



EQUITABLE GROUP INC.

SECOND QUARTER REPORT
Quarter Ended June 30, 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:

Driven by record earnings in both the first and second quarters, your Company achieved a 19.8% and a 19.2% return on average equity for the second quarter and the first half of 2006 respectively (up sharply from 16.7% and 16.6% a year ago) and is well on track to meet all of its performance objectives for the year.

For more details, we encourage you to review the MD&A and financial statements included with this letter but here are the key financial highlights.

Second Quarter

- Net earnings increased 39.8% to \$6.61 million compared to \$4.73 million a year earlier.
- Diluted earnings per share were 37.5% higher at \$0.55 compared to \$0.40 in the second quarter of 2005.
- Assets grew 25.5% to a record \$2.24 billion from \$1.79 billion a year earlier.

First Six Months

- Net earnings increased 35.1% to \$12.4 million compared to \$9.2 million a year earlier.
- Diluted earnings per share were 33.8% higher at \$1.03 compared to \$0.77 in the first half of 2005.

As our results indicate, strong first quarter momentum has carried into the second as borrowers continue to respond favourably to attractive interest rates and a robust economy and Equitable continues to position itself as the lender of choice in our niches.

A clear highlight is that we've also continued to invest in the human capital we need to support ongoing improvements while at the same time, maintaining our efficient, low-cost business model. This is a critical component of our approach and, to date, our expanded team is delivering on our business plan.

Mortgage Portfolio Highlights

We were very active in the second quarter in a number of areas including single family dwelling mortgage lending, our largest niche, where mortgages increased 8.1% year over year. We also had an excellent showing in commercial mortgages and conventional mortgages held for sale, which represented, respectively, 20.3% and 9.4% of mortgage principal outstanding at quarter end. Originations in Calgary also moved ahead, totaling \$13 million in the second quarter, up from \$7 million in the first. While this new geographic market continues to be small in relation to our overall business, we are establishing a foundation of knowledge, wider broker networks and contacts that will be instrumental to success in future years. More specifically, here are some of the key portfolio highlights:

- Equitable's single family dwelling mortgage portfolio increased 8.1% to \$666.8 million from \$616.6 million at June 30, 2005 and was up 6.1% from December 31, 2005.
- Multi-unit residential mortgages grew 1.6% to \$508.7 million from \$500.7 million at December 31, 2005, but were down from \$531.6 million a year ago. This reflects the discharge of certain loans in the intervening period.
- Commercial mortgages grew 46.1% to \$371.8 million from \$254.4 million a year ago and were 27.2% higher than year end 2005.
- Conventional mortgages held for sale were \$172.8 million, up 280.2% from \$45.5 million a year ago, and by 5.5% from \$163.7 million at year end.

Productivity Ratio

Equitable's goal for all of 2006 is to maintain a productivity ratio (the lower the better) of between 32-34% on a tax equivalent basis. In the second quarter of 2006, this ratio was 33.1% - despite an increase in staffing levels of 41% (29 people) year over year - and 16% (14 people) since the end of the first quarter of 2006. The majority of growth in staffing has taken place in the mortgage origination and servicing areas.

Dividend

Your Board declared a dividend in the amount of \$0.10 per share payable October 4, 2006 to shareholders of record at the close of business September 15, 2006. This is consistent with Equitable's practice of paying approximately 25% of trailing (previous year) earnings as a dividend.

Outlook

Based on current momentum in our business, and strong market conditions, our outlook for the balance of 2006 is positive. Looking at interest rate movements, with the next Bank of Canada key policy announcement set for early September, we appear to be in a holding pattern for the balance of the summer. There is some speculation that the Bank may increase rates again this year, and we continue to be prepared to profit from such a move, if it happens, through that portion of our mortgage portfolio that floats with prime. But whether or not we get modest interest rate increases, Equitable is well positioned to achieve all of its performance targets for 2006.

The bottom line is Equitable remains well capitalized and resourced to support growth and our commitment to disciplined lending practices is steadfast.

Yours sincerely,



Austin Beutel
Chairman of the Board



Geoffrey Bledin
President and Chief Executive Officer

August 9, 2006

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

(for the six months ended June 30, 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 conventional 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 mortgages held for sale usually stay on the Company's books 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 June 30, 2006, it met all of these capital requirements. During the second quarter, 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 a \$20 million financing in the first quarter of 2005 from CWB that was utilized in completing the issuance of \$40 million of series 5 subordinated debentures by Equitable Trust. Capital management practices such as these, that maximize the 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 six months ended June 30, 2006, this gross-up amounted to \$1.7 million compared to \$1.3 million during the comparable period in 2005.

PERFORMANCE AGAINST OBJECTIVES

Equitable's principal financial 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%. Following two consecutive record performances during the first and second quarters of 2006, Equitable is well on track to meet its goals for the entire year.

On a year over year basis Equitable achieved:

- A 25.5% increase in assets, which at June 30, 2006 stood at \$2.24 billion, up from \$1.79 billion a year earlier (and 11.5% higher than at December 31, 2005).

and on a quarter over quarter basis Equitable achieved:

- A 39.8% increase in net earnings, which amounted to \$6.61 million compared to \$4.73 million a year earlier.
- A 37.5% increase in diluted earnings per share, which amounted to \$0.55 compared to \$0.40 during the same period in 2005.
- A 19.8% ROAE compared to 16.7% in the second quarter of 2005.
- A productivity ratio – TEB of 33.1% compared to 31.9% in 2005, reflecting substantial growth in staffing needed to deliver record performance.

