



EQUITABLE GROUP INC.

SECOND QUARTER REPORT

Quarter Ended June 30, 2005

CORPORATE PROFILE

Equitable Group Inc. provides first mortgage financing through its wholly owned subsidiary, The Equitable Trust Company, on properties located primarily in and around the Greater Toronto Area, a geographic territory that encompasses a population of more than five million. Equitable Trust was founded in 1970 and is now a leader in its primary niches: alternative single family dwelling and multi-unit residential mortgage lending. On a very selective basis, the Company also provides financing for commercial properties. Equitable Trust offers Guaranteed Investment Certificates to its depositors as a nationally licensed deposit-taking institution.

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. surpassed its previous records for earnings and earnings per share during the second quarter ended June 30, 2005 as it capitalized on its disciplined lending practices to sustain its record of profitable growth. As a result, we are on track to achieve our performance objectives for all of 2005.

We invite you to read Management's Discussion and Analysis, which follows, for complete details but we are proud to provide these highlights:

Second Quarter Highlights (three months ended June 30, 2005)

- Net earnings grew 27% to \$4.73 million from \$3.72 million in the second quarter of 2004 and were 5.5% ahead of the previous record for quarterly earnings achieved during the three months ended March 31, 2005.
- Diluted EPS grew 25% to a record \$0.40 from \$0.32 in the second quarter of 2004.
- Return on weighted average shareholders' equity was 16.7% compared to 15.3% in the second quarter a year ago.
- Mortgage assets increased 42% to \$1.54 billion from \$1.09 billion a year ago.
- Conventional mortgage production increased 64% to \$329 million from \$201 million in the second quarter of 2004.
- There were no realized loan losses in the second quarter of 2005.

First Half Highlights (six months ended June 30, 2005)

- Net earnings increased 37% to \$9.21 million from \$6.74 million in the same period a year ago
- Diluted EPS grew 31% to \$0.77 from \$0.59 a year ago.

Dividend Declared

Your Board declared a dividend of 8 cents per share payable October 5, 2005 to shareholders of record September 16, 2005. This is consistent with our policy of paying approximately 25% of trailing (prior year) earnings as a dividend.

Management Commentary

Equitable continues to perform on plan and at a high level. Measured against our objectives for the year – 20% growth in EPS, greater than 16% ROE, 20% growth in assets, an attractive productivity ratio and continuation of our minimal loan loss experience – we are well on track. Measured against the first quarter, Equitable showed excellent progress, with mortgage assets ahead 7.5%, conventional mortgage production advancing 39% and diluted EPS up 5.3%. This is a reflection of the momentum in our business that has occurred from mortgage lending in previous periods. Given growth in assets in the second quarter and year to date, we expect to continue to perform at a high level for the balance of 2005.

As a further measure of performance, our productivity ratio was a superior 34.1% as we continued to effectively leverage our low-cost business model while achieving strong growth and supporting it appropriately with committed staff. We also completed the issue of our subordinated debt offering. Our intention was to raise up to \$40 million of Series 5 Subordinated Debentures by December 31, 2005 in order to enhance regulatory capital and support growth. With subscriptions received during the second quarter, the \$40 million debt has been fully issued. As a result of this financing, Equitable Trust's total regulatory capital ratio was 12.4% at June 30, 2005 positioning us for further growth without the dilutive effects on ROE of issuing additional common shares.

The Company also continued to apply its asset weighting strategies while growing. Consequently, Equitable's mortgage portfolio at June 30, 2005 was allocated as follows:

- Single family dwelling mortgages comprised 41.1% of mortgages receivable
- Multi-unit residential mortgages represented 34.8%

- Commercial mortgages accounted for 17.9% with construction loans and CMHC-insured mortgages comprising the balance of the portfolio.

The majority of all mortgages funded were in or around the Greater Toronto Area.

Outlook & Calgary Initiative

Our positive outlook is unchanged from March 31, 2005. More specifically, at the time of writing, the market for our mortgage products remains robust and we expect it will provide all the support we need to achieve our objectives for 2005.

While the vast majority of our mortgage lending activity has and will continue to take place in the Greater Toronto Area, as planned, we have established our presence in the Calgary market for single family dwelling mortgages. We believe Calgary is the ideal market for Equitable's brand of disciplined lending because of its sound real estate values and population growth.

In total, we're delighted with Equitable's progress to date this year and we are committed to achieving our objectives through our uniquely disciplined business and lending practices.

Yours sincerely,



Austin Beutel
Chairman of the Board



Geoffrey Bledin
President and Chief Executive Officer

August 8, 2005

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

(for the three months ended June 30, 2005)

Notice to Readers

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements for the period ended June 30, 2005 included herein and the audited consolidated financial statements and MD&A for the year ended December 31, 2004 which are available on SEDAR at www.sedar.com or on pages 11 through 55 of the 2004 Annual Report. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2004 remain substantially unchanged. All dollar amounts are in millions of Canadian dollars unless otherwise indicated. The Company has utilized a non-GAAP (generally accepted accounting principles) financial measure for presenting net interest income, margins and certain ratios on a tax equivalent basis. Please refer to note 1 following table 2 for details.

Certain forward-looking statements are made in this Management's Discussion and Analysis, including statements regarding possible future business. Investors are cautioned that such forward-looking statements involve risks and uncertainties detailed from time to time in the periodic reports filed by Equitable Group Inc. ("Equitable" or the "Company") with Canadian regulatory authorities. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Equitable does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

OVERVIEW

Equitable's assets and earnings continued to grow in the second quarter of 2005 as the Company surpassed its previous records (set in the first quarter of 2005) for total assets and quarterly earnings. The Company also completed its initiative to raise \$40 million of subordinated debt for its subsidiary, The Equitable Trust Company, and has thereby positioned itself for further growth. It also continued to achieve sequential quarter over quarter growth, measured by asset accumulation and earnings, compared to the first quarter of 2005. Between March 31, 2005 and June 30, 2005, the Company's asset base grew 4.9% and mortgages receivable grew 7.5%. Sequentially, ROE for the second quarter of 2005 was 16.7% compared to 16.6% in the first quarter of 2005 while second quarter 2005 net earnings of \$4.7 million were 5.5% higher than the first quarter of 2005 net earnings of \$4.5 million. Diluted earnings per share increased \$0.02 or 5.3% in the second quarter compared to the first quarter of 2005.

