EQUITY

Equity Financial Holdings Inc.

MANAGEMENT DISCUSSION & ANALYSIS

THIRD QUARTER ENDED SEPTEMBER 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 serves the Canadian alternative mortgage market by offering residential mortgage loans to non-prime and near-prime customers who do not meet the conventional underwriting standards of the major Canadian banks.

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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 November 12, 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 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 provides residential mortgages to non-prime and near-prime customers, a market segment commonly referred to as the alternative mortgage market. We believe this market segment is underserved by existing lenders relative to the demand for alternative mortgages in Canada. Non-prime and near-prime borrowers are those who do not meet the conventional underwriting standards of the major Canadian banks. Alternative residential mortgage loans are often granted to self-employed individuals, new-comers to Canada and borrowers with an imperfect credit history. Equity Trust's lending activities are currently concentrated in urban and suburban areas of Ontario.

Equity Trust sources its loans through mortgage brokers, who collectively originate approximately 26% 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 registered 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 up 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), Spring 2014.

OVERALL PERFORMANCE

OVERALL PERFORMANCE FOR THE QUARTER ENDED SEPTEMBER 30, 2014

Table 1: Financial Highlights

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

	For the three months ended			For the nine months ended	
($000s, except share, per share and percentage amounts)	**September 30, 2014**	June 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
OPERATIONS					
Net interest income	**$ 3,213**	$ 3,389	$ 2,828	**$ 10,050**	$ 6,942
Recovery of (provision for) credit losses	**146**	105	(281)	**193**	(558)
Other income	**407**	409	292	**1,194**	651
Net interest income and other income, net of provision	**3,766**	3,903	2,839	**11,437**	7,035
Net interest margin	**3.34%**	3.24%	3.08%	**3.24%**	3.16%
Net earnings (loss)					
Continuing	**$ 535**	$ 270	$ (175)	**$ (2,690)**	$ (562)
Discontinued	**-**	-	-	**-**	42,109
	535	270	(175)	**(2,690)**	41,547
Earnings (loss) per share - basic/diluted					
Continuing	**$ 0.06/0.06**	$ 0.03/0.03	$ (0.02)/(0.02)	**$ (0.28)/(0.28)**	$ (0.06)/(0.06)
Discontinued	**-/-**	-/-	-/-	**-/-**	4.57/4.53
	0.06/0.06	0.03/0.03	(0.02)/(0.02)	**(0.28)/(0.28)**	4.51/4.47
ROE from continuing operations (annualized) [1]	**2.3%**	1.2%	(0.7%)	**(3.8%)**	(1.0%)
ADJUSTED EARNINGS AND EPS					
Adjusted net earnings (loss) from continuing operations [2]	**$ 535**	$ 270	$ (175)	**$ 1,404**	$ (562)
Adjusted earnings (loss) per share from continuing operations - basic/diluted [2]	**0.06/0.06**	0.03/0.03	(0.02)/(0.02)	**0.15/0.15**	(0.06)/(0.06)

As at	**September 30, 2014**	June 30, 2014	December 31, 2013
BALANCE SHEET			
Total assets	**$ 367,590**	$ 409,043	$ 442,376
Mortgages, net	**326,393**	364,563	394,812
Deposits	**269,176**	310,712	332,437
Shareholders' Equity	**94,750**	93,865	96,110
FINANCIAL STRENGTH			
Capital Measures [3]			
Regulatory Capital (all-in basis)	**$ 84,786**	$ 84,346	$ 84,755
Assets-to-Capital Multiple	**4.2x**	4.7x	5.0x
Common Equity Tier 1 Ratio (transitional basis)	**60.7%**	55.3%	54.1%
Share Information			
Book value per common share	**$ 9.97**	$ 9.91	$ 10.33
Common share price - close	**$ 9.13**	$ 10.35	$ 12.35
Common shares outstanding	**9,507,508**	9,468,341	9,345,840
Market Capitalization	**$ 86,804**	$ 97,997	$ 115,421

[1] See definition of ROE ("return on equity") under Non-IFRS Financial Measures section of this MD&A.

