



EQUITABLE GROUP INC.

FIRST QUARTER REPORT
Quarter Ended March 31, 2006

CORPORATE PROFILE

Equitable Group Inc. provides first mortgage financing through its wholly-owned subsidiary, The Equitable Trust Company. It also offers Guaranteed Investment Certificates to depositors as a nationally-licensed deposit-taking institution.

Equitable Trust was founded in 1970, and by following a prudent, results-driven approach, Equitable has become a leader in its primary niches: alternative single family dwelling as well as multi-unit residential mortgage lending.

Equitable's primary geographic territory is the Greater Toronto Area – a region of more than 5 million people. In 2005, Equitable began to serve the Calgary alternative single family dwelling mortgage lending market.

The Company's common stock is listed on The Toronto Stock Exchange, symbol ETC. For more information, visit the Company's web site at www.equitablegroupinc.com.

Fellow Shareholders:

Equitable Group Inc. achieved record financial results for the three months ended March 31, 2006, reflecting favourable market conditions and our adherence to prudent mortgage lending practices.

The MD&A included with this letter should be read for complete details, but the highlights of the first quarter are as follows:

- Net earnings increased 30% to \$5.8 million compared to \$4.5 million a year earlier.
- Diluted earnings per share were 29% higher at \$0.49 compared to \$0.38 in the first quarter of 2005.
- Return on average equity was 18.6%, up sharply from 16.6% a year ago.
- Assets grew 24% to \$2.11 billion from \$1.70 billion a year earlier.
- Mortgage originations increased 125% to \$590 million from \$262 million a year ago
- No loan losses were recorded in either reporting period.

Dividend Declared

Your Board of Directors declared a dividend in the amount of \$0.10 per share payable July 5, 2006 to shareholders of record at the close of business June 16, 2006. This is consistent with its practice of paying approximately 25% of trailing (previous year) earnings as a dividend.

Additional Commentary

This was another good quarter for Equitable as we stepped up the pace of our activities commensurate with our performance targets for 2006, and continued our focus on risk management.

By capturing growth in a very profitable manner – while, at the same time, sustaining the credit quality and diversification of our mortgage portfolio – we've positioned ourselves for continued progress this year and the achievement of our annual goals for shareholder value creation.

As expected, because of their short-term duration, we discharged \$258 million of 'warehoused mortgages' (conventional mortgages held for sale) during the quarter, but we were still able to increase mortgages receivable 5.5% from year end 2005 and 23.2% on a year-over-year basis. This demonstrates the value of maintaining a strong position in our primary lending niches.

Mortgage Portfolio Growth Highlights

- Equitable's single family dwelling mortgage portfolio – the largest component of our business – increased 22.7% to \$678.9 million from \$553.5 million at March 31, 2005 and was up 8.1% from December 31, 2005.
- Multi-unit residential mortgage portfolio increased 11.0% to \$538.7 million from \$485.3 million a year earlier and was up 7.6% from December 31, 2005.
- Commercial mortgages increased 34.4% to \$337.9 million from \$251.3 million a year ago and were 15.6% higher than year end 2005.
- Conventional mortgages held for sale were \$102.9 million, up 16.1% from \$88.7 million a year ago, but lower by 37.2% from \$163.7 million at year end due to the discharge of two pools of these mortgages during the first quarter. Discharges like this are expected due to the transitory nature of this line of business.
- Our Calgary single family dwelling mortgage lending initiative continued to progress but, as expected, its contribution to originations was a modest \$7 million.

Productivity

Equitable remained one of the most efficient mortgage lenders in Canada during the first quarter of 2006. Our productivity ratio on a tax equivalent basis (the lower the better) was 32.0% during the quarter, compared to 30.6% during the first quarter last year. While we saw some slippage year over year due to increased staffing, we believe these additions to our team are necessary to support controlled growth. Moreover, since our target for 2006 is a 32%-34% ratio, Equitable's first quarter performance is well in line with this important goal.

Strengthening Executive Leadership

At the time of our first quarter results, we also announced that your Board has initiated a search for Equitable's next generation leader. Geoffrey Bledin has expressed a desire to take on a more strategic role in the Company. Once our new Chief Executive Officer is appointed, Mr. Bledin will become full time Vice Chairman to work alongside our new CEO in a strategic development capacity.

This announcement is very positive news for Equitable because it means we are taking steps to strengthen our executive leadership team. As a larger, growing business, we believe we need a team that includes both an active Vice Chairman as well as a CEO. This structure can accomplish more both strategically and operationally. Geoffrey remains committed to Equitable, will continue to play a major part in our Company's development, and has helped your Board craft a succession plan that we have fully endorsed – one that we believe will yield great results.

Your Board has engaged a well recognized executive search firm and has identified the qualities we must have in a successful candidate. While it may take months to bring the right candidate on board, we are committed to this course of action because it means a stronger Equitable for the future.

Outlook

We believe current economic and market conditions provide the necessary backdrop for Equitable to continue to perform at a high level this year. Despite prime rate increases of 50 basis points in the first quarter and 25 basis points in April, demand for mortgages in our niches remains strong. Economists speculate that the Bank of Canada may be near the end of its current phase of rate hikes, but either way, we welcome measures that curb over exuberance in the market while not unduly affecting housing affordability. Based on the way we've structured our portfolio, any such modest rate increases this year are welcome because of their positive impact on our floating rate mortgage revenue. As we look ahead, we are optimistic about our prospects.

We've also taken the necessary steps to prepare our balance sheet for additional growth. The announcement in mid April that we had successfully augmented the regulatory capital of Equitable Trust with an issue of \$20 million in subordinated debentures stands us in good stead to support our growth objectives.

Yours sincerely,



Austin Beutel
Chairman of the Board



Geoffrey Bledin
President and Chief Executive Officer

May 4, 2006

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

(for the three months ended March 31, 2006)

OVERVIEW

Equitable Group Inc. ("Equitable" or the "Company") is a niche mortgage lender. Its core business is to raise funds by selling GICs to depositors and to lend these funds to borrowers on the security of first mortgages on real estate. It does this through its wholly-owned subsidiary – The Equitable Trust Company ("Equitable Trust"). The Company's mortgage products bear fixed or floating rates of interest and are primarily for fixed terms. The properties on which the mortgages are secured are primarily residential – either single family dwellings or multi-unit (apartments, nursing homes etc.). Equitable's conventional (non-insured) mortgage portfolio also includes commercial mortgages, construction mortgages and mortgages held for sale which are originated by third-party lenders who require financing prior to pooling and eventually selling the mortgages to investors. These conventional mortgages held for sale usually stay on the books of the Company for periods of up to six months and are therefore often referred to as 'warehoused' mortgages. The Company also invests in insured mortgages for securitization through the Canada Mortgage and Housing Corporation Mortgage-Backed Securities ("CMHC-MBS") program.

Equitable conducts business through Equitable Trust, which is regulated by the Office of the Superintendent of Financial Institutions - Canada ("OSFI"). Equitable Trust has prescribed capital requirements based on the type and amount of assets on its balance sheet. For this reason, Equitable focuses on capital management as a means to balance growth and Return On Average Equity ("ROAE") targets. At March 31, 2006, it met all of these capital requirements. Subsequent to the quarter end, to support future growth, Equitable Trust issued \$20 million of new series 6 subordinated debentures to augment regulatory capital and to redeem \$7.6 million of an older series of more expensive subordinated debentures. As part of this successful financing, Equitable arranged a term loan of \$15 million with Canadian Western Bank ("CWB") in order to purchase the same amount of debentures from its subsidiary, a transaction similar in effect to that of the first quarter of 2005 where a \$20 million financing from CWB was utilized in completing the issue of \$40 million of series 5 subordinated debentures by Equitable Trust. Capital management practices such as these, that maximize use of subordinated debt as eligible regulatory capital, assist Equitable in attaining a higher ROAE without the dilutive effect of an equity issue.

