EQUITABLE GROUP INC.

SECOND QUARTER 2013
INTERIM FINANCIAL STATEMENTS

EQUITABLE GROUP INC.

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

For the three and six months ended June 30, 2013

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and six months ended June 30, 2013. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2013, together with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2012, together with accompanying notes. This report, and the information provided herein, is dated as at August 14, 2013. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitablebank.ca and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made by the Company in the sections of this report including those entitled "Business Profile and Objectives", "Q2 2013 Highlights", "Business Outlook", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Other Assets", "Capital Management", "Risk Management", in other filings with Canadian securities regulators and in other communications include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial performance expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may" , "could", "would", "should", "might" or "will be taken", "occur", "be achieved", or other similar expressions of future or conditional verbs.

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

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

BUSINESS PROFILE AND OBJECTIVES

Equitable Group Inc. (TSX: ETC and ETC.PR.A) is a growing Canadian financial services business that serves the market through its wholly-owned subsidiary, Equitable Bank (collectively referred to as "Equitable"). Equitable Bank is a Schedule I Bank regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") with total assets of approximately $12 billion, 290 skilled employees and proven capabilities in lending and deposit-taking. Equitable Bank was founded in 1970 as The Equitable Trust Company ("Equitable Trust") and operated as Equitable Trust until July 1, 2013. The conversion to a Schedule I Bank is intended to enhance consumer confidence in our brand, simplify regulatory requirements and add to our ability to attract non-common share regulatory capital.

Our operations are organized according to specialty. Within Equitable Bank's Core Lending business, Single Family Lending Services funds mortgages for owner-occupied and investment properties across Canada while Commercial Lending Services provides mortgages on a variety of commercial properties on a national basis. Equitable Bank's Securitization Financing business originates and securitizes insured residential mortgages under the Canada Mortgage and Housing ("CMHC") administered National Housing Act. Equitable Bank provides savings products including Guaranteed Investment Certificates and deposit accounts.

Equitable Bank is distinguished by our focus on underserved niches and customers in the financial services market including business-for-self borrowers, newcomers to Canada establishing credit for the first time, the credit challenged and real estate investors; extensive partnerships with Canada's mortgage brokers, mortgage bankers, deposit brokers, investment dealers and financial planners who provide independent professional advice to Equitable's customers; responsive service; rigorous lending and underwriting standards; a low-cost, non-branch business model; disciplined capital deployment; a long-term financial track record; high employee engagement; and, community involvement.

Management's strategies are designed to create shareholder value by optimizing Return on Equity ("ROE") and to protect the Company's depositors. The priorities that support our approach are outlined below:

Strategic Priorities	How We Accomplish Them
Grow by providing effective service, competitive products and cost-efficient operations	• Win more business by delivering service excellence to borrowers, mortgage brokers, deposit agents, and our other business partners • Operate without branches or high fixed costs and with the capability to deliver responsive solutions • Leverage the Company's access to funding and other capabilities to prudently diversify our product mix over time
Build our capabilities and brand	• Invest in the development of our employees, and in the continuous improvement of our products, processes and systems • Become an employer of choice for talented individuals in the financial services community • Advance our reputation and the marketplace awareness of our Company • Support the communities in which we do business
Consistently create shareholder value	• Maintain a diverse portfolio of residential and commercial mortgages in our Core Lending business • Complement Core Lending with a Securitization Financing business focused on multi-unit residential properties (i.e. apartment buildings) • Apply rigorous capital allocation and pricing discipline • Use retained earnings and non-dilutive forms of capital to fund growth and support our strong capital position • Grow common share dividends consistently
Maintain a low risk profile	• Originate only conventional mortgages in our Core Lending businesses (less than 80% loan to value in single family and less than 75% in commercial) • Employ best-in-class underwriting and collection practices • Operate in large urban centers with stable and liquid real estate markets, carefully expanding our geographic coverage over time • Hold an appropriate amount of liquid assets at all times and maintain diversity in our funding sources

Please refer to Equitable's 2012 Annual Report for a detailed description of the business and our priorities.

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended					Six months ended		
	Jun 30, 2013	Mar 31, 2013	% Change	Jun 30, 2012	% Change	**Jun 30, 2013**	Jun 30, 2012	% Change
OPERATIONS								
Net income	**22,898**	20,914	9%	22,073	4%	**43,812**	40,013	9%
Net income available to common shareholders	**21,992**	20,008	10%	21,167	4%	**42,000**	38,201	10%
EPS – basic	**$1.44**	$1.32	9%	$1.41	2%	**$2.76**	$2.54	9%
EPS – diluted	**$1.43**	$1.30	10%	$1.40	2%	**$2.73**	$2.52	8%
Return on equity – annualized[(1)]	**18.2%**	17.5%	0.7%	21.1%	(3%)	**17.8%**	19.4%	(1.6%)
Return on average assets – annualized[(1)]	**0.8%**	0.7%	0.1%	0.8%	-%	**0.8%**	0.7%	0.1%
Net interest margin – TEB – total assets[(1)]	**1.46%**	1.42%	0.04%	1.49%	(0.03%)	**1.44%**	1.47%	(0.03%)
Productivity ratio – TEB[(1)(2)]	**30.3%**	30.3%	-%	30.6%	(0.3%)	**30.3%**	30.7%	(0.4%)
BALANCE SHEET								
Total assets	**11,837,872**	11,602,293	2%	10,867,531	9%			
Mortgages receivable	**10,806,401**	10,737,609	1%	9,978,718	8%			
Shareholders' equity	**545,919**	521,829	5%	462,473	18%			
CREDIT QUALITY								
Realized loan losses – net of recoveries	**873**	24	N/A	(20)	N/A	**897**	502	79%
Net impaired mortgages as a % of total mortgage assets[(3)]	**0.22%**	0.34%	(0.12%)	0.27%	(0.05%)			
Allowance for credit losses as a % of total mortgage assets	**0.27%**	0.27%	-%	0.23%	0.04%			
SHARE CAPITAL								
Number of common shares outstanding at period end	**15,280,854**	15,234,379	0%	15,073,873	1%			
Dividends declared per common share	**$0.15**	$0.14	7%	$0.12	25%	**$0.29**	$0.24	21%
Dividends declared per preferred share	**$0.45**	$0.45	-%	$0.45	-%	**$0.91**	$0.91	-%
Book value per common share	**$32.55**	$31.07	5%	$27.46	19%			
Common share price – close	**$35.92**	$38.02	(6%)	$25.74	40%			
Market capitalization	**548,888**	579,211	(5%)	388,001	41%			
EQUITABLE TRUST CAPITAL RATIOS								
Common Equity Tier 1 ratio[(1)]	**12.4%**	12.2%	0.2%	12.0%	0.4%			
Tier 1 capital ratio[(1)]	**13.5%**	13.4%	0.1%	13.4%	0.1%			
Total capital ratio (including collective allowance)[(1)]	**16.5%**	16.4%	0.1%	15.6%	0.9%			

(1) *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
(2) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(3) *Net impaired mortgages do not include insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.*

Q2 2013 HIGHLIGHTS

Equitable produced record earnings and successfully delivered on our strategic priorities in Q2 2013:

Grow by providing effective service, competitive products and cost-effective operations	• Increased Core Lending mortgage assets by 18% over Q2 2012, led by Single Family balances which were up by 33% • Managed costs tightly in the quarter and achieved a productivity ratio of 30.3%
Build our capabilities and brand	• Received approval to convert Equitable Trust to a Schedule I Bank, only three and a half months after we announced our intention to pursue a formal application • Decided to change the TSX symbol of Equitable Group Inc. from ETC to EQB on or about September 3, 2013, to reflect the conversion of Equitable Bank • Named the 165th most profitable company in Canada by The Globe and Mail's Report on Business Magazine, a 36 place jump from 201st in 2011 • Hired Drew Berman, an experienced executive with 20 years in law and financial services, as our new Vice-President, General Counsel and Corporate Secretary
Consistently create shareholder value	• Q2 net income increased by 23% over Q2 2012, adjusted for a non-recurring investment gain realized in the prior year • Delivered an ROE of 18.2% (above our five-year average of 17.2%) • Increased our common share dividends by 7% in the quarter • Reduced debenture interest expense by over $1.0 million sequentially, due to the repayment of $38 million of debentures in the prior quarter
Maintain a low risk profile	• Maintained low loan-to-value ratio of our Core Lending portfolio at 69% • Reported arrears rates of just 0.23% at the end of the quarter • Achieved a Common Equity Tier 1 ("CET1") ratio of 12.4%, which was well ahead of most industry benchmarks

DIVIDENDS

On August 14, 2013, the Company's Board of Directors declared a quarterly dividend in the amount of $0.15 per common share, payable on October 3, 2013, to common shareholders of record at the close of business on September 13, 2013. This dividend represents a 7% increase over dividends declared in August 2012.

Also, on August 14, 2013, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on September 30, 2013, to preferred shareholders of record at the close of business on September 13, 2013.

BUSINESS OUTLOOK

Beginning in the fall of 2012, Canadian housing market growth slowed, although growth levels have varied substantially by geographic region and property type. Our single family mortgage production continued to be affected by this slowdown in the second quarter. As in the first quarter, Q2 production levels were also dampened by our approach to implementing some recent regulatory changes, which resulted in a loss of origination volumes. Management has taken further steps to align this implementation with our objective of delivering superior customer service and is now observing the positive impact of these changes. Even with the slowdown in production growth that we have experienced so far this year, we believe that overall single family balances should continue to grow at double digit rates on a year-over-year basis due to the absolute level of production relative to the current size of the portfolio and our high rates of renewals on existing mortgages.

Going forward, each quarter we have the opportunity to renew a substantial portion of the mortgages in our Securitization Financing portfolio. Based on our experience in Q2 2013, we anticipate renewing approximately half of the mortgages that are scheduled to mature in future quarters. We also plan to supplement those renewals with moderate levels of production. As such, and because almost half of the assets securitized in recent periods are being derecognized, we now expect that the size of the Securitization Financing portfolio will decrease at rates in the low single digits during 2013. The decrease could be more pronounced if we choose to sell the retained interests in selected future securitizations and achieve derecognition for those assets. Gains on sale should continue around current levels for the remainder of the year as assets are securitized and derecognized.

We expect our arrears rates and loan losses to remain low in 2013. Employment, the major driver of arrears in the single family business, is forecast to remain stable and our loan-by-loan and overall analysis of our commercial portfolio indicates that the portfolio remains healthy. Management will continue to manage credit risk through the application of our traditional prudent lending practices. In addition, we believe that our losses from any of the recent catastrophic events in Canada are likely to be minimal, and that our current allowances and insurance policies are more than sufficient to absorb any losses that we may incur.

The Company believes that our total Net Interest Margin ("NIM") on the mortgage portfolio will remain relatively stable over the remaining quarters of 2013, though may experience some fluctuations due to inherently volatile mortgage prepayment charge income. Total NIM will benefit from the continued shift in volume towards the Company's higher margin Core Lending book. Within Core Lending, we expect NIM to decrease marginally over the year as the portfolio continues shifting towards lower spread, but also lower risk-weighted, single family residential mortgages. Securitization Financing NIM should compress slightly during the remainder of 2013 due to the origination of new and the renewal of existing mortgages at lower spreads.

Equitable will continue to invest to grow our franchise and support our high level of customer service. Even with that investment, the Company will continue to operate efficiently on both an absolute and relative basis. Management does not expect material changes in the productivity ratio this year as compared with 2012. We will continue to prudently manage hiring and other spending to keep expense growth consistent with the growth in the business.

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

FINANCIAL REVIEW - EARNINGS

Table 2: Income statement highlights

	Three months ended					Six months ended		
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**Jun 30, 2013**	Mar 31, 2013	% Change	Jun 30, 2012	% Change	**Jun 30, 2013**	Jun 30, 2012	% Change
Net income	**22,898**	20,914	9%	22,073	4%	**43,812**	40,013	9%
EPS – diluted	**$1.43**	$1.30	10%	$1.40	2%	**$2.73**	$2.52	8%
Net interest income[1]	**42,406**	40,162	6%	38,451	10%	**82,569**	74,975	10%
Provision for credit losses	**1,650**	2,100	(21%)	1,693	(3%)	**3,750**	3,920	(4%)
Non-interest expenses	**14,257**	13,236	8%	12,319	16%	**27,493**	24,228	13%
Income taxes	**7,868**	6,895	14%	3,316	137%	**14,764**	9,069	63%

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

NET INTEREST INCOME

Net interest income is the main driver of profitability for the Company. Table 3 illustrates the Company's Net Interest Income for the three and six months ended June 30, 2013.