Mortgages receivable increased to \$1.83 billion at June 30, 2006, up 9.1% from December 31, 2005 even though \$114 million of warehoused mortgages were discharged, as planned, during the second quarter of 2006. On a year over year basis, mortgages receivable at June 30, 2006 increased 18.6% or \$287 million from \$1.54 billion at June 30, 2005.

Consistent with the practice of paying approximately 25% of trailing (previous year) earnings as a dividend, on August 9, 2006 the Board of Directors declared a dividend in the amount of \$0.10 per share payable October 4, 2006 to shareholders of record at the close of business September 15, 2006.

Table 1: Selected Financial Information

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

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
OPERATIONS				
Net earnings	\$ 6,609	\$ 4,728	\$ 12,442	\$ 9,210
Earnings per share – basic	0.56	0.40	1.05	0.79
Earnings per share – diluted	0.55	0.40	1.03	0.77
Net interest income	12,586	9,124	23,945	17,327
Total revenue	34,008	24,320	64,828	46,898
Return on weighted average equity – annualized	19.8%	16.7%	19.2%	16.6%
Return on average assets – annualized	1.2%	1.1%	1.2%	1.1%
Productivity ratio – TEB ⁽¹⁾	33.1%	31.9%	32.5%	31.3%
BALANCE SHEET AND OFF-BALANCE SHEET				
Total assets			\$ 2,244,458	\$ 1,788,249
Mortgages receivable			1,831,586	1,544,332
Shareholders' equity			136,766	115,575
Mortgage-backed security assets under administration			1,914,418	1,894,029
COMMON SHARES				
Number of common shares outstanding at period end			11,903,645	11,756,606
Dividends per share			\$0.20	\$0.16
Book value per share			11.49	9.83
Share price – close			26.25	24.66
Market capitalization			312,471	289,918
CREDIT QUALITY				
Realized loan losses			\$ 21	\$ 0
Mortgages in arrears 61 days or more as a % of total mortgages			0.04%	0.05%
Net impaired mortgages as a % of total mortgages			0.05%	0.07%
Allowance for credit losses as a % of gross impaired mortgages			311.7%	306.6%

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

FINANCIAL REVIEW

EARNINGS

Second quarter earnings continued to benefit from growth in the Company's interest earning asset base, higher net interest margin (see below), minimal loan losses and efficient operations. A lower effective tax rate in the second quarter of 2006 also contributed to the 39.8% increase in net earnings compared to the second quarter of 2005. The Company's average asset base during the second quarter of 2006 was \$2.2 billion, 25% greater than the average asset base of \$1.7 billion in the second quarter of 2005. The combination of this substantial increase in assets and net interest margin produced significant growth in net interest income as illustrated in the table below.

Table 2: Net Interest Income

(\$ thousands)	Three months ended June 30, 2006		Three months ended June 30, 2005		Six months ended June 30, 2006		Six months ended June 30, 2005	
	Revenue/ Expense	Average rate	Revenue/ Expense	Average rate	Revenue/ Expense	Average Rate	Revenue/ Expense	Average Rate
Interest revenues or interest expenses derived from:								
Assets:								
Liquidity investments	\$2,003	4.2%	\$894	3.4%	\$3,727	4.0%	\$1,647	3.5%
Portfolio securities – TEB ⁽¹⁾	2,084	6.7%	1,507	6.9%	3,934	6.4%	2,604	6.1%
Mortgage loans	29,044	6.5%	21,314	5.8%	55,449	6.4%	40,931	5.8%
Total interest earning assets - TEB ⁽¹⁾	33,131	6.3%	23,715	5.7%	63,110	6.2%	45,182	5.7%
Total assets - TEB ⁽¹⁾	33,131	6.1%	23,715	5.5%	63,110	6.0%	45,182	5.5%
Liabilities and shareholders' equity:								
Customer deposits	18,617	3.9%	12,969	3.4%	35,528	3.8%	25,047	3.5%
Term loans ⁽²⁾	559	7.0%	329	6.7%	884	6.9%	379	6.7%
Subordinated debt ⁽²⁾	492	7.5%	574	7.7%	1,092	7.6%	1,154	7.8%
Total interest bearing liabilities	19,668	4.0%	13,872	3.5%	37,504	3.9%	26,580	3.6%
Total liabilities and shareholders' equity	19,668	3.6%	13,872	3.2%	37,504	3.6%	26,580	3.2%
Net interest income - TEB ⁽¹⁾	13,463		9,843		25,606		18,602	
Net interest margin - TEB ⁽¹⁾		2.5%		2.3%		2.4%		2.3%
Less: Taxable equivalent adjustment	877		719		1,661		1,275	
Net interest income per financial statements	12,586		9,124		23,945		17,327	

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

⁽²⁾ Average rates for term loans and subordinated debt are based upon weighted average outstanding balances during the periods.

The Company's net interest margin increased to 2.5% in the second quarter 2006 from 2.3% in the second quarter of 2005 due to a higher yielding mortgage portfolio mix and as a result of the positive impact of prime rate increases on that portion of the Company's interest earning asset base that floats with prime. The prime rate increased 50 basis points during the second quarter of 2006 and, at quarter end, was 175 basis points higher than at the end of the second quarter of 2005. At June 30, 2006, 48.4% of the Company's mortgage portfolio was floating rate compared to 46.8% a year earlier. Management had expected to maintain net interest margin at 2005 levels in 2006, and year to date, is exceeding this expectation due to the above mentioned factors. Future gains in net interest margin are not guaranteed; however, management remains optimistic about the potential to maintain attractive spreads in the last half of the year.