To manage growth and capitalize on market opportunities in the Greater Toronto Area ("GTA"), the Company added mortgage origination and other staff in the second quarter, bringing the total staff complement to 70 at June 30, 2005 from 50 at June 30, 2004. Even so, the Company continued to maintain a superior productivity ratio (the lower the better) of 34.1% for the second quarter of 2005, 31.9% on a tax equivalent basis. (Note that the Company has changed the way it calculates its productivity ratio in 2005 from that used in 2004 – see net interest margin discussion under the Earnings review for details).

On August 8, 2005 the Board of Directors declared a dividend in the amount of \$0.08 per share payable October 5, 2005 to shareholders of record as of close of business September 16, 2005. This is consistent with its practice of paying approximately 25% of trailing (previous year) earnings as a dividend.

PERFORMANCE AGAINST OBJECTIVES

Equitable's principal objectives for 2005 are: 20% growth in assets, 20% growth in earnings per share and Return On Equity (ROE) of greater than 16%.

The Company made excellent progress against these financial objectives in the second quarter of 2005:

- net earnings increased 27% over the second quarter of 2004 to \$4.73 million - a new record for quarterly earnings
- earnings per share on a diluted basis increased 25% to \$0.40 from \$0.32 during the same period in 2004
- ROE was 16.7% compared to 15.3% in the second quarter of 2004

Management believes Equitable is on track to achieve its performance objectives for 2005.

Table 1: Selected financial information

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

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
OPERATIONS				
Net earnings	\$4,728	\$3,716	\$9,210	\$6,743
Earnings per share – basic	0.40	0.33	0.79	0.62
Earnings per share – diluted	0.40	0.32	0.77	0.59
Total revenue	24,320	17,996	46,898	34,679
Net interest income	9,124	6,426	17,327	12,118
Return on weighted average equity – annualized	16.7%	15.3%	16.6%	15.2%
Net interest margin – TEB ⁽¹⁾ – annualized	2.3%	2.3%	2.3%	2.2%
Return on average assets – annualized	1.1%	1.2%	1.1%	1.1%
Productivity ratio – TEB ⁽¹⁾	31.9%	30.3%	31.3%	31.2%
Productivity ratio	34.1%	32.9%	33.3%	33.4%
BALANCE SHEET AND OFF-BALANCE SHEET				
Mortgages receivable			1,544,332	1,086,979
Total assets			1,788,249	1,333,848
Customer deposits			1,595,933	1,199,341
Shareholders' equity			115,575	99,508
Mortgage-backed security assets under administration			1,894,029	1,803,398
COMMON SHARES				
Number of common shares outstanding at period end			11,756,606	11,425,771
Book value per common share			\$9.83	\$8.71
Common share price – close			24.66	18.10
Market capitalization			289,918	206,806
CREDIT QUALITY				
Realized loan losses			\$0	\$0
Mortgages in arrears 61 days or more as a % of total mortgages			0.05%	0.05%
Net impaired mortgages as a % of total mortgages			0.07%	0.29%
Allowance for credit losses as a % of total mortgages			0.44%	0.56%
Allowance for credit losses as a % of gross impaired mortgages			306.6%	101.9%

⁽¹⁾ For a definition of TEB (tax equivalent basis), please refer to note 1 following Table 2.

FINANCIAL REVIEW

EARNINGS

Net earnings increased 27% and diluted EPS increased 25% in the second quarter of 2005 compared to the same period a year ago. These improvements reflect a more efficient use of capital, considerable growth in the Company's interest earning asset base to the end of the second quarter of 2005 compared to the comparable 2004 period, consistent spreads, and the resulting increase in net interest income. For the first six months of 2005, net earnings increased 37% to \$9.21 million from \$6.74 million in 2004, while diluted EPS increased 31% to \$0.77 from \$0.59. Return on weighted average equity for the first six months of 2005 was 16.6% compared to 15.2% for 2004.

Table 2: Net interest income

(\$ thousands)	Three months ended June 30, 2005		Three months ended June 30, 2004		Six months ended June 30, 2005		Six months ended June 30, 2004	
	Revenue/ Expense	Average rate	Revenue/ Expense	Average Rate	Revenue/ Expense	Average rate	Revenue/ Expense	Average Rate
Interest revenues or interest expenses derived from:								
Liquidity investments	894	3.4%	491	2.4%	1,647	3.5%	1,145	2.2%
Portfolio securities – TEB ⁽¹⁾	1,507	6.9%	1,585	8.1%	2,604	6.1%	2,459	7.5%
Mortgage loans	21,314	5.8%	15,072	5.9%	40,931	5.8%	29,337	6.0%
Total interest earning assets - TEB ⁽¹⁾	23,715	5.7%	17,148	5.8%	45,182	5.7%	32,941	5.7%
Total assets - TEB ⁽¹⁾	23,715	5.5%	17,148	5.5%	45,182	5.5%	32,941	5.4%
Liabilities and shareholders' equity:								
Customer deposits	12,969	3.4%	9,739	3.6%	25,047	3.5%	19,116	3.6%
Subordinated debt	574	7.7%	303	8.1%	1,154	7.6%	656	8.2%
Term loan	329	6.7%	-	-	379	6.7% ⁽²⁾	-	-
Total interest bearing liabilities	13,872	3.5%	10,042	3.6%	26,580	3.6%	19,772	3.7%
Total liabilities and shareholders' equity	13,872	3.2%	10,042	3.2%	26,580	3.2%	19,772	3.2%
Net interest income - TEB ⁽¹⁾	9,843		7,106		18,602		13,169	
Net interest margin - TEB ⁽¹⁾		2.3%		2.3%		2.3%		2.2%
Less: Taxable equivalent adjustment	719		680		1,275		1,051	
Net interest income per financial statements	9,124		6,426		17,327		12,118	

⁽¹⁾ TEB (tax equivalent basis): The Company presents net interest income, margins and certain ratios on a tax equivalent basis which increases tax exempt income by an amount that makes the income comparable to ordinary interest income and is common practice in the banking industry. While presenting net interest income, margins and other ratios on a TEB is a non-GAAP (generally-accepted accounting principles) financial measure, management believes that this presentation allows for an appropriate comparison of tax exempt dividend income from portfolio securities to regular taxable income such as mortgage interest.