Table 3: Net interest income

	Three months ended						Six months ended			
	Jun 30, 2013		Mar 31, 2013		Jun 30, 2012		**Jun 30, 2013**		Jun 30, 2012	
($ THOUSANDS)	**Revenue/ expense**	**Average rate[1]**	Revenue/ expense	Average rate[1]	Revenue/ expense	Average rate[1]	**Revenue/ expense**	**Average rate[1]**	Revenue/ expense	Average rate[1]
Core Lending:										
Revenues derived from:										
Mortgages	**$ 67,838**	**5.03%**	$ 64,651	5.01%	$ 58,655	5.19%	**$ 132,489**	**5.02%**	$ 115,763	5.25%
Liquidity investments	**2,131**	**1.39%**	1,970	1.40%	1,764	1.49%	**4,102**	**1.37%**	3,255	1.53%
Equity securities – TEB[2]	**1,237**	**5.06%**	1,714	5.89%	2,839	6.59%	**2,951**	**5.45%**	5,227	5.88%
	71,206	**4.66%**	68,335	4.68%	63,258	4.90%	**139,542**	**4.66%**	124,245	4.95%
Expenses related to:										
Deposits	**32,866**	**2.42%**	31,771	2.45%	29,588	2.58%	**64,528**	**2.43%**	58,228	2.61%
Debentures and bank facilities	**1,425**	**5.50%**	2,403	8.26%	1,074	6.52%	**3,828**	**6.86%**	2,146	6.56%
	34,291	**2.47%**	34,174	2.58%	30,662	2.64%	**68,356**	**2.52%**	60,374	2.67%
Net interest income – TEB[2][3]	**36,915**	**2.39%**	34,161	2.32%	32,596	2.50%	**71,186**	**2.35%**	63,871	2.52%
Less: Taxable equivalent adjustment	**(401)**		(518)		(807)		**(919)**		(1,674)	
Net interest income[3]	**$ 36,514**		$ 33,643		$ 31,789		**$ 70,267**		$ 62,197	
Securitization Financing:										
Revenues derived from:										
Mortgages	**$ 51,313**	**3.88%**	$ 52,986	3.96%	$ 53,916	4.12%	**$ 104,299**	**3.92%**	$ 108,454	4.15%
Liquidity investments	**995**	**1.55%**	725	1.58%	422	1.51%	**1,720**	**1.55%**	884	1.49%
	52,308	**3.77%**	53,711	3.88%	54,338	4.07%	**106,019**	**3.83%**	109,338	4.09%
Expenses related to:										
Securitization liability	**44,526**	**3.44%**	45,249	3.51%	45,675	3.66%	**89,776**	**3.48%**	92,849	3.71%
Deposits	**1,890**	**2.42%**	1,943	2.45%	2,001	2.58%	**3,941**	**2.43%**	3,711	2.61%
	46,416	**3.39%**	47,192	3.45%	47,676	3.60%	**93,717**	**3.42%**	96,560	3.65%
Net interest income[3]	**$ 5,892**	**0.42%**	$ 6,519	0.47%	$ 6,662	0.50%	**$ 12,302**	**0.44%**	$ 12,778	0.48%
Total assets:										
Net Interest Income - TEB[2][3]	**$ 42,807**	**1.46%**	$ 40,680	1.42%	$ 39,257	1.49%	**$ 83,488**	**1.44%**	$ 76,649	1.47%

[1] *Average rates are calculated based on the average of the month-end balances outstanding during the period.*
[2] *See Non-Generally Accepted Accounting Principles Financial Measures section of this MD&A.*
[3] *See Additional Generally Accepted Accounting Principles Financial Measures section of this MD&A.*

Q2 2013 v Q2 2012

Net interest income benefitted from an increase in average asset balances of $1.1 billion or 11%, while our NIM decreased three basis points to 1.46% from 1.49% in 2012. Although NIM was helped by the continued shift in the mix of assets towards our higher margin Core Lending business, that shift was offset by NIM compression within Core Lending. NIM earned on Core Lending assets was down 11 basis points ("bps") from 2.50% to 2.39%, as a result of the Company's continued emphasis on Single Family residential mortgages, which generally earn lower spreads than Commercial mortgages but are highly profitable on a capital adjusted basis. Securitization Financing NIM was down 8 bps, largely due to lower margins on mortgage assets and growth in the relative size of our low margin liquidity portfolio. NIM on Securitization Financing mortgage assets was lower because more recent originations and renewals have been at lower spreads.

The causes of the changes in NIM from period to period are provided in more detail in Table 4 below.

Q2 2013 v Q1 2013

Net interest income benefitted from an increase in average asset balances of $165 million or 1% and our NIM increased by four basis points to 1.46% from 1.42% in Q1 2013. An increase in Core Lending NIM more than offset a decline in Securitization Financing NIM in the quarter. Core Lending NIM was up by 7 bps mostly because of higher mortgage prepayment income and lower interest expenses on debentures and bank facilities. Interest on our debt declined after a $38 million redemption and a non-recurring debt redemption charge in Q1 2013. Securitization Financing NIM was down by 5 bps due to lower prepayment income and from holding relatively more assets in our low margin liquidity portfolio.

YTD 2013 v YTD 2012

Year-over-year, net interest income grew 9% as average asset balances growth of $1.2 billion or 12% offset a slight decline in NIM. Total YTD NIM decreased by three basis points to 1.44% from 1.47% in 2012. Core Lending NIM was down by 17 bps while Securitization Financing NIM was down by 3 bps.

Table 4: Factors affecting NIM

(IN BASIS POINTS)	Q2 2013 vs. Q1 2013	Q2 2013 vs. Q2 2012	YTD 2013 vs. YTD 2012
Core Lending NIM:			
Mortgage prepayment income	8	3	(2)
Size and rate of liquidity investments	(2)	(4)	(7)
Size and rate of equity securities holdings	(1)	(2)	(2)
Size and rate of debentures and bank facilities	1	(4)	4
Q1 2013 Debt redemption charge	5	-	(3)
Shift in mix of mortgage portfolio towards Single Family assets	(1)	(5)	(7)
Other	(3)	1	-
Total change in NIM	7	(11)	(17)
Securitization Financing NIM:			
Mortgage prepayment income	(3)	-	1
Size of liquidity investments	(3)	(6)	(4)
Lower spreads on renewals/originations and other	1	(2)	(1)
Total change in NIM	(5)	(8)	(4)

PROVISION FOR CREDIT LOSSES

The provision for credit losses decreased from $2.1 million in Q1 2013 to $1.7 million in Q2 2013 and is unchanged from the same quarter of the prior year. The moderate level of our credit provision reflects the quality of the underlying mortgage portfolio and our sufficient balance sheet allowances.

OTHER INCOME

Table 5: Other income

	Three months ended					Six months ended		
($ THOUSANDS)	**Jun 30, 2013**	Mar 31, 2013	% Change	Jun 30, 2012	% Change	**Jun 30, 2013**	Jun 30, 2012	% Change
Fees and other income	**$ 1,237**	$ 1,457	(15%)	$ 981	26%	**$ 2,694**	$ 1,986	36%
Net (loss) gain on investments	**(1)**	645	(100%)	54	(102%)	**644**	303	113%
Gains on securitization activities and income from retained interests	**1,831**	1,064	72%	-	N/A	**2,895**	-	N/A
Fair value gain (loss) on derivative financial instruments - securitization	**1,200**	(183)	N/A	(85)	N/A	**1,017**	(34)	N/A
Total	**$ 4,267**	$ 2,983	43%	$ 950	349%	**$ 7,250**	$ 2,255	222%

Q2 2013 v Q2 2012

Other income increased by 349% to $4.3 million in Q2 2013, compared to $1.0 million in the corresponding quarter of the prior year. The $3.3 million increase is attributable mainly to:

- $1.8 million of gains on sale recorded on the securitization and derecognition of $151 million of insured residential mortgages during the quarter;
- $1.2 million of fair value gains on derivative financial instruments related to securitization activities, which may reverse in part in future periods; and
- $0.2 million of higher mortgage administration fees, driven by organic growth of the mortgage portfolio.

Q2 2013 v Q1 2013

Other income increased by $1.3 million or 43% sequentially, mainly as a result of the fair value gains on derivative financial instruments and securitization gains on sale. The increase occurred despite $0.6 million lower investment gains in Q2 and the absence of $0.3 million of fee income related to an HST refund in Q1.

YTD 2013 v YTD 2012

For the six months ended June 30, 2013, other income increased $5.0 million. The increase is a result of:

- $2.9 million of gains on sale recorded on the securitization and derecognition of $270 million of insured residential mortgages;
- $1.1 million of fair value gains on derivative financial instruments related to securitization activities;
- $0.4 million of higher mortgage administration fees, driven by organic growth of the mortgage portfolio;
- $0.3 million of gains related to the sale of certain of the Company's preferred share investments; and
- $0.3 million from an HST refund for the 2010 and 2011 taxation years, which was received in Q1 2013 and recorded as other income.

NON-INTEREST EXPENSES

Table 6: Non-interest expenses and productivity ratio

	For the three months ended					For the six months ended		
($ THOUSANDS)	**Jun 30, 2013**	Mar 31, 2013	% Change	Jun 30, 2012	% Change	**Jun 30, 2013**	Jun 30, 2012	% Change
Compensation and benefits	**$ 8,663**	$ 7,727	12%	$ 6,965	24%	**$ 16,390**	$ 13,535	21%
Premises and equipment	**1,330**	1,495	(11%)	1,240	7%	**2,825**	2,412	17%
Other	**1,299**	1,093	19%	1,264	3%	**2,392**	2,337	2%
Mortgage servicing	**1,031**	1,100	(6%)	1,059	(3%)	**2,131**	2,117	1%
Licenses, regulatory fees and insurance	**843**	866	(3%)	923	(9%)	**1,709**	1,854	(8%)
Marketing, travel and communications	**657**	472	39%	451	46%	**1,129**	868	30%
Legal, audit and related services	**434**	483	(10%)	417	4%	**917**	1,105	(17%)
Total	**$ 14,257**	$ 13,236	8%	$ 12,319	16%	**$ 27,493**	$ 24,228	13%
Productivity ratio – TEB	**30.3%**	30.3%	0.0%	30.6%	0.3%	**30.3%**	30.7%	0.4%
Full-time employee ("FTE") - period average	**279**	264	6%	228	22%	**272**	222	23%

Q2 2013 v Q2 2012

The $1.9 million or 16% increase in non-interest expenses reflects the growth of the Company's business and the investments required to maintain one of our significant competitive advantages, the high level of service we provide to mortgage brokers and borrowers. Substantially all of the net increase relates to FTE growth, and the costs to support our incremental staff, such as premises and equipment.

In addition, we incurred approximately $0.3 million of expenses for converting from The Equitable Trust Company to Equitable Bank. Marketing expenses were up by $0.2 million due to signage and promotional material costs, and the remaining $0.1 million was spread across other cost categories including legal. We expect to incur only nominal conversion related costs in future quarters.

The Company continues to operate efficiently on both an absolute basis and relative to other financial institutions, particularly taking into account the scale of our operations. Equitable's productivity ratio improved to 30.3% in the second quarter of 2013 compared to 30.6% in the corresponding quarter of the prior year.

Q2 2013 v Q1 2013

Our productivity ratio was consistent with the first quarter of 2013, even while total non-interest expenses increased 8% to $14.3 million in Q2 2013. The majority of the increase is from compensation and benefits, which reflects hiring of front-line mortgage staff and in our legal and compliance functions.

YTD 2013 v YTD 2012

Non-interest expenses increased $3.3 million or 13% year-over-year. The majority of the increase reflects the Company's investment in its employee base and the related operating costs. We also incurred higher costs associated with the bank conversion, but that increase was offset by a reduction in other legal fees.

INCOME TAXES

Q2 2013 v Q2 2012

Our Q2 2013 effective income tax rate was 25.6% compared to 13.1% in the corresponding quarter of the prior year, with the increase due to the impact of an investment gain realized in the second quarter of 2012. Excluding the effects of this investment gain, our effective tax rate was 27.3% in Q2 2012. The decrease in Q2 2013 is a result of adjustments booked to the Company's deferred tax liabilities in Q2 2012 stemming from revised future tax rates and other adjustments recorded in the current period, the effects of which were partially offset by lower tax-exempt dividend income earned from our preferred securities portfolio.

Q2 2013 v Q1 2013

Our Q2 2013 effective income tax rate was 0.8% higher than in the first quarter of 2013. The increase resulted from lower tax-exempt dividend income earned from our preferred securities portfolio and other adjustments.

YTD 2013 v YTD 2012

Our year-to-date effective tax rate increased to 25.2% from 18.5% in the same period of 2012. As mentioned above, the difference is largely due to the impact of an investment gain realized in Q2 2012. Excluding the effect of this investment gain, our 2012 effective tax rate was 25.8% and was comparable to our effective rate in 2013.

Our effective tax rate for 2013 is expected to continue below the statutory rate of 26.3% as a result of tax-exempt dividend income.

FINANCIAL REVIEW - BALANCE SHEET

Table 7: Balance sheet highlights

($ THOUSANDS)	Jun 30, 2013	Mar 31, 2013	% Change	Dec 31, 2012	% Change	Jun 30, 2012	% Change
Total assets	**$ 11,837,872**	$ 11,602,293	2%	$ 11,601,440	2%	$ 10,867,531	9%
Mortgages principal – Core Lending	**5,573,741**	5,355,449	4%	5,160,785	8%	4,706,899	18%
Mortgages principal – Securitization Financing	**5,193,620**	5,352,584	(3%)	5,415,773	(4%)	5,238,952	(1%)
Total liquid assets as a % of total assets	**7.1%**	6.6%	0.5%	8.3%	(1.2%)	9.0%	(1.9%)

TOTAL MORTGAGE PRINCIPAL

Our strategy is to maintain a diverse portfolio of mortgage assets that optimizes our ROE, while focusing our strategic growth efforts on Single Family Lending Services. The following tables provide quarterly mortgage principal continuity schedules by lending business for Q2 2013 and Q2 2012:

Table 8: Mortgage principal continuity schedule

	Three months ended June 30, 2013					
($ THOUSANDS)	**Single Family Lending Service**	**Commercial Lending**	**Total Core Lending**	**Securitization Financing**	**Total Mortgage Principal**	**Derecognized Mortgage Principal[2]**
Q1 2013 closing balance	**$ 3,176,939**	**$ 2,178,510**	**$ 5,355,449**	**$ 5,352,584**	**$ 10,708,033**	**$ 447,998**
Production	**400,403**	**210,694**	**611,097**	**280,932**	**892,029**	**-**
Core lending securitized[1]	**(18,411)**	**-**	**(18,411)**	**18,411**	**-**	**-**
Securitized and derecognized	**-**	**-**	**-**	**(151,257)**	**(151,257)**	**151,257**
Net repayments	**(172,600)**	**(201,794)**	**(374,394)**	**(307,050)**	**(681,444)**	**(5,892)**
Q2 2013 closing balance	**$ 3,386,331**	**$ 2,187,410**	**$ 5,573,741**	**$ 5,193,620**	**$ 10,767,361**	**$ 593,363**
% Change from Q1 2013	**7%**	**0%**	**4%**	**(3%)**	**1%**	**32%**
% Change from Q2 2012	**33%**	**1%**	**18%**	**(1%)**	**8%**	**-**
Net repayment percentage[3]	**5.4%**	**9.3%**	**7.0%**	**5.7%**	**6.4%**	**1.3%**

	Three months ended June 30, 2012					
($ THOUSANDS)	Single Family Lending Service	Commercial Lending	Total Core Lending	Securitization Financing	Total Mortgage Principal	Derecognized Mortgage Principal[2]
Q1 2012 closing balance	$ 2,284,823	$ 2,162,703	$ 4,447,526	$ 5,203,847	$ 9,651,373	$ -
Production	429,850	153,498	583,348	104,785	688,133	-
Core lending securitized[1]	(78,909)	-	(78,909)	78,909	-	-
Securitized and derecognized	-	-	-	-	-	-
Net repayments	(97,962)	(147,104)	(245,066)	(148,589)	(393,655)	-
Q2 2012 closing balance	$ 2,537,802	$ 2,169,097	$ 4,706,899	$ 5,238,952	$ 9,945,851	$ -
% Change from Q1 2012	11%	0%	6%	1%	3%	-
Net repayment percentage[3]	4.3%	6.8%	5.5%	2.9%	4.1%	

(1) *Core lending securitized represents Single Family mortgages that were securitized in the period and are now reported in Securitization Financing, net of mortgages previously reported in Securitization Financing that were renewed in the period as part of Single Family Lending Services (i.e. not securitized again at the time of renewal).*

(2) *Derecognized mortgage principal represents mortgages under administration that are not reported on Equitable's balance sheet. These mortgages were securitized using transaction structures that transferred substantially all the risks and rewards associated with the mortgages to a third party, resulting in the derecognition of the securitized mortgages..*

(2) *Net repayment percentage is calculated by dividing net repayments by the opening balance.*

Q2 2013 v Q2 2012

Total mortgage principal increased by $0.8 billion or 8%, as a result of a $0.9 billion or 18% increase in Core Lending balances.