Total interest revenues on a TEB increased 39.7% to \$33.1 million in the second quarter from \$23.7 million in the comparable 2005 period due to growth in the Company's interest earning asset base and increases in interest rates. Mortgage revenues increased \$7.7 million or 36.3% over the comparable 2005 period. Portfolio securities' income on a TEB increased \$0.6 million or 38.3% on a quarter over quarter basis due primarily to growth in the portfolio.

Interest expense on average customer deposits outstanding increased to 3.9% from 3.4% in the second quarter of 2005 due to general increases in interest rates, while overall interest expense on customer deposits for the quarter grew \$5.6 million or 43.6% over 2005 due to these higher interest rates as well as a 26.1% increase in average customer deposits outstanding.

Net interest income – TEB increased \$3.6 million or 36.8% on a quarter over quarter basis.

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. For all of 2006, management had expected other income to approximate the level of other income earned in 2005. Other income amounted to \$1.8 million for the three months ended June 30, 2006, 32% higher than the \$1.3 million earned during the same period in 2005 due to greater mortgage commitment income and other fees and an increase in loan securitization income.

During the second quarter, the Company securitized, through the CMHC-MBS program, \$87 million of mortgages compared to \$66 million during the comparable period in 2005. Gains on the sale of mortgages decreased 37.3% or \$0.09 million to \$0.14 million in 2006 compared to 2005 as a result of intense competition for loans in the insured multi-unit residential loan sector. Excess interest net of servicing fees increased to \$0.81 million during the second quarter of 2006 from \$0.61 million a year earlier due to the receipt of prepayment penalties on the early discharge of certain of these off-balance sheet loans.

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 \$5.0 million for the second quarter compared to \$3.6 million during the same period in 2005. The increase in 2006 primarily reflected higher employment levels to support growth and higher variable expenses. Increases in variable expenses were related to the expansion of the business and included deposit agent commissions as well as office and equipment costs to accommodate growth in staff. Total staff complement at June 30, 2006, was 99 compared to 70 a year ago, a 41% increase. Most of the Company's employees are engaged in mortgage origination and servicing. Staffing in these vital areas has grown 31% to 63 from 48 a year ago. To advance its initiative in Calgary, at date of writing the Company had added four staff to a previous complement of two staff.

Despite increasing to 33.1% from 31.9% a year ago, the Company's productivity ratio-TEB for the second quarter of 2006 remains in line with management's target ratio of 32% to 34% for the full year. This higher ratio in the second quarter is due primarily to increased staffing to manage growth. The Company has also incurred higher staff expenses to meet new corporate governance and regulatory initiatives.

The productivity 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 35.1% and 34.1% respectively. Going forward, the Company expects to continue to increase staffing only as this is required to support and manage growth while maintaining its low-cost business model and striving to deliver its attractive productivity ratio target for the year.

Income Taxes

The effective tax rate for the six months ended June 30, 2006 was 28.7% compared to 30.3% in the comparable 2005 period while the statutory rate was 36.1% for both periods. Tax exempt dividend income from portfolio securities assists in lowering the Company's effective tax rate. As well, the Company recorded a tax benefit in the amount of \$269 thousand in the second quarter of 2006 related to future federal tax rate decreases. One of the Company's goals is to achieve an effective tax rate of between 30% and 32% in 2006. To date, it is on track against this objective.

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, 2006, single family dwelling mortgages represented the largest portion of the portfolio (see table 3). Reflecting strong demand for mortgages, single family mortgages increased 8.1% from June 30, 2005 and 6.1% since year end 2005. Multi-unit residential mortgages increased 1.6% from December 31, 2005, but decreased 4.3% compared to a year earlier, reflecting the discharge of certain multi-unit residential mortgages. Commercial mortgages increased 46.1% from a year ago, also reflecting strong demand and the Company's ability to capitalize on the opportunity to fund good loans as they arise. The Greater Toronto Area and environs continue to be Equitable's primary geographic markets. However, the Company also continued to carefully advance its Calgary initiative with \$13 million single family dwelling mortgages funded during the second quarter – compared to \$7 million in the first quarter.

The composition of the Company's mortgage portfolio at June 30, 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)	June 30, 2006		December 31, 2005		June 30, 2005	
	\$	% of total	\$	% of total	\$	% of total
Single family dwelling	666,779	36.5 %	628,240	37.5%	616,589	39.9%
Multi-unit residential	508,659	27.8 %	500,666	29.8%	531,636	34.4%
Commercial	371,813	20.3 %	292,200	17.4%	254,416	16.5%
Conventional mortgages held for sale	172,794	9.4 %	163,743	9.8%	45,454	3.0%
Construction	86,447	4.7 %	61,836	3.7%	49,382	3.2%
CMHC-insured	24,487	1.3 %	30,452	1.8%	46,501	3.0%
Total mortgage principal	1,830,979	100.0%	1,677,137	100.0%	1,543,978	100.0%
Net premiums and sundry	(332)		1,422		1,124	
Mortgages reported	1,830,647		1,678,559		1,545,102	
Accrued interest	8,535		7,028		6,022	
Allowances for credit losses	(7,596)		(7,167)		(6,792)	
Total mortgages receivable	1,831,586		1,678,420		1,544,332	

Mortgage principal increased \$154 million or 9.2% during the first six months of 2006 and increased \$287 million or 18.6% since June 30, 2005. The Company funded a total of \$416 million of mortgages during the second quarter, roughly equivalent to the \$414 million of mortgages funded in the same quarter last year. The mix of fundings did change with warehoused mortgage fundings increasing 142% or \$98 million to \$167 million in the second quarter of 2006 compared to that of a year earlier while conventional mortgages (other than warehoused mortgages) funded during the second quarter amounted to \$179 million, a decrease of 31.3% from that of the comparable quarter last year. CMHC mortgages funded (as opposed to securitized) during the second quarter of 2006 amounted to \$70 million compared to \$85 million a year earlier. Conventional mortgages discharged during the second quarter of 2006 totaled \$250 million and included \$114 million of short-term warehoused mortgages compared to \$230 million and \$95 million discharged respectively in the second quarter of 2005.

