Equitable Group reports 2007 second quarter

TSX Symbol: ETC

TORONTO, Aug. 2 /CNW/ - Equitable Group Inc. today reported its financial results for the three and six months ended June 30, 2007 - a period that featured record mortgage production and the successful completion of a secondary offering of common shares that bolstered the Company's regulatory capital in support of future growth.Second Quarter Highlights

- Net income increased 13.2% to $7.5 million from $6.6 million a year earlier despite a modest reduction in net interest margin.
- Diluted earnings per share increased 7.3% to $0.59 compared to $0.55 a year ago - reflecting the impact of the April 30, 2007 issuance of 769,231 new common shares.
- Return on average equity was 17.0% compared to 19.8% a year earlier.
- Assets expanded 29.3% to $2.90 billion from $2.24 billion a year earlier - despite the repayment and discharge of $388.5 million of short-term warehoused mortgages.
- There were no loan losses in the period and mortgages in arrears 90 days or more amounted to 0.14% of total mortgages.
- Equitable Trust's total capital ratio was 12.4% compared to 11.6% at June 30, 2006.

Six Month Highlights

- Net income increased 24.4% to $15.5 million from $12.4 million a year earlier.
- Diluted earnings per share increased 20.4% to $1.24 compared to $1.03 a year ago.
- Annualized return on average equity was 19.0% compared to 19.2% a year earlier.Dividend

The Company's Board declared a dividend in the amount of $0.10 per share payable October 4, 2007 to shareholders of record at the close of business September 14, 2007.

Management Commentary

"Equitable established a new high water mark - $702 million - for quarterly mortgage production and achieved profitable year-over-year growth in the second quarter," said Andrew Moor, President and CEO. "At the same time, however, the pace of earnings growth was constrained due to a modest reduction in net interest margin (2.3% versus 2.5% a year ago). This was caused by an increase in interest rates on short-term GICs used to fund our floating rate mortgages without a corresponding increase in the prime rate to which our floating rate mortgages are tied. With the prime rate increase in July, this situation has subsequently corrected itself. As a result of this factor, and the dilution caused by our recent equity offering, we did not track as closely to our annual performance objectives as we would have liked for earnings growth, ROAE and our productivity ratio in the quarter. Even so, we made important progress for the future by enhancing Equitable Trust's regulatory capital through the equity offering and adding selectively to our human resources in preparation for future growth."

During the second quarter, the Company recruited William Edmunds to fill the role of Senior Vice President, Credit and Chief Risk Officer. Mr. Edmunds has extensive professional credit experience in both commercial and retail environments, has managed mortgage operations and is an important addition to the Company's leadership team. Most recently, he was President and Chief Risk Officer of GE Money Trust Company, and, among his many other career highlights, served as Vice President, Credit and Portfolio Administration at TD Asset Finance Corp., and in various capacities at the Toronto-Dominion Bank starting in 1972. He is a Certified General Accountant and a Fellow of the Institute of Canadian Bankers.

Said Stephen Coffey, Senior Vice President and CFO: "During the second quarter, our productivity ratio on a taxable equivalent basis was 35.4%. While this was higher than our objective for the year primarily as a result of the lag in net interest income growth due to higher interest rates, Equitable remains a very efficient lender and we remain committed to achieving our productivity objectives for the year."

Mortgages Receivable

Year over year growth in the Company's mortgage portfolio was registered in all of its niches:-   Single family dwelling mortgages increased 19.3% to $795.3 million.

- Multi-unit residential mortgages increased 22.7% to $623.9 million.
- Commercial mortgages increased 44.0% to $535.5 million.
- Conventional mortgages held for sale increased 22.7% to $212.1 million.
- Construction loans increased 28.2% to $110.9 million.The Company also continued to advance its growth initiative in Alberta where $45.3 million in single family dwelling mortgages were originated during the second quarter.

During the second quarter, the Company discharged two very significant short-term warehoused mortgage pools, which somewhat masked the very positive impact of record production volume.

Outlook

"To date in the third quarter, demand in our mortgage niches remains strong and this, coupled with current market forecasts, should support ongoing, profitable growth for the balance of the year," said Mr. Moor. "Importantly, with the increase in the prime rate announced subsequent to the second quarter (July 10, 2007), we've also seen a recovery in the net interest margin between mortgages and customer deposits. This should have a positive impact on earnings performance relative to the second quarter. In total, over the first six months of 2007, we believe we have established a solid foundation to pursue our growth and profit objectives for the year."