[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 third quarter of 2014 we had an ending mortgage receivable balance of $326,393, which was a decrease of 10% compared to the end of the second quarter of 2014 and decrease of 8% year over year. The net decrease in our mortgage loan portfolio for the third quarter of 2014 reflects our current rebuilding process and the relatively short term nature of our loans. Our third quarter 2014 net interest income of $3,213 was up 14% year over year and our net interest margin increased to 3.34% compared to 3.08% in the third quarter of 2013. Other income earned from mortgage fees was $407, up 39% year over year. For the first nine months of 2014 our net interest income of $10,050 was up 45% year over year and our net interest margin was 3.24% compared to 3.16%. Other income earned from mortgage fees was $1,194, up 83% year over year. In addition to the benefit of higher net interest margins earned in the current year, the year over year increases in net interest and other income are a reflection of our higher average mortgage receivable balance compared to the prior year. For the third quarter of 2014 non-interest expenses of $3,053 were down 12% compared to the second quarter and consistent year over year.

The net interest and fee income earned from our mortgage loan portfolio along with the decrease of non-interest expenses contributed to net earnings from continuing operations for the third quarter of 2014 of $535 or $0.06 per share, compared to a loss of $175 or $0.02 from continuing operations in the third quarter of 2013. For the year to date we have had a net loss from continuing operations of $2,690 or $0.28 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, executive severance payments 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 nine months of 2014 were $1,404 or $0.15 per share, compared to an adjusted net loss from continuing operations of $562 or $0.06 per share for the first nine months of 2013.[2]

[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 appointments in sales and marketing, mortgage operations, internal audit and treasury have established an experienced management team with individual track records of success in our industry. We have also enhanced the strength of our trust company board with the addition of independent directors who bring a wealth of mortgage industry and related experience. We continue to rebuild in accordance with our plan, which includes establishing new distribution arrangements with key mortgage broker relationships and building scalable mortgage processing capabilities.

Equity Trust is a well-capitalized, federally regulated deposit-taking institution, with a management team and Board with many years of experience in the non-prime and near-prime residential mortgage business. As such we believe we are well positioned to take advantage of the profitable opportunities in our industry in 2015 and beyond.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

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

	For the three months ended					For the nine months ended		
($000s, except per share and percentage amounts)	**September 30, 2014**	June 30, 2014	% Change	September 30, 2013	% Change	**September 30, 2014**	September 30, 2013	% Change
Operating Results								
Net interest income	**$ 3,213**	$ 3,389	(5%)	$ 2,828	14%	**$ 10,050**	$ 6,942	45%
Recovery of (provision for) credit losses	**146**	105	39%	(281)	(152%)	**193**	(558)	(135%)
Net interest income, net of provision	**3,359**	3,494	(4%)	2,547	32%	**10,243**	6,384	60%
Other income	**407**	409	0%	292	39%	**1,194**	651	83%
Net interest income and other income, net of provision	**3,766**	3,903	(4%)	2,839	33%	**11,437**	7,035	63%
Non-interest expenses	**3,053**	3,451	(12%)	3,036	1%	**14,964**	7,672	95%
Earnings (loss) before income taxes	**713**	452	58%	(197)	(462%)	**(3,527)**	(637)	454%
Income tax expense (recovery)	**178**	182	(2%)	(22)	(909%)	**(837)**	(75)	1016%
Net earnings (loss) and comprehensive income								
Continuing operations	**535**	270	98%	(175)	(406%)	**(2,690)**	(562)	379%
Discontinued operations	**-**	-	-	-	0%	**-**	42,109	(100%)
Total net earnings (loss) and comprehensive income	**$ 535**	$ 270	98%	$ (175)	(406%)	**$ (2,690)**	$ 41,547	(106%)
Earnings (loss) per share, basic:								
Continuing operations	**$ 0.06**	$ 0.03	100%	$ (0.02)	100%	**$ (0.28)**	$ (0.06)	367%
Discontinued operations	**-**	-	-	-	0%	**-**	4.57	(100%)
Total earnings (loss) per share, basic	**0.06**	0.03	100%	(0.02)	(400%)	**(0.28)**	4.51	(106%)
Earnings (loss) per share, diluted:								
Continuing operations	**$ 0.06**	$ 0.03	100%	$ (0.02)	100%	**$ (0.28)**	$ (0.06)	367%
Discontinued operations	**-**	-	-	-	0%	**-**	4.53	(100%)
Total earnings (loss) per share, diluted	**0.06**	0.03	100%	(0.02)	(400%)	**(0.28)**	4.47	(106%)
Return on equity from continuing operations (annualized)	**2.3%**	1.2%		(0.7%)		**(3.8%)**	(1.0%)	