Table 4 illustrates the segments of mortgage principal funded.

Table 4: Mortgage Production

(\$ thousands)	Three Months Ended				Six Months Ended			
	June 30, 2006		June 30, 2005		June 30, 2006		June 30, 2005	
	Mortgage Principal Funded	% of total	Mortgage Principal Funded	% of total	Mortgage Principal Funded	% of total	Mortgage Principal Funded	% of total
Conventional mortgages other than warehoused mortgages	\$178,955	43.1%	\$260,538	62.9%	\$454,080	45.2%	\$428,167	63.3%
Warehoused mortgages	166,798	40.1%	68,791	16.6%	366,655	36.5%	120,460	17.8%
CMHC-insured mortgages	69,884	16.8%	84,883	20.5%	184,754	18.3%	128,084	18.9%
Total	415,637	100.0%	414,212	100.0%	1,005,489	100.0%	676,711	100.0%

Mortgage Credit Quality

The Company realized a \$21 thousand credit loss on one single family dwelling mortgage during the quarter ended June 30, 2006. This is the first time the Company has realized a loan loss since October 2001. Equitable maintains very strict lending criteria and has well established systems in place to avoid loan losses. This is why the Company has realized loan losses of just 0.002% of total average mortgage principal outstanding over the past five years – or \$26 thousand in aggregate loan losses. However, the nature of mortgage lending makes it impossible to avoid all potential downside. For this reason, the Company maintains provisions for credit losses and adjusts these provisions based on growth in the mortgage portfolio. The provision for credit losses for the second quarter of 2006 of \$225 thousand was \$50 thousand greater than the \$175 thousand recorded in the prior year's period due to mortgage growth. While a loan loss was realized, mortgages in arrears 61 days or more amounted to 0.04% of total principal outstanding at June 30, 2006 compared to 0.05% of total principal outstanding at June 30, 2005. Mortgages identified as impaired amounted to 0.13% of total mortgage principal outstanding at June 30, 2006, as compared to 0.14% a year earlier. These improvements reflect diligent lending and collection practices and a healthy economic environment.

Table 5: Asset Categories

(\$ thousands)	June 30, 2006		December 31, 2005		June 30, 2005	
	Asset Amount	% of total	Asset Amount	% of total	Asset Amount	% of total
Liquidity investments	\$215,348	9.6%	\$159,810	7.9%	\$87,949	4.9%
Portfolio securities	134,218	6.0%	111,833	5.6%	93,483	5.2%
Mortgage loans	1,831,586	81.6%	1,678,420	83.4%	1,544,332	86.4%
Loan securitizations – Retained interests	50,971	2.3%	51,595	2.6%	52,628	2.9%
Other assets	12,335	0.5%	10,594	0.5%	9,857	0.6%
Total	2,244,458	100.0%	2,012,252	100.0%	1,788,249	100.0%

As shown in table 5, total assets at June 30, 2006 increased \$232 million or 11.5% from December 31, 2005 and increased \$456 million or 25.5 % from June 30, 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 and comprised 15.6% of total assets at June 30, 2006, compared to 13.5% at December 31, 2005 and 10.1% as at June 30, 2005. This increase in liquid assets relates to the discharge of certain warehoused loan pools in June 2006 and to liquidity required as outlined in the Liquidity Risk Management section of this MD&A.

Portfolio securities are comprised of preferred and, to a much lesser extent, common shares. At June 30, 2006, portfolio securities were \$22 million or 20.0% higher than at December 31, 2005 and \$41 million or 43.6% higher compared to June 30, 2005.

Loan securitizations – retained interests have remained relatively flat at \$51 million at June 30, 2006 compared to \$52 million at December 31, 2005. However, even though more loans were securitized in the second quarter of 2006 compared to previous quarters, loan securitizations – retained interests have decreased \$2 million or 3.1% from June 30, 2005. This is due to shorter average duration in the off-balance sheet portfolio compared to prior periods. Total mortgages in the CMHC-MBS program outstanding at June 30, 2006 were \$1.91 billion compared to \$1.88 billion at December 31, 2005 and \$1.89 billion at June 30, 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 June 30, 2006 increased \$211 million or 11.9% from December 31, 2005 and \$419 million or 26.8% from June 30, 2005. Sales of cashable GICs, first introduced in 2005, continue to increase. Cashable GICs totaled \$445 million at June 30, 2006, up more than three fold from the June 30, 2005 balance of \$146 million and 27.5% 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 June 30, 2006 have decreased from December 31, 2005 and from June 30, 2005 due primarily to: increased general reserves for credit losses; the decrease in the balance of loan securitizations – retained interests; and, to a decrease in future federal tax rates.

As outlined in the "Overview" section of this MD&A, Equitable Trust issued \$20 million of series 6 subordinated debentures during the second quarter of 2006 and redeemed the remaining \$7.6 million of series 4 subordinated debentures. At June 30, 2006, a total of \$60 million of subordinated debt had been issued by Equitable Trust, \$34.8 million of which is eliminated upon consolidation and replaced by the \$34.8 million bank term loans from CWB in the consolidated statements.

Other Assets and Liabilities

Other assets at June 30, 2006 increased \$1.7 million or 16.4% from December 31, 2005 and \$2.5 million or 25.1% 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 \$35 million line at June 30, 2006 and December 31, 2005. At June 30, 2005 the drawings amounted to \$1.35 million.