⁽²⁾ The average rate for the first six months of 2005 is calculated based on the weighted average outstanding term loan of \$11,407.

The Company's net interest margin of 2.3% remained consistent during the quarter ended June 30, 2005 compared to the second quarter a year ago but increased for the six months ended June 30, 2005 to 2.3% from 2.2% during the same period in 2004 due to an increase in the ratio of mortgage assets to total assets over the period.

Total interest revenues, on a tax equivalent basis (TEB), were \$23.7 million in the second quarter compared to \$17.1 million in the comparable 2004 period, an increase of 38% due to growth in the Company's interest earning asset base. Mortgage revenues increased \$6.2 million or 41% over the comparable 2004 period. Portfolio securities' income on a TEB decreased \$0.1 million or 5% on a period over period basis due to declining interest rates, which resulted in decreased dividend yields.

Interest expense on average customer deposits outstanding for the quarter decreased to 3.4% from 3.6% in 2004 due to declining interest rates, while overall interest expense on customer deposits grew \$3.2 million or 33% over 2004 due to a 39% increase in average customer deposits outstanding.

Net interest income increased \$5.21 million or 43% to \$17.33 million for the first six months of 2005 compared to \$12.12 million in the first six months of 2004. On a tax equivalent basis, net interest

income for the first six months of 2005 was \$18.60 million compared to \$13.17 million during the same period in 2004, an increase of 41% on a period over period basis.

In the first quarter of 2005, the Company changed its method of presenting commissions paid to deposit agents from a component of interest expense to a component of non-interest expenses and commenced including interest penalties on the early discharge of mortgages in mortgage interest income rather than in other income. This was done to achieve better comparability with other financial institutions that present their results on this basis. Certain historical ratios have been adjusted as a result of this change in presentation. Specifically, interest margins and the Company's productivity ratios have increased. Net interest margins on a tax equivalent basis using the previous calculation method would have been reported as 1.9% for the quarter ended June 30, 2005 and 2.0% for the comparable 2004 period. Equitable's reported net interest margins have increased significantly as a result of the revision and even though the Company's productivity ratio (non-interest expense as a ratio of net interest income and other income before provision for credit losses) has increased through the use of this revised presentation method, this ratio continues to be among the best in the Canadian mortgage lending industry.

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 Mortgage Backed Securities ("MBS") program. Sundry income, gains or losses on the sale or redemption of investments and other non-mortgage related fees are also included. Other income amounted to \$1.32 million during the second quarter, compared to \$1.53 million in the second quarter of 2004 and totaled \$2.99 million for the six months ended June 30, 2005 compared to \$2.79 million during the same period in 2004. Interest penalties on the early discharge of mortgages of \$0.64 million for the second quarter of 2005 and \$0.43 million for the comparable period in 2004 have been included in mortgage interest income. Prior to 2005, this revenue was included in other income.

During the second quarter, the Company securitized, through the CMHC MBS program, \$66 million of mortgages compared to \$131 million during the comparable period in 2004. Gains on the sale of mortgages amounted to \$0.2 million in the second quarter of 2005 and \$0.3 million in the second quarter of 2004. MBS income related to excess interest, net of servicing fee, amounted to \$0.61 million in the second quarter of 2005 compared to \$0.67 million in the second quarter of 2004 reflecting a decrease in the overall excess spread of the retained interests. For the six months ended June 30, 2005, total loan securitization income increased to \$1.9 million compared to \$1.8 million during the same period in 2004 due to the early discharge of certain securitized mortgages in the first quarter of 2005 and the consequent early receipt of excess interest relating to these mortgages.

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, premises and equipment, capital taxes, insurance, commissions paid to deposit agents and other general administrative expenses. Non-interest expenses totaled \$3.6 million for the second quarter compared to \$2.6 million during the same period in 2004 and \$6.8 million for the six months ended June 30, 2005 compared to \$5.0 million during the same period in 2004. The increases in 2005 were primarily due to additions made to mortgage origination and servicing staff to support growth and variable expenses related to the expansion of the business including capital taxes, deposit agent commissions, as well as office and equipment costs to accommodate the growth in staff. Total staff complement at June 30, 2005, was 70, including 48 staff in the mortgage origination and servicing department compared to 50 including 34 in the mortgage origination and servicing department a year ago.

Included in non-interest expenses during the second quarter of 2005 was a charge for compensation expense in the amount of \$0.1 million related to one grant of options in 2005 and two grants of options in 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 June 30, 2004 was also \$0.1 million. Stock-based compensation expense for the six months ended June 30, 2005 was \$0.21 million compared to \$0.18 million for the same period in 2004.

The Company's productivity ratio was 34.1% in the second quarter of 2005, compared to 32.9% during the same period in 2004. When net interest income is measured on a tax equivalent basis, these ratios were 31.9% and 30.3% respectively (see the explanation of "tax equivalent basis" in note 1 to Table 2). The higher productivity ratio is due primarily to increased staff levels and to the increase in certain expenses mentioned above. As stated earlier in this MD&A, the Company has revised its presentation of net interest income and, consequently, has allocated \$0.80 million of deposit agent commission expense during the second quarter of 2005 as a non-interest expense rather than as a component of interest expense. This amount for the second quarter of 2004 was \$0.54 million. If calculated under the former method of presenting net interest income, the productivity ratio for the second quarter of 2005 would have been 28.6% as compared to 28.0% in the second quarter of 2004. The productivity ratio on a TEB was 31.3% for the six months ended June 30, 2005 compared to 31.2% during the same period in 2004.

