lending activities are currently concentrated in the Greater Toronto and Greater Ottawa areas and their surrounding regions.

Equity Trust sources its loans through mortgage brokers, who collectively originate approximately 28% of Canada's residential mortgages.[1]

We provide first mortgages primarily for owner occupied, single-family residential properties for purchases, refinances, equity take-outs and debt consolidation. Both open term (six-months and one-year) and closed term (one-year, two-year, three-year and five-year) mortgages are offered.

Deposits

Equity Trust sources its deposit funding through investment dealers across Canada, offering competitive rates on its Guaranteed Investment Certificates ("GICs"), for amounts of five thousand dollars and more for terms from 30 days to five years.

All qualifying Equity Trust deposits are insured by the CDIC, which means depositors benefit from competitive rates and have the confidence of knowing their money is protected by the Canadian government. We estimate the potential supply of retail deposits accessible through the investment dealer distribution channel is at least equal to the size of the alternative mortgage market and we believe ample liquidity is available to Equity Trust.

[1] Source: Maritz survey for CAAMP (Canadian Association of Accredited Mortgage Professionals), Fall 2013.

OVERALL PERFORMANCE

OVERALL PERFORMANCE FOR THE QUARTER ENDED JUNE 30, 2014

Table 1: Financial Highlights

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

($000s, except share, per share and percentage amounts)	For the three months ended			For the six months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
OPERATIONS					
Net interest income	**$ 3,389**	$ 3,448	$ 2,306	**$ 6,837**	$ 4,114
Recovery of (provision for) credit losses	**105**	(58)	(176)	**47**	(277)
Other income	**409**	378	212	**787**	359
Net interest income and other income, net of provision	**3,903**	3,768	2,342	**7,671**	4,196
Net interest margin	**3.24%**	3.19%	3.16%	**3.21%**	3.20%
Net earnings (loss)					
Continuing	**$ 270**	$ (3,495)	$ 1	**$ (3,225)**	$ (387)
Discontinued	**-**	-	42,747	**-**	42,109
	270	(3,495)	42,748	**(3,225)**	41,722
Earnings (loss) per share - basic/diluted					
Continuing	**$ 0.03/0.03**	$ (0.37)/(0.37)	$ -/-	**$ (0.34)/(0.34)**	$ (0.04)/(0.04)
Discontinued	**-/-**	-/-	4.66/4.60	**-/-**	4.59/4.53
	0.03/0.03	(0.37)/(0.37)	4.66/4.60	**(0.34)/(0.34)**	4.55/4.49
ROE from continuing operations (annualized) [1]	**1.2%**	(15.0%)	0.0%	**(6.8%)**	(1.1%)
ADJUSTED EARNINGS AND ADJUSTED ROE					
Adjusted net earnings (loss) from continuing operations [2]	**$ 270**	$ 599	$ 1	**$ 869**	$ (387)
Adjusted earnings (loss) per share from continuing operations - basic/diluted [2]	**0.03/0.03**	0.06/0.06	-/-	**0.09/0.09**	(0.04)/(0.04)

As at	**June 30, 2014**	March 31, 2014	December 31, 2013
BALANCE SHEET			
Total assets	**$ 409,043**	$ 463,137	$ 442,376
Mortgages	**364,563**	397,036	394,812
Deposits	**310,712**	362,906	332,437
Shareholders' Equity	**93,865**	92,806	96,110
FINANCIAL STRENGTH			
Capital Measures [3]			
Regulatory Capital (all-in basis)	**$ 84,346**	$ 84,268	$ 84,755
Assets-to-Capital Multiple	**4.7x**	5.3x	5.0x
Common Equity Tier 1 Ratio	**55.3%**	53.4%	54.1%
Share Information			
Book value per common share	**$ 9.91**	$ 9.93	$ 10.33
Common share price - close	**$ 10.35**	$ 11.38	$ 12.35
Common shares outstanding	**9,468,341**	9,348,341	9,305,840
Market Capitalization	**$ 97,997**	$ 106,384	$ 114,927

[1] See definition of return on equity under Non-IFRS Financial Measures section.

[2] Adjusted net earnings from continuing operations, adjusted basic earnings per share from continuing operations, adjusted diluted earnings per share from continuing operations and adjusted ROE from continuing operations are defined in the Non-IFRS Financial Measures section of this MD&A

[3] These figures relate to the Corporation's operating subsidiary, Equity Financial Trust, and are calculated under Basel III (see Capital Management below).

Financial Highlights

For the second quarter of 2014 we had an ending mortgage receivable balance of $364,563, which was a decrease of 8% compared to the end of the first quarter of 2013 but 32% higher year over year. The net decrease in our mortgage loan portfolio for the second quarter of 2014 reflects our current rebuilding process and the relatively short term nature of our loans. Our second quarter 2014 net interest income of $3,389 was up 47% year over year and our net interest margin increased to 3.24% compared to 3.16% in the second quarter of 2013. Other income earned from mortgage fees was $409, up 93% year over year. For the first six months of 2014 our net interest income of $6,837 was up 66% year over year and our net interest margin was 3.21% compared to 3.20%. Other income earned from mortgage fees was $787, up 119% year over year. The year over year increases in net interest and other income are a reflection of our higher mortgage receivable balance compared to the prior year.