Net interest income

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

($000s, except percentage amounts)	For the three months ended								
	September 30, 2014			June 30, 2014			September 30, 2013		
	Average Balance	**Income / Expense**	**Average rate**	Average Balance	Income / Expense	Average rate	Average Balance	Income / Expense	Average rate
Assets									
Cash and cash equivalents	**$ 35,401**	**$ 116**	**1.30%**	$ 53,686	$ 174	1.30%	$ 64,394	$ 211	1.30%
Mortgage receivable	**345,123**	**4,696**	**5.40%**	382,366	5,093	5.34%	319,144	4,138	5.14%
Total interest earning assets	**$ 380,524**	**$ 4,812**	**5.02%**	$ 436,052	$ 5,267	4.84%	$ 383,538	$ 4,349	4.50%
Liabilities									
Deposits	**$ 284,619**	**$ 1,599**	**2.23%**	$ 338,653	$ 1,878	2.22%	$ 277,611	$ 1,521	2.17%
Total interest bearing liabilities	**284,619**	**1,599**	**2.23%**	338,653	1,878	2.22%	277,611	1,521	2.17%
Net interest income per financial statements		**3,213**			3,389			2,828	
Net interest margin for mortgage portfolio			**3.34%**			3.24%			3.08%

($000s, except percentage amounts)	For the nine months ended					
	September 30, 2014			September 30, 2013		
	Average Balance	**Income / Expense**	**Average rate**	Average Balance	Income / Expense	Average rate
Assets						
Cash and cash equivalents	**$ 50,086**	**$ 487**	**1.30%**	$ 58,828	$ 572	1.30%
Mortgage receivable	**376,197**	**15,025**	**5.34%**	259,034	10,203	5.27%
Total interest earning assets	**$ 426,283**	**$ 15,512**	**4.87%**	$ 317,862	$ 10,775	4.53%
Liabilities						
Deposits	**$ 331,339**	**$ 5,462**	**2.20%**	$ 233,454	$ 3,833	2.20%
Total interest bearing liabilities	**$ 331,339**	**$ 5,462**	**2.20%**	$ 233,454	3,833	2.20%
Net interest income per financial statements		**10,050**			6,942	
Net interest margin for mortgage portfolio			**3.24%**			3.16%

Net interest income year over year for the third quarter increased $385 or 14% to $3,213, reflecting the higher average mortgage receivable balance in the third quarter of 2014. Net interest income decreased 5% compared to the second quarter of 2014, reflecting the decrease in our average mortgage receivable balance during the third quarter of 2014. The average net interest margin earned on our mortgage portfolio for the third quarter of 2014 was 3.34%, compared to 3.08% for the same period in 2013 and 3.24% for the second quarter of 2014. The increase in our average net interest margin includes the effect of our increased use of cash resources to fund mortgages.

Net interest income for the nine months ended September 30, 2014 increased $3,108 or 45% year over year to $10,050, reflecting a higher average mortgage receivable balance and the average net interest margin earned on our mortgage portfolio for year to date fiscal 2014 of 3.24%, compared to 3.16% 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

($000s)	For the three months ended September 30, 2014	June 30, 2014	September 30, 2013	For the nine months ended September 30, 2014	September 30, 2013
(Recovery of) collective provision	**$ (134)**	(115)	$ 281	**$ (242)**	$ 558
(Recovery of) individual provision	**(12)**	10	-	**49**	-
Total provision	**$ (146)**	$ (105)	$ 281	**$ (193)**	$ 558