Core Lending growth was driven by the Single Family business, which was up by 33% due to high levels of production and our success with mortgage renewals. The Commercial portfolio grew by only 1% as we maintained our pricing and capital allocation discipline in the face of more competitive pricing in the marketplace.

The Securitization Financing portfolio decreased by $45 million, after $605 million of insured residential mortgages were securitized and derecognized since Q2 2012. Including derecognized mortgage principal, the Securitization Financing portfolio increased 10% due to our increased focus on the business after new transaction structures that allowed for derecognition emerged in the middle of 2012.

Q2 2013 v Q1 2013

Total mortgage principal increased by 1%, primarily because of a $0.2 billion or 4% increase in Core Lending balances.

Within Core Lending, Single Family balances were up by 7%, driven by strong production and our success in renewing the majority of mortgages that matured in the quarter.

The Securitization Financing portfolio decreased by $159 million or 3%, largely due to the derecognition of $151 million of mortgages in the quarter.

MORTGAGE ASSET PRODUCTION

Mortgage production levels are seasonal, particularly in the Single Family residential business, and as such we do not focus on quarter over quarter production comparisons. The table below provides our quarterly and year-to-date mortgage production of 2013 and for the same period in 2012.

Table 9: Mortgage production – by lending business

	Three months ended					Six months ended				
	Jun 30, 2013		Jun 30, 2012			**Jun 30, 2013**		Jun 30, 2012		
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	% Change	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	% Change
Single Family Lending Services	**$ 400,403**	**44.9%**	$ 429,850	62.5%	(7%)	**$ 685,121**	**45.2%**	$ 717,722	59.5%	(5%)
Commercial Lending Services	**210,694**	**23.6%**	153,498	22.3%	37%	**383,686**	**25.3%**	271,905	22.6%	41%
Mortgage production – Core Lending	**611,097**	**68.5%**	583,348	84.8%	5%	**1,068,807**	**70.5%**	989,627	82.1%	8%
Securitization Financing	**280,932**	**31.5%**	104,785	15.2%	168%	**447,308**	**29.5%**	215,338	17.9%	108%
Total mortgage production	**$ 892,029**	**100.0%**	$ 688,133	100.0%	30%	**$ 1,516,115**	**100.0%**	$ 1,204,965	100.0%	26%

Q2 2013 v Q2 2012

Overall quarterly mortgage production was up $204 million or 30%, mainly due to the performance of the Commercial and Securitization Financing businesses, and despite a decline in Single Family production.

Within Core Lending, Commercial mortgage production was up by 37%. This growth reflects our success in finding niches of the market in which we can achieve our target levels of return and new distribution partnerships that we have built over the past year. Single Family production was down 7% compared to an exceptionally strong second quarter in 2012. Single Family production continues to be high in absolute terms but lower than 2012 due to overall residential housing sales activity and to difficulties that we have now addressed related to the implementation of recent regulatory changes.

The Company increased securitization activity beginning in Q3 2012 and we have since experienced strong demand for our multi-unit residential mortgage product. As a result, Securitization Financing production increased by 168%.

YTD 2013 v YTD 2012

Total mortgage production increased $311 million or 26%. The growth was driven by Commercial Lending Services and Securitization Financing, offset slightly by Single Family Lending Services.

SECURITIZATION

Equitable regularly securitizes mortgages in order to effectively manage our funding costs. If the securitized mortgages and the structure of a particular transaction meet specific criteria, they may qualify for balance sheet derecognition. The table below provides a summary of the mortgages securitized and derecognized in the quarter, as well as the associated retained interest and gain on sale amounts.

Table 10: Securitization and derecognition activity

	Three months ended				Six months ended	
	Jun 30, 2013	Mar 31, 2013	% Change	Jun 30, 2012	**Jun 30, 2013**	June 30, 2012
Securitized and derecognized – retained interest recorded	**$ 151,257**	$ 118,436	28%	$ -	**$ 269,693**	$ -
Securitized and derecognized – no retained interest[(1)]	**-**	-	N/A	-	-	-
Total mortgage principal securitized	**$ 151,257**	$ 118,436	28%	$ -	**$ 269,693**	$ -
Retained interest recorded	**$ 6,272**	$ 4,965	26%	$ -	**$ 11,237**	$ -
Gains on sale	**$ 1,494**	$ 1,126	33%	$ -	**$ 2,620**	$ -

(1) *Securitizations that result in derecognition and no retained interests recorded on the balance sheet occur when the Company sells its residual interests in the securitizations (commonly referred to as interest-only strips) to third parties.*

Q2 2013 v Q2 2012

Mortgages securitized and derecognized were up year-over-year, as we did not execute any transactions that qualified for derecognition in Q2 2012. We securitized and derecognized $151 million of non-prepayable mortgages during the second quarter of 2013, and recorded an associated retained interest of $6.3 million and gain on sale of $1.5 million. We did not sell the residual interests in any of our securitized mortgages during the quarter.

Q2 2013 v Q1 2013

Volumes securitized and derecognized were up by 28% sequentially mainly due to an increase in production volumes. Gains on sale as a percentage of the assets derecognized were consistent with Q1 2013, at approximately 1%.

YTD 2013 v YTD 2012

Approximately $270 million of mortgages qualified for balance sheet derecognition since the beginning of the current year. We did not execute any transactions that qualified for derecognition in the first half of 2012.

CREDIT QUALITY AND ALLOWANCE FOR CREDIT LOSSES

The Company's active management of credit risk and our workout efforts continue to yield positive results. The success of our credit management strategies is highlighted in the metrics in Table 10. Management believes that these measures reflect the health of the Company's mortgage portfolio and indicate that our allowances for credit losses adequately provide for our risk of loss.

Table 11: Mortgage credit metrics

($ THOUSANDS)	**Jun 30, 2013**	Mar 31, 2013	Jun 30, 2012
Net realized loan losses (recoveries) for the three month period ended	**873**	24	(20)
Gross impaired mortgage assets[(1)]	**28,004**	41,462	31,226
Net impaired mortgage assets[(1)(2)]	**23,705**	36,294	26,874
Net impaired mortgage assets as a % of total mortgage assets[(1)(2)]	**0.22%**	0.34%	0.27%
Allowance for credit losses	**29,473**	28,696	23,068
Allowance for credit losses as a % of total mortgage assets	**0.27%**	0.27%	0.23%
Allowances for credit losses as a % of gross impaired mortgage assets	**105%**	69%	74%
Mortgage principal in arrears 30 to 89 days[(3)]	**27,424**	25,628	20,579
Mortgage principal in arrears 30 to 89 days as a % of total mortgage principal	**0.25%**	0.24%	0.21%
Mortgage principal in arrears 90 days or more[(3)]	**25,193**	38,326	21,866
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[(3)]	**0.23%**	0.36%	0.22%

(1) *Conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.*

(2) *Net impaired mortgages reflect gross impaired mortgage assets less individual allowances.*

(3) *Mortgage principal in arrears does not include insured mortgages that are less than 365 days in arrears. Equitable revised its methodology for reporting arrears in Q2 2013, such that insured mortgages less than 365 days in arrears are no longer reported in arrears 30 to 89 days.*

Q2 2013 v Q2 2012

In aggregate, our credit quality metrics indicate that the quality of our mortgage portfolio was high in both Q2 2013 and Q2 2012:

- Mortgage arrears rates were just 0.23%, up 1 bp from an unusually low rate of 0.22% in 2012;
- Net impaired mortgage rates decreased from 0.27% in Q2 2012 to 0.22% in Q2 2013;
- Our allowances now represent 105% of gross impaired assets and were 74% in Q2 2012;
- The rates of early stage delinquency (between 30 to 89 days past due) increased slightly to 0.25% from 0.21%. Early stage delinquency is a leading indicator of credit quality in future periods; and
- Net realized loan losses of $0.9 million during Q2 2013 were well within our credit risk appetite, but up from a $20 thousand net recovery in Q2 2012. The majority of the loss in Q2 2013 related to one commercial mortgage and all of the losses had been provided for in prior quarters.

Q2 2013 v Q1 2013

The net impaired and arrears rates both declined substantially from Q1 2013. The decrease in impaired assets of $12.6 million during the second quarter relates to a significant number of loans that discharged. The rates of early stage delinquency were relatively consistent.

LIQUIDITY INVESTMENTS AND EQUITY SECURITIES

Management closely monitors the Company's liquidity position and believes that the level of liquid resources held, together with Equitable's ability to raise deposits, is sufficient for us to meet our funding and deposit maturity commitments, as well as to ensure that we can collect our other receivables and meet our other obligations. Actual liquidity may vary period to period mainly due to the timing of securitization related cash flows and residential mortgage funding seasonality.

Table 12: Liquid assets[3]

($ THOUSANDS)	**Jun 30, 2013**	Mar 31, 2013	Jun 30, 2012
Eligible deposits with regulated financial institutions[1]	**$ 417,264**	$ 264,850	$ 304,938
Debt securities issued by regulated financial institutions	**159,214**	198,584	125,902
Government guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**10,091**	10,000	85,243
Debt securities issued by Government of Canada	**-**	-	33,873
Debt securities guaranteed by Government of Canada	**27,681**	26,408	25,358
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**150,064**	177,117	236,541
Obligations under repurchase agreements	**(15,701)**	(6,992)	-
Assets held for regulatory purposes	**748,613**	669,967	811,855
Other deposits with regulated financial institutions	**138**	281	99
Equity securities	**96,282**	100,268	164,040
Total liquid assets [3]	**$ 845,033**	$ 770,516	$ 975,994
Total assets held for regulatory purposes as a % of total Equitable Trust assets	**6.3%**	5.8%	7.5%
Total liquid assets as a % of total assets	**7.1%**	6.6%	9.0%

(1) *Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $14.7 million (March 31, 2013 - $18.3 million, June 30, 2012 - $18.9 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $61.2 million (March 31, 2013 - $79.2 million, June 30, 2012 - $47.6 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

(2) *Mortgages held in the form of debt securities represent mortgages securitized and retained by the Company and are reported in our Securitization Financing balances. The value reported above represents the fair market value of the associated MBS securities.*

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

Q2 2013 v Q2 2012

Liquid assets held for regulatory purposes were down by $63.2 million or 8% despite the increase in outstanding mortgage commitments from $464 million at June 30, 2012 to $541 million at the end of the current quarter. The balance decreased due to the Company's more efficient management of our liquid asset portfolio.

Equity securities decreased by $67.8 million, primarily due to the planned sale of preferred shares issued by other financial institutions.

Q2 2013 v Q1 2013

At June 30, 2013, liquid assets held for regulatory purposes were $78.6 million higher than last quarter end. The increase reflects higher mortgage commitments and the timing of securitization proceeds. Mortgage commitments were $541 million at June 30 compared to $461 million at March 31, 2013.

OTHER ASSETS

Q2 2013 v Q2 2012

Other assets were $39.5 million at the end of June, up by 60% over Q2 2012. The increase was mainly due to:

- $10.2 million for the fair value of hedges related to our securitization activities (June 30, 2012 - nil); and
- $7.1 million of real estate owned assets recorded as a result of two mortgage foreclosures in Q2 2013.

Other assets also include an $8.4 million receivable related to an alleged fraud that was identified in Q3 2011 (June 30, 2012 - $8.8 million). We continue to pursue a recovery of this amount through litigation and under our Financial Institution Bond, which is intended to protect against fraud losses. There is no assurance that proceeds or recoveries will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the receivables.

DEPOSITS

Equitable's ability to fund our mortgage businesses with insured deposits, by attracting deposit brokers and customers with our exceptional service, is critical to our success. Equitable sources deposits primarily through a national distribution network of third party deposit agents.

Deposit balances were up by 17% over Q2 2012 and 8% over Q1 2013. Deposits have grown in-line with our overall non-securitized mortgage book and liquid assets, for which they are the primary source of funding.

SECURITIZATION LIABILITIES

The majority of the Company's historic securitization transactions do not qualify the securitized mortgages for balance sheet derecognition and therefore the associated obligations are recognized on the consolidated balance sheet and accounted for as securitization financing.

Securitization liability principal was down by 0.8% over Q2 2012 and by 5% over Q1 2013, and is generally consistent with the level of our Securitization Financing assets.

DEBENTURES AND TERM LOANS

There is no change to our debentures and term loans in the current quarter. Compared to June 30, 2012, debentures and term loans increased by $27.3 million. The change is due to:

- a $65 million new issuance of 5.4% Series 10 debentures ("Series 10") in October 2012, net of;
- a $9.5 million redemption of 7.1% Series 7 subordinated debentures on January 3, 2013 at par value;
- a $15.8 million redemption of 6.5% Series 8 subordinated debentures on March 5, 2013, ahead of their December 2014 par call date and at a 5% premium to par value; and
- repayment of a $12.5 million 6.4% bank term loan.

Details related to the Company's debentures and term loan can be found in Notes 15 and 16 to the audited consolidated financial statements found within the Company's 2012 Annual Report and Notes 14 and 15 to the unaudited interim consolidated financial statements for June 30, 2013.

CAPITAL MANAGEMENT

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS"). In order to govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Trust utilizes an Internal Capital Adequacy Assessment Process ("ICAAP"). We do not expect any changes to the manner in which we manage our capital, or to our target capital levels, as a result of converting Equitable Trust to Equitable Bank on July 1, 2013.

Effective January 1, 2013, OSFI's Capital Adequacy Requirements ("CAR") Guideline was updated to reflect the BCBS reforms commonly referred to as 'Basel III'. The CAR Guideline requires Canadian-regulated financial institutions to meet a minimum 7.0% Common Equity Tier 1 ("CET1") ratio on an "all-in" basis (defined by OSFI as capital calculated to include all of the Basel III regulatory adjustments that will be required by 2019, but retaining the phase-out rules for non-qualifying capital instruments), starting in Q1 2013. Equitable Trust's CET1 ratio on an "all-in" basis was 12.4% as at June 30, 2013.

Similarly, our Tier I and Total Capital ratios were 13.5% and 16.5%, respectively, on an "all-in" basis at June 30, 2013, and exceeded regulatory minimums. Our Tier I ratio was stable compared with the prior quarter and Q2 of last year primarily due to the organic growth of our retained earnings. Our total capital ratio was up by 0.9% from Q2 2012 due to the net effect of issuing $65 million of Series 10 subordinated debentures in Q4 2012 and redeeming $38 million of subordinated debentures in Q1 2013.