Shareholders' Equity

Total shareholders' equity increased \$12 million or 9.8% to \$137 million at June 30, 2006 from \$125 million at December 31, 2005 and grew 18.3% compared to June 30, 2005. As a result of the exercise of employee stock options, 31,000 common shares were issued and \$0.61 million added to common share capital during the second quarter of 2006 compared to 14,223 common shares issued and \$0.13 million added to common share capital in the second quarter of 2005. At June 30, 2006, the Company had 11,903,645 common shares issued and outstanding, an increase of 147,039 shares over the 11,756,606 common shares issued and outstanding at June 30, 2005. All share increases related to the exercise of employee stock options.

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 June 30, 2006 was 11.6%, the same as at December 31, 2005 but lower than at June 30, 2005 (see table 6). Equitable Trust's total capital as a percentage of total risk weighted assets is required to be in excess of 10% for the Company to be considered well capitalized by regulators. By adding eligible Tier 2 capital in the form of subordinated debt during the second quarter of 2006, the Company has been able to maintain an optimal mix of Tier 1 and Tier 2 capital in 2006 to date.

Table 6 summarizes Equitable Trust's regulatory capital position.

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

(\$ thousands)

	June 30, 2006	December 31, 2005	June 30, 2005
Tier 1 capital	\$135,462	\$122,793	\$114,431
Tier 2 capital	60,000	51,444	51,444
Total capital	195,462	174,237	165,875
Total risk weighted assets	1,685,403	1,504,815	1,337,489
Total capital as a % of total risk weighted assets	11.6%	11.6%	12.4%
Authorized asset to capital multiple	17.5x	17.5x	17.5x
Utilized asset to capital multiple	11.5x	11.6x	10.8x

Up to 50% of Tier 1 capital may be issued as Tier 2 capital at any time, with regulatory approval.

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 June 30, 2006. Generally, the real estate market experiences periods of seasonality during the year, but traditionally, this has little or no impact on Equitable's results. Quarterly performance in the mortgage lending industry can also be impacted by increases or decreases in interest rates. Generally, the Bank of Canada posts its schedule of announcing decisions on interest rates in advance. September 6, 2006 is its next scheduled announcement date.

Table 7: Summary of Quarterly Results

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

	2006			2005			2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total assets at quarter end - \$ millions	2,244	2,113	2,012	1,821	1,788	1,704	1,543	1,450
Total revenues - TEB ⁽¹⁾	34,885	31,604	28,881	26,530	25,039	23,134	21,087	20,264
Total revenues	34,008	30,820	27,867	25,667	24,320	22,578	20,479	19,609
Net interest income - TEB ⁽¹⁾	13,463	12,143	12,017	10,439	9,843	8,759	8,299	7,624
Net interest income	12,586	11,359	11,003	9,576	9,124	8,203	7,693	6,969
Net earnings	6,609	5,833	5,562	4,985	4,728	4,482	4,301	3,934
EPS - Basic	\$0.56	\$0.49	\$0.47	\$0.42	\$0.40	\$0.38	\$0.37	\$0.34
EPS - Diluted	\$0.55	\$0.49	\$0.46	\$0.42	\$0.40	\$0.38	\$0.36	\$0.34
ROAE	19.8%	18.6%	18.1%	16.8%	16.7%	16.6%	16.2%	15.4%

⁽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, credit quality of its mortgage portfolio, level of loan losses, 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 \$215 million at June 30, 2006 compared to \$160 million at December 31, 2005 and \$88 million at June 30, 2005. Eligible liquid assets have increased commensurate with increases in mortgage commitments as at period end and in the level of GICs maturing within 100 days as at June 30, 2006. Total liquid resources, including marketable portfolio securities which have increased \$41 million from that of the prior year, were \$350 million at June 30, 2006 compared to \$272 million as at December 31, 2005 and \$181 million at June 30, 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 at June 30, 2006, would positively impact net interest income, before any tax effect, for the following twelve month period by \$2.5 million. If interest rates were to decrease 1% on an immediate and sustained basis as at June 30, 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 \$5.3 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, 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 79% of the preferred share equity securities portfolio at June 30, 2006, compared to 77% a year earlier.

STRENGTHENING EXECUTIVE LEADERSHIP

As part of succession planning, and as announced in May 2006, Equitable's Board of Directors has initiated a search for the Company's next generation CEO. Geoffrey Bledin, the current CEO, will become Vice Chairman and will continue to serve the Company in business development. The Board has engaged a well recognized executive search firm – and expects the hiring process to take several months. The Company believes that a team that includes both an active Vice Chairman as well as a CEO can accomplish more strategically and operationally.

OUTLOOK

The Company's outlook, expressed in its annual MD&A, remains positive, as demand for mortgage financing continues to show strength in Equitable's primary niche markets. As a result, management believes the Company is well positioned to meet its primary growth targets for all of 2006 – as expressed in the section "Performance Against Objectives".

Since first publishing these targets and its positive 2006 outlook, the prime rate has increased to 6.00% from 5.00% at December 31, 2005 - including a 50 basis point increase in prime during the second quarter. With Canadian unemployment rates at generational lows – an indication that the economy is operating at full capacity – many economists believe another interest rate increase is likely later this year. However, during its July key policy announcement, the Bank of Canada opted not to raise interest rates, ending a cycle of seven straight increases. The next key policy announcement is scheduled for September 6, 2006. Equitable remains confident it can continue to grow profitably and that demand for mortgage financing will remain strong. However, future modest increases in interest 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.