Our collective provision for credit losses was a recovery of $134 for the third quarter of 2014, compared to an expense of $281 for the third quarter of 2013 and a recovery of $115 for the second quarter of 2014. For the year to date our collective provision for credit losses was a recovery of $242, compared to an expense of $558 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 had a recovery of individual provision for credit losses of $12 in the third quarter of 2014 on final resolution of an impaired 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

($000s except percentage amounts)	September 30, 2014	% of Gross Loans	June 30, 2014	% of Gross Loans	December 31, 2013	% of Gross Loans
Allowance for credit losses						
Collective Allowance	**$ 1,144**	**0.35%**	$ 1,278	0.35%	$ 1,386	0.35%
Individual Allowance	**-**	**0.00%**	61	0.02%	-	0.00%
Total	**$ 1,144**	**0.35%**	$ 1,339	0.37%	$ 1,386	0.35%

We have established an allowance for credit losses of $1,144 as at September 30, 2014.

The impaired loan identified in the first quarter of 2014 resulted in a realized loss of $49 in the third quarter of 2014, which consisted of the allowance on the impaired loan of $61 at the end of Q2, net of a recovery of $12 in the current quarter.

Table 6: Past due loans

($000s except percentage amounts)	September 30, 2014	% of Net Loans	June 30, 2014	% of Net Loans	December 31, 2013	% of Net Loans
Past due loans						
1-30 days	**$ 20,131**	**6.17%**	$ 19,347	5.31%	$ 20,162	5.11%
31-60 days	**437**	**0.13%**	1,756	0.48%	3,013	0.76%
61-90 days	**453**	**0.14%**	1,290	0.35%	949	0.24%
> 90 days	**2,491**	**0.76%**	2,142	0.59%	1,616	0.41%
Total	**$ 23,512**	**7.20%**	$ 24,535	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 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.

The Corporation classifies loans as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest.

Other income

Other income includes fees charged for administration and servicing of our mortgage portfolio. For the third quarter of 2014 we earned other income of $407 compared to $409 in the second quarter of 2014 and an increase of $115 or 39% compared to the third quarter of 2013. For the nine months ended September 30, 2014, we earned other income of $1,194, an increase of $543 or 83% year over year.

Non-interest expenses

Table 7: Non-interest expenses

	For the three months ended					For the nine months ended		
($000, except percentage amounts)	**September 30, 2014**	June 30, 2014	% Change	September 30, 2013	% Change	**September 30, 2014**	September 30, 2013	% Change
Non-interest expenses:								
Staffing costs	**$ 1,819**	$ 2,010	(10%)	$ 1,647	10%	**$ 6,256**	$ 4,158	50%
Rent	**102**	130	(22%)	128	(20%)	**329**	397	(17%)
General and administration	**963**	1,143	(16%)	1,105	(13%)	**7,871**	2,625	200%
Amortization and depreciation	**169**	168	1%	156	8%	**508**	492	3%
Total non-interest expenses	**$ 3,053**	$ 3,451	(12%)	$ 3,036	1%	**$ 14,964**	$ 7,672	95%

Staffing Costs – For the third quarter of 2014 the year over year increase in staffing costs reflects an increase in headcount and termination costs. Staffing costs in the third quarter of 2014 decreased compared to the prior quarter which included accruals for incentive and retention based compensation plans put in place in the second quarter of 2014. For the year to date the increase in staffing costs reflects the termination costs incurred during the year and increased headcount.

Rent – Rent costs for the third quarter and year to date were consistent with management expectations for the current year. Third quarter rent expense is lower compared to prior quarters due to a refund of 2013 operating costs.

General and Administration – Costs for the third quarter of 2014 were lower than in the prior quarter due to lower professional fees. Costs in the third quarter of 2014 are lower compared to the same period last year due to higher mark-to-market adjustments on the value of directors' deferred stock units in 2013. The year to date cost increase primarily reflects the one-time costs of $4,620 recognized in the first quarter for legal and other advisory fees in respect of a shareholder action and independent consultant costs for an internal controls review, along with increased regulatory fees.