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 June 30, 2005, single family dwelling mortgages represented the largest portion of the portfolio (see table below). This portion of the portfolio increased 23% from December 31, 2004 and 50% from June 30, 2004. Multi-unit residential mortgages increased 36% compared to a year earlier and were up 15% from December 31, 2004, while commercial mortgages increased 26% from a year ago.

The composition of the Company's mortgage portfolio at June 30, 2005 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)	June 30, 2005		December 31, 2004		June 30, 2004	
	\$	% of total	\$	% of total	\$	% of total
Single family dwelling	634,587	41.1%	516,359	39.6%	423,664	38.9%
Multi-unit residential	537,849	34.8%	465,684	35.8%	395,407	36.3%
Commercial	275,659	17.9%	269,557	20.7%	218,578	20.1%
Construction	49,382	3.2%	26,680	2.0%	28,853	2.7%
CMHC-insured ⁽¹⁾	46,501	3.0%	24,063	1.9%	21,455	2.0%
Total mortgage principal	1,543,978	100.0%	1,302,343	100.0%	1,087,957	100.0%
Net premiums and sundry	1,124		590		773	
Mortgages reported	1,545,102		1,302,933		1,088,730	
Accrued interest	6,022		5,593		4,339	
Allowances for credit losses	(6,792)		(6,442)		(6,090)	
Total mortgages receivable	1,544,332		1,302,084		1,086,979	

(1) Canada Mortgage and Housing Corporation ("CMHC")

Mortgage principal increased \$242 million or 19% during 2005 to \$1.5 billion at June 30, 2005 compared to December 31, 2004 balances, and has increased \$456 million or 42% on a year over year basis. Mortgage production is classified into two major sub-categories, conventional (uninsured) mortgage production and CMHC insured production destined for securitization under the Company's CMHC-mortgage-backed securities ("MBS") program. The Company funded \$329 million of conventional mortgages during the second quarter of 2005, up 64% from \$201 million funded during the comparable period in 2004. CMHC insured mortgages funded during the second quarter of 2005 amounted to \$85 million compared to \$104 million during 2004. The Company discharged \$230

million of conventional mortgages during the second quarter, including \$95 million of short-term warehoused mortgages.

Mortgage Credit Quality

The Company did not realize any credit losses on mortgages during the quarter ended June 30, 2005 or 2004. Mortgages in arrears 61 days or more amounted to 0.05% of total principal outstanding at June 30, 2005 and June 30, 2004. Mortgages identified as impaired amounted to 0.14% of total mortgage principal outstanding at June 30, 2005, an improvement over 0.55% a year earlier. The provision for credit losses for the second quarter of 2005 was \$0.2 million, the same as in the comparable period.

Table 4: Asset Categories

(\$ thousands)	June 30, 2005		December 31, 2004		June 30, 2004	
	Asset Amount	% of total	Asset Amount	% of total	Asset Amount	% of total
Liquidity investments	87,949	4.9%	99,223	6.4%	96,183	7.2%
Portfolio securities	93,483	5.2%	77,367	5.0%	86,019	6.5%
Mortgage loans	1,544,332	86.4%	1,302,084	84.4%	1,086,979	81.5%
Loan securitizations – retained interests	52,628	2.9%	55,822	3.6%	56,003	4.2%
Other assets	9,857	0.6%	8,755	0.6%	8,664	0.6%
Total	1,788,249	100.0%	1,543,251	100.0%	1,333,848	100.0%

Total assets at June 30, 2005 increased \$245 million or 16% from \$1.5 billion at December 31, 2004 and increased \$454 million or 34% from \$1.3 billion at June 30, 2004. Liquidity investments include cash and cash equivalents and government bonds and notes and are eligible liquid assets for regulatory purposes. Total liquid resources include liquidity investments and portfolio securities which comprised 10% of total assets at June 30, 2005, compared to 11% at December 31, 2004 and 14% as at June 30, 2004.

Portfolio securities at June 30, 2005 increased \$16 million or 21% from December 31, 2004 and \$7 million or 9% from June 30, 2004. Tax exempt dividend income from portfolio securities assists in lowering the Company's effective tax rate.

Loan securitizations – retained interests have decreased throughout the periods under review as a result of a decrease in securitization activity in response to increased competition for prime multi-unit mortgages which has reduced available profit margins. Balances at June 30, 2005 decreased \$3 million or 6% from December 31, 2004 and from June 30, 2004. The Company securitized \$66 million of CMHC-insured multi-unit residential mortgages during the second quarter of 2005, down \$65 million or 50% from the 2004 level of \$131 million. For the six months ended June 30, 2005, the Company securitized \$106 million of CMHC-insured multi-unit residential mortgages compared to \$222 million during the same period in 2004. Total mortgages in the CMHC-MBS program outstanding at June 30, 2005 were \$1.9 billion compared to \$1.8 billion a year earlier.

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 independent deposit agents. The Company is licensed to accept deposits in all jurisdictions in Canada. Customer deposits at June 30, 2005 increased \$211 million or 15% from December 31, 2004 and \$397 million or 33% from June 30, 2004.

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 June 30, 2005 decreased slightly from December 31, 2004 due to reduced securitization activities.

In late 2004, Equitable Trust was authorized to issue – at any time during the period ending December 31, 2005 – up to \$40 million of Series 5 Subordinated Debentures. In order to expedite the issue of this subordinated debt, the Company obtained term loan financing from Canadian Western Bank (“CWB”) during the first quarter of 2005. CWB purchased \$0.25 million of Series 5 Subordinated Debentures directly from Equitable Trust and the remaining \$19.75 million of this financing was used by the Company to purchase Series 5 Subordinated Debentures from Equitable Trust. At June 30, 2005, a total of \$51 million of subordinated debt had been issued by Equitable Trust, \$19.75 million of which was eliminated upon consolidation and replaced by the \$19.75 million term loan in the consolidated statements.