Over the course of the last half of 2006, management expects to continue to focus on its primary business lines and geographic territory (Greater Toronto Area and environs) while cautiously advancing its growth initiative in Calgary. This initiative is designed to provide additional geographic diversification to Equitable's mortgage business. Management will also maintain its opportunistic stance with respect to its newest area of focus: warehousing conventional mortgages held for sale. And as always, the Company will employ its systematic and disciplined approach to lending so as to maximize profitable growth and minimize the potential for loan losses. 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.

In summary, 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.

August 9, 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 JUNE 30, 2006 - UNAUDITED

With comparative figures as at December 31, 2005 and June 30, 2005

(In thousands of dollars)

	June 30, 2006	December 31, 2005	June 30, 2005
Assets			
Cash and cash equivalents	\$147,477	\$77,214	\$14,574
Investments (note 2)	202,089	194,429	166,858
Loan securitizations - retained interests (note 3)	50,971	51,595	52,628
Mortgages receivable (note 4)	1,831,586	1,678,420	1,544,332
Other assets (note 5)	12,335	10,594	9,857
	\$2,244,458	\$2,012,252	\$1,788,249
Liabilities and Shareholders' Equity			
Liabilities:			
Customer deposits (note 6)	\$2,023,297	\$1,808,955	\$1,595,933
Future income taxes payable	6,224	6,538	7,357
Other liabilities (note 7)	18,171	20,707	17,940
Bank term loan (note 9)	34,750	19,750	19,750
Subordinated debt (note 10)	25,250	31,694	31,694
	2,107,692	1,887,644	1,672,674
Shareholders' equity (note 11):			
Capital stock	57,569	55,510	55,323
Contributed surplus	1,362	1,327	1,143
Retained earnings	77,835	67,771	59,109
	136,766	124,608	115,575
	\$2,244,458	\$2,012,252	\$1,788,249

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2006 - UNAUDITED

With comparative figures for the three and six month periods ended June 30, 2005

(In thousands of dollars, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Interest income:				
Mortgages	\$29,044	\$21,314	\$55,449	\$40,931
Investments	1,890	1,314	3,644	2,248
Other	1,320	368	2,356	728
	32,254	22,996	61,449	43,907
Interest expense:				
Customer deposits	18,617	12,969	35,528	25,047
Subordinated debt	492	574	1,092	1,154
Term loan	559	329	884	379
	19,668	13,872	37,504	26,580
Interest income, net	12,586	9,124	23,945	17,327
Provision for credit losses (note 4)	225	175	450	350
Net interest income after provision for credit losses	12,361	8,949	23,495	16,977
Other income:				
Mortgage commitment income and other fees	802	490	1,476	987
Net gain (loss) on sale or redemption of Investments	-	(8)	2	91
Loan securitizations - retained interests (note 3)	952	842	1,901	1,913
	1,754	1,324	3,379	2,991
Net interest income and other income	14,115	10,273	26,874	19,968
Non-interest expenses :				
Compensation and benefits	2,342	1,299	4,390	2,636
Deposit agent commissions	1,111	804	2,156	1,547
Other	1,577	1,464	2,883	2,577
	5,030	3,567	9,429	6,760
Earnings before income taxes	9,085	6,706	17,445	13,208
Income taxes (note 8):				
Current	2,284	2,532	5,317	4,681
Future	192	(554)	(314)	(683)
	2,476	1,978	5,003	3,998
Net earnings	\$6,609	\$4,728	\$12,442	\$9,210
Earnings per share:				
Basic	\$0.56	\$0.40	\$1.05	\$0.79
Diluted	\$0.55	\$0.40	\$1.03	\$0.77
Weighted average number of shares outstanding:				
Basic	11,894,569	11,744,884	11,848,877	11,722,529
Diluted	12,081,098	11,934,792	12,044,672	11,918,420

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2006 - UNAUDITED

With comparative figures for the three and six month periods ended June 30, 2005

(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Common shares:				
Balance, beginning of period	\$56,959	\$55,186	\$55,510	\$54,815
Common shares issued (note 11):				
Proceeds from exercise of employee stock				
Options	555	129	1,880	485
Transfer from contributed surplus relating to the exercise of stock options	55	8	179	23
Balance, end of period	57,569	55,323	57,569	55,323
Retained earnings:				
Balance, beginning of period	72,417	55,322	67,771	51,779
Net earnings	6,609	4,728	12,442	9,210
Dividends	(1,191)	(941)	(2,378)	(1,880)
Balance, end of period	77,835	59,109	77,835	59,109
Contributed surplus:				
Balance, beginning of period	1,323	1,045	1,327	959
Stock-based compensation (note 11)	94	106	214	207
Transfer to common shares relating to the exercise of stock options	(55)	(8)	(179)	(23)
Balance, end of period	1,362	1,143	1,362	1,143
Total shareholders' equity	\$136,766	\$115,575	\$136,766	\$115,575