The net interest and fee income earned from our mortgage loan portfolio contributed to net earnings from continuing operations for the second quarter of 2014 of $270 or $0.03 per share, compared to flat earnings from continuing operations in the second quarter of 2013. For the year to date we have had a net loss from continuing operations of $3,225 or $0.34 per share. The year to date net loss was due to significant one-time costs incurred in the first quarter of 2014 totaling $5,570 ($4,094 after tax) for legal and other advisory fees in respect of resolving a shareholder action and independent consultant costs for an internal controls review. After removing the effect of one-time costs, our adjusted basic net earnings from continuing operations for the first six months of 2014 were $869 or $0.09 per share, compared to an adjusted net loss from continuing operations of $387 or $0.04 per share for the first six months of 2013.[2]

Senior Management Additions

At the end of the second quarter of 2014 we took significant steps forward in our rebuilding process with the hiring of two senior manager positions. Day to day operational leadership has been solidified by the addition of Lorraine Sato as Vice-President Mortgage Operations, who brings thirty-five years of experience in the residential mortgage industry, including alternative residential lending. Gino Tieri, Vice-President Sales and Marketing, was the former sales executive for a multi-billion dollar mortgage lender and is charged with establishing strong and sustainable relationships with the mortgage broker community.

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[2] Adjusted net earnings from continuing operations and adjusted earnings per share from continuing operations are defined in the Non-IFRS Financial Measures section of this MD&A.

OUTLOOK

Recent senior management additions have solidified our executive team and we intend to continue our rebuilding process throughout the remainder of 2014, developing and enhancing policies, procedures and systems, so that Equity is well prepared to begin growing again in 2015 and beyond.

Equity Trust remains a well-capitalized, federally regulated deposit-taking institution, with a senior management team with many years of experience in the single family alternative mortgage space. As such we believe we are well positioned to take advantage of the profitable opportunities that continue to exist in that space.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

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

($000s, except per share and percentage amounts)	For the three months ended					For the six months ended		
	June 30, 2014	March 31, 2014	% Change	June 30, 2013	% Change	**June 30, 2014**	June 30, 2013	% Change
Operating Results								
Net interest income	**$ 3,389**	$ 3,448	(2%)	$ 2,306	47%	**$ 6,837**	$ 4,114	66%
Recovery of (provision for) credit losses	**105**	(58)	(281%)	(176)	(160%)	**47**	(277)	(117%)
Net interest income, net of provision	**3,494**	3,390	3%	2,130	64%	**6,884**	3,837	79%
Other income	**409**	378	8%	212	93%	**787**	359	119%
Net interest income and other income, net of provision	**3,903**	3,768	4%	2,342	67%	**7,671**	4,196	83%
Non-interest expenses	**3,451**	8,460	(59%)	2,315	49%	**11,910**	4,636	157%
Earnings (loss) before income taxes	**452**	(4,692)	(110%)	27	1574%	**(4,239)**	(440)	863%
Income tax expense (recovery)	**182**	(1,197)	(115%)	26	600%	**(1,014)**	(53)	1813%
Net earnings (loss) and comprehensive income								
Continuing operations	**270**	(3,495)	(108%)	1	26900%	**(3,225)**	(387)	733%
Discontinued operations	**-**	-	-	42,747	(100%)	**-**	42,109	(100%)
Total net earnings (loss) and comprehensive income	**$ 270**	$ (3,495)	(108%)	$ 42,748	(99%)	**$ (3,225)**	$ 41,722	(108%)
Earnings (loss) per share, basic:								
Continuing operations	**$ 0.03**	$ (0.37)	(108%)	$ -	100%	**$ (0.34)**	$ (0.04)	750%
Discontinued operations	**-**	-	-	4.66	(100%)	**-**	4.59	(100%)
Total earnings (loss) per share, basic	**0.03**	(0.37)	(108%)	4.66	(99%)	**(0.34)**	4.55	(107%)
Earnings (loss) per share, diluted:								
Continuing operations	**$ 0.03**	$ (0.37)	(108%)	$ -	100%	**$ (0.34)**	$ (0.04)	750%
Discontinued operations	**-**	-	-	4.60	(100%)	**-**	4.53	(100%)
Total earnings (loss) per share, diluted	**0.03**	(0.37)	(108%)	4.60	(99%)	**(0.34)**	4.49	(108%)
Return on equity from continuing operations (annualized)	**1.2%**	(15.3%)		0.0%		**(6.8%)**	(1.1%)	

Net interest income

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

($000s, except percentage amounts)		For the three months ended								
		June 30, 2014			March 31, 2014			June 30, 2013		
		Average Balance	**Income / Expense**	**Average rate**	Average Balance	Income / Expense	Average rate	Average Balance	Income / Expense	Average rate
Assets										
Cash and cash equivalents	$	**53,686 $**	**174**	**1.30%**	$ 61,145 $	196	1.30%	$ 82,523 $	269	1.30%
Mortgage receivable		**382,366**	**5,093**	**5.34%**	401,798	5,237	5.29%	248,266	3,260	5.27%
Total interest earning assets	$	**436,052 $**	**5,267**	**4.84%**	$ 462,943 $	5,433	4.76%	$ 330,789 $	3,529	4.28%
Liabilities										
Deposits	$	**338,653 $**	**1,878**	**2.22%**	$ 372,172 $	1,985	2.16%	$ 224,268 $	1,223	2.19%
Total interest bearing liabilities		**338,653**	**1,878**	**2.22%**	372,172	1,985	2.16%	224,268	1,223	2.19%
Net interest income per financial statements			**3,389**			3,448			2,306	
Net interest margin for mortgage portfolio				**3.24%**			3.19%			3.16%