Our Assets-to-Capital Multiple ("ACM") increased by 0.5x sequentially, from 13.2x at Q1 2013 to 13.7x at Q2 2013. The change was partly attributable to the maturity and renewal of $151 million of 'grandfathered' Securitization Financing assets that were previously not included in our ACM calculation. We expect that a similar amount of 'grandfathered' assets will be renewed in each of the next several quarters and our ACM could increase as a result. We may choose to sell the retained interests on selected future securitizations, and therefore achieve derecognition of the underlying assets, in which case the assets would not impact our ACM. Notwithstanding this potential increase, management believes that the Company's current level of capital and its earnings in future periods will provide sufficient capital to support its strategic objectives and ongoing growth.

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

Table 13: Capital measures of Equitable Trust

($ THOUSANDS, EXCEPT ACM)	**Basel III** **Jun 30, 2013**	Basel III Mar 31, 2013	Basel II Jun 30, 2012
Total risk-weighted assets	**$ 4,002,275**	$ 3,893,870	$ 3,566,525
Common Equity Tier 1 Capital:			
Common shares	**139,002**	138,102	133,715
Contributed surplus	**4,683**	4,614	4,498
Retained earnings	**355,664**	335,790	283,555
Accumulated other comprehensive (loss) gain[1]	**(1,455)**	653	(2,754)
IFRS transition adjustment[2]	**-**	-	9,466
Less: Regulatory Adjustments	**(1,046)**	(2,493)	-
Net Common Equity Tier 1 Capital	**496,848**	476,666	428,480
Additional Tier 1 Capital[3]	**45,000**	45,000	50,000
Net Tier 1 Capital	**541,848**	521,666	478,480
Tier 2 capital:			
Collective allowance (Tier 2A)	**25,174**	23,529	18,716
Subordinated debentures (Tier 2B)	**92,483**	92,483	60,781
Total	**117,657**	116,012	79,497
Total regulatory capital	**$ 659,505**	$ 637,678	$ 557,977
Regulatory capital to risk-weighted assets on an "all-in" basis:[4]			
Tier 1 capital	**13.5%**	13.4%	13.4%
Tier 2 capital	**3.0%**	3.0%	2.2%
Total ratio	**16.5%**	16.4%	15.6%
Common Equity Tier 1 ratio[4]	**12.4%**	12.2%	12.0%
Assets-to-capital multiple ("ACM")	**13.7**	13.2	13.4

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

(2) *As permitted by OSFI, the transition adjustment for IFRS was amortized over an eight quarter period ending on December 31, 2012.*

(3) *Effective January 1, 2013, Equitable Trust's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.*

(4) *See Non-GAAP Financial Measures section of this MD&A.*

SUMMARY OF QUARTERLY RESULTS

Table 14 summarizes the Company's performance over the last nine quarters. Equitable does not typically experience material seasonality in its earnings, but changes in short-term interest rates and the impact thereof on the Company's hedging activities may cause some volatility in earnings from quarter to quarter.

Table 14: Summary of quarterly results

	2013		2012				2011	
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Q2**	Q1	Q4	Q3	Q2[1]	Q1	Q4	Q3[2]
OPERATIONS								
Net income	**22,898**	20,914	20,140	21,054	22,073	17,940	17,025	13,363
Net income available to common shareholders	**21,992**	20,008	19,234	20,147	21,167	17,034	16,119	12,456
EPS – basic	**$ 1.44**	$ 1.32	$ 1.27	$ 1.34	$ 1.41	$ 1.13	$ 1.07	$ 0.83
EPS – diluted	**$ 1.43**	$ 1.30	$ 1.26	$ 1.33	$ 1.40	$ 1.13	$ 1.07	$ 0.82
Net interest income	**42,406**	40,162	40,555	40,640	38,451	36,524	35,346	34,759
NIM – TEB:[3][4]								
Total Assets	**1.46%**	1.42%	1.44%	1.49%	1.49%	1.45%	1.41%	1.44%
Core Lending	**2.39%**	2.32%	2.30%	2.38%	2.50%	2.54%	2.56%	2.47%
Securitization Financing	**0.42%**	0.47%	0.52%	0.57%	0.50%	0.46%	0.42%	0.55%
Total revenues	**127,380**	124,511	125,824	123,211	117,739	116,425	113,689	112,376
Return on equity – annualized	**18.2%**	17.5%	17.3%	18.9%	21.1%	17.7%	17.3%	13.7%
Return on assets – annualized	**0.8%**	0.7%	0.7%	0.8%	0.8%	0.7%	0.6%	0.5%
Productivity ratio – TEB[4]	**30.3%**	30.3%	30.3%	29.1%	30.6%	30.8%	30.3%	43.2%
MORTGAGE PRODUCTION								
Single Family Lending Services	**400,403**	284,718	393,486	428,423	429,850	287,872	320,340	358,108
Commercial Lending Services	**210,694**	172,992	185,623	207,969	153,498	118,407	188,898	266,375
Core Lending	**611,097**	457,710	579,109	636,392	583,348	406,279	509,238	624,483
Securitization Financing	**280,932**	166,376	475,146	288,442	104,785	110,553	70,336	282,302
BALANCE SHEET								
Total assets	**11,837,872**	11,602,293	11,601,440	11,228,030	10,867,531	10,470,238	10,257,013	10,254,391
Mortgages receivable	**10,806,401**	10,737,609	10,609,472	10,221,518	9,978,718	9,687,878	9,577,087	9,422,939
Total liquid assets	**845,033**	770,516	965,969	971,477	975,994	836,770	784,386	956,922
Shareholders' equity	**545,919**	521,829	501,571	481,673	462,473	443,457	426,640	408,434
Book value per common share	**$ 32.55**	$ 31.07	$ 29.83	$ 28.69	$ 27.46	$ 26.26	$ 25.18	$ 24.02

(1) *The Company recorded an after-tax investment gain of $3.6 million or $0.24 per share in the second quarter of 2012. Excluding the investment gain, net income in the period was $18.5 million, or $1.16 per diluted share; and ROE was 17.5%.*

(2) *The Company recorded a pre-tax provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in the third quarter of 2011. Excluding the provision, net income in the third quarter of 2011 was $17.0 million or $1.06 per diluted share; ROE was 17.6%; and productivity ratio TEB was 29.5%.*

(3) *NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.*

(4) *For purposes of improving comparability across periods, the 2012 TEB adjustment has been calculated excluding the investment gain related to one of the Company's security portfolio holdings. Including the investment gain, the productivity ratio – TEB was 27.3%.*

ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position.

Effective January 1, 2013, the Company adopted IFRS 10, C*onsolidated Financial Statements,* and IFRS 13, *Fair Value Measurement* and has revised its accounting policies as below:

(a) Subsidiaries:

As a result of the adoption of IFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is

applicable to all investees. Accordingly the Company controls an investee when it is exposed to and has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In accordance with the transitional requirements of IFRS 10, the Company has re-assessed whether it controls its investees as of January 1, 2013 and concluded there is no change in the consolidation decisions reached prior to adoption of IFRS 10.

(b) Fair value measurement:

As a result of adoption of IFRS 13, the Company has adopted a new definition of fair value in that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

The change had no impact on the measurements of the Company's assets and liabilities. However, the Company has included new disclosures in the financial statements which are required under IFRS 13.

CRITICAL ACCOUNTING ESTIMATES

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

The critical estimates and judgments made in the preparation of the Company's interim consolidated financial statements include probability of default and loss given default for mortgage receivables, discount rates utilized in the valuation of the Company's financial assets and liabilities, the credit worthiness of the Company to its counterparties, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these interim consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the interim consolidated financial statements in future periods.

OFF-BALANCE SHEET ACTIVITIES

The Company's off-balance sheet activities include securitization, the commitments we make to fund our pipeline of mortgage originations (see Note 7 and Note 8 to the interim consolidated financial statements for the period ended June 30, 2013) and letters of credit issued in the normal course of business.

The Company securitizes insured residential mortgages through the creation of MBS. At June 30, 2013, the outstanding securitized mortgage principal that qualified for derecognition totaled $593 million (June 30, 2012 – nil).

Letters of credit in the amount of $1.9 million were outstanding at June 30, 2013 (June 30, 2012 – $0.8 million), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

From time to time, certain of the Company's directors and officers purchase GICs and subordinated debentures from the Company in the ordinary course of business, on market terms. See Note 22 to the consolidated financial statements found within the Company's 2012 Annual Report for further details.

RISK MANAGEMENT

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect our business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The Board of Directors (the "Board"), primarily through its Risk and Capital Committee, plays an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company's business activities, including our use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, funding and liquidity risk, and interest rate risk. For a detailed discussion of the risks that affect the Company, please refer to pages 44 to 52 of the Company's 2012 Annual Report which is available on SEDAR at www.sedar.com.

CREDIT RISK

Credit risk is defined as the possibility that we will not receive the full value of amounts and recovery costs owed to us if counterparties fail to honour their obligations to the Company. Credit risk arises principally from our lending activities and our investments in debt and equity securities.

Equitable's focus is on providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses on page 13 of this MD&A.

The Company also invests in equity securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 43.3% or $42 million of the preferred share equity securities portfolio at June 30, 2013, compared to 67.5% or $111 million a year earlier.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is defined as the possibility that the Company will be unable to generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet our commitments as they come due. These financial obligations can arise from the maturity of deposits and from commitments to extend credit. The objective of liquidity risk management is to protect the Company's ability to meet all payment obligations when they come due. Our main sources of funding come from deposits and the securitization of insured mortgage assets.

The Company has a low tolerance for liquidity and funding risk and adheres to a Liquidity and Funding Risk Management policy that requires us to maintain a pool of high quality liquid assets. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. These assets amounted to $749 million at June 30, 2013 and $812 million at June 30, 2012.

INTEREST RATE RISK

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at June 30, 2013, see Note 21 to the interim consolidated financial statements.

Management uses simulated interest rate change sensitivity models to estimate the effects of various interest rate change scenarios on the Economic Value of Shareholders' Equity ("EVE") and on net interest income for the 12 months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages. EVE is a calculation of the present value of the Company's asset cash flows less the present value of liability cash flows on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.

Table 15 illustrates the results of management's sensitivity modeling to immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and on net interest income during the 12-month period following June 30, 2013. 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.

Table 15: Interest rate shock

($ THOUSANDS)	Increase in interest rates	Decrease in interest rates[1]
100 basis point shift		
Impact on net interest income	$ 5,861	$ (4,477)
Impact on EVE	$ (6)	$ 1,749
EVE impact as a % of common shareholders' equity	0.0%	0.3%
200 basis point shift		
Impact on net interest income	$ 12,814	$ (4,386)
Impact on EVE	$ 629	$ 1,776
EVE impact as a % of common shareholders' equity	0.1%	0.3%

[1] *Interest rate decrease is limited by a floor of 0%.*

UPDATED SHARE INFORMATION

At August 14, 2013, the Company had 15,289,555 common shares and 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were 573,766 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of $15.2 million.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the second quarter of 2013, there were no changes that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

- Taxable equivalent basis ("TEB"): the presentation of financial information on a TEB is a common practice in the banking and trust company industries and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest.
- Return on Shareholders' Equity ("ROE"): this profitability measure is calculated on an annualized basis and is defined as a net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.
- Return on average assets: this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average total assets outstanding during the period.
- Productivity ratio: this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. A lower productivity ratio reflects a more efficient cost structure.
- Net interest margin ("NIM"): this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets – TEB for the period. The assets used in the calculation represent assets employed to generate the income.
- Liquid assets: is a measure of the Company's liquid resources, held for the purposes of funding mortgages, deposit maturity commitments, and ability to collect other receivables and other obligations. A detailed calculation can be found in Table 11 of this MD&A.
- Common Equity Tier 1 Capital ("CET1"): this key measure of capital strength is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and cash flow hedge reserve components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is calculated for the Company's subsidiary, Equitable Trust, in accordance with the guidelines issued by OSFI.
- Tier 1, Tier 2 and total capital ratios: these adequacy ratios are calculated for the Company's subsidiary, Equitable Trust, in accordance with the guidelines issued by OSFI.
- Economic value of shareholders' equity ("EVE"): is a calculation of the present value of the Company's asset cash flows less the present value of its liability cash flows on an after-tax basis. This measure captures all interest rate mismatches across all terms.
- Adjusted results: in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company will present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Adjusted results are intended to provide the user with a better assessment of the Company's performance and provide greater consistency and comparability with other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.

ADDITIONAL GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") FINANCIAL MEASURES

In addition to GAAP and non-GAAP measures, management also uses additional GAAP measures it believes provide useful information to investors regarding the Company's financial results of operations. Readers are cautioned that additional GAAP measures do not have any standardized meaning, and therefore, may not be comparable to similar measures presented by other companies. Management believes that these measures enhance comparability of the Company's results between reporting periods and helps the reader better understanding of how management views the Company's performance. The primary additional GAAP measures used in this MD&A are:

- Net interest income: this additional GAAP measures is defined as total revenues derived from interest or dividend generating assets less total expenses related to interest bearing liabilities.
- Total revenue: total revenue is defined as total interest income plus other income.

SUPPLEMENTARY INFORMATION

The following section provides additional quantitative disclosures related to the Company's mortgage portfolio. Some of these disclosures relate to disclosure requirements outlined in OSFI's Guideline B-20, "*Residential Mortgage Underwriting Practices and Procedures*", which became effective for Equitable Trust on January 1, 2013.