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2006 - UNAUDITED

With comparative figures for the three and six month periods ended June 30, 2005

(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings	\$6,609	\$4,728	\$12,442	\$9,210
Non-cash items:				
Loan securitizations – gains on sale of				
Mortgages	(143)	(228)	(420)	(527)
Amortization	109	82	218	163
Provision for credit losses	225	175	450	350
Net (gain) loss on sale or redemption of				
Investments	-	8	(2)	(91)
Future income taxes	192	(554)	(314)	(683)
Stock-based compensation	94	106	214	207
Amortization of premiums on investments	653	1,089	1,534	1,907
	7,739	5,406	14,122	10,536
Changes in operating assets and liabilities:				
Other assets	(115)	(307)	(1,529)	(1,120)
Other liabilities	2,026	4,406	(3,143)	3,417
	9,650	9,505	9,450	12,833
Financing activities:				
Increase in customer deposits	110,592	72,498	214,342	211,285
Issuance (redemption) of subordinated debt, net	(2,603)	3,325	(6,444)	2,545
Issuance of term loan	15,000	-	15,000	19,750
Dividends paid on common shares	(1,191)	(941)	(2,378)	(1,880)
Common shares issued	555	129	1,880	485
	122,353	75,011	222,400	232,185
Investing activities:				
Purchase of investments	(29,400)	(30,058)	(49,360)	(66,656)
Proceeds on sale or redemption of investments	25,377	20,384	40,168	34,630
Increase in mortgages receivable	(415,839)	(417,665)	(1,006,124)	(674,285)
Mortgage principal repayments	267,216	242,928	662,388	323,540
Proceeds from loan securitizations	84,239	65,193	184,205	105,015
Loan securitizations - retained interests	4,092	3,048	7,566	7,515
Purchase of capital assets	(390)	(107)	(430)	(145)
	(64,705)	(116,277)	(161,587)	(270,386)
Increase (decrease) in cash and cash equivalents	67,298	(31,761)	70,263	(25,368)
Cash and cash equivalents, beginning of period	80,179	46,335	77,214	39,942
Cash and cash equivalents, end of period	\$147,477	\$14,574	\$147,477	\$14,574
Comprised of:				
Deposits at banks	140,993	21,996	140,993	21,996
Short term investments	15,000	-	15,000	-
Cheques and other items in transit	(8,516)	(7,422)	(8,516)	(7,422)
	\$147,477	\$14,574	\$147,477	\$14,574
Supplemental cash flow information:				
Interest paid	\$18,715	\$14,092	\$34,600	\$24,315
Income taxes paid	2,455	1,712	8,902	3,864

See accompanying notes to interim unaudited consolidated financial statements.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTH PERIOD ENDED JUNE 30, 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:

	June 30, 2006		December 31, 2005		June 30, 2005	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$133,099	\$132,746	\$110,714	\$111,445	\$93,231	\$93,650
Government bonds, treasury bills and notes	67,871	68,435	82,596	82,538	73,375	73,558
Common shares	1,119	1,485	1,119	1,456	252	244
	\$202,089	\$202,666	\$194,429	\$195,439	\$166,858	\$167,452

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, June 30, 2005 - \$35 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 June 30, 2006 (December 31, 2005 - \$Nil, June 30, 2005 - \$1,350).

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, 2006, outstanding securitized mortgages totaled \$1,914,418 (December 31, 2005 - \$1,878,405, June 30, 2005 - \$1,894,029), 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 \$184,206 (June 30, 2005 – \$105,015). The Company retained the rights to future excess interest on the residential mortgages valued at \$7,145 (June 30, 2005 – \$4,500) and received net cash flows on interests retained of \$9,047 (June 30, 2005 – \$8,901). 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 \$810 (June 30, 2005 – \$841) relating to loans securitized during the period.

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

	June 30, 2006	June 30, 2005
Gain on sale of mortgages	\$420	\$527
Excess interest net of servicing fee	1,481	1,386
	\$1,901	\$1,913

The valuation of the future excess interest spread includes an excess spread of 0.82% (December 31, 2005 – 0.84%, June 30, 2005 – 0.85%), and the key assumption of a discount rate of 5.00% (December 31, 2005 – 5.08%, June 30, 2005 – 5.19%). 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, 2006, December 31, 2005 and June 30, 2005 relating to forward contracts on Government of Canada bonds, where the counterparties for which are chartered banks, are as follows:

	June 30, 2006		December 31, 2005		June 30, 2005	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
Bond term (years)						
1 to 5	\$3,700	\$3,689	\$10,200	\$10,381	\$24,700	\$26,068
5 to 10	54,300	54,126	39,200	42,320	25,200	27,574
	\$58,000	\$57,815	\$49,400	\$52,701	\$49,900	\$53,642

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

June 30, 2006	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,234,036	\$1,570	\$4,091	\$5,661	\$1,228,375
Other mortgages	414,580	-	1,503	1,503	413,077
Mortgages held for securitization or for sale	182,031	-	432	432	181,599
Accrued interest	8,535	-	-	-	8,535
	\$1,839,182	\$1,570	\$6,026	\$7,596	\$1,831,586

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

June 30, 2005	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,192,877	\$1,150	\$4,447	\$5,597	\$1,187,280
Other mortgages	277,762	-	1,081	1,081	276,681
Mortgages held for securitization or for sale	74,463	-	114	114	74,349
Accrued interest	6,022	-	-	-	6,022
	\$1,551,124	\$1,150	\$5,642	\$6,792	\$1,544,332

Included in mortgages held for securitization or for sale are Canadian Government insured mortgages of \$9,214 as at June 30, 2006 (December 31, 2005 - \$9,664, June 30, 2005 - \$28,955). 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 cost or fair value. There are no foreclosed assets held for sale at June 30, 2006, December 31, 2005 and June 30, 2005.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at June 30, 2006 aggregated \$2,437 (December 31, 2005 - \$3,587, June 30, 2005 - \$2,215) and \$867 (December 31, 2005 - \$1,500, June 30, 2005 - \$1,065), respectively.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Mortgages receivable (continued):

The Company has commitments to fund a total of \$330,760 (December 31, 2005 - \$307,970, June 30, 2005 - \$174,037) of mortgages as at the end of the period.