Non-Generally Accepted Accounting Principles ("GAAP") Financial Measures

The presentation of financial information on a taxable equivalent basis ("TEB") is a common practice of presentation 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, Equitable uses TEB in analyzing 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. For the three months ended March 31, 2006, this gross-up amounted to \$0.8 million as compared to \$0.6 million during the comparable period in 2005.

PERFORMANCE AGAINST OBJECTIVES

Equitable's principal objectives for 2006 are: 20% growth in assets, 20% growth in net earnings, 20% growth in earnings per share, an ROAE of greater than 17% and a productivity ratio - TEB no greater than 32% to 34%.

Record first quarter 2006 performance put Equitable on track to meet its goals for the year. For the first three months of 2006, Equitable achieved:

- A 30% increase in net earnings, which amounted to \$5.8 million compared to \$4.5 million a year earlier.

- A 29% increase in diluted earnings per share, which amounted to \$0.49 compared to \$0.38 during the same period in 2005.
- An 18.6% ROAE compared to 16.6% in 2005.
- A productivity ratio – TEB of 32.0% compared to 30.6% in 2005.
- A 24% increase in assets, which at March 31, 2006 stood at \$2.1 billion, up from \$1.7 billion a year earlier (and 5% higher than at December 31, 2005.)

Mortgages receivable increased to \$1.8 billion at March 31, 2006, up 5.5% from December 31, 2005 even though warehoused mortgages totaling \$258 million were discharged, as planned, during the first quarter of 2006. On a year over year basis, mortgages receivable at March 31, 2006 increased 23.2% or \$333 million from \$1.4 billion at March 31, 2005.

Consistent with its practice of paying approximately 25% of trailing (previous year) earnings as a dividend, on May 4, 2006 the Board of Directors declared a dividend in the amount of \$0.10 per share payable July 5, 2006 to shareholders of record at the close of business June 16, 2006.

Table 1: Selected financial information

(\$ thousands, except share and per share amounts)

	Three Months Ended		Change From March 31, 2005	
	March 31, 2006	March 31, 2005	\$	%
OPERATIONS				
Net earnings	\$ 5,833	\$ 4,482	1,351	30.1%
Earnings per share – basic	0.49	0.38	0.11	28.9%
Earnings per share – diluted	0.49	0.38	0.11	28.9%
Net interest income	11,359	8,203	3,156	38.5%
Total revenue	30,820	22,578	8,242	36.5%
Return on weighted average equity – annualized	18.6%	16.6%		
Return on average assets – annualized	1.1%	1.1%		
Productivity ratio – TEB ⁽¹⁾	32.0%	30.6%		
BALANCE SHEET AND OFF-BALANCE SHEET				
Total assets	\$ 2,112,900	\$ 1,704,017	408,883	24.0%
Mortgages receivable	1,770,110	1,436,685	333,425	23.2%
Shareholders' equity	130,699	111,553	19,146	17.2%
Mortgage-backed security assets under administration	1,927,741	1,855,292	72,449	3.9%
COMMON SHARES				
Number of common shares outstanding at period end	11,872,645	11,742,383	130,262	1.1%
Dividends per share	0.10	0.08	0.02	25.0%
Book value per share	\$11.01	\$ 9.50	\$1.51	15.9%
Share price – close	28.50	23.55	4.95	21.0%
Market capitalization	338,370	276,533	61,837	22.4%
CREDIT QUALITY				
Realized loan losses	\$ 0	\$ 0		
Mortgages in arrears 61 days or more as a % of total mortgages	0.14%	0.15%		
Net impaired mortgages as a % of total mortgages	0.07%	0.18%		
Allowance for credit losses as a % of gross impaired mortgages	256.9%	138.1%		

⁽¹⁾ See explanation of TEB at the beginning of this Management's Discussion and Analysis.

FINANCIAL REVIEW

EARNINGS

Growth in the Company's interest earning asset base, higher net interest margin, no loan losses and efficient operations were the factors driving a 30% increase in net earnings in the first quarter. The Company's average asset base during the first quarter of 2006 was \$2.1 billion, 27% greater than the average asset base of \$1.6 billion in the first quarter of 2005. The increase in assets and net interest margin have combined to produce significant growth in net interest income as illustrated in the table below.

Table 2: Net interest income

(\$ thousands)	Three months ended March 31, 2006			Three months ended March 31, 2005		
	Average balance	Revenue/ Expense	Average rate	Average balance	Revenue/ Expense	Average Rate
Interest revenues or interest expenses derived from:						
Assets:						
Liquidity investments	161,997	1,724	4.3%	110,696	753	2.8%
Portfolio securities – TEB ⁽¹⁾	113,274	1,850	6.6%	79,908	1,097	5.6%
Mortgage loans	1,716,802	26,405	6.2%	1,363,596	19,617	5.8%
Total interest earning assets - TEB ⁽¹⁾	1,992,073	29,979	6.1%	1,554,200	21,467	5.6%
Total assets - TEB ⁽¹⁾	2,062,576	29,979	5.9%	1,623,634	21,467	5.4%
Liabilities and shareholders' equity:						
Customer deposits	1,822,850	16,911	3.8%	1,423,771	12,078	3.4%
Term loan	19,750	325	6.7%	9,875	50	6.4% ⁽²⁾
Subordinated debt	29,774	600	8.2%	28,759	580	8.2%
Total interest bearing liabilities	1,872,374	17,836	3.9%	1,462,405	12,708	3.5%
Total liabilities and shareholders' equity	2,062,576	17,836	3.5%	1,623,634	12,708	3.2%
Net interest income - TEB ⁽¹⁾		12,143			8,759	
Net interest margin - TEB ⁽¹⁾			2.4%			2.2%
Less: Taxable equivalent adjustment		784			556	
Net interest income per financial statements		11,359			8,203	

⁽¹⁾ See explanation of TEB at the beginning of this Management's Discussion and Analysis.

⁽²⁾ The average rate for the first three months of 2005 is calculated based on the weighted average outstanding term loan of \$3,183.

The Company's net interest margin of 2.4% in the first quarter 2006 compares very favourably to the 2.2% earned in the first quarter of 2005, primarily due to a better yielding mortgage portfolio mix during the first quarter of 2006 compared to a year earlier. This, in turn, reflected the positive impact of increases in the prime rate on that portion of the Company's mortgage portfolio that floats with prime. The prime rate increased 50 basis points during the first quarter of 2006 and at quarter end was 125 basis points higher than at the end of the first quarter of 2005. Interest penalties of \$0.3 million on the early discharge of mortgages in the first quarter of 2006 and \$0.4 million in the comparable 2005 period have been included in mortgage interest income.

Total interest revenues on a TEB were \$30.0 million in the first quarter compared to \$21.5 million in the comparable 2005 period, an increase of 39.7% due to growth in the Company's interest earning asset base and increases in interest rates. Mortgage revenues increased \$6.8 million or 34.6% in the first quarter 2006 over 2005. Portfolio securities' income on a TEB increased \$0.8 million or 68.6% on a quarter over quarter basis due to an increased portfolio and to increases in interest rates.

Interest expense on average customer deposits outstanding for the first quarter ended March 31, 2006 increased to 3.8% from 3.4% in 2005 due to general increases in interest rates, while overall interest expense on customer deposits for the quarter grew \$4.8 million or 40.0% over 2005 due to these higher interest rates as well as a 28.0% increase in average customer deposits outstanding during the first quarter of 2006 compared to that in 2005.