($000s, except percentage amounts)		For the six months ended					
		June 30, 2014			June 30, 2013		
		Average Balance	**Income / Expense**	**Average rate**	Average Balance	Income / Expense	Average rate
Assets							
Cash and cash equivalents	$	**57,550 $**	**371**	**1.30%**	$ 56,139 $	355	1.28%
Mortgage receivable		**391,991**	**10,329**	**5.31%**	228,978	6,071	5.35%
Total interest earning assets	$	**449,541 $**	**10,700**	**4.80%**	$ 285,117 $	6,426	4.54%
Liabilities							
Deposits	$	**355,087 $**	**3,863**	**2.19%**	$ 211,376 $	2,312	2.21%
Total interest bearing liabilities	$	**355,087 $**	**3,863**	**2.19%**	$ 211,376 $	2,312	2.21%
Net interest income per financial statements			**6,837**			4,114	
Net interest margin for mortgage portfolio				**3.21%**			3.20%

Net interest income year over year for the second quarter increased $1,083 or 47% to $3,389, reflecting the growth in our mortgage loan portfolio. Net interest income decreased 2% compared to the first quarter of 2014, reflecting the decrease in our average mortgage receivable balance during the second quarter of 2014. The average net interest margin earned on our mortgage portfolio for the second quarter of 2014 was 3.24%, compared to 3.16% for the second quarter of 2013 and 3.19% for the first quarter of 2014.

Net interest income for the six months ended June 30, 2014 increased $2,723 or 66% year over year to $6,837, reflecting the growth in our mortgage loan portfolio and the average net interest margin earned on our mortgage portfolio for year to date fiscal 2014 was 3.21%, compared to 3.20% for the same period in 2013.

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

Provision and allowance for credit losses

Table 4: Provision for Credit Losses

($000s)	For the three months ended June 30, 2014	March 31, 2014	June 30, 2013	For the six months ended June 30, 2014	June 30, 2013
(Recovery of) collective provision	**$ (115)**	$ 7	$ 176	**$ (108)**	$ 277
Individual provision	**10**	51	-	**61**	-
Total provision	**$ (105)**	$ 58	$ 176	**$ (47)**	$ 277

Our collective provision for credit losses was a recovery of $115 for the second quarter of 2014, compared to an expense of $176 for the second quarter of 2013 and an expense of $7 for the first quarter of 2014. For the year to date our collective provision for credit losses was a recovery of $108, compared to an expense of $277 for the same period in 2013. The current period recovery on our collective provision reflects the net decrease in our mortgage loan portfolio balance. Our collective provision for credit losses affects the balance of 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 also increased our individual provision for credit losses by $10 in the second quarter of 2014, based on our expected loss on an impaired mortgage loan identified in the first quarter of 2014. We classify a mortgage receivable as impaired when there is reasonable doubt as to the full collectability of principal or interest.

Table 5: Allowance for Credit losses

($000s except percentage amounts)	**June 30, 2014**	**% of Gross Loans**	March 31, 2014	% of Gross Loans	December 31, 2013	% of Gross Loans
Allowance for credit losses						
Collective Allowance	**$ 1,278**	**0.35%**	$ 1,393	0.35%	$ 1,386	0.35%
Individual Allowance	**61**	**0.02%**	51	0.01%	-	0.00%
Total	**$ 1,339**	**0.37%**	$ 1,444	0.36%	$ 1,386	0.35%

We have established an allowance for credit losses of $1,278 as at June 30, 2014. We have estimated a collective allowance based on the characteristics of the portfolio and industry practices.

We have identified one loan originated in 2011 as impaired as at June 30, 2014. The gross amount of the loan is $214 versus an appraised collateral value of $195. We have estimated an individual allowance for credit losses of $61 in respect of this loan, including the cost of recovery.

Table 6: Past due loans

($000s except percentage amounts)	**June 30, 2014**	**% of Net Loans**	March 31, 2014	% of Net Loans	December 31, 2013	% of Net Loans
Past due loans						
1-30 days	**$ 19,347**	**5.31%**	$ 22,052	5.55%	$ 20,162	5.11%
31-60 days	**1,756**	**0.48%**	4,731	1.19%	3,013	0.76%
61-90 days	**1,290**	**0.35%**	1,998	0.50%	949	0.24%
> 90 days	**2,142**	**0.59%**	934	0.24%	1,616	0.41%
Total	**$ 24,535**	**6.73%**	$ 29,715	7.48%	$ 25,740	6.52%

A loan is considered past due when a borrower has not made a payment by the contractual due date. 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 full 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 of 2014 we earned other income of $409, an increase of $31 or 8% compared to the first quarter of 2014 and an increase of $197 or 93% compared to the second quarter of 2013. For the six months ended June 30, 2014, we earned other income of $787, an increase of $428 or 119% year over year.