Other Assets and Liabilities

Other assets at June 30, 2005 increased \$1.1 million or 13% from December 31, 2004 and \$1.2 million or 14% 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, and have increased generally in proportion to the increase in customer deposits during the period.

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. At June 30, 2005 the Company had drawn \$1.35 million of the \$35 million line compared to \$nil as at June 30, 2004 when the line available was \$10 million.

Shareholders’ Equity

Total shareholders’ equity increased \$8 million or 7.5% to \$116 million at June 30, 2005 from \$108 million at December 31, 2004 and grew 16.1% compared to June 30, 2004. As a result of the exercise of employee stock options, 14,223 common shares were issued and \$0.129 million was added to common share capital during the second quarter of 2005 compared to 34,223 common shares issued and \$0.172 million added to common share capital in the second quarter of 2004. At June 30, 2005, the Company had 11,756,606 common shares issued and outstanding, up 330,835 or 2.9% from 11,425,771 common shares issued and outstanding at June 30, 2004.

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. During the second quarter of 2005, an additional \$3.33 million of Series 5 Subordinated Debentures were issued by Equitable Trust thus completing the planned \$40 million of authorized issuance of this debt. Equitable Trust’s total capital ratio, including subordinated debt as Tier 2 capital, was 12.4% compared to 11.6% at December 31, 2004 and 11.1% at June 30, 2004. The use of subordinated debt as Tier 2 regulatory capital, while increasing the Company’s leverage, allows Equitable to approach full utilization of capital and avoids the dilutive effects to return on equity of issuing additional common shares.

The following table is a summary of Equitable Trust’s regulatory capital position:

Table 5: Capital measures (relating solely to Equitable Trust):

(\$ thousands)	June 30, 2005	December 31, 2004	June 30, 2004
Tier 1 capital	114,431	106,210	98,600
Tier 2 capital	51,444	29,149	14,974
Total capital	165,875	135,359	113,574
Total risk weighted assets	1,337,489	1,168,328	1,023,004
Total capital as a % of total risk weighted assets	12.4%	11.6%	11.1%
Authorized asset to capital multiple	17.5x	17.5x	17.5x
Utilized asset to capital multiple	10.8x	11.4x	11.8x

Table 6: Summary of Quarterly Results

(\$ thousands, except per share amounts)

	2005		2004				2003 ⁽²⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues - TEB ⁽¹⁾	25,039	23,134	21,071	20,263	18,664	17,049	17,996	16,817
Total revenues	24,320	22,578	20,463	19,608	17,984	16,677	17,697	16,621
Net earnings	4,728	4,482	4,301	3,934	3,716	3,027	1,168	2,674
EPS - Basic	\$0.40	\$0.38	\$0.37	\$0.34	\$0.33	\$0.29	\$0.12	\$0.27
EPS - Diluted	\$0.40	\$0.38	\$0.36	\$0.34	\$0.32	\$0.28	\$0.11	\$0.26
Total assets	1,788,249	1,704,017	1,543,251	1,449,747	1,333,848	1,180,610	1,103,278	1,060,041

⁽¹⁾ For a definition of TEB (tax equivalent basis), please refer to note 1 following Table 2.

⁽²⁾ 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"). As there was no change in the ultimate ownership interest in Equitable Trust, the Company applied the continuity of interests method of accounting which carries forward the basis of measurement of the assets and liabilities from the subsidiary's financial statements. The comparative figures for Q4 and Q3 2003 are therefore those of Equitable Trust.

RISKS AND UNCERTAINTIES

The Company faces a number of risks. Management believes the three most significant 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. 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 \$88 million at June 30, 2005 compared to \$99 million at December 31, 2004 and \$96 million at June 30, 2004. Total liquid resources including marketable portfolio securities were \$181 million at June 30, 2005 compared to \$177 million as at December 31, 2004 and \$182 million at June 30, 2004. As well, during the quarter, the Company increased its bank line of credit facility for short-term liquidity purposes to \$35 million from the previously available line of \$20 million. This line is secured by portfolio securities.

Interest Rate Risk Management

The Company's primary method of mitigating interest rate risk is matching asset and liability maturity or repricing 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 repricing profile by adjusting GIC interest rates on a daily basis to raise GICs with the appropriate maturities to best match the maturity or repricing 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. An immediate and sustained 1% decrease in interest rates as of June 30, 2005, would decrease the economic value of shareholders' equity over the next twelve months by an estimated \$1.54 million, after tax and a 2% decrease would result in a decrease of an estimated \$3.13 million, after tax.

The Company has also 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 77% of the securities portfolio at June 30, 2005, compared to 74% a year earlier.

OUTLOOK

The Company's positive outlook, expressed in its annual MD&A and again at the end of the first quarter of 2005, remains unchanged.

At the time of writing, demand for residential mortgage financing remains strong in the Company's primary niches. This is due to a number of factors, including population growth, but the most important is low interest rates. The prime rate held steady at 4.25% throughout the second quarter and while it's difficult to predict short-term moves in interest rates, economists suggest that future rate increases can be expected, but will likely be modest and measured. Such increases would benefit the Company's mortgage interest revenues because a substantial portion (47%) of the Company's portfolio at quarter end is floating rate.

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.

The Company also intends to advance its new growth initiative in Calgary, although the Greater Toronto Area and environs are expected to remain the focal point for the Company's lending activity for the balance of 2005 and well beyond.

In closing, management believes the Company will achieve its performance objectives for the entire year, based on growth momentum over the first half of 2005 and positive market fundamentals.