Net interest income – TEB increased \$3.4 million or 38.6% year over year.

Other Income

Other income includes ancillary fees related to the mortgage portfolio, gains on the securitization of mortgages and excess interest net of servicing fee earned on mortgages issued through the Company's CMHC-MBS program. Sundry income, gains or losses on the sale or redemption of investments and other non-mortgage related fees are also included in other income. Other income amounted to \$1.6 million for the three months ended March 31, 2006 compared to \$1.7 million during the same period in 2005 due to a decrease in loan securitization income and smaller gains made on the sale or redemption of investments in the first quarter of 2006 compared to 2005. Mortgage related fees increased to \$0.7 million compared to \$0.5 million in the comparable period of 2005 on the strength of greater conventional non-warehoused mortgage originations (table 4).

During the first quarter, the Company securitized, through the CMHC-MBS program, \$103 million of mortgages compared to \$40 million during the comparable period in 2005. Gains on sale of mortgages, however, remained flat at \$0.3 million in 2006 and 2005 because increases in insured multi-unit mortgage interest rates did not keep pace with increases in other interest rates. This led to margin compression. Excess interest net of servicing fees decreased to \$0.7 million during the first quarter of 2006 from \$0.8 million a year earlier due to a decrease in securitization activity as reflected in a lower loan securitization – retained interests asset balance at March 31, 2006 as compared to that of March 31, 2005.

Non-Interest Expenses

Non-interest expenses include all of the expenses not related to interest or credit provisions required to operate Equitable's business. The major elements of non-interest expenses consist primarily of salaries and benefits, commissions paid to deposit agents, premises and equipment expenses, capital taxes, insurance and other general and administrative expenses. Non-interest expenses totaled \$4.4 million for the first quarter compared to \$3.2 million during the same period in 2005. The increase in 2006 primarily reflected higher employment levels to support growth and variable expenses related to the expansion of the business including deposit agent commissions as well as office and equipment costs to accommodate growth in staff. Total staff complement at March 31, 2006, was 85, including 56 staff in the mortgage origination and servicing department compared to a total of 63 a year ago (which included 43 in the mortgage origination and servicing department).

Included in non-interest expenses during the first quarter of 2006 was a charge for stock-based compensation expense in the amount of \$0.1 million related to two grants of options in each of 2005 and 2004. The offset to this expense was an increase to contributed surplus in the same amount. The stock-based compensation charge for the quarter ended March 31, 2005 was also \$0.1 million.

The Company's productivity ratio on a tax equivalent basis was 32.0% in the first quarter of 2006, compared to 30.6% during the same period in 2005. This ratio (the lower, the better) is a non-GAAP financial measure derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. When net interest income is not measured on a tax equivalent basis, these ratios were 33.9% and 32.4% respectively. The higher productivity ratio is due primarily to increased staff levels to manage the increase in the Company's business. The Company has also incurred higher staff expenses to meet new corporate governance initiatives. At 32% TEB, the productivity ratio remained in line with the Company's target of 32% to 34% for all of 2006.

BALANCE SHEET

Mortgages

The Company's mortgage lending is focused on first charges for real estate in two primary niches: single family dwelling and multi-unit residential. At March 31, 2006, single family dwelling mortgages represented the largest portion of the portfolio (see table 3). This portion of the portfolio increased 8.1% from December 31, 2005 and 22.7% from March 31, 2005. Multi-unit residential mortgages increased 11.0% compared to a year earlier and were up 7.6% from December 31, 2005, while commercial mortgages increased 34.4% from a year ago.

The composition of the Company's mortgage portfolio at March 31, 2006 reflects management's mortgage asset weighting strategy and is shown in the following table together with comparisons for prior periods.

Table 3: Mortgages receivable

(\$ thousands)	March 31, 2006		December 31, 2005		March 31, 2005	
	\$	% of total	\$	% of total	\$	% of total
Single family dwelling	678,860	38.4%	628,240	37.5%	553,472	38.5%
Multi-unit residential	538,706	30.4%	500,666	29.8%	485,310	33.8%
Commercial	337,865	19.1%	292,200	17.4%	251,323	17.5%
Conventional mortgages held for sale	102,905	5.8%	163,743	9.8%	88,664	6.2%
Construction	68,226	3.9%	61,836	3.7%	30,242	2.1%
CMHC-insured	42,330	2.4%	30,452	1.8%	27,153	1.9%
Total mortgage principal	1,768,892	100.0%	1,677,137	100.0%	1,436,164	100.0%
Net premiums and sundry	712		1,422		1,152	
Mortgages reported	1,769,604		1,678,559		1,437,316	
Accrued interest	7,898		7,028		5,986	
Allowances for credit losses	(7,392)		(7,167)		(6,617)	
Total mortgages receivable	1,770,110		1,678,420		1,436,685	

Mortgage principal increased \$92 million or 5% during the three month period ended March 31, 2006 and increased \$333 million or 23% since March 31, 2005. The Company funded a total of \$590 million of mortgages during the quarter, an increase of 125% over last year's first quarter when a total of \$262 million of mortgages were funded. Conventional mortgages (other than warehoused mortgages) funded during the quarter amounted to \$275 million, an increase of 64% over that of the comparable quarter last year. CMHC mortgages securitized during the first quarter of 2006 amounted to \$103 million compared to \$40 million a year earlier. Conventional mortgages discharged during the first quarter of 2006 totaled \$383 million and included \$258 million of short term warehoused mortgages.

Table 4 segments mortgage principal funded.

Table 4: Mortgage Production

(\$ thousands)	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
	Mortgage Principal Funded	% of total	Mortgage Principal Funded	% of total
Conventional mortgages other than warehoused mortgages	275,125	46.6%	167,629	63.9%
Warehoused mortgages	199,857	33.9%	51,669	19.7%
CMHC-insured mortgages	114,870	19.5%	43,201	16.4%
Total	589,852	100.0%	262,499	100.0%

Mortgage Credit Quality

The Company did not realize any credit losses on mortgages during the quarters ended March 31, 2006 or 2005. Mortgages in arrears 61 days or more amounted to 0.14% of total principal outstanding at March 31, 2006 compared to 0.15% of total principal outstanding at March 31, 2005. Mortgages identified as impaired amounted to 0.16% of total mortgage principal outstanding at March 31, 2006, an improvement over 0.33% a year earlier. The provision for credit losses for the first quarter of 2006 of \$225 thousand was \$50 thousand greater than the \$175 thousand recorded in the prior year's

period. This increase reflects higher general reserves relating to the substantial growth of the Company's mortgage portfolio.

Table 5: Asset Categories

(\$ thousands)	March 31, 2006		December 31, 2005		March 31, 2005	
	Asset Amount	% of total	Asset Amount	% of total	Asset Amount	% of total
Liquidity investments	\$164,183	7.8%	\$159,810	7.9%	\$122,168	7.2%
Portfolio securities	114,715	5.4%	111,833	5.6%	82,448	4.8%
Mortgage loans	1,770,110	83.8%	1,678,420	83.4%	1,436,685	84.3%
Loan securitizations – Retained interests	51,953	2.5%	51,595	2.6%	53,191	3.1%
Other assets	11,939	0.5%	10,594	0.5%	9,525	0.6%
Total	\$2,112,900	100.0%	\$2,012,252	100.0%	\$1,704,017	100.0%

Total assets at March 31, 2006 increased \$101 million or 5.0% from \$2.0 billion at December 31, 2005 and increased \$409 million or 24.0% from \$1.7 billion at March 31, 2005. Liquidity investments include cash and cash equivalents as well as government bonds and notes – all considered eligible liquid assets for regulatory purposes. Total liquid resources include liquidity investments and portfolio securities which comprised 13.2% of total assets at March 31, 2006, compared to 13.5% at December 31, 2005 and 12.0% as at March 31, 2005.