Non-interest expenses

Table 7: Non-interest expenses

	For the three months ended					For the six months ended		
($000, except percentage amounts)	**June 30, 2014**	March 31, 2014	% Change	June 30, 2013	% Change	**June 30, 2014**	June 30, 2013	% Change
Non-interest expenses:								
Staffing costs	**$ 2,010**	$ 2,427	(17%)	$ 1,314	53%	**$ 4,437**	$ 2,511	77%
Rent	**130**	97	34%	84	55%	**227**	269	(16%)
General and administration	**1,143**	5,765	(80%)	736	55%	**6,907**	1,519	355%
Amortization and depreciation	**168**	171	(2%)	181	(7%)	**339**	337	1%
Total non-interest expenses	**$ 3,451**	$ 8,460	(59%)	$ 2,315	49%	**$ 11,910**	$ 4,636	157%

Staffing Costs – For the second quarter of 2014 the year over year increase in staffing costs reflects accruals for incentive and retention based compensation plans put in place in the second quarter, as well as termination costs. Staffing costs in the second quarter of 2014 decreased compared to the first quarter of 2014 as the first quarter included one-time severance costs of $950 resulting from the departure of the former CEO. For the year to date the increase in staffing costs reflects the above noted items from the first and second quarters.

Rent – Rent costs for the second quarter and year to date were consistent with management expectations for the current year.

General and Administration – Costs for the second quarter of 2014 were lower than in the prior quarter due to one-time costs of $4,620 recognized in the first quarter for legal and other advisory fees in respect of resolving a shareholder action and independent consultant costs for an internal controls review. Second quarter costs were higher year over year due to increased regulatory fees. For the year to date the cost increase primarily reflects the one-time costs from the first quarter and increased regulatory fees from the second quarter.

Amortization and depreciation – Amortization and depreciation costs for the second quarter and year to date were consistent with respective prior periods.

Net earnings and earnings per share

Table 8: Earnings Per Share

($000s,except per share and percentage amounts)	For the three months ended					For the six months ended		
	June 30, 2014	March 31, 2014	Change	June 30, 2013	Change	**June 30, 2014**	June 30, 2013	Change
Net earnings (loss)								
Continuing operations	**$ 270**	$ (3,495)	$ 3,765	$ 1	$ 269	**$ (3,225)**	$ (387)	$ (2,838)
Discontinued operations[2]	**-**	-	-	42,747	(42,747)	**-**	42,109	(42,109)
Net earnings (loss) and comprehensive income	**270**	(3,495)	3,765	42,748	(42,478)	**(3,225)**	41,722	(44,947)
Basic earnings (loss) per share from								
Continuing operations	**$ 0.03**	$ (0.37)	$ 0.40	$ -	$ 0.03	**$ (0.34)**	$ (0.04)	$ (0.30)
Discontinued operations[2]	**-**	-	-	4.66	(4.66)	**-**	4.59	(4.59)
Basic earnings (loss) per share	**0.03**	(0.37)	0.40	4.66	(4.63)	**(0.34)**	4.55	(4.89)
Diluted earnings (loss) per share from								
Continuing operations	**$ 0.03**	$ (0.37)	$ 0.40	$ -	$ 0.03	**$ (0.34)**	$ (0.04)	$ (0.30)
Discontinued operations[2]	**-**	-	-	4.60	(4.60)	**-**	4.53	(4.53)
Diluted earnings (loss) per share	**0.03**	(0.37)	0.40	4.60	(4.57)	**(0.34)**	4.49	(4.83)
ADJUSTED EARNINGS								
Adjusted net earnings (loss) from continuing operations [1]	**$ 270**	$ 599	(55%)	$ 1	26900%	**$ 869**	$ (387)	325%
Adjusted earnings (loss) per share from continuing operations - basic [1]	**0.03**	0.06	(50%)	-	100%	**0.09**	(0.04)	325%
Adjusted earnings (loss) per share from continuing operations - diluted [1]	**0.03**	0.06	(50%)	-	100%	**0.09**	(0.04)	325%

[1] Adjusted net earnings (loss) from continuing operations, adjusted basic earnings (loss) per share from continuing operations and adjusted diluted earnings (loss) per share from continuing operations are defined in the Non-IFRS Financial Measures section of this MD&A.
[2] See "Discontinued Operations" below.

For the second quarter of 2014 our continuing operations generated net earnings of $270 compared to a net loss of $3,495 for the first quarter of 2014 and flat earnings for the second quarter of 2013. For the year to date we had a net loss from continuing operations of $3,225 or $0.34 per share. The year to date net loss was due to significant one-time costs incurred in the first quarter of 2014 totaling $5,570 ($4,094 after tax) for legal and other advisory fees in respect of resolving a shareholder action and independent consultant costs for an internal controls review. After removing the effect of one-time costs, our adjusted basic net earnings from continuing operations for the first six months of 2014 were $869 or $0.09 per share, compared to an adjusted net loss from continuing operations of $387 or $0.04 per share for the first six months of 2013.[4]

[4] Adjusted net earnings from continuing operations and adjusted earnings per share from continuing operations are defined in the Non-IFRS Financial Measures section of this MD&A.

DISCONTINUED OPERATIONS

On April 5, 2013, the Corporation completed the previously announced sale of the assets of its transfer agent and corporate trust services business, including corporate trust foreign exchange services, to an affiliate of the TMX Group Inc. ("the Transaction") for cash consideration of $64,000 received at closing. The net proceeds from the Transaction significantly increased the regulatory capital base of Equity Trust and positioned us to focus on our growing mortgage and deposit-taking business.

Management believed the most attractive opportunities were available to us in our mortgage and deposit-taking businesses and monetizing the inherent value of our transfer agent and corporate trust business allowed us to allocate our resources accordingly.

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. We had no operating results for these discontinued segments after the second quarter of 2013. The Transaction 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, 2014. As a result, no contingent purchase price adjustment is recorded in the interim consolidated financial statements.