Table16: Mortgage principal outstanding – by property type

($ THOUSANDS)	Uninsured	Insured	Total	June 30, 2013 % of total
Single family dwelling	**$ 3,190,833**	**$ 183,827**	**$ 3,374,660**	**31.3%**
Mixed-use property	**354,893**	**-**	**354,893**	**3.3%**
Multi-unit residential	**551,411**	**797**	**552,208**	**5.1%**
Commercial	**1,031,029**	**-**	**1,031,029**	**9.6%**
Mortgages held for sale	**-**	**-**	**-**	**0.0%**
Construction	**260,953**	**-**	**260,953**	**2.4%**
Mortgage principal – Core Lending	**5,389,119**	**184,624**	**5,573,743**	**51.7%**
Single family dwelling	**-**	**394,397**	**394,397**	**3.7%**
Multi-unit residential	**-**	**4,799,221**	**4,799,221**	**44.6%**
Mortgage principal – Securitization Financing	**-**	**5,193,618**	**5,193,618**	**48.3%**
Total mortgage principal outstanding	**$ 5,389,119**	**$ 5,378,242**	**$ 10,767,361**	**100.0%**
	50.1%	**49.9%**	**100.0%**	

($ THOUSANDS)	Uninsured	Insured	Total	March 31, 2013 % of total
Single family dwelling	$ 3,080,679	$ 86,074	$ 3,166,753	29.6%
Mixed-use property	354,219	-	354,219	3.3%
Multi-unit residential	512,528	817	513,345	4.8%
Commercial	1,022,897	-	1,022,897	9.5%
Mortgages held for sale	-	-	-	0.0%
Construction	298,235	-	298,235	2.8%
Mortgage principal – Core Lending	$ 5,268,558	$ 86,891	$ 5,355,449	50.0%
Single family dwelling	-	438,451	438,451	4.1%
Multi-unit residential	-	4,914,133	4,914,133	45.9%
Mortgage principal – Securitization Financing	$ -	$ 5,352,584	$ 5,352,584	50.0%
Total mortgage principal outstanding	$ 5,268,558	$ 5,439,475	$ 10,708,033	100.0%
	49.2%	50.8%	100.0%	

($ THOUSANDS)	Uninsured	Insured	Total	June 30, 2012 % of total
Single family dwelling	$ 2,587,717	$ 54,863	$ 2,642,580	26.6%
Mixed-use property	349,321	-	349,321	3.5%
Multi-unit residential	473,108	1,055	474,163	4.8%
Commercial	882,525	-	882,525	8.9%
Mortgages held for sale	15,705	14,131	29,836	0.3%
Construction	328,474	-	328,474	3.3%
Mortgage principal – Core Lending	$ 4,636,850	$ 70,049	$ 4,706,899	47.3%
Single family dwelling	-	457,298	457,298	4.6%
Multi-unit residential	-	4,781,654	4,781,654	48.1%
Mortgage principal – Securitization Financing	$ -	$ 5,238,952	$ 5,238,952	52.7%
Total mortgage principal outstanding	$ 4,636,850	$ 5,309,001	$ 9,945,851	100.0%
	46.6%	53.4%	100.0%	

Table 17: Mortgage principal by interest rate type

	Jun 30, 2013	Jun 30, 2012
Fixed rate mortgages	**89%**	89%
Floating rate mortgages with interest rate floors	**6%**	6%
Floating rate mortgages without interest rate floors	**5%**	5%
Total	**100%**	100%

The following table provides a summary of our total mortgage portfolio by province as at June 30, 2013:

Table 18: Mortgage principal by province

	Jun 30, 2013	Jun 30, 2012
Ontario	**59%**	58%
Alberta	**15%**	15%
Quebec	**13%**	13%
British Columbia	**6%**	6%
Other Provinces	**7%**	8%
Total Canada	**100%**	100%

The following table presents a geographical breakdown of only our residential mortgage portfolio as at June 30, 2013:

Table 19: Residential mortgage principal by location

											June 30, 2013
($ THOUSANDS)					**Insured[1]**			**Uninsured[2]**			**Total**
Province		**Core Lending**	**Securitization Financing**	**Total**	**%**		**Total**	**%**		**Total**	**%**
Ontario	**$**	**134,226**	**223,030**	**357,256**	**10%**	**$**	**2,488,330**	**66%**	**$**	**2,845,586**	**76%**
Alberta		**35,573**	**85,893**	**121,466**	**3%**		**464,465**	**12%**		**585,931**	**15%**
British Columbia		**6,390**	**46,776**	**53,166**	**1%**		**124,782**	**3%**		**177,948**	**4%**
Manitoba		**4,026**	**5,949**	**9,975**	**0%**		**55,461**	**2%**		**65,436**	**2%**
Other Provinces		**3,612**	**32,749**	**36,361**	**1%**		**57,795**	**2%**		**94,156**	**3%**
Total Residential	**$**	**183,827**	**394,397**	**578,224**	**15%**	**$**	**3,190,833**	**85%**	**$**	**3,769,057**	**100%**
Downtown Toronto condominiums[3]	**$**	**2,800**	**4,251**	**7,051**	**0.2%**	**$**	**50,743**	**1.3%**	**$**	**57,794**	**1.5%**
											March 31, 2013
Total Residential	$	86,074	438,451	524,525	15%	$	3,080,679	85%	$	3,605,204	100%
Downtown Toronto condominiums[3]	$	1,151	4,850	6,001	0.2%	$	50,956	1.4%	$	56,957	1.6%

(1) *Insured by either CHMC or Genworth.*
(2) *There are no uninsured mortgages in the Company's Securitization Financing business.*
(3) *Represents single family residential condominium mortgages and are included in Ontario totals above.*

Table 20: Residential Mortgage Portfolio by Remaining Amortization

									June 30, 2013
	Less than 5 years	5 to 9 years	10 to 14 years	15 to 19 years	20 to 24 years	25 to 29 years	30 to 34 years	Greater than 35 years	Total
Total Residential Mortgage	$ 6,723	$ 4,786	$ 22,215	$ 90,323	$ 355,047	$ 2,582,069	$ 650,694	$ 57,200	$ 3,769,057
	0%	0%	1%	2%	9%	69%	17%	2%	100%
									March 31, 2013
Total Residential Mortgage	0%	0%	1%	2%	11%	64%	20%	2%	100%

The Company's Residential mortgages are secured by residential properties in Canada. The following table provides a summary of the average LTV ratios for uninsured residential mortgages newly originated and acquired in Q2 2013 and also the average LTV ratios of our total uninsured residential portfolio as at June 30, 2013, by province:

Table 21: Average Loan-to-Value of newly originated and existing residential mortgages

	June 30, 2013		March 31, 2013	
Province	Average LTV % of Newly originated mortgages	Average LTV % Total residential mortgages	Average LTV % of Newly originated mortgages	Average LTV % Total residential mortgages[1]
Ontario	75%	69%	74%	70%
Alberta	73%	68%	72%	70%
British Columbia	70%	71%	70%	72%
Manitoba	71%	65%	71%	67%
Other Provinces	73%	71%	69%	73%
Total Canada	74%	69%	73%	70%
Downtown Toronto condominiums[2]	67%	59%	64%	61%

(1) *Based on current property values. Current values are estimated using the Teranet provincial housing price index.*
(2) *Included in Ontario totals above.*

Table 22: Basel III common disclosure template for Equitable Trust

($ THOUSANDS)		Jun 30, 2013
Common Equity Tier 1 capital instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	**$ 143,685**
2	Retained earnings	**355,664**
3	Accumulated other comprehensive income (and other reserves)	**(1,455)**
4	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	**-**
5	Regulatory adjustments applied to Common Equity Tier 1 under Base III	**1,046**
6	**Common Equity Tier 1 capital (CET1)**	**496,848**
Additional Tier 1 capital instruments		
7	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**-**
8	Directly issued capital instruments subject to phase out from Additional Tier 1	**45,000**
9	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**-**
10	*of which: instruments issued by subsidiaries subject to phase out*	**-**
11	Regulatory adjustments applied to additional Tier 1 under Basel III	**-**
12	**Additional Tier 1 capital (AT1)**	**45,000**
13	**Tier 1 capital (T1 – CET1 + AT1)**	**541,848**
Tier 2 capital: instruments and provisions		
14	Directly issued qualifying Tier 2 instruments plus related stock surplus	**-**
15	Directly issued capital instruments subject to phase out from Tier 2	**92,483**
16	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**-**
17	*of which: instruments issued by subsidiaries subject to phase out*	**-**
18	Provisions	**25,175**
19	Regulatory adjustments applied to Tier 2 under Basel III	
20	**Tier 2 capital (T2)**	**117,658**
21	Total capital (TC = T1 + T2)	**659,505**
22	Total risk weighted assets	**4,002,275**
Capital ratios – Transitional Basis		
23	Common Equity Tier 1 (as a percentage of risk weighted assets)	**12.49%**
24	Tier 1 (as a percentage of risk weighed assets)	**13.56%**
25	Total capital (as a percentage of risk weighted assets)	**16.50%**
Capital ratios – All –in Basis		
26	Common Equity Tier 1 (as a percentage of risk weighted assets)	**12.41%**
27	Tier 1 (as a percentage of risk weighted assets)	**13.54%**
28	Total capital (as a percentage or risk weighted assets)	**16.48%**
National target – All-in Basis		
29	National Common Equity Tier 1 minimum ratio (if different from Base III minimum)	**7%**
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
30	Current cap on CET1 instruments subject to phase out arrangements	**N/A**
31	Amount excluded from CET1 due to Cap (excess over cap after redemptions and maturities)	**N/A**
32	Current cap on AT1 instruments subject to phase out arrangements	**90%**
33	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**5,000**
34	Current cap on T2 instruments subject to phase out arrangements	**90%**
35	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	**-**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT JUNE 30, 2013

With comparative figures as at December 31, 2012 and June 30, 2012

($ THOUSANDS)

		June 30, 2013		December 31, 2012		June 30, 2012
Assets:						
Cash and cash equivalents	**$**	**417,402**	$	379,447	$	305,037
Restricted cash		**75,884**		63,601		66,537
Securities purchased under reverse repurchase agreements		**148,333**		78,551		101,351
Investments *(Note 6)*		**332,948**		439,480		391,169
Mortgages receivable – Core Lending *(Note 7)*		**5,567,766**		5,154,943		4,700,493
Mortgages receivable – Securitization Financing *(Notes 7 & 8)*		**5,238,635**		5,454,529		5,278,225
Securitization retained interests *(Note 8)*		**17,359**		7,263		-
Other assets *(Note 10)*		**39,545**		23,626		24,719
	$	**11,837,872**	$	11,601,440	$	10,867,531
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits *(Note 11)*	**$**	**6,104,508**	$	5,651,717	$	5,231,603
Securitization liabilities *(Note 8)*		**5,033,551**		5,261,670		5,076,323
Obligations related to securities sold short		**-**		-		1,515
Obligations under repurchase agreements		**15,701**		9,882		-
Deferred tax liabilities *(Note 12)*		**8,988**		5,498		5,666
Other liabilities *(Note 13)*		**36,722**		40,931		24,780
Bank term loans *(Note 14)*		**-**		12,500		12,500
Debentures *(Note 15)*		**92,483**		117,671		52,671
		11,291,953		11,099,869		10,405,058
Shareholders' equity:						
Preferred shares *(Note 16)*		**48,494**		48,494		48,494
Common shares *(Note 16)*		**136,462**		134,224		131,045
Contributed surplus *(Note 17)*		**5,098**		5,003		4,913
Retained earnings		**361,314**		323,737		288,596
Accumulated other comprehensive loss		**(5,449)**		(9,887)		(10,575)
		545,919		501,571		462,473
	$	**11,837,872**	$	11,601,440	$	10,867,531

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013

With comparative figures for the three and six month periods ended June 30, 2012

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Interest income:				
Mortgages – Core Lending	**$ 67,838**	$ 58,655	**$ 132,489**	$ 115,763
Mortgages – Securitization Financing	**51,313**	53,916	**104,299**	108,454
Investments	**1,720**	2,878	**3,756**	5,126
Other	**2,242**	1,340	**4,098**	2,566
	123,113	116,789	**244,642**	231,909
Interest expense:				
Deposits	**34,756**	31,589	**68,469**	61,939
Securitization liabilities *(Note 8)*	**44,526**	45,675	**89,776**	92,849
Bank term loans	**-**	202	**7**	404
Debentures	**1,399**	868	**3,772**	1,737
Other	**26**	4	**49**	5
	80,707	78,338	**162,073**	156,934
Net interest income	**42,406**	38,451	**82,569**	74,975
Provision for credit losses *(Note 7)*	**1,650**	1,693	**3,750**	3,920
Net interest income after provision for credit losses	**40,756**	36,758	**78,819**	71,055
Other income:				
Fees and other income	**1,237**	981	**2,694**	1,986
Net (losses) gains on investments	**(1)**	54	**644**	303
Gains (losses) on securitization activities and income from securitization retained interests *(Note 8)*	**3,031**	(85)	**3,912**	(34)
	4,267	950	**7,250**	2,255
Net interest and other income	**45,023**	37,708	**86,069**	73,310
Non-interest expenses:				
Compensation and benefits	**8,663**	6,965	**16,390**	13,535
Other	**5,594**	5,354	**11,103**	10,693
	14,257	12,319	**27,493**	24,228
Income before income taxes	**30,766**	25,389	**58,576**	49,082
Income taxes *(Note 12):*				
Current	**3,948**	4,258	**11,273**	11,193
Deferred	**3,920**	(942)	**3,491**	(2,124)
	7,868	3,316	**14,764**	9,069
Net income	**$ 22,898**	$ 22,073	**$ 43,812**	$ 40,013
Earnings per share *(Note 18):*				
Basic	**$ 1.44**	$ 1.41	**$ 2.76**	$ 2.54
Diluted	**$ 1.43**	$ 1.40	**$ 2.73**	$ 2.52

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013

With comparative figures for the three and six month periods ended June 30, 2013

($ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
Net income	**$ 22,898**	$ 22,073	**$ 43,812**	$ 40,013
Other comprehensive income – Items that may be reclassified subsequently to income:				
Available for sale investments:				
Net unrealized (losses) gains from change in fair value	**(2,848)**	(782)	**(291)**	51
Reclassification of net gains to income	**(12)**	(55)	**(859)**	(1,137)
	(2,860)	(837)	**(1,150)**	(1,086)
Income tax recovery	**753**	219	**303**	284
	(2,107)	(618)	**(847)**	(802)
Cash flow hedges: *(Note 9)*				
Net unrealized gains (losses) from change in fair value	**6,661**	(1,387)	**5,894**	(359)
Reclassification of net losses to income	**633**	547	**1,280**	1,139
	7,294	(840)	**7,174**	780
Income tax (expense) recovery	**(1,921)**	219	**(1,889)**	(204)
	5,373	(621)	**5,285**	576
Total other comprehensive income (loss)	**3,266**	(1,239)	**4,438**	(226)
Total comprehensive income	**$ 26,164**	$ 20,834	**$ 48,250**	$ 39,787

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2013

With comparative figures for the three month period ended June 30, 2012

($ THOUSANDS)

June 30, 2013	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**
Balance, beginning of period	**$ 48,494**	**$ 135,408**	**$ 5,028**	**$ 341,614**	**$ (8,715)**	**$ 521,829**
Net income	**-**	**-**	**-**	**22,898**	**-**	**22,898**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**3,266**	**3,266**
Reinvestment of dividends	**-**	**286**	**-**	**-**	**-**	**286**
Exercise of stock options	**-**	**648**	**-**	**-**	**-**	**648**
Dividends:						
Preferred shares	**-**	**-**	**-**	**(906)**	**-**	**(906)**
Common shares	**-**	**-**	**-**	**(2,292)**	**-**	**(2,292)**
Stock-based compensation	**-**	**-**	**190**	**-**	**-**	**190**
Transfer relating to the exercise of stock options	**-**	**120**	**(120)**	**-**	**-**	**-**
Balance, end of period	**$ 48,494**	**$ 136,462**	**$ 5,098**	**$ 361,314**	**$ (5,449)**	**$ 545,919**