Portfolio securities are comprised of preferred and, to a much lesser extent, common shares. At March 31, 2006 portfolio securities were \$2.9 million or 2.6% higher than at December 31, 2005 and \$32 million or 39.1% higher compared to March 31, 2005. Tax exempt dividend income from portfolio securities assists in lowering the Company's effective tax rate. The Company's effective tax rate was 30.2% in the first quarter compared to 31.1% for the period ended March 31, 2005.

Loan securitizations – retained interests have remained relatively flat at \$52.0 million at March 31, 2006 compared to \$51.6 million at December 31, 2005. Even though more loans were securitized in the first quarter of 2006 compared to prior quarters, the balance has decreased from March 31, 2005 due to decreased annual securitization activity as compared to prior years. Balances at March 31, 2006 decreased \$1.2 million or 2.3% from March 31, 2005. Total mortgages in the CMHC-MBS program outstanding at March 31, 2006 were \$1.9 billion – the same as at December 31, 2005 and March 31, 2005.

Liabilities

Customer deposits are utilized to fund the bulk of the Company's asset acquisitions and consist of GICs, sourced primarily through a national distribution network of deposit agents. Customer deposits at March 31, 2006 increased \$104 million or 5.7% from December 31, 2005 and \$389 million or 25.6% from March 31, 2005. Sales of cashable GICs, first introduced in 2005, continue to increase. Cashable GICs totaled \$367 million at March 31, 2006, up over 9 times from the March 31, 2005 balance of \$40 million and 5.3% greater than the December 31, 2005 balance of \$349 million.

Future income taxes payable result from differences between the measurement of assets and liabilities for financial statement purposes, as opposed to tax purposes, and relate primarily to the Company's securitization activities and its allowance for credit losses. Future taxes at March 31, 2006 have decreased from December 31, 2005 and from March 31, 2005 due primarily to increased general reserves for credit losses and to a reduction in securitization activity prior to the first quarter of 2006.

Series 4 subordinated debt totaling \$3.8 million was redeemed March 31, 2006 in accordance with the terms of the debenture. This compares to the redemption of \$3.5 million of Series 3 subordinated debt on March 31, 2005. No subordinated debt was issued and there was no change in the balance outstanding of the bank term loan during the first quarter of 2006. At March 31, 2006, a total of \$47.6 million of subordinated debt had been issued by Equitable Trust, \$19.8 million of which was eliminated

upon consolidation and replaced by a \$19.8 million bank term loan in the consolidated statements. Subsequent to March 31, 2006, Equitable Trust issued series 6 subordinated debentures in the amount of \$20 million, \$15 million of which was financed by an additional bank term loan in a similar manner to that as described in note 9 of the financial statements and the "Overview" to this MD&A.

Other Assets and Liabilities

Other assets at March 31, 2006 increased \$1.3 million or 13% from December 31, 2005 and \$2.4 million or 25% from a year earlier. The largest component of these assets is deferred GIC commissions paid to deposit agents, which are expensed over the term of the GICs to which they relate.

Other liabilities include the future servicing liability of securitized mortgages, realty taxes collected from borrowers, accounts payable, income taxes payable and periodic drawings under the Company's bank line of credit facility. No drawings were made on this line at March 31, 2006, December 31, 2005 or at March 31, 2005.

Shareholders' Equity

Total shareholders' equity increased \$6.1 million or 5% to \$130.7 million at March 31, 2006 from \$124.6 million at December 31, 2005 and grew 17% compared to March 31, 2005. As a result of the exercise of employee stock options, 90,705 common shares were issued and \$1.4 million was added to common share capital during the first quarter of 2006 compared to 61,633 common shares issued and \$0.4 million added to common share capital in the first quarter of 2005. At March 31, 2006, the Company had 11,872,645 common shares issued and outstanding, up 130,262 or 1.1% from 11,742,383 common shares issued and outstanding at March 31, 2005.

Capital Management

The Company maintains a capital management policy to govern the quality and quantity of capital utilized by Equitable Trust in its regulated operations. The objective of the policy is to ensure that adequate capital requirements are met, while providing sufficient return to investors. As well, the Company requires sufficient regulatory capital to meet the needs of its asset growth targets. Equitable Trust's total capital ratio at March 31, 2006 was 11.2% compared to 11.6% at December 31, 2005 and 12.4% at March 31, 2005.

Table 6 summarizes Equitable Trust's regulatory capital position.

Table 6: Capital measures (relating solely to Equitable Trust):

(\$ thousands)	March 31, 2006	December 31, 2005	March 31, 2005
Tier 1 capital	128,859	122,793	110,469
Tier 2 capital	47,603	51,444	48,119
Total capital	176,462	174,237	158,588
Total risk weighted assets	1,569,874	1,504,815	1,280,631
Total capital as a % of total risk weighted assets	11.2%	11.6%	12.4%
Authorized asset to capital multiple	17.5x	17.5x	17.5x
Utilized asset to capital multiple	12.0x	11.6x	10.7x

Net additional Tier 2 capital amounting to \$12.4 million in the form of subordinated debentures was issued subsequent to March 31, 2006. Please refer to notes 10 and 13 of the financial statements regarding subsequent events affecting the regulatory capital of Equitable Trust.

Eight Quarter Summary

Table 7 summarizes the Company's performance over the last eight quarters. Assets, revenues, earnings and ROAE have all continued to improve sequentially over the eight quarters ended March 31, 2006. Generally, the real estate market experiences periods of seasonality at different times of the year, but traditionally, this has little or no impact on Equitable's results.

Table 7: Summary of Quarterly Results

(\$ thousands, except per share amounts)

	2006	2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total assets at quarter end - \$ millions	2,113	2,012	1,821	1,788	1,704	1,543	1,450	1,334
Total revenues - TEB ⁽¹⁾	31,604	28,881	26,530	25,039	23,134	21,087	20,264	18,676
Total revenues	30,820	27,867	25,667	24,320	22,578	20,479	19,609	17,996
Net interest income – TEB ⁽¹⁾	12,143	12,017	10,439	9,843	8,759	8,299	7,624	7,106
Net interest income	11,359	11,003	9,576	9,124	8,203	7,693	6,969	6,426
Net earnings	5,833	5,562	4,985	4,728	4,482	4,301	3,934	3,716
EPS – Basic	\$0.49	\$0.47	\$0.42	\$0.40	\$0.38	\$0.37	\$0.34	\$0.33
EPS – Diluted	\$0.49	\$0.46	\$0.42	\$0.40	\$0.38	\$0.36	\$0.34	\$0.32
ROAE	18.6%	18.1%	16.8%	16.7%	16.6%	16.2%	15.4%	15.3%

⁽¹⁾ See explanation of TEB at the beginning of this Management's Discussion and Analysis.**FORWARD-LOOKING STATEMENTS**

Certain statements in this Management's Discussion and Analysis ("MD&A") contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Equitable Group Inc, or developments in Equitable's business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking information includes all disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. Equitable cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made.

Forward-looking statements relate to, among other things, realizing the value of Equitable's assets, capitalizing on market demand for Equitable's mortgage products, executing Equitable's strategic plan, and the demand for Equitable's deposit products. The risks and uncertainties that may affect forward-looking statements include, among others, risks involved in fluctuating interest rates and general economic conditions, legislative and regulatory developments, the nature of Equitable's customers, competition and other risks detailed from time to time in Equitable's filings with Canadian provincial securities regulators, including Equitable's Annual Report and Annual Information Form dated March 24, 2006. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and Equitable does not undertake to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.