For further information on our discontinued operations see note 10 of our consolidated interim financial statements.

Discontinued Operations

Table 9: Results of Discontinued Operations

	For the three months ended			For the six months ended	
($000s)	**June 30, 2014**	March 31, 2014	June 30, 2013	**June 30, 2014**	June 30, 2013
Net loss before gain on sale	**$ -**	$ -	$ (1,103)	**$ -**	$ (1,741)
Gain on sale, net of tax	**-**	-	43,850	**-**	43,850
Net loss from discontinued operations	**$ -**	$ -	$ 42,747	**$ -**	$ 42,109

FINANCIAL POSITION REVIEW

Table 10: Balance Sheet Highlights

		As at		Change over			
($000s, except percentage amounts)	**June 30, 2014**	March 31, 2014	December 31, 2013	Jun 2014-Mar 2014 $	Jun 2014-Mar 2014 %	Jun 2014-Dec 2013 $	Jun 2014-Dec 2013 %
Assets							
Cash and cash equivalents	**$ 39,151**	$ 60,633	$ 43,376	$ (21,482)	(35%)	$ (4,225)	(10%)
Mortgages receivable	**364,563**	397,036	394,812	(32,473)	(8%)	(30,249)	(8%)
Other assets	**5,329**	5,468	4,188	(139)	(3%)	1,141	27%
Total Assets	**$ 409,043**	$ 463,137	$ 442,376	$ (54,094)	(12%)	$ (33,333)	(8%)
Liabilities							
Customer deposits	**$ 310,712**	$ 362,906	$ 332,437	$ (52,194)	(14%)	$ (21,725)	(7%)
Other liabilities	**4,466**	7,425	13,829	(2,959)	(40%)	(9,363)	(68%)
Total liabilities	**$ 315,178**	$ 370,331	$ 346,266	$ (55,153)	(15%)	$ (31,088)	(9%)
Shareholders' equity	**93,865**	92,806	96,110	1,059	1%	(2,245)	(2%)
Total liabilities and shareholders' equity	**$ 409,043**	$ 463,137	$ 442,376	$ (54,094)	(12%)	$ (33,333)	(8%)

Total assets as at June 30, 2014 were $409,043, a decrease of $33,333 or 8% compared to the balance as at December 31, 2013. The decrease in total assets was due to both the decline in our mortgage receivable balance by $30,249 or 8% and the decrease in our cash balance by $4,225 or 10% (see "Liquidity Resources"). Total liabilities as at June 30, 2014 were $315,178, a decrease of $31,088 or 9% compared to the balance as at December 31, 2013. The decrease in total liabilities was mainly due to a decrease in customer deposits of $21,725 or 7% with the remainder due primarily to the payment of accrued taxes related to the Transaction.

Liquidity Resources

Equity Trust is a member of CDIC and sources its deposit funding through investment dealers across Canada and we believe ample liquidity is available to Equity Trust to meet its requirements. Our deposit taking activities constitute our primary funding source and we also use a portion of our internal cash to fund mortgage loans. We manage our liquidity resources in accordance with our liquidity policy (see "Risk Management – Liquidity Risk").

Table 11: Cash and cash equivalents

		As at		Change over			
($000s, except percentage amounts)	**June 30, 2014**	March 31, 2014	December 31, 2013	Jun 2014-Mar 2014 $	Jun 2014-Mar 2014 %	Jun 2014-Dec 2013 $	Jun 2014-Dec 2013 %
Cash and cash equivalents	**$ 39,151**	$ 60,633	$ 43,376	$ (21,482)	(35%)	$ (4,225)	(10%)

Cash and cash equivalents as at June 30, 2014 decreased by $4,225 compared to December 31, 2013, as a result of the inflows and outflows described below.

Table 12: Sources and Uses of Cash

	For the six months ended		Change	
($000s, except percentage amounts)	**June 30, 2014**	June 30, 2013	$	%
Cash flows used in operating activities	**$ (5,040)**	$ (43,652)	$ 38,612	(88%)
Cash flows provided by financing activities	**823**	871	(48)	(6%)
Cash flows (used in) provided by investing activities	**(8)**	63,859	(63,867)	100%

Cash used in operating activities

Cash flow used in operating activities was $5,040 for the six months ended June 30, 2014, a decrease of $38,612, or 88%. Decreases to our deposit liability and mortgages receivable balances constitute the largest sources of operating outflows and inflows respectively. For the six months ended June 30, 2014 we had net inflows of $30,296 from the decrease in our mortgages receivable balance. These inflows were offset by net outflows of $21,725 due to maturing customer deposits and $7,751 to pay accrued taxes primarily related to the Transaction. The remainder of the cash outflow mainly reflects the payment of one-time costs incurred in the first quarter of 2014.

Cash flow from financing activities

Cash flow from financing activities for the quarter ended June 30, 2014 decreased by $48 or 6%, to $823 compared to the six months ended June 30, 2013. Cash flows from financing activities in both 2014 and 2013 represent proceeds from the exercise of employee stock options.

Cash flow used in investing activities

We did not use significant cash flow for investing activities for the quarter ended June 30, 2014. For the comparable quarter in 2013 the cash inflow of $63,859 primarily reflects the proceeds from the Transaction.