August 8, 2005

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 JUNE 30, 2005 - UNAUDITED

With comparative figures as at December 31, 2004 and June 30, 2004

(In thousands of dollars)

	June 30, 2005	December 31, 2004	June 30, 2004
Assets			
Cash and cash equivalents	\$14,574	\$39,942	\$96,183
Investments (note 2)	166,858	136,648	86,019
Loan securitizations - retained interests (note 3)	52,628	55,822	56,003
Mortgages receivable (note 4)	1,544,332	1,302,084	1,086,979
Other assets (note 5)	9,857	8,755	8,664
	\$1,788,249	\$1,543,251	\$1,333,848
Liabilities and Shareholders' Equity			
Liabilities:			
Customer deposits (note 6)	\$1,595,933	\$1,384,648	\$1,199,341
Future income taxes payable	7,357	8,040	8,561
Other liabilities (note 7)	17,940	13,861	11,464
Term loan (note 9)	19,750	-	-
Subordinated debt	31,694	29,149	14,974
	1,672,674	1,435,698	1,234,340
Shareholders' equity (note 10):			
Capital stock	55,323	54,815	53,706
Contributed surplus	1,143	959	741
Retained earnings	59,109	51,779	45,061
	115,575	107,553	99,508
	\$1,788,249	\$1,543,251	\$1,333,848

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2005 - UNAUDITED

With comparative figures for the three month and six month periods ended June 30, 2004

(In thousands of dollars, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Interest income:				
Mortgages	\$21,314	\$15,072	\$40,931	\$29,337
Investments	1,314	958	2,248	1,549
Other	368	438	728	1,004
	22,996	16,468	43,907	31,890
Interest expense:				
Customer deposits	12,969	9,739	25,047	19,116
Subordinated debt	574	303	1,154	656
Term loan	329	-	379	-
	13,872	10,042	26,580	19,772
Interest income, net	9,124	6,426	17,327	12,118
Provision for credit losses (note 4)	175	175	350	350
Net interest income after provision for credit losses	8,949	6,251	16,977	11,768
Other income:				
Mortgage commitment income and other fees	490	542	987	934
Net gain (loss) on sale or redemption of investments	(8)	29	91	86
Loan securitizations - retained interests (note 3)	842	957	1,913	1,769
	1,324	1,528	2,991	2,789
Net interest income and other income	10,273	7,779	19,968	14,557
Non-interest expenses	3,567	2,617	6,760	4,978
Earnings before income taxes	6,706	5,162	13,208	9,579
Income taxes (note 8):				
Current	2,532	361	4,681	1,203
Future (reduction)	(554)	1,085	(683)	1,633
	1,978	1,446	3,998	2,836
Net earnings	\$4,728	\$3,716	\$9,210	\$6,743
Earnings per share (note 10):				
Basic	\$0.40	\$0.33	\$0.79	\$0.62
Diluted	\$0.40	\$0.32	\$0.77	\$0.59
Weighted average number of shares outstanding (note 10):				
Basic	11,744,884	11,394,933	11,722,529	10,953,050
Diluted	11,934,792	11,743,743	11,918,420	11,341,973

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2005 - UNAUDITED

With comparative figures for the three month and six month periods ended June 30, 2004

(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Common shares:				
Balance, beginning of period	\$55,186	\$53,604	\$54,815	\$37,483
Common shares issued (note 10):				
Proceeds from exercise of employee stock Options	129	172	485	172
Transfer from contributed surplus relating to the exercise of stock options	8	-	23	-
Gross proceeds of initial public offering	-	-	-	17,975
Issue expenses, net of tax recovery of \$1,088 in 2004	-	(70)	-	(1,924)
Balance, end of period	55,323	53,706	55,323	53,706
Retained earnings:				
Balance, beginning of period	55,322	41,345	51,779	38,618
Distribution of equity on formation of Company (note 10)	-	-	-	(300)
Net earnings	4,728	41,345	51,779	38,318
Dividends	(941)	3,716	9,210	6,743
Balance, end of period	59,109	45,061	59,109	45,061
Contributed surplus:				
Balance, beginning of period	1,045	630	959	556
Stock-based compensation (note 10)	106	111	207	185
Transfer to common shares relating to the exercise of stock options	(8)	-	(23)	-
Balance, end of period	1,143	741	1,143	741
Total shareholders' equity	\$115,575	\$99,508	\$115,575	\$99,508

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2005 - UNAUDITED

With comparative figures for the three month and six month periods ended June 30, 2004

(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Cash provided by (used in):				
Operating activities:				
Net earnings	\$4,728	\$3,716	\$9,210	\$6,743
Non-cash items:				
Loan securitizations – gains on sale of				
Mortgages	(228)	(284)	(527)	(487)
Amortization	82	52	163	100
Provision for credit losses	175	175	350	350
Net (gain) loss on sale or redemption of				
Investments	8	(29)	(91)	(86)
Future income taxes	(554)	1,085	(683)	1,633
Stock-based compensation	106	111	207	185
Amortization of premiums on investments	1,089	335	1,907	514
	5,406	5,161	10,536	8,952
Changes in operating assets and liabilities:				
Other assets	(307)	(1,172)	(1,120)	(2,325)
Other liabilities	4,406	(8,169)	3,417	1,784
	9,505	(4,180)	12,833	8,411
Financing activities:				
Increase in customer deposits	72,498	156,515	211,285	207,611
Issuance (redemption) of subordinated debt, net	3,325	-	2,545	(2,324)
Issuance of term loan	-	-	19,750	-
Dividends paid on common shares	(941)	-	(1,880)	-
Common shares issued	129	62	485	15,135
	75,011	156,577	232,185	220,422
Investing activities:				
Purchase of investments	(30,058)	(27,233)	(66,656)	(53,019)
Proceeds on sale or redemption of investments	20,384	18,046	34,630	24,491
Increase in mortgages receivable	(417,665)	(302,914)	(674,285)	(564,138)
Mortgage principal repayments	242,928	66,082	323,540	141,361
Proceeds from loan securitizations	65,193	126,837	105,015	217,525
Loan securitizations - retained interests	3,048	2,310	7,515	4,009
Purchase of capital assets	(107)	(196)	(145)	(304)
	(116,277)	(117,068)	(270,386)	(230,075)
Increase (decrease) in cash and cash equivalents	(31,761)	35,329	(25,368)	(1,242)
Cash and cash equivalents, beginning of period	46,335	60,854	39,942	97,425
Cash and cash equivalents, end of period	\$14,574	\$96,183	\$14,574	\$96,183
Comprised of:				
Deposits at banks	21,996	43,407	21,996	43,407
Short term investments	-	59,905	-	59,905
Cheques and other items in transit	(7,422)	(7,129)	(7,422)	(7,129)
	\$14,574	\$96,183	\$14,574	\$96,183
Supplemental cash flow information:				
Interest paid	14,092	10,205	24,315	19,279
Income taxes paid	1,712	1,611	3,864	2,827