June 30, 2012	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 130,251	$ 4,813	$ 269,235	$ (9,336)	$ 443,457
Net income	-	-	-	22,073	-	22,073
Other comprehensive income, net of tax	-	-	-	-	(1,239)	(1,239)
Reinvestment of dividends	-	190	-	-	-	190
Exercise of stock options	-	491	-	-	-	491
Dividends:						
Preferred shares	-	-	-	(906)	-	(906)
Common shares	-	-	-	(1,806)	-	(1,806)
Stock-based compensation	-	-	213	-	-	213
Transfer relating to the exercise of stock options	-	113	(113)	-	-	-
Balance, end of period	$ 48,494	$ 131,045	$ 4,913	$ 288,596	$ (10,575)	$ 462,473

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013

With comparative figures for the six month period ended June 30, 2012

($ THOUSANDS)

June 30, 2013	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**
Balance, beginning of period	**$ 48,494**	**$ 134,224**	**$ 5,003**	**$ 323,737**	**$ (9,887)**	**$ 501,571**
Net income	**-**	**-**	**-**	**43,812**	**-**	**43,812**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**4,438**	**4,438**
Reinvestment of dividends	**-**	**538**	**-**	**-**	**-**	**538**
Exercise of stock options	**-**	**1,404**	**-**	**-**	**-**	**1,404**
Dividends:						
Preferred shares	**-**	**-**	**-**	**(1,812)**	**-**	**(1,812)**
Common shares	**-**	**-**	**-**	**(4,423)**	**-**	**(4,423)**
Stock-based compensation	**-**	**-**	**391**	**-**	**-**	**391**
Transfer relating to the exercise of stock options	**-**	**296**	**(296)**	**-**	**-**	**-**
Balance, end of period	**$ 48,494**	**$ 136,462**	**$ 5,098**	**$ 361,314**	**$ (5,449)**	**$ 545,919**

June 30, 2012	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 129,771	$ 4,718	$ 254,006	$ (10,349)	$ 426,640
Net income	-	-	-	40,013	-	40,013
Other comprehensive income, net of tax	-	-	-	-	(226)	(226)
Reinvestment of dividends	-	378	-	-	-	378
Exercise of stock options	-	728	-	-	-	728
Dividends:						
Preferred shares	-	-	-	(1,812)	-	(1,812)
Common shares	-	-	-	(3,611)	-	(3,611)
Stock-based compensation	-	-	363	-	-	363
Transfer relating to the exercise of stock options	-	168	(168)	-	-	-
Balance, end of period	$ 48,494	$ 131,045	$ 4,913	$ 288,596	$ (10,575)	$ 462,473

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013

With comparative figures for the three and six month periods ended June 30, 2013

($ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	**June 30, 2013**	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 22,898**	$ 22,073	**$ 43,812**	$ 40,013
Adjustments to determine cash flows relating to operating activities:				
Financial instruments at fair value through income	**(3,622)**	12,153	**(2,181)**	13,989
Securitization gains	**(1,494)**	-	**(2,620)**	-
Depreciation of capital assets	**322**	238	**564**	469
Provision for credit losses	**1,650**	1,693	**3,750**	3,920
Net gain on sale or redemption of investments	**(113)**	(11)	**(644)**	(260)
Income taxes	**7,869**	3,315	**14,764**	9,140
Income taxes paid	**(6,269)**	(5,454)	**(17,136)**	(10,255)
Stock-based compensation	**190**	213	**391**	363
Amortization of premiums/discount on investments	**615**	(108)	**1,124**	676
Net increase in mortgages receivable	**(223,105)**	(291,926)	**(474,483)**	(405,903)
Net increase in deposits	**455,829**	371,056	**452,791**	603,699
Change in obligations related to investments sold under repurchase agreements	**8,709**	1,515	**5,819**	1,515
Net change in securities purchased and sold under reverse repurchase agreements	**(63,652)**	(61,429)	**(69,782)**	(91,384)
Net change in securitization liability	**(255,623)**	6,471	**(228,119)**	(24,597)
Change in restricted cash	**21,602**	23,710	**(12,283)**	16,619
Proceeds from loan securitization	**149,803**	-	**268,346**	-
Securitization retained interest	**543**	-	**875**	-
Net interest income, excluding non-cash items	**(41,871)**	(52,573)	**(87,149)**	(107,324)
Interest received	**126,201**	115,493	**248,392**	231,427
Interest paid	**(85,477)**	(78,947)	**(163,865)**	(142,639)
Other assets	**(5,420)**	250	**(5,255)**	59
Other liabilities	**322**	(601)	**(4,271)**	(3,856)
Dividends received	**1,147**	16,027	**2,622**	18,536
Cash flows from (used in) operating activities	**111,054**	83,158	**(24,538)**	154,207
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of bank term loan	**-**	-	**(12,500)**	-
Redemption of debentures	**-**	-	**(25,188)**	-
Dividends paid on preferred shares	**(906)**	(906)	**(1,812)**	(1,812)
Dividends paid on common shares	**(1,846)**	(1,616)	**(3,720)**	(3,233)
Proceeds from issuance of common shares	**648**	491	**1,404**	728
Cash flows used in financing activities	**(2,104)**	(2,031)	**(41,816)**	(4,317)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**(33,133)**	(47,532)	**(35,553)**	(67,532)
Proceeds on sale or redemption of investments	**72,143**	12,789	**136,281**	59,519
Net change in Canada Housing Trust re-investment accounts	**5,110**	19,227	**4,681**	(7,444)
Purchase of capital assets	**(799)**	(91)	**(1,100)**	(241)
Cash flows from (used in) investing activities	**43,321**	(15,607)	**104,309**	(15,698)
Net increase in cash and cash equivalents	**152,271**	65,520	**37,955**	134,192
Cash and cash equivalents, beginning of period	**265,131**	239,517	**379,447**	170,845
Cash and cash equivalents, end of period	**$ 417,402**	$ 305,037	**$ 417,402**	$ 305,037

Note 1 – Reporting Entity

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, The Equitable Trust Company ("Equitable Trust"). The Company is domiciled in Canada with its registered office located at 30 St. Clair Avenue West, Suite 700, Toronto, Ontario. Equitable Trust is federally regulated under the Trust and Loan Companies Act (Canada) by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Company operates principally in one industry segment as a deposit-taking institution investing in mortgages.

Effective July 1, 2013, Equitable Trust was continued as a Schedule I Bank under the Bank Act (Canada) under the name "Equitable Bank".

Note 2 – Basis of Preparation

(a) Statement of compliance

These interim consolidated financial statements of the Company have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2012 annual audited consolidated financial statements.

These interim consolidated financial statements were approved for issuance by the Company's Board of Directors (the "Board") on August 14, 2013.

(b) Basis of measurement

The interim consolidated financial statements have been prepared on the historical cost basis except for the following items which are stated at fair value: derivative financial instruments, held for trading assets, financial assets and liabilities that are designated as at fair value through income and available for sale financial assets.

(c) Functional currency

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

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

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

Note 2 – Basis of Preparation (continued)

The critical estimates and judgments made in the preparation of the Company's consolidated financial statements include probability of default and loss given default for mortgage receivables, discount rates utilized in the valuation of the Company's financial assets and liabilities, the credit worthiness of the Company to its counterparties, the values of comparable assets and the fair value of securities not traded in an active market. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgments in these consolidated financial statements. Actual results could differ from these estimates, in which case the impact would be recognized in the consolidated financial statements in future periods.

(e) Consolidation

The interim consolidated financial statements as at and for the six months ended June 30, 2013 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Trust, after the elimination of intercompany transactions and balances. The Company has control of Equitable Trust as it has the power to directly or indirectly govern its financial and operating policies and benefit from its activities.

Note 3 – Significant Accounting Policies

Other than the changes in accounting policies set out below, all other accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2012. Refer to Note 3 of the audited consolidated financial statements found within the Company's 2012 Annual Report.

Changes in accounting policies:

Effective January 1, 2013, the Company adopted IFRS 10, C*onsolidated Financial Statements,* and IFRS 13, *Fair Value Measurement* and has revised its accounting policies as below:

(a) Subsidiaries:

As a result of the adoption of IFRS 10, the Company has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees. Accordingly the Company controls an investee when it is exposed to and has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In accordance with the transitional requirements of IFRS 10, the Company has re-assessed whether it controls its investees as of January 1, 2013 and concluded there is no change in the consolidation decisions reached prior to adoption of IFRS 10.

(b) Fair value measurement:

As a result of adoption of IFRS 13, the Company has adopted a new definition of fair value in that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

Note 3 – Significant Accounting Policies (continued)

The change had no impact on the measurements of the Company's assets and liabilities. However, the Company has included new disclosures in the financial statements which are required under IFRS 13.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 44 to 52 of the Company's 2012 Annual Report.

Note 5 – Financial Instruments

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

(a) Valuation methods and assumptions:

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

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

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

(ii) Financial instruments classified as available for sale and as at fair value through income

These financial assets and financial liabilities are presented on the consolidated balance sheets at fair value. For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which refer to observable market data and include discounted cash flow analysis and other commonly used valuation techniques. Cash and cash equivalents and restricted cash are measured at fair value, which approximates cost.

(iii) Mortgages receivable

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

(iv) Deposits

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

Deposit liabilities comprise Guaranteed Investment Certificates ("GICs") that are measured at fair value through profit or loss and are guaranteed by Canada Deposit Insurance Corporation ("CDIC"). This guarantee from CDIC is reflected in the fair value measurement of the deposit liabilities.

Note 5 – Financial Instruments (continued)

(v) Securitization liabilities

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

(vi) Bank term loans and debentures

The estimated fair value of bank term loans and debentures are determined by discounting expected future contractual cash flows using market interest rates offered for similar terms.

(vii) Derivatives

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

Note 5 – Financial Instruments (continued)

The following tables present the carrying values for each category of financial assets and liabilities and their estimated fair values as at June 30, 2013 and December 31, 2012. The tables do not include assets and liabilities that are not considered financial instruments.

							June 30, 2013
	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 417,402	$ -	$ -	$ -	$ -	$ 417,402	$ 417,402
Restricted cash	75,884	-	-	-	-	75,884	75,884
Securities purchased under reverse repurchase agreements	-	-	-	-	148,333	148,333	148,333
Investments	6,124	-	49,771	277,053	-	332,948	332,948
Mortgages receivable – Core Lending	-	50,980	-	-	5,516,786	5,567,766	5,570,921
Mortgages receivable – Securitization Financing	-	-	-	-	5,238,635	5,238,635	5,323,180
Securitization retained interests	-	-	-	17,359	-	17,359	17,359
Other assets:							
Derivative financial instruments – securitization activities	10,202	-	-	-	-	10,202	10,202
Other	-	-	-	-	4,919	4,919	4,919
Total financial assets	$ 509,612	$ 50,980	$ 49,771	$ 294,412	$ 10,908,673	$ 11,813,448	$ 11,901,148
Financial liabilities:							
Deposits	$ -	$ 507,375	$ -	$ -	$ 5,597,133	$ 6,104,508	$ 6,105,427
Securitization liabilities	-	-	-	-	5,033,551	5,033,551	5,153,645
Obligations under repurchase agreements	-	-	-	-	15,701	15,701	15,701
Other liabilities:							
Derivative financial instruments – interest rate swaps	1,584	-	-	-	-	1,584	1,584
Mortgage Commitments	1,792	-	-	-	-	1,792	1,792
Other	-	-	-	-	32,218	32,218	32,218
Debenture liabilities	-	-	-	-	92,483	92,483	93,511
Total financial liabilities	$ 3,376	$ 507,375	$ -	$ -	$ 10,771,086	$ 11,281,837	$ 11,403,878

Note 5 – Financial Instruments (continued)

December 31, 2012

	Financial instruments classified as held for trading	Financial instruments designated as at fair value through income	Held to maturity	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Total carrying value	Fair value
Financial assets:							
Cash and cash equivalents	$ 379,447	$ -	$ -	$ -	$ -	$ 379,447	$ 379,447
Restricted cash	63,601	-	-	-	-	63,601	63,601
Securities purchased under reverse repurchase agreements	-	-	-	-	78,551	78,551	78,551
Investments	5,912	-	54,252	379,316	-	439,480	439,480
Mortgages receivable – Core Lending	-	52,379	-	-	5,102,564	5,154,943	5,172,888
Mortgages receivable – Securitization Financing	-	-	-	-	5,454,529	5,454,529	5,632,366
Securitization retained interests	-	-	-	7,263		7,263	7,263
Other assets:							
Derivative financial instruments – hedges	20	-	-	-	-	20	20
Derivative financial instruments – securitization activities	323	-	-	-	-	323	323
Other	-	-	-	-	5,478	5,478	5,478
Total financial assets	$ 449,303	$ 52,379	$ 54,252	$ 386,579	$ 10,641,122	$ 11,583,635	$ 11,779,417
Financial liabilities:							
Deposits	$ -	$ 517,079	$ -	$ -	$ 5,134,638	$ 5,651,717	$ 5,669,486
Securitization liabilities	-	-	-	-	5,261,670	5,261,670	5,467,345
Obligations under repurchase agreements	-	-	-	-	9,882	9,882	9,882
Other liabilities:							
Derivative financial instruments – interest rate swaps	2,301	-	-	-	-	2,301	2,301
Other	-	-	-	-	38,298	38,298	38,298
Bank term loans	-	-	-	-	12,500	12,500	12,516
Debenture liabilities	-	-	-	-	117,671	117,671	118,983
Total financial liabilities	$ 2,301	$ 517,079	$ -	$ -	$ 10,574,659	$ 11,094,039	$ 11,318,811

There were no non-recurring fair value measurements in the balance sheets as at June 30, 2013 and December 31, 2012.

(b) Fair value hierarchy:

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

The fair value hierarchy has the following levels:

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

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

Note 5 – Financial Instruments (continued)

Level 3 – valuation techniques with significant unobservable market inputs.