Mortgages receivable

Table 13: Mortgage Production & Portfolio Highlights

	For the three months ended				For the six months ended	
($000s, except percentage and year figures)	**June 30, 2014**	March 31, 2014	December 31, 2013	June 30, 2013	**June 30, 2014**	June 30, 2013
Mortgage originations	**$ 9,369**	$ 25,333	$ 62,876	$ 72,662	**$ 34,702**	$ 112,193
Average loan-to-value ratio at origination	**70.7%**	72.6%	73.2%	73.4%	**72.1%**	73.1%
As at						
Mortgages receivable	**364,563**	397,036	394,812	276,550		
Mortgages receivable due in one year	**257,725**	284,907	280,613	201,124		
Average term to maturity in years	**0.8**	0.8	0.9	0.9		
Average effective interest rate	**5.34%**	5.31%	5.31%	5.31%		
Average amortization period in years	**32.2**	32.5	33.0	33.1		

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 Toronto area and Greater Ottawa areas and surrounding regions.

For the first second of 2014 we originated mortgages of $9,369, a decrease of $15,964 or 63% compared to originations in the first quarter of 2014 and our mortgage receivable balance as at June 30, 2014 was $364,563, a decrease of $30,249 or 8% compared to December 31, 2013. The Corporation had outstanding commitments to make future advances on mortgage loans of $10.9 million as at June 30, 2014. Commitments for the loans were for various dates through to September 2014.

Customer Deposits

Table 14: Customer Deposits

($000s)	As at **June 30, 2014**	March 31, 2014	December 31, 2013	June 30, 2013
Customer deposits	**$ 310,712**	$ 362,906	$ 332,437	$ 224,913

Customer deposits consist of GICs, which are sold through investment dealers, with fixed maturity dates and an average term to maturity of 0.8 years. As at June 30, 2014, the portion of customer deposits due within one year is $222,343. The average effective interest rate paid on deposits is 2.22%.

Financial instruments

The use of financial instruments exposes us to credit risk, liquidity risk and interest rate risk. A fuller discussion on our risk exposures and how we manage them can be found under the section "Risk Management" on page 20.

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 as at June 30, 2014. The table does not include assets and liabilities that are not considered financial instruments.

Table 15: Financial Assets and Liabilities

(000's)

June 30, 2014	Loans and Receivables/Financial Liabilities at Amortized Cost	Carrying Value	Fair Value	Fair Value Over Carrying Value
Financial assets:				
Mortgages receivable	**364,563**	**364,563**	**366,075**	**1,512**
Total financial assets	**$ 364,563**	**$ 364,563**	**$ 366,075**	**$ 1,512**
Financial liabilities:				
Customer deposits	**310,712**	**310,712**	**315,418**	**4,706**
Total financial liabilities	**$ 310,712**	**$ 310,712**	**$ 315,418**	**$ 4,706**

QUARTERLY FINANCIAL HIGHLIGHTS

Table 16: Summary of Quarterly Results

($000s, except per share amounts)	**2014**			2013			2012	
Operating results	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income	**$ 3,389**	$ 3,448	$ 3,386	$ 2,828	$ 2,306	$ 1,808	$ 1,549	$ 1,230
Recovery of (provisions for) credit losses	**105**	(58)	(134)	(281)	(176)	(101)	(113)	(94)
Other income	**409**	378	346	293	212	147	133	114
Net interest income and other income, net of provision	**3,903**	3,768	3,598	2,840	2,342	1,854	1,569	1,250
Non-interest expenses	**3,451**	8,460	3,296	3,037	2,315	2,321	2,045	1,801
Net earnings (loss) from continuing operations	**270**	(3,495)	235	(175)	1	(388)	(356)	(423)
Net earnings (loss) from discontinued operations	**-**	-	-	-	42,747	(638)	480	513
Total net earnings (loss) and comprehensive income	**270**	(3,495)	235	(175)	42,748	(1,026)	124	90
Basic earnings (loss) per share from continuing operations	**$ 0.03**	$ (0.37)	$ 0.03	$ (0.02)	$ -	$ (0.04)	$ (0.04)	$ (0.05)
Basic earnings (loss) per share discontinued operations	**-**	-	-	-	4.66	(0.07)	0.05	0.06
Basic earnings (loss) per share	**0.03**	(0.37)	0.03	(0.02)	4.66	(0.11)	0.01	0.01
Diluted earnings (loss) per share from continuing operations	**0.03**	(0.37)	0.02	(0.02)	-	(0.04)	(0.04)	(0.05)
Diluted earnings (loss) per share from discontinued operations	**-**	-	-	-	4.60	(0.07)	0.05	0.06
Diluted earnings (loss) per share	**0.03**	(0.37)	0.02	(0.02)	4.60	(0.11)	0.01	0.01
Dividends	**-**	-	-	-	-	-	-	-
Balance sheet highlights								
Cash and cash equivalents	**$ 39,151**	$ 60,633	$ 43,376	$ 47,826	$ 55,507	$ 37,463	$ 34,429	$ 44,382
Mortgage receivables	**364,563**	397,036	394,812	356,565	276,550	226,876	198,147	165,971
Total assets	**409,043**	463,137	442,493	409,130	337,923	282,179	251,442	229,418
Customer deposits	**310,712**	362,906	332,437	301,306	230,840	224,913	192,757	169,942
Total liabilities	**315,178**	370,331	346,383	313,565	242,730	230,840	199,175	177,385
Shareholders' equity	**93,865**	92,806	96,110	95,565	95,193	51,339	52,267	52,033

Net interest income has increased or decreased each quarter in line with the change in the size of our mortgage portfolio. 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 of 2013 reflect the related gain on sale.