(b) Allowance for credit losses:

	June 30, 2006		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$2,087	\$5,080	\$7,167
Provision for credit losses	(496)	946	450
Realized credit loss	(21)	-	(21)
Balance, end of period	\$1,570	\$6,026	\$7,596

	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

5. Other assets:

	June 30, 2006	December 31, 2005	June 30, 2005
Deferred GIC commissions	\$6,087	\$5,791	\$4,838
Prepaid expenses and deferred charges	1,767	977	946
Capital assets	1,714	1,502	1,353
Other receivables	1,516	1,469	1,314
Accrued interest on non-mortgage assets	1,251	855	1,006
Loan to officer	-	-	400
	\$12,335	\$10,594	\$9,857

6. Customer deposits:

	June 30, 2006	December 31, 2005	June 30, 2005
Cashable GICs, payable on demand	\$444,947	\$348,885	\$145,894
GICs with fixed maturity date	1,538,442	1,423,066	1,418,746
Accrued interest	39,908	37,004	31,293
	\$2,023,297	\$1,808,955	\$1,595,933

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other liabilities:

	June 30, 2006	December 31, 2005	June 30, 2005
Securitized mortgage servicing liability	\$6,421	\$6,460	\$6,235
Accounts payable and accrued liabilities	5,584	4,315	3,639
Mortgagor realty taxes	5,085	5,266	4,924
Income taxes payable	1,081	4,666	1,792
Drawings under bank line of credit facility	-	-	1,350
	\$18,171	\$20,707	\$17,940

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, 2006	June 30, 2005
Canadian statutory income tax rate	36.1%	36.1%
Increase (decrease) resulting from:		
Tax exempt income	(6.0%)	(6.2%)
Future tax rate reductions	(1.5%)	0.0%
Non-deductible expenses and other	0.1%	0.4%
Effective income tax rate	28.7%	30.3%

9. Bank term loan:

The Company has received two non-revolving term loans totaling \$34,750 from Canadian Western Bank, \$19,750 of which was received on March 17, 2005 and \$15,000 on April 17, 2006. Each loan is for a fixed term of five years with the balance of the loan, together with all accrued and unpaid interest, due on the fifth anniversary of the loan. The proceeds of the loans were used to purchase \$19,750 of Series 5 and \$15,000 of Series 6 of the Subordinated Debentures of the Company's subsidiary, The Equitable Trust Company ("Equitable Trust"). The loans are repayable in full at the option of the Company at any time during their term and as collateral for the loans, 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 the Subordinated Debentures purchased from Equitable Trust using the proceeds of the loans. Interest is payable on the \$19,750 loan at 6.37% and on the \$15,000 loan at 6.82%.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, June 30, 2006
Series 4	7.54% - 8.15%	2003	January 2013	\$ 11,444	\$ -	\$ 11,444	\$ -
Series 5	7.31% - 7.58%	2004/05	January 2015	20,250	-	-	20,250
Series 6	7.27%	2006	January 2016	-	5,000	-	5,000
				\$ 31,694	\$ 5,000	\$ 11,444	\$ 25,250

2005 Debenture series	Interest rate	Issue date	Maturity date	Outstanding, December 31, 2004	Issued during the period	Redeemed during the period	Outstanding, June 30, 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	6,075	-	20,250
				\$ 29,149	\$ 6,075	\$ 3,530	\$ 31,694

11. Shareholders' equity:

(a) Capital stock:

Authorized:

Unlimited number of common shares
Unlimited number of preferred shares

Issued:

Common shares:

	June 30, 2006		June 30, 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	121,705	1,880	75,856	485
Transfer from contributed surplus relating to the exercise of stock options	-	179	-	23
Balance, end of period	11,903,645	\$57,569	11,756,606	\$55,323

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Shareholders' equity (continued):

(b) Stock-based compensation plans:

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 10% 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 June 30, 2006 and June 30, 2005 is as follows:

	June 30, 2006		June 30, 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	-	-	25,000	24.25
Exercised	(121,705)	15.45	(75,856)	6.39
Forfeited/cancelled	-	-	(25,000)	17.50
Outstanding, end of period	646,834	\$18.56	733,873	\$17.07
Exercisable, end of period	146,111	\$17.37	112,500	\$17.50

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of \$214 (June 30, 2005 – \$207) 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 June 30, 2006, December 31, 2005 and June 30, 2005.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Interest rate sensitivity (continued):

								June 30, 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	\$1,069,608	\$ 63,546	\$ 312,702	\$1,445,856	\$ 747,369	\$ 34,414	\$ 16,819	\$ 2,244,458
Total liabilities and equity	681,335	215,645	428,708	1,325,688	692,450	25,250	201,070	2,244,458
Interest rate sensitive gap	\$ 388,273	(\$ 152,099)	(\$ 116,006)	\$ 120,168	\$ 54,919	\$ 9,164	(\$ 184,251)	\$ -
Cumulative gap	\$ 388,273	\$ 236,174	\$ 120,168	\$ 120,168	\$ 175,087	\$ 184,251	\$ -	\$ -
Cumulative gap as a percentage of total assets	17.30%	10.52%	5.35%	5.35%	7.80%	8.21%	0.00%	0.00%

								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	\$ 186,132	\$ 173,691	\$ -	\$ -
Cumulative gap as a percentage of total assets	14.60%	6.98%	8.35%	8.35%	9.25%	8.63%	0.00%	0.00%

								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
Cumulative gap	\$ 354,349	\$ 266,727	\$ 131,190	\$ 131,190	\$ 174,826	\$ 159,412	\$ -	\$ -
Cumulative gap as a percentage of total assets	19.82%	14.92%	7.34%	7.34%	9.78%	8.91%	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. 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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