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

Net earnings and earnings per share

Table 8: Earnings Per Share

($000s,except per share and percentage amounts)	For the three months ended					For the nine months ended		
	September 30, 2014	June 30, 2014	Change	September 30, 2013	Change	**September 30, 2014**	September 30, 2013	Change
Net earnings (loss)								
Continuing operations	**$ 535**	$ 270	$ 265	$ (175)	$ 710	**$ (2,690)**	$ (562)	$ (2,128)
Discontinued operations[2]	**-**	-	-	-	-	**-**	42,109	(42,109)
Net earnings (loss) and comprehensive income	**535**	270	265.00	(175)	710	**(2,690)**	41,547	(44,237)
Basic earnings (loss) per share from								
Continuing operations	**$ 0.06**	$ 0.03	$ 0.03	$ (0.02)	$ 0.08	**$ (0.28)**	$ (0.06)	$ (0.22)
Discontinued operations[2]	**-**	-	-	-	-	**-**	4.57	(4.57)
Basic earnings (loss) per share	**0.06**	0.03	0.03	(0.02)	0.08	**(0.28)**	4.51	(4.79)
Diluted earnings (loss) per share from								
Continuing operations	**$ 0.06**	$ 0.03	$ 0.03	$ (0.02)	$ 0.08	**$ (0.28)**	$ (0.06)	$ (0.22)
Discontinued operations[2]	**-**	-	-	-	-	**-**	4.53	(4.53)
Diluted earnings (loss) per share	**0.06**	0.03	0.03	(0.02)	0.08	**(0.28)**	4.47	(4.75)
ADJUSTED EARNINGS								
Adjusted net earnings (loss) from continuing operations [1]	**$ 535**	$ 445	98%	$ (175)	406%	**$ 1,404**	$ (562)	350%
Adjusted earnings (loss) per share from continuing operations - basic [1]	**0.06**	0.05	100%	(0.02)	100%	**0.15**	(0.06)	350%
Adjusted earnings (loss) per share from continuing operations - diluted [1]	**0.06**	0.05	100%	(0.02)	100%	**0.15**	(0.06)	350%

[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 third quarter of 2014 our continuing operations generated net earnings of $535 or $0.06 per share compared to $270 or $0.03 per share for the second quarter of 2014, and a loss of $175 or $0.02 per share for the third quarter of 2013. For the year to date we had a net loss from continuing operations of $2,690 or $0.28 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 nine months of 2014 were $1,404 or $0.15 per share, compared to an adjusted net loss from continuing operations of $562 or $0.06 per share for the first nine 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 September 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 11 of our consolidated interim financial statements.

Discontinued Operations

Table 9: Results of Discontinued Operations

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

FINANCIAL POSITION REVIEW

Table 10: Balance Sheet Highlights

	As at			Change over			
($000s, except percentage amounts)	**September 30, 2014**	June 30, 2014	December 31, 2013	Sep 2014-Jun 2014 $	%	Sep 2014-Dec 2013 $	%
Assets							
Cash and cash equivalents	**$ 36,479**	$ 39,151	$ 43,376	$ (2,672)	(7%)	$ (6,897)	(16%)
Mortgages receivable	**326,393**	364,563	394,812	(38,170)	(10%)	(68,419)	(17%)
Other assets	**4,718**	5,329	4,188	(611)	(11%)	530	13%
Total Assets	**$ 367,590**	$ 409,043	$ 442,376	$ (41,453)	(10%)	$ (74,786)	(17%)
Liabilities							
Customer deposits	**$ 269,176**	$ 310,712	$ 332,437	$ (41,536)	(13%)	$ (63,261)	(19%)
Other liabilities	**3,664**	4,466	13,829	(802)	(18%)	(10,165)	(74%)
Total liabilities	**$ 272,840**	$ 315,178	$ 346,266	$ (42,338)	(13%)	$ (73,426)	(21%)
Shareholders' equity	**94,750**	93,865	96,110	885	1%	(1,360)	(1%)
Total liabilities and shareholders' equity	**$ 367,590**	$ 409,043	$ 442,376	$ (41,453)	(10%)	$ (74,786)	(17%)