RISKS AND UNCERTAINTIES

The Company faces a number of risks. Please refer to pages 34 to 38 in the Company's 2005 Annual Report and pages 11 to 15 in the December 31, 2005 Annual Information Form, both of which are available at www.sedar.com for further information on risks of the business. Management believes the three most significant risks are liquidity risk, interest rate risk and credit risk.

Liquidity risk relates to the Company's ability to redeem its deposit obligations as they come due or otherwise arise, and to fund asset commitments as scheduled.

Interest rate risk involves the Company's sensitivity of earnings to sudden changes in interest rates.

Credit risk is the risk of financial loss resulting from the failure of a borrower or any counterparty to fully honour its financial or contractual obligations.

Liquidity Risk Management

Mitigating liquidity risk requires the Company to match its asset and liability maturities and to keep sufficient liquid assets on hand at all times to meet mortgage funding and investment purchase commitments, mortgage renewals or extensions and any GIC redemptions. On a daily basis, the Company raises funds based upon asset growth, target liquidity levels and forecasts of its future liquidity requirements. Eligible liquid assets for regulatory purposes consist of cash and cash equivalents and debt instruments guaranteed by governments. Assets eligible for regulatory liquidity purposes were \$164 million at March 31, 2006 compared to \$160 million at December 31, 2005 and \$122 million at March 31, 2005. Total liquid resources, including marketable portfolio securities, were \$279 million at March 31, 2006 compared to \$272 million as at December 31, 2005 and \$205 million at March 31, 2005.

Interest Rate Risk Management

The Company's primary method of mitigating interest rate risk is matching asset and liability maturity or re-pricing terms, closely monitoring interest rates and acting upon any mismatch in a timely fashion, to ensure that any sudden or prolonged change in interest rates does not significantly affect the Company's net interest earnings.

The Company manages its asset and liability maturity or re-pricing profile by adjusting GIC interest rates on a daily basis to raise GICs with the appropriate maturities to best match the maturity or re-pricing profile of assets being funded. The Company closely monitors the effects of possible interest rate changes on both net interest income for the following twelve month period and on the economic value of shareholders' equity using simulated interest rate change sensitivity modeling and assumptions of borrower and depositor behaviour based upon historical experience. As estimated by the Company, an immediate and sustained 1% increase in interest rates as of March 31, 2006, would positively impact net interest income before any tax effect for the following twelve month period by \$2.7 million. If interest rates were to decrease 1% on an immediate and sustained basis as at March 31, 2006, and if cashable GICs were to stay on the books until maturity, the estimated negative impact to net interest income before any tax effect for the following twelve month period would be \$4.9 million.

The Company has adopted a consistent and disciplined approach to hedging the interest rate risk attached to its MBS activities. MBS interest rate risk refers to the risk that interest rates will vary between the time a mortgage interest rate is committed to and the time the underlying mortgage is securitized and that the change in rates will reduce the value of the mortgage being sold. The Company hedges the interest rate risk for all mortgages that are targeted to be sold through the CMHC-MBS program. Hedging protects the Company from losses due to changes in interest rates during the relevant period. The hedge is initiated on the date that the mortgage is priced and committed to and terminated on the date that the pool is sold. Changes in interest rates affect the price at which the mortgage pool is sold and inversely affects the value of the hedge. All costs related to hedging activities are matched to mortgages and are accounted for when the mortgage is securitized under the CMHC-MBS program.

Credit Risk Management

Under the Company's lending criteria, all mortgages are individually evaluated under a risk rating system to determine the level of risk attributable to each loan.

In accordance with sound business and financial practices, Equitable Trust's credit risk policies include the annual review of all commercial loans and mortgages. In addition, all loans that are in arrears are reviewed to determine whether any should be classified as doubtful or as a potential loss. Generally, a loan is classified as impaired when management is of the opinion that there is no longer reasonable assurance of full and timely collection of principal and interest. On a regular basis, management reviews all loans in these categories in order to determine the appropriate loan loss reserves required. Reviews of credit policies and lending practices are regularly undertaken by senior management and approved by Equitable Trust's Investment Committee.

Equitable Trust's Investment Committee meets on a quarterly basis to review the status of the Company's securities portfolio, the transactions during the past quarter and the portfolio

characteristics such as term, credit rating and type of security. Investment policies are reviewed regularly by Equitable Trust's Investment Committee to ensure that the type, credit quality, duration and concentration of investments in marketable securities are appropriate, prudent and consistent with the risk profile targets adopted by the Company. P-2 and better rated securities comprised 76% of the preferred share equity securities portfolio at March 31, 2006, the same as at a year earlier.

STRENGTHENING EXECUTIVE LEADERSHIP

The Company's Chief Executive Officer, Geoffrey Bledin, has expressed a desire to take on a more strategic role in the Company. As part of succession planning, Equitable's Board of Directors has initiated a search for the Company's next generation CEO to lead Equitable's current executive management team. The Board has engaged a well recognized executive search firm – and expects the hiring process to take several months. Once this person is eventually hired, the Company's current CEO will become full-time Vice Chairman working alongside the new CEO in a strategic development capacity. The Company believes that a team that includes both an active Vice Chairman as well as a CEO can accomplish more strategically and operationally. Geoffrey Bledin, remains committed to Equitable and will continue to play a major part in the Company's development.

OUTLOOK

The Company's positive outlook, expressed in its annual MD&A, remains intact.

At the time of writing, demand for residential mortgage financing remains strong in the Company's primary niche markets and the housing affordability index, although having deteriorated slightly from record levels, remains favourable for buyers. During the first quarter, the prime rate of interest increased 50 basis points and in April, subsequent to quarter end, increased another 25 basis points. Also in April, the Bank of Canada suggested that the Canadian economy was operating at full capacity and that economic growth would likely continue throughout 2007. To combat oil and commodity-driven inflation, the central bank may continue to increase interest rates this year. Future modest increases in rates would continue to be welcomed by the Company due to the positive impact on revenues associated with its floating rate mortgages. Provided they remain modest, increases in interest rates may also lessen over-exuberance in the real estate market without having a significant impact on arrears.

During this time of strong demand, the Company remains committed to its disciplined lending practices and intends to continue to build a quality portfolio that is well balanced between single family and multi-unit residential mortgage lending. Although the Greater Toronto Area and environs are expected to remain the focal point for the Company's lending activity for the balance of 2006 and well beyond, the Company continues to cautiously advance its newest growth initiative in Calgary. In the first quarter of 2006, Equitable originated a nominal but expected \$7 million in single family dwelling mortgages in Calgary.

Stability, predictability and efficiency have long been the Company's strengths, and management is committed to maintaining these qualities as it grows and capitalizes on new opportunities. The Calgary initiative as well as Equitable's warehoused mortgage program are indicative of the Company's ability to capitalize quickly on market trends.

To summarize, management continues to be committed to the targets and performance objectives outlined in its 2005 Annual Report and in this Management's Discussion and Analysis.

May 4, 2006

The interim unaudited consolidated financial statements and notes have not been reviewed by the Company's auditors but have been reviewed and approved by the Company's Audit Committee and Board of Directors.