See accompanying notes to interim unaudited consolidated financial statements.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTH PERIOD ENDED JUNE 30, 2005

(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, 2004 as set out on pages 41 to 55 of the 2004 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, 2004.

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:

	June 30, 2005		December 31, 2004		June 30, 2004	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$93,231	\$93,650	\$76,849	\$77,097	\$85,501	\$84,983
Government bonds, treasury bills and notes	73,375	73,558	59,281	59,435	-	-
Common shares	252	244	518	361	518	281
	\$166,858	\$167,452	\$136,648	\$136,893	\$86,019	\$85,264

The Company has a bank line of credit facility. Under this facility the Company may borrow up to \$35 million (December 31, 2004 - \$20 million, June 30, 2004 - \$10 million) for short-term liquidity purposes. The facility is secured by the Company's investments in common and preferred shares. The outstanding balance on the line as at June 30, 2005 was \$1,350 (December 31, 2004 - \$Nil, June 30, 2004 - \$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 June 30, 2005, outstanding securitized mortgages totaled \$1,894,029 (December 31, 2004 - \$1,858,442, June 30, 2004 - \$1,803,398) of which \$1,870,236 (December 31, 2004 - \$1,828,875, June 30, 2004 - \$1,766,147) relate to multi-unit residential properties and \$23,793 (December 31, 2004 - \$29,567, June 30, 2004 - \$37,251) relate to single family dwellings.

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 \$105,015 (June 30, 2004 – \$217,525). The Company retained the rights to future excess interest on the residential mortgages valued at \$4,500 (June 30, 2004 – \$9,550) and received net cash flows on interests retained of \$8,901 (June 30, 2004 – \$5,291). 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 \$841 (June 30, 2004 – \$1,388) relating to loans securitized during the period.

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

	June 30, 2005	June 30, 2004
Gain on sale of mortgages	\$527	\$487
Excess interest net of servicing fee	1,386	1,282
	\$1,913	\$1,769

The valuation of the future excess interest spread includes an excess spread of 0.85% (December 31, 2004 – 0.86%, June 30, 2004 – 0.86%), and the key assumptions of a prepayment rate of 21.0% (December 31, 2004 – 20.0%, June 30, 2004 – 18.7%) for single family residential loans, 0% (December 31, 2004 – 0%, June 30, 2004 – 0%) for multi-family residential loans and a discount rate of 5.19% (December 31, 2004 – 5.28%, June 30, 2004 – 5.39%). 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 June 30, 2005, December 31, 2004 and June 30, 2004 relating to forward contracts on Government of Canada bonds, where the counterparties for which are chartered banks, are as follows:

Bond term (years)	June 30, 2005		December 31, 2004		June 30, 2004	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
1 to 5	\$24,700	\$26,068	\$10,600	\$11,464	\$27,000	\$27,937
5 to 10	25,200	27,574	19,100	20,227	12,100	12,506
	\$49,900	\$53,642	\$29,700	\$31,691	\$39,100	\$40,443

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

June 30, 2005	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,246,068	\$1,150	\$4,508	\$5,658	\$1,240,410
Other mortgages	299,034	-	1,134	1,134	297,900
Accrued interest	6,022	-	-	-	6,022
	\$1,551,124	\$1,150	\$5,642	\$6,792	\$1,544,332

December 31, 2004	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,028,433	\$2,438	\$3,130	\$5,568	\$1,022,865
Other mortgages	274,500	-	874	874	273,626
Accrued interest	5,593	-	-	-	5,593
	\$1,308,526	\$2,438	\$4,004	\$6,442	\$1,302,084

June 30, 2004	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$870,157	\$2,790	\$2,626	\$5,416	\$864,741
Other mortgages	218,573	-	674	674	217,899
Accrued interest	4,339	-	-	-	4,339
	\$1,093,069	\$2,790	\$3,300	\$6,090	\$1,086,979

Included in gross residential mortgages are Canadian Government insured mortgages of \$46,501 as at June 30, 2005 (December 31, 2004 - \$24,063, June 30, 2004 - \$21,455), of which \$28,955 (December 31, 2004 - \$5,619, June 30, 2004 - \$15,725) are held for securitization. These loans held for securitization, together with the related interest rate hedges, are carried at the lower of cost or fair value. There are no foreclosed assets held for sale at June 30, 2005, December 31, 2004 and June 30, 2004.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at June 30, 2005 aggregated \$2,215 (December 31, 2004 - \$4,543, June 30, 2004 - \$5,977) and \$1,065 (December 31, 2004 - \$2,105, June 30, 2004 - \$3,187), respectively.