CAPITAL MANAGEMENT

Current Requirements

Equity Trust'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).

Equity Trust calculates regulatory capital and capital ratios based on the Capital Adequacy Requirements ("CAR") Guidelines issued by OSFI that were last updated in April 2014. 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. Equity Trust adopted Basel III capital requirements effective January 1, 2013. Equity Trust'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 net of deferred taxes) which qualifies as common equity tier 1 capital ("CET1"). Equity Trust derives its risk based CET1 ratio by dividing CET1 capital by the sum of credit and operational risk-weighted assets. Equity Trust calculates risk-weighted assets using the standardized approach for credit risk and the basic indicator approach for operational risk. Equity Trust derives its ACM by dividing total net assets (total assets less adjustments for intangible assets net of deferred taxes) by CET1.

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 an all-in basis, which includes all applicable deductions immediately. As at June 30, 2014, Equity Trust held CET1 on an "all-in" basis of $84,346 compared with $84,755 as at December 31, 2013. 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, CET1 capital on the transitional basis as at June 30, 2014 was $85,665.

Future Requirements

In January 2014, the BCBS released the Basel III leverage ratio framework and disclosure requirements, which replaced the Leverage Ratio Section (Section V) of the Basel III Framework released in December 2010. On July 30, 2014 OSFI issued for comment the draft Leverage Requirements Guideline ("LRG"), which transposes leverage requirements issued by the BCBS into OSFI guidance. Under the Basel III leverage ratio framework, public disclosure of the leverage ratio is required in 2015. OSFI has decided to replace the existing ACM with the Basel III leverage ratio, thus preventing institutions from having to calculate and publicly disclose two measures of leverage.

Management has evaluated the draft LRG and does not anticipate any negative effect to our business plan as a result of implementing the Basel III leverage ratio framework in 2015.

Table 17: Regulatory Capital (Based on Equity Financial Trust)
(000s except percentage amounts)

		As at					
		June 30, 2014		March 31, 2014		December 31, 2013	
	Common Equity Tier 1 capital: instruments and reserves	**All-in**	**Transitional**	All-in	Transitional	All-in	Transitional
1	Directly issued qualifying common share capital plus related stock surplus	**31,606**	**31,606**	31,606	31,606	31,606	31,606
2	Retained earnings	**54,387**	**54,387**	54,421	54,421	54,985	54,985
6	**Common Equity Tier 1 capital before regulatory adjustments**	**85,993**	**85,993**	86,027	86,027	86,591	86,591
	Common Equity Tier 1 capital: regulatory adjustments						
28	Total regulatory adjustments to Common Equity Tier 1	**(1,647)**	**(328)**	(1,759)	(352)	(1,836)	-
29	**Common Equity Tier 1 capital (CET1)**	**84,346**	**85,665**	84,268	85,675	84,755	86,591
45	**Tier 1 capital**	**84,346**	**85,665**	84,268	85,675	84,755	86,591
59	**Total capital**	**84,346**	**85,665**	84,268	85,675	84,755	86,591
60	**Total risk-weighted assets**	**153,565**	**154,883**	159,127	160,535	158,327	160,163
	Capital ratios						
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**54.9%**	**55.3%**	53.0%	53.4%	53.5%	54.1%
62	Tier 1 (as percentage of risk-weighted assets)	**54.9%**	**55.3%**	53.0%	53.4%	53.5%	54.1%
63	Total capital (as percentage of risk-weighted assets)	**54.9%**	**55.3%**	53.0%	53.4%	53.5%	54.1%
	Assets-to-Capital Multiple		**4.7x**		5.3x		5.0x
	OSFI all-in target						
69	Common Equity Tier 1 capital all-in target ratio	**7.0%**	**N/A**	7.0%	N/A	7.0%	N/A
70	Tier 1 capital all-in target ratio	**8.5%**	**N/A**	8.5%	N/A	8.5%	N/A
71	Total capital all-in target ratio	**10.5%**	**N/A**	10.5%	N/A	10.5%	N/A

Note: line item numbers reference the Pillar III Modified Capital Disclosure Template issued by OSFI.

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, Equity Trust's CET1 regulatory capital increased significantly in 2013 as a result of the Transaction. By retaining these funds in the business, Equity Trust 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 related lines of business.

RISK MANAGEMENT

The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to credit, liquidity and interest rate risks that are required under IFRS 7 Financial Instruments: Disclosures, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the interim consolidated financial statements for the three and six months ended June 30, 2014.

The Corporation, like other financial institutions, is exposed to risks which include but are not limited to credit, liquidity, interest rate, legal, reputational, 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 discussion of risks beyond credit, liquidity and interest rate risk can be found on pages 31 to 34 of the Corporation's MD&A for the year ended December 31, 2013.

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 fully repaid. Our mortgage lending operations are subject to credit risk resulting from possible defaults in payment by our borrowers. There can be no assurances that our monitoring of credit risk and our efforts to mitigate credit risk through appropriate underwriting policies, procedures 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 both borrowers and 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 residential 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 their financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage. Our portfolio consists of residential mortgages originated under lending programs designed to serve customers who have limited access to traditional financing, known as "alternative borrowers". 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 of most large domestic banks, we generally charge interest at higher rates than those charged by those lenders. The factors used in determining borrowers' creditworthiness may 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 and financial condition. We mitigate this risk primarily by conducting diligence on each borrower and by dealing with known and reputable mortgage brokers. In addition, we are selective in the types of property we accept as collateral, the reliability of the appraisal of the property, and its geographic 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 only 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 become due.