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2006 - UNAUDITED

With comparative figures as at December 31, 2005 and March 31, 2005

(In thousands of dollars)

	March 31, 2006	December 31, 2005	March 31, 2005
Assets			
Cash and cash equivalents	\$80,179	\$77,214	\$46,335
Investments (note 2)	198,719	194,429	158,281
Loan securitizations - retained interests (note 3)	51,953	51,595	53,191
Mortgages receivable (note 4)	1,770,110	1,678,420	1,436,685
Other assets (note 5)	11,939	10,594	9,525
	\$2,112,900	\$2,012,252	\$1,704,017
Liabilities and Shareholders' Equity			
Liabilities:			
Customer deposits (note 6)	\$1,912,705	\$1,808,955	\$1,523,435
Future income taxes payable	6,032	6,538	7,911
Other liabilities (note 7)	15,861	20,707	12,999
Bank term loan (note 9)	19,750	19,750	19,750
Subordinated debt (note 10)	27,853	31,694	28,369
	1,982,201	1,887,644	1,592,464
Shareholders' equity (note 11):			
Capital stock	56,959	55,510	55,186
Contributed surplus	1,323	1,327	1,045
Retained earnings	72,417	67,771	55,322
	130,699	124,608	111,553
	\$2,112,900	\$2,012,252	\$1,704,017

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006 - UNAUDITED

With comparative figures for the three month period ended March 31, 2005

(In thousands of dollars, except per share amounts)

	Three months ended	
	March 31, 2006	March 31, 2005
Interest income:		
Mortgages	\$26,405	\$19,617
Investments	1,754	934
Other	1,036	360
	29,195	20,911
Interest expense:		
Customer deposits	16,911	12,078
Subordinated debt	600	580
Term loan	325	50
	17,836	12,708
Interest income, net	11,359	8,203
Provision for credit losses (note 4)	225	175
Net interest income after provision for credit losses	11,134	8,028
Other income:		
Mortgage commitment income and other fees	674	497
Net gain on sale or redemption of investments	2	99
Loan securitizations - retained interests (note 3)	949	1,071
	1,625	1,667
Net interest income and other income	12,759	9,695
Non-interest expenses :		
Compensation and benefits	2,048	1,338
Deposit agent commissions	1,045	744
Other	1,306	1,111
	4,399	3,193
Earnings before income taxes	8,360	6,502
Income taxes (note 8):		
Current	3,033	2,149
Future	(506)	(129)
	2,527	2,020
Net earnings	\$5,833	\$4,482
Earnings per share (note 11):		
Basic	\$0.49	\$0.38
Diluted	\$0.49	\$0.38
Weighted average number of shares outstanding (note 11):		
Basic	11,802,679	11,699,925
Diluted	12,007,843	11,901,865

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006 - UNAUDITED

With comparative figures for the three month period ended March 31, 2005

(In thousands of dollars)

	Three months ended	
	March 31, 2006	March 31, 2005
Common shares:		
Balance, beginning of period	\$55,510	\$54,815
Common shares issued (note 11):		
Proceeds from exercise of employee stock		
Options	1,325	356
Transfer from contributed surplus relating to the exercise of stock options	124	15
Balance, end of period	56,959	55,186
Retained earnings:		
Balance, beginning of period	67,771	51,779
Net earnings	5,833	4,482
Dividends	(1,187)	(939)
Balance, end of period	72,417	55,322
Contributed surplus:		
Balance, beginning of period	1,327	959
Stock-based compensation (note 11)	120	101
Transfer to common shares relating to the exercise of stock options	(124)	(15)
Balance, end of period	1,323	1,045
Total shareholders' equity	\$130,699	\$111,553

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006 - UNAUDITED

With comparative figures for the three month period ended March 31, 2005

(In thousands of dollars)

	Three months ended	
	March 31, 2006	March 31, 2005
Cash provided by (used in):		
Operating activities:		
Net earnings	\$5,833	\$4,482
Non-cash items:		
Loan securitizations – gains on sale of mortgages	(277)	(299)
Amortization	109	81
Provision for credit losses	225	175
Net gain on sale or redemption of investments	(2)	(99)
Future income taxes	(506)	(129)
Stock-based compensation	120	101
Amortization of premiums on investments	881	818
	6,383	5,130
Changes in operating assets and liabilities:		
Other assets	(1,414)	(813)
Other liabilities	(5,169)	(989)
	(200)	3,328
Financing activities:		
Increase in customer deposits	103,750	138,787
Issuance (redemption) of subordinated debt, net	(3,841)	(780)
Issuance of term loan	-	19,750
Dividends paid on common shares	(1,187)	(939)
Common shares issued	1,325	356
	100,047	157,174
Investing activities:		
Purchase of investments	(19,960)	(36,598)
Proceeds on sale or redemption of investments	14,791	14,246
Increase in mortgages receivable	(590,285)	(256,620)
Mortgage principal repayments	395,172	80,612
Proceeds from loan securitizations	99,966	39,822
Loan securitizations - retained interests	3,474	4,467
Purchase of capital assets	(40)	(38)
	(96,882)	(154,109)
Increase in cash and cash equivalents	2,965	6,393
Cash and cash equivalents, beginning of period	77,214	39,942
Cash and cash equivalents, end of period	\$80,179	\$46,335
Comprised of:		
Deposits at banks	75,044	51,622
Short term investments	15,000	497
Cheques and other items in transit	(9,865)	(5,784)
	\$80,179	\$46,335
Supplemental cash flow information:		
Interest paid	\$15,885	\$10,223
Income taxes paid	6,447	2,152

See accompanying notes to interim unaudited consolidated financial statements.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIOD ENDED MARCH 31, 2006

(In thousands of dollars, except per share amounts)

1. Basis of preparation:

These interim unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements for the year ended December 31, 2005 as set out on pages 47 to 62 of the 2005 Annual Report. These interim unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used in the preparation of the consolidated financial statements for the year ended December 31, 2005.

These interim unaudited consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. Investments:

	March 31, 2006		December 31, 2005		March 31, 2005	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$113,596	\$114,750	\$110,714	\$111,445	\$81,930	\$81,714
Government bonds, treasury bills and notes	84,004	84,277	82,596	82,538	75,833	75,951
Common shares	1,119	1,466	1,119	1,456	518	365
	\$198,719	\$200,493	\$194,429	\$195,439	\$158,281	\$158,030

The Company has a bank line of credit facility. Under this facility, the Company may borrow up to \$35 million (December 31, 2005 - \$35 million, March 31, 2005 - \$20 million) for short-term liquidity purposes. The facility is secured by the Company's investments in common and preferred shares. There was no outstanding balance on the line as at March 31, 2006 (December 31, 2005 - \$Nil, March 31, 2005 - \$Nil).

3. Loan securitizations – retained interests:

The Company securitizes Canadian government guaranteed residential mortgage loans through the creation of mortgage-backed securities and removes the mortgages from the balance sheet. As at March 31, 2006, outstanding securitized mortgages totaled \$1,927,741 (December 31, 2005 - \$1,878,405, March 31, 2005 - \$1,855,292), substantially all of which are multi-family residential mortgage loans.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Loan securitizations – retained interests (continued):

During the period, the Company securitized Canadian government guaranteed residential mortgage loans and received net cash proceeds of \$99,966 (March 31, 2005 – \$39,822). The Company retained the rights to future excess interest on the residential mortgages valued at \$4,000 (March 31, 2005 – \$2,170) and received net cash flows on interests retained of \$4,146 (March 31, 2005 – \$5,239). The Company retained the responsibility for servicing the mortgages and enjoys the right to receive the future excess interest spread. The Company has outsourced the servicing of the transferred loans to an unrelated third party and has recorded a servicing liability of \$490 (March 31, 2005 – \$461) relating to loans securitized during the period.

The components of income from loan securitizations – retained interests are as follows:

	March 31, 2006	March 31, 2005
Gain on sale of mortgages	\$277	\$299
Excess interest net of servicing fee	672	772
	\$949	\$1,071

The valuation of the future excess interest spread includes an excess spread of 0.83% (December 31, 2005 – 0.84%, March 31, 2005 – 0.85%), and the key assumption of a discount rate of 5.03% (December 31, 2005 – 5.08%, March 31, 2005 – 5.25%). There are no expected credit losses, as the mortgages are government guaranteed.