Second Quarter Webcast

Equitable's second quarter webcast begins at 10 am eastern time today. To listen, please log on to www.equitablegroupinc.com. To participate in the call, please dial 416 915 5761.

MD&A

The Company will post its MD&A for the three and six months ended June 30, 2007 on its website www.equitablegroupinc.com this morning. This document will also be archived on the site.

About Equitable Group Inc.

Equitable Group Inc. is a leading niche mortgage lender that focuses on single family dwelling, multi-unit residential and commercial mortgage financing in selected geographic territories in Canada. It conducts business through its wholly-owned subsidiary, The Equitable Trust Company, which was founded in 1970. Equitable is also a nationally-licensed deposit-taking institution. Equitable's non-branch business model, valued relationships with third-party mortgage professionals and deposit-taking agents, and disciplined lending practices have allowed the Company to grow profitably and efficiently for many years. The common shares of Equitable Group Inc. are listed on the Toronto Stock Exchange under the trading symbol of "ETC". For more information, visit www.equitablegroupinc.com.

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Certain forward-looking statements are made in this news release, 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 Company's periodic reports filed 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. See the MD&A for further information on forward-looking statements.

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.

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

(for the three and six months ended June 30, 2007)

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, 2007, as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2006, available on SEDAR at www.sedar.com. Except as indicated below, the factors discussed and referred to in the MD&A for 2006 remain substantially unchanged.

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 mortgages are segregated into the following classifications:

- residential mortgages - either single family dwellings or multi-unit (apartments, nursing homes etc.)
- commercial mortgages
- construction mortgages
- residential and commercial mortgages held for sale which are originated by third-party lenders who require financing prior to pooling and eventually selling the mortgages to investors. These conventional mortgages held for sale usually stay on the books of the Company for periods of up to six months and are therefore often referred to as 'warehoused' mortgages.
- residential 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 and on certain off-balance sheet items. For this reason, Equitable focuses on capital management as a means to balance growth and Return on Average Equity ("ROAE") targets.

During the second quarter of 2007, Equitable generated 13.2% growth in net income compared to the same period in 2006 supported by 29.3% year-over-year growth in assets. The Company also increased its staff complement - including hiring a Senior Vice-President, Credit and Chief Risk Officer, advanced its presence in Alberta, established interest rate swap facilities at two chartered banks, and successfully completed a $25.0 million secondary offering of common shares with the proceeds used to enhance regulatory capital. As a result of these developments, management believes the Company improved its positioning for the future.

At the same time, however, the pace of second quarter growth in earnings was lower, compared to recent periods of record high performance, due to several factors. Notably, growth in net income was negatively impacted by a compression in net interest margin resulting from an increase in interest rates without a corresponding increase in the prime rate (see "Earnings" review below). As expected, earnings per share ("EPS") and ROAE were also affected by the Company's April 30, 2007 issuance of 769,231 common shares. As a result, on a diluted basis, second quarter 2007 EPS was $0.59 compared to $0.55 in the second quarter of 2006 - a 7.3% increase - but 10.6% lower than first quarter 2007 EPS of $0.66. At 17.0%, second quarter ROAE was also lower than in the first quarter of 2007 and in the corresponding quarter of 2006.

While the Company funded a record $701.9 million in total mortgages including a record $406.6 million of conventional mortgages other than warehoused mortgages during the second quarter, the increase in mortgage production did not translate into as large an increase in the mortgage portfolio at June 30, 2007 as might have been expected. This was due to two large repayments and discharges (aggregating $388.5 million) of warehoused mortgages during the quarter compared to repayments and discharges of $212.4 million in the first quarter of 2007 and $116.5 million in the second quarter a year earlier. The timing of warehoused mortgage discharges is not predictable and these mortgages tend to be short term in nature compared to other conventional mortgages. Of primary importance, however, is that the outstanding principal of conventional mortgages other than warehoused mortgages registered a quarterly increase of $152.6 million, or 8.0% to

$2.07 billion at June 30, 2007 from $1.91 billion outstanding at March 31, 2007.

Despite the factors which impeded Equitable's ability to achieve its performance objectives in the second quarter (see table below), Equitable's performance over the first half of 2007 (six months ended June 30, 2007) equaled or exceeded its growth objectives for the full year.Table 1: Performance against objectives

	2007 Objectives	Performance for the three months ended or as at June 30, 2007	Performance for the six months ended or as at June 30, 2007
Growth in assets(1) - year-over-year	18-22%	29.3%	29.3%
Increase in net income(1)	18-22%	13.2%	24.4%
Increase in diluted earnings per share ("EPS")(1)	18-22%	7.3%	20.4%
Return on average equity ("ROAE")(1)	18-22%	17.0%	19.0%
Productivity ratio - Tax Equivalent Basis ("TEB")(1)(2)	32-35%	35.4%	33.8%

(1) Asset growth performance is based upon current period end balances as compared to those of the prior year; net income and EPS performance is based upon performance comparisons to the comparable prior year periods; ROAE is presented on an annualized basis.