Managing liquidity risk requires management to maintain 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 obligations.

Equity Trust has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies Equity Trust's liquidity risk tolerance and minimum liquidity requirements;
- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for short and long-term time horizons;
- 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 considers a number of scenarios according to which Equity Trust's liquidity operations could be disrupted and details what actions will be followed under each scenario.

Equity Trust's Asset-Liability Committee ("ALCO") is comprised of members of senior management and is charged with the monitoring of Equity Trust's liquidity exposures. ALCO periodically reviews Equity Trust's liquidity policies and procedures as appropriate to evolving business requirements and makes 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 strategy accordingly.

Equity Trust's Board has established minimum liquidity requirement limits using two measures required under Basel III and included in the Liquidity Adequacy Requirements Guideline ("LARG") issued by OSFI in May 2014:

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

These requirements are supplemented by additional supervisory monitoring metrics including the OSFI-designed Net Cumulative Cash Flow (NCCF). Regulatory reporting requirements under the LARG will become effective January 1, 2015.

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

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect our profitability and 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 adversely affect our net interest income. Any failure to appropriately match our asset and liability maturity profiles could negatively impact our operating results and financial condition.

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 rate margins earned on mortgages and paid on deposits, and the growth of other interest rate sensitive items such as cash. Equity Trust's ALCO is responsible for the oversight of interest rate risk, including the establishment of modeling assumptions, parameters and scenarios.

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 assumption that interest rates cannot fall below zero.

Table 18: Impact of Interest Rate Shifts

($000s, except percentage amounts)	Increase	Decrease
	100 bps	
Impact on net interest income	$ 430	$ (444)
Impact on EVE	(120)	95
EVE impact as a % of common shareholders' equity	(0.13%)	0.10%
	200 bps	
Impact on net interest income	$ 826	$ (714)
Impact on EVE	(264)	154
EVE impact as a % of common shareholders' equity	(0.28%)	0.16%

ACCOUNTING STANDARDS AND POLICIES

Our significant accounting policies are disclosed in Note 2 to our audited consolidated financial statements for the year ended December 31, 2013.

Current changes in accounting policies

IFRIC 21 – Levies

IFRIC 21 provides guidance on the timing of when to recognize a liability to pay a levy, which is an outflow of resources embodying economic benefits that are imposed by a government authority. The adoption of IFRIC 21 did not impact the interim consolidated financial statements.

Future change in accounting standards

Certain new standards, interpretations and amendments to existing standards have been published by the IASB and the International Financial Reporting Interpretations Committees ("IFRIC") that are applicable to accounting periods beginning on or after January 1, 2015. Those which are considered to be relevant to the Corporation's operations are as follows:

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which replaces all earlier versions of the standard and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard will come into effect on January 1, 2018 with early adoption permitted. The Corporation has not yet determined the impact of IFRS 9 on its consolidated 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. The Disclosure Committee is comprised of members of senior management and is charged with ensuring 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 quarter ended June 30, 2014.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") are 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 quarter ended June 30, 2014 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.

Adjusted net earnings from continuing operations and adjusted basic and diluted earnings per share from continuing operations

Our net earnings were affected by one-time costs incurred in the first quarter of 2014 related to both the shareholder action $4,270 ($3,138 after tax), and to independent consultants and external audit fees of $1,300 ($956 after tax) as a result of an internal controls review. The table below provides a reconciliation of net earnings from continuing operations to adjusted net earnings from continuing operations.

Table 19: Adjusted Net Earnings and Earnings Per Share

	For the three months ended					For the six months ended		
($000, except per share and percentage amounts)	**June 30, 2014**	March 31, 2014	% Change	June 30, 2013	% Change	**June 30, 2014**	June 30, 2013	% Change
Net earnings (loss) from continuing operations	**$ 270**	$ (3,495)	108%	$ 1	26900%	**$ (3,225)**	$ (387)	(733%)
Adjustment for costs incurred in relation to the shareholder action settlement (net of tax)	**-**	3,138	(100%)	-	100%	**3,138**	-	100%
Adjustment for costs incurred in relation to the review and external audit (net of tax)	**-**	956	(100%)	-	100%	**956**	-	100%
Adjusted net earnings (loss) from continuing operations	**$ 270**	$ 599	(55%)	$ 1	26900%	**$ 869**	$ (387)	325%
Adjusted basic earnings (loss) per share from continuing operations	**$ 0.03**	$ 0.06	(50%)	$ -	100%	**$ 0.09**	$ (0.04)	325%
Adjusted diluted earnings (loss) per share from continuing operations	**$ 0.03**	$ 0.06	(50%)	$ -	100%	**$ 0.09**	$ (0.04)	325%

Net interest margin

Net interest margin on our mortgage portfolio is calculated by taking net interest income earned on the portfolio divided by average total mortgage 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, 2014 we had 9,480,008 common shares outstanding and 623,834 stock options to purchase up to an aggregate of 623,834 common shares, with a weighted average exercise price of $9.52, expiring from August 2014 to June 2019.

ADDITIONAL INFORMATION

Additional information relating to EQI, including the Corporation's annual information form, is available on SEDAR at www.sedar.com