Total assets as at September 30, 2014 were $367,590, a decrease of $74,786 or 17% 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 $68,419 or 17% and the decrease in our cash balance by $6,897 or 16% (see “Liquidity Resources”). Total liabilities as at September 30, 2014 were $272,840, a decrease of $73,426 or 21% compared to the balance as at December 31, 2013. The decrease in total liabilities was mainly due to a decrease in customer deposits of $63,261 or 19% 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. 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”). In accordance with our liquidity policy and in anticipation of new liquidity adequacy requirements coming into effect in January 2015 that requires institutions to maintain an adequate supply of unencumbered high quality liquid assets that can be converted into cash over a 30-day period, we purchased short-term investments during the quarter which are included in the cash and cash equivalents balance below.

Table 11: Cash and cash equivalents

	As at			Change over			
($000s, except percentage amounts)	**September 30, 2014**	June 30, 2014	December 31, 2013	Sep 2014-Jun 2014 $	%	Sep 2014-Dec 2013 $	%
Deposits with regulated financial institutions	**$ 31,485**	$ 39,151	$ 43,376	$ (7,666)	(20%)	$ (11,891)	(27%)
Short-term investments	**4,994**	-	-	4,994	100%	4,994	100%
Total Cash and cash equivalents	**$ 36,479**	$ 39,151	$ 43,376	$ (2,672)	(7%)	$ (6,897)	(16%)

Cash and cash equivalents as at September 30, 2014 decreased by $6,897 compared to December 31, 2013, as a result of the inflows and outflows described below.

Table 12: Sources and Uses of Cash

($000s, except percentage amounts)	For the nine months ended September 30, 2014	September 30, 2013	Change $	%
Cash flows used in operating activities	**$ (7,968)**	$ (51,630)	$ 43,662	(85%)
Cash flows provided by financing activities	**1,079**	1,227	(148)	(12%)
Cash flows (used in) provided by investing activities	**(8)**	63,800	(63,808)	100%

Cash used in operating activities

Cash flow used in operating activities was $7,968 for the nine months ended September 30, 2014, an increase of $43,662, or 85% compared to the same period in 2013. Decreases to our deposit liability and mortgages receivable balances constitute the largest sources of operating outflows and inflows respectively. For the nine months ended September 30, 2014 we had net inflows of $68,661 from the decrease in our mortgages receivable balance. These inflows were offset by net outflows of $63,261 due to maturing customer deposits and $7,227 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 nine months ended September 30, 2014 decreased by $148 or 12%, to $1,079 compared to the same period in 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 nine months ended September 30, 2014. For the comparable period in 2013 the cash inflow of $63,800 primarily reflects the proceeds from the Transaction.

Mortgages receivable

Table 13: Mortgage Production & Portfolio Highlights

($000s, except percentage and year figures)	For the three months ended September 30, 2014	June 30, 2014	December 31, 2013	September 30, 2013	For the nine months ended September 30, 2014	September 30, 2013
Mortgage originations	**$ 16,839**	$ 9,369	$ 62,876	$ 103,757	**$ 51,541**	$ 216,181
Average loan-to-value ratio at origination	**71.4%**	70.7%	73.2%	73.2%	**71.9%**	73.1%
As at						
Mortgages receivable	**326,393**	364,563	394,812	356,565		
Mortgages receivable due in one year	**232,831**	257,725	280,613	252,854		
Average term to maturity in years	**0.9**	0.8	0.9	1.0		
Average effective interest rate	**5.21%**	5.34%	5.31%	5.32%		
Average amortization period in years	**31.8**	32.2	33.0	33.0		

Mortgages receivable consist of uninsured loans with terms up to five years for the purchase or refinancing of single-family homes in urban and suburban areas of Ontario.

For the third quarter of 2014, we originated mortgages of $16,839, an increase of $7,470 or 80% compared to originations in the second quarter of 2014 and our mortgage receivable balance as at September 30, 2014 was $326,393, a decrease of $38,170 or 10% compared to June 30, 2014. The Corporation had outstanding commitments to make future advances on mortgage loans of $7.1 million as at September 30, 2014. Commitments for the loans were for various dates through to November 2014.