The Company enters into hedging transactions to manage market interest rate exposures on mortgages held for securitization and commitments for mortgages to be securitized, typically for periods of up to 90 days. Hedging gains and losses are recognized at the time the related mortgages are securitized. Hedge instruments outstanding at March 31, 2006, December 31, 2005 and March 31, 2005 relating to forward contracts on Government of Canada bonds, where the counterparties for which are chartered banks, are as follows:

Bond term (years)	March 31, 2006		December 31, 2005		March 31, 2005	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
1 to 5	\$14,000	\$13,977	\$10,200	\$10,381	\$15,100	\$16,430
5 to 10	47,500	49,898	39,200	42,320	14,100	14,880
	\$61,500	\$63,875	\$49,400	\$52,701	\$29,200	\$31,310

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

March 31, 2006	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,266,496	\$1,670	\$4,156	\$5,826	\$1,260,670
Other mortgages	373,192	-	1,309	1,309	371,883
Mortgages held for securitization or for sale	129,916	-	257	257	129,659
Accrued interest	7,898	-	-	-	7,898
	\$1,777,502	\$1,670	\$5,722	\$7,392	\$1,770,110

December 31, 2005	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,184,434	\$2,087	\$3,634	\$5,721	\$1,178,713
Other mortgages	320,496	-	1,037	1,037	319,459
Mortgages held for securitization or for sale	173,629	-	409	409	173,220
Accrued interest	7,028	-	-	-	7,028
	\$1,685,587	\$2,087	\$5,080	\$7,167	\$1,678,420

March 31, 2005	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,083,460	\$2,180	\$3,329	\$5,509	\$1,077,951
Other mortgages	255,627	-	886	886	254,741
Mortgages held for securitization or for sale	98,229	-	222	222	98,007
Accrued interest	5,986	-	-	-	5,986
	\$1,443,302	\$2,180	\$4,437	\$6,617	\$1,436,685

Included in mortgages held for securitization or for sale are Canadian Government insured mortgages of \$26,943, as at March 31, 2006 (December 31, 2005 - \$9,664, March 31, 2005 - \$9,485). These loans held for securitization, together with the related interest rate hedges, are carried at the lower of cost or fair value. Loans held for sale include loans which are to be pooled and discharged subsequent to the balance sheet date at their investment cost. These loans are carried at the lower of the cost or fair value. There are no foreclosed assets held for sale at March 31, 2006, December 31, 2005 and March 31, 2005.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at March 31, 2006 aggregated \$2,877 (December 31, 2005 - \$3,587, March 31, 2005 - \$4,792) and \$1,207 (December 31, 2005 - \$1,500, March 31, 2005 - \$2,612), respectively.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Mortgages receivable (continued):

The Company has commitments to fund a total of \$282,279 (December 31, 2005 - \$307,970, March 31, 2005 - \$215,394) of mortgages as at the end of the period.

(b) Allowance for credit losses:

	March 31, 2006		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$2,087	\$5,080	\$7,167
Provision for credit losses	(417)	642	225
Balance, end of period	\$1,670	\$5,722	\$7,392

	March 31, 2005		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$2,438	\$4,004	\$6,442
Provision for credit losses	(258)	433	175
Balance, end of period	\$2,180	\$4,437	\$6,617

5. Other assets:

	March 31, 2006	December 31, 2005	March 31, 2005
Deferred GIC commissions	\$6,005	\$5,791	\$4,070
Other receivables	1,777	1,469	1,764
Prepaid expenses and deferred charges	1,490	977	1,029
Capital assets	1,433	1,502	1,327
Accrued interest on non-mortgage assets	1,234	855	935
Loan to officer	-	-	400
	\$11,939	\$10,594	\$9,525

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Customer deposits:

	March 31, 2006	December 31, 2005	March 31, 2005
Cashable GICs, payable on demand	\$367,202	\$348,885	\$40,471
GICs with fixed maturity date	1,506,547	1,423,066	1,451,450
Accrued interest	38,956	37,004	31,514
	\$1,912,705	\$1,808,955	\$1,523,435

7. Other liabilities:

	March 31, 2006	December 31, 2005	March 31, 2005
Securitized mortgage servicing liability	\$6,547	\$6,460	\$6,175
Accounts payable and accrued liabilities	4,887	4,315	2,972
Mortgagor realty taxes	3,175	5,266	2,880
Income taxes payable	1,252	4,666	972
	\$15,861	\$20,707	\$12,999

8. Income taxes:

The provision for income taxes shown in the statement of earnings differs from that obtained by applying statutory income tax rates to the earnings before the provision for income taxes for the following reasons:

	March 31, 2006	March 31, 2005
Canadian statutory income tax rate	36.1%	36.1%
Increase (decrease) resulting from:		
Tax exempt income	(6.0%)	(5.5%)
Non-deductible expenses and other	0.1%	0.5%
Effective income tax rate	30.2%	31.1%

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Bank term loan:

On March 17, 2005, the Company received a five year term loan from Canadian Western Bank in the amount of \$19,750. The proceeds of this term loan were used to purchase \$19,750 of Series 5 Subordinated Debentures of the Company's subsidiary, The Equitable Trust Company ("Equitable Trust"). The terms of the loan are as follows:

- i) the balance of the loan, together with all accrued and unpaid interest, is due and payable in full on March 17, 2010;
- ii) the loan is repayable in full at the option of the Company at any time during its term;
- iii) interest is payable at 6.37%; and
- iv) as collateral for the term loan, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Equitable Trust and an assignment of \$19,750 of the Series 5 Subordinated Debentures issued by Equitable Trust.

See note 13 for details on an additional \$15,000 term loan received subsequent to March 31, 2006.

10. Subordinated debt:

The Company has issued debentures which are subordinated to the deposits and other liabilities of the Company and which are repayable at any time without penalty. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest is paid quarterly.

2006 Debenture series	Interest rate	Issue date	Maturity date	Outstanding, December 31, 2005	Issued during the period	Redeemed during the period	Outstanding, March 31, 2006
Series 4	7.54% - 8.15%	2003	January 2013	\$ 11,444	\$ -	\$ 3,841	\$ 7,603
Series 5	7.31% - 7.58%	2004/05	January 2015	20,250	-	-	20,250
				\$ 31,694	\$ -	\$ 3,841	\$ 27,853

2005 Debenture series	Interest rate	Issue date	Maturity date	Outstanding, December 31, 2004	Issued during the period	Redeemed during the period	Outstanding, March 31, 2005
Series 3	8.48% - 8.82%	2002	January 2012	\$ 3,530	\$ -	\$ 3,530	\$ -
Series 4	7.54% - 8.15%	2003	January 2013	11,444	-	-	11,444
Series 5	7.31% - 7.58%	2004/05	January 2015	14,175	2,750	-	16,925
				\$ 29,149	\$ 2,750	\$ 3,530	\$ 28,369

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Subordinated debt (continued):

See note 13 for details on the issue of \$20,000 of new Series 6 Subordinated Debentures and the redemption of \$7,603 of Series 4 Subordinated debentures subsequent to March 31, 2006.