The Company has commitments to fund a total of \$174,037 (December 31, 2004 - \$202,248, June 30, 2004 - \$115,571) of mortgages as at the end of the period,

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Mortgages receivable (continued):

(b) Allowance for credit losses:

	June 30, 2005		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$2,438	\$4,004	\$6,442
Provision for credit losses	(1,288)	1,638	350
Balance, end of period	\$1,150	\$5,642	\$6,792

	June 30, 2004		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$3,037	\$2,700	\$5,737
Provision for credit losses	(250)	600	350
Recoveries	3	-	3
Balance, end of period	\$2,790	\$3,300	\$6,090

5. Other assets:

	June 30, 2005	December 31, 2004	June 30, 2004
Deferred GIC commissions	\$4,838	\$3,803	\$3,436
Capital assets	1,353	1,370	774
Other receivables	1,314	1,705	1,574
Accrued interest on non-mortgage assets	1,006	748	60
Prepaid expenses and deferred charges	946	629	593
Loan to officer	400	500	500
Income taxes recoverable	-	-	1,727
	\$9,857	\$8,755	\$8,664

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Customer deposits:

	June 30, 2005	December 31, 2004	June 30, 2004
Cashable GICs, payable on demand	\$145,894	\$ -	\$ -
GICs with fixed maturity date	1,418,746	1,355,620	1,176,407
Accrued interest	31,293	29,028	22,934
	\$1,595,933	\$1,384,648	\$1,199,341

7. Other liabilities:

	June 30, 2005	December 31, 2004	June 30, 2004
Securitized mortgage servicing liability	\$6,235	\$6,180	\$5,968
Mortgagor realty taxes	4,924	4,595	3,448
Accounts payable and accrued liabilities	3,639	2,111	2,048
Income taxes payable	1,792	975	-
Drawings under bank line of credit facility	1,350	-	-
	\$17,940	\$13,861	\$11,464

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:

	June 30, 2005	June 30, 2004
Canadian statutory income tax rate	36.2%	36.2%
Increase (decrease) resulting from:		
Tax exempt income	(6.2%)	(7.0%)
Non-deductible expenses and other	0.3%	0.4%
Effective income tax rate	30.3%	29.6%

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. 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%
- 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

10. Shareholders' equity:

(a) Capital stock:

Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

Issued:

Common shares:

	June 30, 2005		June 30, 2004	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	11,680,750	\$54,815	10,364,435	\$37,483
Issued during the period	75,856	508	1,061,336	16,223
Balance, end of period	11,756,606	\$55,323	11,425,771	\$53,706

Effective January 1, 2004, all of the direct and indirect shareholders of The Equitable Trust Company ("Operating Company") approved a series of transactions whereby all such shareholders became shareholders of the Company. The Operating Company became a wholly owned subsidiary of the Company. As a result of this series of transactions, the Company assumed a \$300 deficit of a prior shareholder. The Company issued 10,364,435 common shares representing 4.741 times the number of common shares issued by the Operating Company.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Shareholders' equity (continued):

(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 9.7% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to May 2010. A summary of the Company's stock option activity and related information for the periods ended June 30, 2005 and June 30, 2004 is as follows:

	June 30, 2005		June 30, 2004	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	809,729	\$15.86	431,431	\$5.10
Granted	25,000	24.25	600,000	17.50
Exercised	(75,856)	6.39	(34,223)	5.03
Forfeited/cancelled	(25,000)	17.50	(12,500)	17.50
Outstanding, end of period	733,873	17.07	984,708	12.50
Exercisable, end of period	112,500	\$17.50	269,201	\$4.53

Under the fair value method of accounting for stock options, the Company has recorded compensation expense in the amount of \$207 (June 30, 2004 – \$185) related to one grant of options in 2005 and two grants of options in 2004 under the stock option plan. This amount has been credited to contributed surplus. The fair value of the three sets of options granted during the years 2005 and 2004 is estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 3.7%, 3.7% and 3.1%; (ii) expected option life of 4.0 years; (iii) expected volatility of 19.0%, 19.0% and 13.5%; and (iv) expected dividends of 2.0%, 2.5% and 2.0%. The weighted average fair value of each option granted was \$2.88, \$2.49 and \$1.66.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. 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, 2005, December 31, 2004 and June 30, 2004:

	June 30, 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
Total assets	\$ 771,083	\$ 83,765	\$ 249,173	\$ 1,104,021	\$ 656,544	\$ 16,280	\$ 11,404	\$ 1,788,249
Total liabilities and equity	416,734	171,387	384,710	972,831	593,158	51,444	170,816	1,788,249
Interest rate sensitive gap	\$ 354,349	\$ (87,622)	\$ (135,537)	\$ 131,190	\$ 63,386	\$ (35,164)	\$ (159,412)	\$ -
Cumulative gap	\$ 354,349	\$ 266,727	\$ 131,190	\$ 131,190	\$ 194,576	\$ 159,412	\$ -	\$ -
Cumulative gap as a percentage of total assets	19.82%	14.92%	7.34%	7.34%	10.88%	8.91%	0.00%	0.00%

	December 31, 2004							
	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	\$ 390,879	\$ 256,543	\$ 98,096	\$ 98,096	\$ 153,298	\$ 145,515	\$ -	\$ -
Cumulative gap as a percentage of total assets	25.33%	16.62%	6.36%	6.36%	9.93%	9.43%	0.00%	0.00%

	June 30, 2004							
	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	\$ 292,405	\$ 219,316	\$ 50,793	\$ 50,793	\$ 118,327	\$ 129,577	\$ -	\$ -
Cumulative gap as a percentage of total assets	21.92%	16.44%	3.81%	3.81%	8.87%	9.71%	0.00%	0.00%

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 Trust

Giselle Branget⁽¹⁾⁽⁴⁾

*Former Vice President-Treasurer,
Ontario Power Generation*

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)*

Executive Officers: Equitable Group Inc.

Geoffrey Bledin

President and Chief Executive Officer

Stephen Coffey

*Senior Vice-President, Chief Financial Officer
and Secretary*

Executive Officers: The Equitable Trust Company

Geoffrey Bledin

President and Chief Executive Officer

Stephen Coffey

*Senior Vice-President, Chief Financial Officer
and Secretary*

John Harry

Vice-President, Credit and Risk Management

Kimberly Kukulowicz

Vice-President, Mortgage Services

Robert McMillan

Vice-President, Deposit Services

Tamara Malozewski

Vice-President, Finance

David Ryde

Controller

Nicholas Strube

Treasurer

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 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.

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