Customer Deposits

Table 14: Customer Deposits

	As at			
($000s)	**September 30, 2014**	June 30, 2014	December 31, 2013	September 30, 2013
Customer deposits	**$ 269,176**	$ 310,712	$ 332,437	$ 301,306
Customer deposits due in one year	**181,246**	222,343	247,666	241,435
Average term to maturity in years	**1.0**	0.8	0.9	1.1
Average effective interest rate	**2.23%**	2.22%	2.23%	2.19%

Customer deposits consist of GICs, which are sold through registered investment dealers, with fixed maturity dates and an average term to maturity of 1.0 years. As at September 30, 2014, the portion of customer deposits due within one year is $181,246. The average effective interest rate paid on deposits is 2.23%.

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".

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

Table 15: Financial Assets and Liabilities

September 30, 2014	**Loans and Receivables/Financial Liabilities at Amortized Cost**	**Carrying Value**	**Fair Value**	**Fair Value Over Carrying Value**
Financial assets:				
Mortgages receivable	**326,393**	**326,393**	**326,845**	**452**
Total financial assets	**$ 326,393**	**$ 326,393**	**$ 326,845**	**$ 452**
Financial liabilities:				
Customer deposits	**269,176**	**269,176**	**269,525**	**349**
Total financial liabilities	**$ 269,176**	**$ 269,176**	**$ 269,525**	**$ 349**

QUARTERLY FINANCIAL HIGHLIGHTS

Table 16: Summary of Quarterly Results

($000s, except per share amounts)	2014			2013				2012
Operating results	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net interest income	**$ 3,213**	$ 3,389	$ 3,448	$ 3,386	$ 2,828	$ 2,306	$ 1,808	$ 1,549
Recovery of (provisions for) credit losses	**146**	105	(58)	(134)	(281)	(176)	(101)	(113)
Other income	**407**	409	378	346	293	212	147	133
Net interest income and other income, net of provision	**3,766**	3,903	3,768	3,598	2,840	2,342	1,854	1,569
Non-interest expenses	**3,053**	3,451	8,460	3,296	3,037	2,315	2,321	2,045
Net earnings (loss) from continuing operations	**535**	270	(3,495)	235	(175)	1	(388)	(356)
Net earnings (loss) from discontinued operations	**-**	-	-	-	-	42,747	(638)	480
Total net earnings (loss) and comprehensive income	**535**	270	(3,495)	235	(175)	42,748	(1,026)	124
Basic earnings (loss) per share from continuing operations	**$ 0.06**	$ 0.03	$ (0.37)	$ 0.03	$ (0.02)	$ -	$ (0.04)	$ (0.04)
Basic earnings (loss) per share discontinued operations	**-**	-	-	-	-	4.66	(0.07)	0.05
Basic earnings (loss) per share	**0.06**	0.03	(0.37)	0.03	(0.02)	4.66	(0.11)	0.01
Diluted earnings (loss) per share from continuing operations	**0.06**	0.03	(0.37)	0.02	(0.02)	-	(0.04)	(0.04)
Diluted earnings (loss) per share from discontinued operations	**-**	-	-	-	-	4.60	(0.07)	0.05
Diluted earnings (loss) per share	**0.06**	0.03	(0.37)	0.02	(0.02)	4.60	(0.11)	0.01
Dividends	**-**	-	-	-	-	-	-	-
Balance sheet highlights								
Cash and cash equivalents	**$ 36,479**	$ 39,151	$ 60,633	$ 43,376	$ 47,826	$ 55,507	$ 37,463	$ 34,429
Mortgage receivables	**326,393**	364,563	397,036	394,812	356,565	276,550	226,876	198,147
Total assets	**367,590**	409,043	463,137	442,493	409,130	337,923	282,179	251,442
Customer deposits	**269,176**	310,712	362,906	332,437	301,306	230,840	224,913	192,757
Total liabilities	**272,840**	315,178	370,331	346,383	313,565	242,730	230,840	199,175
Shareholders' equity	**94,750**	93,865	92,806	96,110	95,565	95,193	51,339	52,267

Net interest income has increased or decreased each quarter in line with the change in the size of our mortgage portfolio. The net loss from continuing operations in the first quarter of 2014 reflects significant one-time costs incurred for legal and other advisory fees in respect of resolving a shareholder action, executive severance payments and independent consultant costs for an internal controls review. 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 September 30, 2014, Equity Trust held CET1 on an "all-in" basis of $84,786 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 September 30, 2014 was $86,052.