Measurement of fair value requires the use of observable market inputs whenever such inputs exist. The objective of fair value measurement is to estimate the prices at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price). A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments that are measured at fair value on a recurring basis in the consolidated balance sheets after initial recognition, classified using the fair value hierarchy:

				June 30, 2013
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 417,402	$ -	$ -	$ 417,402
Restricted cash	75,884	-	-	75,884
Investments	173,734	159,214	-	332,948
Mortgages receivable	-	50,980	-	50,980
Securitization retained interests	-	17,359	-	17,359
Other assets:				
Derivative financial instruments – securitization activities	-	10,202	-	10,202
Derivative financial instruments – hedges	-	268	-	268
Total financial assets	$ 667,020	$ 238,023	$ -	$ 905,043
Financial liabilities:				
Deposits	$ -	$ 507,375	$ -	$ 507,375
Other liabilities:				
Derivative financial instruments – interest rate swaps	-	1,584	$ -	$ 1,584
Mortgage Commitments	-	1,792	-	1,792
Total financial liabilities	$ -	$ 510,751	$ -	$ 510,751

Note 5 – Financial Instruments (continued)

				December 31, 2012
	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 379,447	$ -	$ -	$ 379,447
Restricted cash	63,601	-	-	63,601
Investments	167,519	217,709	-	385,228
Mortgages receivable	-	52,379	-	52,379
Securitization retained interests	-	7,263	-	7,263
Other assets:				
Derivative financial instruments – hedges	-	20	-	20
Derivative financial instruments – securitization activities	-	323	-	323
Total financial assets	$ 610,567	$ 277,694	$ -	$ 888,261
Financial liabilities:				
Deposits	$ -	$ 517,079	$ -	$ 517,079
Other liabilities:				
Derivative financial instruments – interest rate swaps	-	2,301	-	2,301
Total financial liabilities	$ -	$ 519,380	$ -	$ 519,380

Note 6 – Investments

Carrying value:

	June 30, 2013	December 31, 2012	June 30, 2012
Debt securities issued by regulated financial institutions	**$ 159,214**	$ 217,709	$ 125,902
Debt securities issued by Government of Canada	**-**	-	33,873
Debt securities guaranteed by Government of Canada	**27,681**	26,519	25,358
Equity securities – preferred shares	**88,291**	132,896	159,633
Equity securities – common shares	**7,991**	7,904	4,406
Canada Housing Trust re-investment accounts[1]	**49,771**	54,452	41,997
	$ 332,948	$ 439,480	$ 391,169

(1) *Excludes reverse repurchase agreements of $138.2 million (December 31, 2012 - $68.3 million, June 30, 2012 - $16.1 million) which are classified under Securities purchased under reverse repurchase agreements.*

Note 6 – Investments (continued)

Net unrealized gains (losses) on available for sale investments recorded in the consolidated statements of comprehensive income are as follows:

	June 30, 2013	December 31, 2012	June 30, 2012
Debt securities issued by regulated financial institutions	**$ 51**	$ 182	$ 14
Debt securities issued by Government of Canada	**-**	-	366
Debt securities guaranteed by Government of Canada	**778**	1,257	1,519
Equity securities – preferred shares	**(3,087)**	(2,968)	(4,305)
Equity securities – common shares	**(124)**	-	-
	$ (2,382)	$ (1,529)	$ (2,406)

Note 7 – Mortgages Receivable

(a) Mortgages receivable:

			Allowance for credit losses			
June 30, 2013		**Gross amount**	**Individual**	**Collective**	**Total**	**Net amount**
Mortgages – Core Lending	**$**	**5,575,473**	**$ 4,299**	**$ 25,174**	**$ 29,473**	**$ 5,546,000**
Mortgages – Securitization Financing		**5,223,542**	**-**	**-**	**-**	**5,223,542**
Accrued interest		**36,859**	**-**	**-**	**-**	**36,859**
	$	**10,835,874**	**$ 4,299**	**$ 25,174**	**$ 29,473**	**$ 10,806,401**

			Allowance for credit losses			
December 31, 2012		Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$	5,160,114	$ 4,660	$ 21,960	$ 26,620	$ 5,133,494
Mortgages – Securitization Financing		5,437,783	-	-	-	5,437,783
Accrued interest		38,195	-	-	-	38,195
	$	10,636,092	$ 4,660	$ 21,960	$ 26,620	$ 10,609,472

			Allowance for credit losses			
June 30, 2012		Gross amount	Individual	Collective	Total	Net amount
Mortgages – Core Lending	$	4,704,296	$ 4,352	$ 18,716	$ 23,068	$ 4,681,228
Mortgages – Securitization Financing		5,261,700	-	-	-	5,261,700
Accrued interest		35,790	-	-	-	35,790
	$	10,001,786	$ 4,352	$ 18,716	$ 23,068	$ 9,978,718

Included in Mortgages – Securitization Financing are mortgages held for securitization or for sale which consist of Government of Canada insured residential mortgages of $257,271 (December 31, 2012 – $111,470, June 30, 2012 – $22,800).

Included in Mortgages – Core Lending are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in interest income – mortgages. As at June 30, 2013, mortgage principal outstanding for these mortgages was $48,666 (December 31, 2012 – $49,135, June 30, 2012 – $49,592) and the fair value adjustment was $2,314 (December 31, 2012 – $3,244, June 30, 2012 – $3,777).

Note 7 – Mortgages Receivable (continued)

The impact of changes in fair value for mortgages designated as at fair value through income is as follows:

	June 30, 2013	June 30, 2012
Changes in fair value recognized in income	**$ (943)**	$ (350)

At June 30, 2013, the Company had commitments to fund a total of $540,656 (December 31, 2012 – $445,059, June 30, 2012 – $463,573) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable 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. As a matter of practice, conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada or other insurers are deemed to be impaired when payment is contractually past due 365 days; however, management does not anticipate credit losses on such mortgages as they are insured.

Outstanding impaired mortgages, net of individual allowances are as follows:

			June 30, 2013	December 31, 2012	June 30, 2012
	Gross	**Individual allowance**	**Net**	Net	Net
Mortgages – Core Lending	**$ 27,768**	**$ 4,299**	**$ 23,469**	$ 31,450	$ 25,412
Mortgages – Securitization Financing	**236**	**-**	**236**	298	1,462
	$ 28,004	**$ 4,299**	**$ 23,705**	$ 31,748	$ 26,874

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

				June 30, 2013
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Mortgages – Core Lending	**$ 19,928**	**$ 7,960**	**$ 399**	**$ 28,287**
Mortgages – Securitization Financing	**6,571**	**5,393**	**1,767**	**13,731**
	$ 26,499	**$ 13,353**	**$ 2,166**	**$ 42,018**

				December 31, 2012
	30 – 59 days	60 – 89 days	90 days or more	Total
Mortgages – Core Lending	$ 19,586	$ 11,186	$ 557	$ 31,329
Mortgages – Securitization Financing	1,366	906	13,230	15,502
	$ 20,952	$ 12,092	$ 13,787	$ 46,831

Note 7 – Mortgages Receivable (continued)

(c) Allowance for credit losses:

						June 30, 2013
		Individual allowance		**Collective allowance**		**Total**
Balance, beginning of period	**$**	**4,660**	**$**	**21,960**	**$**	**26,620**
Provision for credit losses		**636**		**3,114**		**3,750**
Allowance for credit losses on acquired portfolio		**(100)**		**100**		**-**
Realized losses		**(1,025)**		**-**		**(1,025)**
Recoveries		**128**		**-**		**128**
Balance, end of period	**$**	**4,299**	**$**	**25,174**	**$**	**29,473**

						June 30, 2012
		Individual allowance		Collective allowance		Total
Balance, beginning of period	$	3,865	$	15,785	$	19,650
Provision for credit losses		1,056		2,864		3,920
Allowance for credit losses on acquired portfolio		(67)		67		-
Realized losses		(619)		-		(619)
Recoveries		117		-		117
Balance, end of period	$	4,352	$	18,716	$	23,068

Note 8 – Derecognition of Financial Assets

In the normal course of business, the Company enters into transactions that result in the transfer of financial assets. Transferred financial assets are recognized in their entirety or derecognized in their entirety, subject to the extent of the Company's continuing involvement. The Company transfers its financial assets through sale and repurchase agreements and its securitization activities. For further details, refer to Note 9 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

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

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

			June 30, 2013				December 31, 2012				June 30, 2012		
		Securitized assets		**Assets sold under repurchase agreements**		Securitized assets		Assets sold under repurchase agreements		Securitized assets		Assets sold under repurchase agreements
Carrying amount of assets	**$**	**4,980,847**	**$**	**15,701**	$	5,342,881	$	9,882	$	5,255,424	$	-
Carrying amount of associated liability		**5,033,551**		**15,701**		5,261,670		9,882		5,076,323		-
Fair value of assets		**5,074,341**		**15,701**		5,520,893		9,882		5,478,398		-
Fair value of associated liability		**5,153,645**		**15,701**		5,467,345		9,882		5,340,419		-
Fair value, net position	**$**	**(79,304)**	**$**	**-**	$	53,548	$	-	$	137,979	$	-

Note 8 – Derecognition of Financial Assets (continued)

The carrying amount of assets includes securitized assets that were not yet transferred to third parties of $152,302 (December 31, 2012 - $205,704, June 30, 2012 - $236,920). The fair value of these assets are $153,857 (December 31, 2012 - $210,422, June 30, 2012 - $244,201).

The carrying amount of assets excludes mortgages held for securitization of $257,788 (December 31, 2012 - $111,648, June 30, 2012 - $22,800).

The Company's outstanding securitization liabilities as at June 30, 2013, December 31, 2012 and June 30, 2012 are as follows:

	June 30, 2013	December 31, 2012	June 30, 2012
Securitization principal	**$ 5,025,938**	$ 5,252,180	$ 5,066,760
Deferred net discount and issuance costs	**(12,511)**	(12,016)	(11,362)
Accrued interest	**20,124**	21,506	20,925
Total	**$ 5,033,551**	$ 5,261,670	$ 5,076,323

(b) Transfers that are derecognized in their entirety:

The following table provides quantitative information about the securitization activities during the period for transfers that are derecognized in their entirety:

	June 30, 2013	June 30, 2012
Mortgages securitized and sold	**$ 269,693**	$ -
Securitization retained interest recorded	**11,237**	-
Securitization servicing liability recorded	**3,066**	-
Gains on mortgages securitized and sold	**2,620**	-
Gains on other securitization activities	**1,292**	-

Note 9 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in interest rates between the time the Company commits to funding a mortgage it intends to securitize through the issuance of a securitization liability, and the time the liability is actually issued. The Company utilizes derivative financial instruments in the form of bond forward agreements to hedge this exposure, with the intent to manage the change in cash flows of the future interest payments on the highly probable forecasted issuance of the securitization liability. The Company applies hedge accounting to these derivative financial instruments to minimize the volatility in income caused by changes in interest rates.

Note 9 – Derivative Financial Instruments (continued)

Fair value hedges

The Company enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income, mortgage commitments and GICs used to fund floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps, bond forward agreements and short sale and repurchase agreements of Government of Canada guaranteed debt securities. The Company does not apply hedge accounting to these hedging relationships.

The Company has also entered into hedging transactions to manage interest rate exposures on certain GICs used to fund floating rate mortgages and applied hedge accounting to these hedging relationships.

Note 9 – Derivative Financial Instruments (continued)

(b) Financial impact of derivatives:

The fair values and notional amounts of hedge instruments outstanding as at June 30, 2013, December 31, 2012 and June 30, 2012 are as follows:

				June 30, 2013
		Fair value		
Derivative instrument and term (years)	**Notional amount**	**Assets**	**Liabilities**	**Net**[1]
Cash flow hedges:				
Bond forward agreements – hedge accounting				
1 or less	**$ 324,000**	**$ 5,465**	**$ -**	**$ 5,465**
Fair value hedges:				
Interest rate swaps – hedge accounting				
1 or less	**110,000**	**2**	**-**	**2**
1 to 5	**185,000**	**-**	**(151)**	**(151)**
Interest rate swaps				
1 or less	**285,000**	**98**	**-**	**98**
1 to 5	**263,265**	**-**	**(1533)**	**(1,533)**
Bond forward agreements				
1 or less	**176,100**	**4,737**	**-**	**4,737**
	$ 1,343,365	**$ 10,302**	**$ (1,684)**	**$ 8,618**

				December 31, 2012
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forward agreements – hedge accounting				
1 or less	$ 62,100	$ 540	$ -	$ 540
Fair value hedges:				
Interest rate swaps				
1 or less	335,000	-	(128)	(128)
1 to 5	221,612	-	(2,173)	(2,173)
Bond forward agreements				
1 or less	52,600	-	(217)	(217)
Short sale and repurchase agreements				
1 or less	13,445	20	-	20
	$ 684,757	$ 560	$ (2,518)	$ (1,958)

Note 9 – Derivative Financial Instruments (continued)

				June 30, 2012
		Fair value		
Derivative instrument and term (years)	Notional amount	Assets	Liabilities	Net[1]
Cash flow hedges:				
Bond forward agreements – hedge accounting				
1 or less	$ 60,900	$ -	$ (91)	$ (91)
Fair value hedges:				
Interest rate swaps				
1 to 5	150,000	352	-	352
Over 5	36,972	-	(2,529)	(2,529)
Short sale and repurchase agreements				
1 to 5	13,445	-	(237)	(237)
	$ 261,317	$ 352	$ (2,857)	$ (2,505)

[1] *Derivative financial assets are included in Other Assets (Note 11) and derivative financial liabilities are included in Other Liabilities (Note 14).*

Cash flow hedges:

The impact of cash flow hedges on the Company's consolidated financial results are as follows:

	June 30, 2013	June 30, 2012
Fair value changes recorded in Other comprehensive income	**$ 7,174**	$ 780
Fair value changes recorded in Income	**1,017**	(34)
Amounts reclassified from Other comprehensive income to Interest expense – securitization liabilities	**1,280**	1,139

Fair value hedges:

The impact of changes in fair value hedges on the Company's consolidated financial results are as follows:

	June 30, 2013	June 30, 2012
Bond forward agreements	**$ 4,954**	$ -
Interest rate swaps	**545**	312
Interest rate swaps	**(148)**	-
Short sale and repurchase agreements	**22**	(306)
Changes in fair value recognized in income	**$ 5,373**	$ 6

Note 10 – Other Assets

		June 30, 2013		December 31, 2012		June 30, 2012
Prepaid expenses and other	**$**	**14,811**	$	15,343	$	15,036
Derivative financial instruments – securitization activities		**10,202**		323		-
Real estate owned		**7,144**		227		533
Capital assets		**4,083**		3,547		3,536
Receivables relating to securitization activities		**2,726**		2,773		1,863
Accrued interest and dividends on non-mortgage assets		**579**		1,393		1,305
Derivative financial instruments – hedges		**-**		20		-
Income taxes recoverable		**-**		-		2,094
Derivative financial instruments – interest rate swaps		**-**		-		352
	$	**39,545**	$	23,626	$	24,719

Note 11 – Deposits

		June 30, 2013		December 31, 2012		June 30, 2012
GICs – cashable, payable on demand	**$**	**738,603**	$	743,572	$	774,108
GICs – fixed maturity dates		**5,281,225**		4,823,465		4,359,794
Accrued interest		**101,655**		99,530		109,557
Deferred deposit agent commissions		**(16,975)**		(14,850)		(11,856)
	$	**6,104,508**	$	5,651,717	$	5,231,603

Included in GICs with fixed maturity dates are $507,840 (December 31, 2012 − $518,213, June 30, 2012 − $149,000) of GICs designated as at fair value through income and are carried at fair value with changes in fair value included in Interest expense – deposits. The fair value is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued and the fair value adjustment as at June 30, 2013 is ($465) (December 31, 2012 − ($1,134), June 30, 2012 – ($168)).