11. Shareholders' equity:

(a) Capital stock:

Authorized:
 Unlimited number of common shares
 Unlimited number of preferred shares

Issued:
 Common shares:

	March 31, 2006		March 31, 2005	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	11,781,940	\$55,510	11,680,750	\$54,815
Issued during the period	90,705	1,325	61,633	356
Transfer from contributed surplus relating to the exercise of stock options	-	124	-	15
Balance, end of period	11,872,645	\$56,959	11,742,383	\$55,186

(b) Stock-based compensation plans:

Stock option plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible employees and directors for terms of five years and vesting over a four year or five year period. The maximum number of common shares available for issuance under the plan is fixed at 1,139,154 representing approximately 9.6% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to November 2010. A summary of the Company's stock option activity and related information for the periods ended March 31, 2006 and March 31, 2005 is as follows:

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Shareholders' equity (continued):

	March 31, 2006		March 31, 2005	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	768,539	\$18.07	809,729	\$15.86
Granted	-	-	-	-
Exercised	(90,705)	14.61	(61,633)	5.77
Forfeited/cancelled	-	-	-	-
Outstanding, end of period ⁽¹⁾	677,834	\$18.53	748,096	\$16.69
Exercisable, end of period	172,111	\$17.27	131,723	\$16.59

⁽¹⁾ Of this amount, 19,777 options are subject to shareholders' approval.

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$120 (March 31, 2005 – \$101) related to two grants of options in each of 2005 and 2004 under the stock option plan. This amount has been credited to contributed surplus. There have been no options granted in 2006. The fair value of options granted in 2005 is estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 3.9%; (ii) expected option life of 4.0 years; (iii) expected volatility of 19.0%; and (iv) expected dividends of 2.2%. The weighted average fair value of each option granted was \$2.92.

12. 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 March 31, 2006, December 31, 2005 and March 31, 2005:

	March 31, 2006							
	Floating rate or within 1 month	1 to 3 months	3 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Total assets	\$ 937,004	\$ 118,350	\$ 293,958	\$ 1,349,312	\$ 725,739	\$ 21,415	\$ 16,434	\$ 2,112,900
Total liabilities and equity	602,658	206,643	406,665	1,215,966	657,783	47,603	191,548	2,112,900
Interest rate sensitive gap	\$ 334,346	\$ (88,293)	\$ (112,707)	\$ 133,346	\$ 67,956	\$ (26,188)	\$ (175,114)	\$ -
Cumulative gap	\$ 334,346	\$ 246,053	\$ 133,346	\$ 133,346	\$ 201,302	\$ 175,114	\$ -	\$ -
Cumulative gap as a percentage of total assets	15.82%	11.65%	6.31%	6.31%	9.53%	8.29%	0.00%	0.00%

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Interest rate sensitivity (continued):

December 31, 2005								
	Floating rate or within 1 month	1 to 3 months	3 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Cumulative gap	\$ 293,867	\$ 140,459	\$ 167,955	\$ 167,955	\$ 205,882	\$ 173,691	\$ -	\$ -
Cumulative gap as a percentage of total assets	14.60%	6.98%	8.35%	8.35%	10.23%	8.63%	0.00%	0.00%

March 31, 2005								
	Floating rate or within 1 month	1 to 3 months	3 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Cumulative gap	\$ 457,636	\$ 301,895	\$ 95,494	\$ 95,494	\$ 177,930	\$ 149,772	\$ -	\$ -
Cumulative gap as a percentage of total assets	26.86%	17.72%	5.60%	5.60%	10.44%	8.79%	0.00%	0.00%

(a) Accrued interest is excluded in calculating interest sensitive assets and liabilities.

(b) Potential prepayments of fixed rate loans have not been estimated. Cashable GICs are included with floating rate liabilities as these are cashable by the depositor upon demand. Any prepayments of subordinated debt, contractual or otherwise, have not been estimated as these would require pre-approval by OSFI.

13. Subsequent events:

Subsequent to the reporting date, on April 17, 2006, the Company received an additional \$15,000 term loan from Canadian Western Bank and used the proceeds to purchase \$15,000 of Series 6 Subordinated Debentures of Equitable Trust. The loan is due April 17, 2011, bears interest at 6.82%, is repayable in full at the option of the Company at any time during its term and is secured by a promissory note and an assignment of \$15,000 of the Series 6 Subordinated Debentures issued by Equitable Trust. The general security agreement and pledge of the issued and outstanding shares in the capital of Equitable Trust apply to this term loan as well as the term loan disclosed in note 9.

Equitable Trust issued a total of \$20,000 of 7.27% Series 6 Subordinated Debentures subsequent to March 31, 2006, including the \$15,000 purchased by the Company. All of Equitable Trust's outstanding Series 4 Subordinated Debentures amounting to \$7,603 were redeemed by Equitable Trust on April 17, 2006.

14. Future accounting changes:

The CICA has issued three new accounting standards: "Financial Instruments - Recognition and Measurement", "Hedges" and "Comprehensive Income" which will be in effect for the Company for its 2007 fiscal year. The impact of these new standards on the Company's financial statements is not yet determinable as it will be dependent on the Company's outstanding positions and their fair values at the time of implementation.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Paul Alofs⁽¹⁾⁽⁵⁾

*President and Chief Executive Officer,
Princess Margaret Hospital Foundation*

Austin Beutel⁽³⁾⁽⁴⁾

*Chairman of the Board, Equitable Group Inc. and
The Equitable Trust Company
Chairman, Oakwest Corporation Limited (an investment
holding company)*

Eric Beutel⁽²⁾⁽⁵⁾

*Vice-President, Oakwest Corporation Limited
(an investment holding company)*

Geoffrey Bledin⁽²⁾

*President and Chief Executive Officer,
Equitable Group Inc. and
The Equitable Trust Company*

Giselle Branget⁽¹⁾⁽⁴⁾

Corporate Director

Joseph Dickstein⁽¹⁾⁽⁴⁾⁽⁵⁾

*Vice-Chairman and Director, PPI Financial Group
(a financial services company)*

Eric Kirzner⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾

*Professor of Finance, Rotman School of Management,
University of Toronto*

Lionel Robins⁽²⁾⁽³⁾

*President, PFDL Investments Limited
(an investment holding company)*

Robert Rubinoff⁽²⁾⁽³⁾⁽⁴⁾

*President and Director, Inglewood Holdings Inc.
(an investment holding company)*

Michael Shulman⁽¹⁾⁽⁵⁾

*President, The Birchwood Group Inc.
(an investment holding company)*

Notes:

1. Member of the Audit Committee of Equitable Trust and Equitable Group. 2. Member of the Investment Committee of Equitable Trust. 3. Member of the Human Resources and Compensation Committee of Equitable Trust. 4. Member of the Corporate Governance Committee of Equitable Trust and Equitable Group. 5. Member of the Conduct Review Committee of Equitable Trust.

Executive Officers: Equitable Group Inc.

Geoffrey Bledin

President and Chief Executive Officer

Stephen Coffey

Senior Vice-President and Chief Financial Officer

Timothy Storus

*Vice-President, General Counsel,
Chief Compliance Officer and Secretary*

Executive Officers:

The Equitable Trust Company

Geoffrey Bledin

President and Chief Executive Officer

Stephen Coffey

Senior Vice-President and Chief Financial Officer

John Harry

Vice-President, Credit and Risk Management

Kimberly Kukulowicz

Vice-President, Mortgage Services

Tamara Malozewski

Vice-President, Finance

Robert McMillan

Vice-President, Deposit Services

Timothy Storus

*Vice-President, General Counsel,
Chief Compliance Officer and Secretary*

Nicholas Strube

Treasurer

SHAREHOLDER AND CORPORATE INFORMATION

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Investor Relations Contact

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investor@equitablegroupinc.com

Stock Listing

TSX: ETC

Annual and Special Meeting of Shareholders

Tuesday, May 23, 2006 10 a.m. eastern
TSX Conference Centre
130 King Street West
Toronto, Ontario