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 October 30, 2014 OSFI issued the final version of the 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					
		September 30, 2014		June 30, 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	**54,762**	**54,762**	54,387	54,387	54,985	54,985
6	**Common Equity Tier 1 capital before regulatory adjustments**	**86,368**	**86,368**	85,993	85,993	86,591	86,591
	Common Equity Tier 1 capital: regulatory adjustments						
28	Total regulatory adjustments to Common Equity Tier 1	**(1,582)**	**(316)**	(1,647)	(328)	(1,836)	-
29	**Common Equity Tier 1 capital (CET1)**	**84,786**	**86,052**	84,346	85,665	84,755	86,591
45	**Tier 1 capital**	**84,786**	**86,052**	84,346	85,665	84,755	86,591
59	**Total capital**	**84,786**	**86,052**	84,346	85,665	84,755	86,591
60	**Total risk-weighted assets**	**140,390**	**141,656**	153,565	154,883	158,327	160,163
	Capital ratios						
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	**60.4%**	**60.7%**	54.9%	55.3%	53.5%	54.1%
62	Tier 1 (as percentage of risk-weighted assets)	**60.4%**	**60.7%**	54.9%	55.3%	53.5%	54.1%
63	Total capital (as percentage of risk-weighted assets)	**60.4%**	**60.7%**	54.9%	55.3%	53.5%	54.1%
	Assets-to-Capital Multiple		**4.2x**		4.7x		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.

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 has 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 nine months ended September 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 non-prime and near prime customers who have limited access to traditional financing. There is a higher risk of default associated with these customers than with traditional borrowers. The typical non or near prime 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 conventional underwriting standards of the major Canadian 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 and short-term investments issued by the Government of Canada.

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	$ 500	$ (527)
Impact on EVE	(277)	271
EVE impact as a % of common shareholders' equity	(0.3%)	0.3%
	200 bps	
Impact on net interest income	$ 985	$ (863)
Impact on EVE	(554)	209
EVE impact as a % of common shareholders' equity	(0.6%)	0.2%

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 on January 1, 2014 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 September 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 (COSO), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In May 2013, COSO issued its updated Internal Control Integrated Framework, which will supersede the original framework on December 16, 2014. At this time, management does not expect adoption of the updated framework to have a material impact on our ICFR.

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 September 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 nine months ended		
($000, except per share and percentage amounts)	**September 30, 2014**	June 30, 2014	% Change	September 30, 2013	% Change	**September 30, 2014**	September 30, 2013	% Change
Net earnings (loss) from continuing operations	**$ 535**	$ 270	98%	$ (175)	406%	**$ (2,690)**	$ (562)	(379%)
Adjustment for costs incurred in relation to the shareholder action settlement (net of tax)	**-**	-	0%	-	0%	**3,138**	-	100%
Adjustment for costs incurred in relation to the review and external audit (net of tax)	**-**	-	0%	-	0%	**956**	-	100%
Adjusted net earnings (loss) from continuing operations	**$ 535**	$ 270	98%	$ (175)	406%	**$ 1,404**	$ (562)	350%
Adjusted basic earnings (loss) per share from continuing operations	**$ 0.06**	$ 0.03	100%	$ (0.02)	100%	**$ 0.15**	$ (0.06)	350%
Adjusted diluted earnings (loss) per share from continuing operations	**$ 0.06**	$ 0.03	100%	$ (0.02)	100%	**$ 0.15**	$ (0.06)	350%

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 November 12, 2014 we had 9,507,508 common shares outstanding and 604,002 stock options to purchase up to an aggregate of 604,002 common shares, with a weighted average exercise price of $9.80, expiring from December 2014 to September 2019.

ADDITIONAL INFORMATION

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