The impact of changes in fair value for GICs designated as at fair value through income is as follows:

		June 30, 2013		June 30, 2012
Changes in fair value recognized in income	**$**	**(669)**	$	168

GICs with fixed maturity dates also includes $295,000 (December 31, 2012 − $Nil, June 30, 2012 − $Nil) of GICs designated in qualifying fair value interest rate hedging relationship and are fair valued with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued and the fair value adjustment as at June 30, 2013 is ($163) (December 31, 2012 − Nil, June 30, 2012 – Nil).

The impact of changes in fair value attributable to the hedged risks for GICs designated in hedging relationships is as follows:

		June 30, 2013		June 30, 2012
Changes in fair value recognized in income	**$**	**163**	$	-

Note 12 – Income Taxes

(a) Income tax provision:

		June 30, 2013		June 30, 2012
Current tax expense:				
Current period	**$**	**11,273**	$	11,193
		11,273		11,193
Deferred tax expense:				
Reversal of temporary differences		**3,494**		(2,391)
Reduction in tax rate		**(3)**		267
		3,491		(2,124)
Total income tax expense	**$**	**14,764**	$	9,069

The provision for income taxes shown in the consolidated statements of income differs from that obtained by applying statutory income tax rates to income before the provision for income taxes due to the following:

	June 30, 2013	June 30, 2012
Canadian statutory income tax rate	**26.3%**	26.3%
Increase (decrease) resulting from:		
Tax-exempt income	**(1.1%)**	(9.7%)
Future tax rate changes	**-**	0.5%
Non-deductible expenses and other	**-**	1.4%
Effective income tax rate	**25.2%**	18.5%

(b) Deferred taxes:

The net deferred income tax liability is comprised of:

		June 30, 2013		December 31, 2012		June 30, 2012
Deferred income tax assets:						
Allowance for credit losses	**$**	**6,633**	$	5,788	$	4,910
Share issue expenses		**88**		176		290
Other		**390**		-		-
		7,111		5,964		5,200
Deferred income tax liabilities:						
Net mortgage fees		**4,408**		5,058		4,198
GIC commissions		**4,470**		3,910		3,122
Securitization activities		**7,170**		2,283		3,500
Other		**51**		211		46
		16,099		11,462		10,866
Deferred tax liabilities	**$**	**8,988**	$	5,498	$	5,666

Note 13 – Other Liabilities

	June 30, 2013	December 31, 2012	June 30, 2012
Mortgagor realty taxes	**$ 15,813**	$ 22,340	$ 13,006
Accounts payable and accrued liabilities	**12,598**	10,102	8,917
Securitized mortgage servicing liability	**4,373**	1,518	-
Mortgage commitments	**1,792**	-	-
Derivative financial instruments – interest rate swaps	**1,584**	2,301	2,529
Income taxes payable	**562**	4,670	-
Derivative financial instruments – securitization activities	**-**	-	91
Derivative financial instruments – hedges	**-**	-	237
	$ 36,722	$ 40,931	$ 24,780

Note 14 – Bank Facilities

During the period, the Company repaid its non-revolving term loan of $12,500 together with all accrued and unpaid interest. For further details on bank facilities, refer to Note 15 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

Note 15 – Debentures

During the period, with the approval of OSFI, the Company redeemed its 7.1% Series 7 debentures of $9,450 with all accrued and unpaid interest. The Series 7 debentures were redeemable at par at any time at the Company's option. In addition, with the approval of OSFI, the Company partially redeemed $15,738 of its 6.5% Series 8 debentures with all accrued and unpaid interest. The Series 8 debentures were redeemable at par any time on or after December 18, 2014, so upon their early redemption, the Company paid a 5% prepayment penalty of $787.

Debenture	Interest rate	Issue date	Maturity date	**Outstanding December 31, 2012**	**Issued during the period**	**Redeemed in the period**	**Outstanding June 30, 2013**	Outstanding June 30, 2012
Series 7	7.10%	2007	January 2017	**$ 9,450**	**$ -**	**$ 9,450**	**$ -**	$ 9,450
Series 8	6.50%	2009	December 2019	**23,221**	**-**	**15,738**	**7,483**	23,221
Series 9	6.09%	2010	December 2020	**20,000**	**-**	**-**	**20,000**	20,000
Series 10	5.40%	2012	October 2017	**65,000**	**-**	**-**	**65,000**	-
				$ 117,671	**$ -**	**$ 25,188**	**$ 92,483**	$ 52,671

Note 16 – Shareholders' Equity

Capital stock:

Authorized:
Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1
Unlimited number of non-cumulative floating rate preferred shares, Series 2
Unlimited number of common shares, no par value

Issued and outstanding shares:

	June 30, 2013			June 30, 2012		
	Number of shares	**Amount**	**Dividends per share[1]**	Number of shares	Amount	Dividends per share[1]
Preferred shares, Series 1	**2,000,000**	**$ 48,494**	**$ 0.91**	2,000,000	$ 48,494	$ 0.91

	June 30, 2013			June 30, 2012		
	Number of shares	**Amount**	**Dividends per share[1]**	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of period	**15,189,983**	**$ 134,224**		15,018,401	$ 129,771	
Contributions from reinvestment of dividends	**15,083**	**538**		14,022	378	
Contributions from exercise of stock options	**75,788**	**1,404**		41,450	728	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**296**		-	168	
Balance, end of period	**15,280,854**	**$ 136,462**	**$ 0.29**	15,073,873	$ 131,045	$ 0.24

[1] *Dividends per share represent dividends declared by the Company during the period.*

Note 17 – Stock-Based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. As of June 30, 2013, the maximum number of common shares available for issuance under the plan is 901,504. The outstanding options expire on various dates to May 2020. A summary of the Company's stock option activity and related information for the periods ended June 30, 2013 and June 30, 2012 is as follows:

	June 30, 2013		June 30, 2012	
	Number of stock options	**Weighted average exercise price exercise price**	Number of stock options	Weighted average exercise price exercise price
Outstanding, beginning of period	**518,817**	**$ 22.96**	733,950	$ 24.36
Granted	**131,037**	**36.18**	137,927	29.17
Exercised	**(75,788)**	**19.09**	(41,450)	17.55
Forfeited/cancelled	**-**	**-**	(160,000)	33.68
Outstanding, end of period	**574,066**	**$ 26.50**	670,427	$ 23.49
Exercisable, end of period	**144,579**	**$ 22.76**	200,400	$ 22.80

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $391 (June 30, 2012 – $363) related to grants of options under the stock option plan. This amount has been credited to Contributed Surplus. The fair value of options granted during the period ended June 30, 2013 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	June 30, 2013	**June 30, 2012**
Risk-free rate	**1.4%**	**1.5%**
Expected option life (years)	**4.8**	**4.8**
Expected volatility	**23.8%**	**30.5%**
Expected dividends	**1.7%**	**1.9%**
Weighted average fair value of each option granted	**$ 6.51**	**$ 6.14**

(b) Deferred share unit ("DSU") plan:

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. For further details, refer to Note 18 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

During the period ended June 30, 2013, 6,679 DSUs (June 30, 2012 – 9,181) had been granted by the Company. In May 2013, 7,522 DSU's were exercised for a total value of $282 (June 30, 2012 – nil). DSUs outstanding as at June 30, 2013 amounted to 32,514 (June 30, 2012 – 32,799) and the recorded liability was $1,158 (June 30, 2012 – $841). Compensation expense recorded in the period of 2013, relating to DSUs outstanding during the period amounted to $366 (June 30, 2012 – $249).

Note 17 – Stock-Based Compensation (continued)

(c) Restricted share unit ("RSU") plan:

The Company has a RSU plan for eligible employees. Under the plan, RSUs are awarded to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). For further details, refer to Note 18 to the audited consolidated financial statements found within the Company's 2012 Annual Report.

During the period ended June 30, 2013, RSUs granted totaled 24,723 (June 30, 2012 – 20,940) and the compensation expense recorded relating to RSUs outstanding during the period amounted to $246 (June 30, 2012 – $60). As at June 30, 2013, RSUs outstanding amounted to 44,620 (June 30, 2012 – 20,671) and the recorded liability was $434 (June 30, 2012 – $60).

(d) Employee share purchase ("ESP") plan:

The Company has an ESP plan for eligible employees. Under the plan, eligible employees can contribute between 1% and 10% of their annual base salary towards the purchase of common shares of the Company. For each eligible contribution, the Company contributes 50% of the employee's contribution to purchase common shares of the Company.

During the period ended June 30, 2013, the Company expensed $136 (June 30, 2012 – Nil) under this plan.

Note 18 – Earnings Per Share

Diluted earnings per share are calculated based on net income available to common shareholders divided by the weighted average number of common shares outstanding, taking into account the dilution effect of stock options using the treasury stock method.

	June 30, 2013	June 30, 2012
Earnings per common share – basic:		
Net income	**$ 43,812**	$ 40,013
Dividends on preferred shares	**1,812**	1,812
Net income available to common shareholders	**42,000**	38,201
Weighted average basic number of common shares outstanding	**15,233,906**	15,041,030
Earnings per common share – basic	**$ 2.76**	$ 2.54
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 42,000**	$ 38,201
Weighted average basic number of common shares outstanding	**15,233,906**	15,041,030
Adjustment to weighted average number of common shares outstanding:		
Stock options	**159,601**	89,356
Weighted average diluted number of common shares outstanding	**15,393,507**	15,130,386
Earnings per common share – diluted	**$ 2.73**	$ 2.52

For the period ended June 30, 2013, the calculation of the diluted earnings per share excluded 127,805 (June 30, 2012 – 420,792) average options outstanding with a weighted average exercise price of $36.14 (June 30, 2012 – $27.17) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 19 – Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision. For further details refer to the Table 13 of the MD&A.

Equitable Trust maintains capital management policies to govern the quality and quantity of capital utilized in its operations. During the period, Equitable Trust complied with all internal and external capital requirements.

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

($ THOUSANDS)		**June 30, 2013 Basel III**		December 31, 2012 Basel II
Common Equity Tier 1 Capital:				
Common shares	**$**	**139,002**	$	137,303
Contributed surplus		**4,683**		4,589
Retained earnings		**355,664**		317,754
Accumulated other comprehensive loss[1]		**(1,455)**		(1,767)
Less: Regulatory Adjustments		**(1,046)**		-
Net Common Equity Tier 1 Capital		**496,848**		457,879
Additional Tier 1 Capital[2]		**45,000**		50,000
Net Tier 1 Capital		**541,848**		507,879
Tier 2 capital:				
Collective allowance (Tier 2A)		**25,174**		21,960
Subordinated debentures (Tier 2B)		**92,483**		125,781
Total		**117,657**		147,741
Total regulatory capital	**$**	**659,505**	$	655,620

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

(2) *Effective January 1, 2013, Equitable Trust's non-cumulative preferred shares are subject to phase-out at a rate of 10% per year.*

Note 20 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at June 30, 2013:

								June 30, 2013
	Floating rate	**0 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Greater than 5 years**	**Non-interest sensitive[1]**	**Total[1]**
Total assets	**$ 1,716,107**	**$ 1,153,208**	**$ 2,612,563**	**$ 5,481,878**	**$ 5,057,137**	**$ 1,167,749**	**$ 131,108**	**$ 11,837,871**
Total liabilities and equity [2]	**(738,603)**	**(1,248,128)**	**(2,917,258)**	**(4,903,989)**	**(5,234,825)**	**(1,064,255)**	**(634,803)**	**(11,837,871)**
Off-balance sheet items [3]	**-**	**(765,795)**	**329,299**	**(436,496)**	**619,683**	**(183,187)**	**-**	**-**
Interest rate sensitive gap	**977,504**	**(860,715)**	**24,604**	**141,393**	**441,995**	**(79,693)**	**(503,695)**	**-**
Cumulative gap [2]	**$ 977,504**	**$ 116,789**	**$ 141,393**	**$ 141,393**	**$ 583,388**	**$ 503,695**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**8.26%**	**0.99%**	**1.19%**	**1.19%**	**4.93%**	**4.25%**	**0.00%**	**0.00%**

								December 31, 2012
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3]	$ 904,635	$ 491,930	$ 364,907	$ 364,907	$ 511,945	$ 482,481	$ -	$ -
Cumulative gap as a percentage of total assets	7.80%	4.24%	3.15%	3.15%	4.41%	4.16%	0.00%	0.00%

								June 30, 2012
	Floating rate	0 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Greater than 5 years	Non-interest sensitive[1]	Total[1]
Cumulative gap[2][3]	**$** 936,467	$ 448,879	$ (32,061)	$ (32,061)	$ 484,505	$ 461,404	$ -	$ -
Cumulative gap as a percentage of total assets	8.62%	4.13%	(0.30%)	(0.30%)	4.46%	4.25%	0.00%	0.00%

(1) *Accrued interest is excluded in calculating interest sensitive assets and liabilities.*
(2) *Cashable GICs are included with floating rate or within 1 month liabilities as these are cashable by the depositor upon demand. Any prepayments of subordinated debentures, contractual or otherwise, have not been estimated as these would require regulatory pre-approval.*
(3) *Off-balance sheet items include the Company's interest rate swaps, hedges on funded assets, as well as mortgage rate commitments that are not specifically hedged. Mortgage rate commitments that are specifically hedged, along with their respective hedges, are assumed to substantially offset.*

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Eric Beutel

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

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Vice-Chairman, PPI Financial Group, a financial services company

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Lynn McDonald

Corporate Director

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Trust

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Dividend Reinvestment Plan

For information regarding Equitable Group's Dividend Reinvestment Plan, please contact the Plan Agent at www.computershare.com or toll free at 1.800.564.6253. To obtain a copy of the Offering Circular, Enrollment Form and to review commonly asked questions, please visit the Company's website at www.equitabletrust.com under Investor Relations.