(2) See explanation of TEB at the end of this MD&A.On August 1, 2007, the Company's Board declared a quarterly dividend in the amount of at $0.10 per share. The $0.10 per share dividend is payable on October 4, 2007, to shareholders of record at the close of business September 14, 2007.

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements relate to, among other things, realizing the value of Equitable's assets, capitalizing on market demand for Equitable's mortgage products, executing Equitable's strategic plan, and the demand for Equitable's deposit products. The risks and uncertainties that may affect forward-looking statements include, among others, risks involved in fluctuating interest rates and general economic conditions, legislative and regulatory developments, the nature of Equitable's customers, competition and other risks detailed from time to time in Equitable's filings with Canadian provincial securities regulators, including Equitable's Annual Report and Annual Information Form dated February 26, 2007. 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.Table 2: Selected financial information

($ thousands, except share and per share amounts)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATIONS				
Net income	$ 7,480	$ 6,609	$ 15,472	$ 12,442
Earnings per share - basic	0.59	0.56	1.26	1.05

Earnings per share - diluted	0.59	0.55	1.24	1.03
Net interest income(1)	15,338	12,586	30,215	23,945
Total revenue	44,728	34,008	87,396	64,828
Return on weighted average equity - annualized	17.0%	19.8%	19.0%	19.2%
Return on average assets - annualized	1.0%	1.2%	1.1%	1.2%
Productivity ratio - TEB(1) (2)	35.4%	33.1%	33.8%	32.5%

BALANCE SHEET AND OFF-BALANCE SHEET

Total assets	$ 2,901,194	$ 2,244,458
Mortgages receivable	2,313,024	1,831,586
Shareholders' equity	186,412	136,766
Mortgage-backed security assets under administration	1,785,271	1,914,418

COMMON SHARES

Number of common shares outstanding at period end	12,914,699	11,903,645
Dividends per share	$0.20	$0.20
Book value per share	$14.43	$11.49
Share price - close	32.05	26.25
Market capitalization	413,916	312,471

CREDIT QUALITY

Realized loan losses - net of recoveries	$ 21	$ 21
Mortgages in arrears 90 days or more as a % of total mortgages	0.14%	0.03%
Net impaired mortgages(3) as a % of total mortgages	0.13%	0.05%
Allowance for credit losses as a % of gross impaired mortgages	271.6%	311.7%

(1) See explanation of treatment of deposit agent commissions at the end of this MD&A.
(2) See explanation of TEB at the end of this MD&A.
(3) Gross mortgage principal of impaired loans less specific reserves.

FINANCIAL REVIEW

EARNINGS

Net income for the three months ended June 30, 2007 increased 13.2% year-over-year to $7.5 million. Compared to recent quarters, this slower rate of growth resulted from a decrease in the Company's net interest margin, which stood at 2.3% in the second quarter of 2007 compared to 2.5% in the same period a year ago. This reduction in net interest margin was caused by an increase in interest rates on short-term GICs used to fund floating rate mortgages - without a corresponding increase in the prime rate to which the floating rate mortgages are tied. These floating rate mortgages generally comprise approximately 50% of the Company's mortgage portfolio (50.9% as at June 30, 2007 and 51.7% as at December 31, 2006). Management believes the increase in the prime rate on July 10, 2007 should improve the net interest margin between mortgages and customer deposits in the third quarter compared to the second quarter of 2007.

Table 3: Net interest income

($ thousands)	Three months ended June 30, 2007		Three months ended June 30, 2006	
Interest revenues or interest expenses derived from:	Revenue/ Expense	Average Rate	Revenue/ Expense	Average Rate
Assets:				
Liquidity investments	$3,715	4.6%	$2,003	4.2%
Equity securities - TEB(1)	3,261	6.7%	2,084	6.7%
Mortgage loans	37,415	6.5%	29,044	6.5%
Total interest earning assets - TEB(1)	44,391	6.3%	33,131	6.3%

Total assets - TEB(1)	44,391	6.2%	33,131	6.1%
Liabilities and shareholders' equity:				
Customer deposits	26,147	4.1%	18,617	3.9%
Bank term loan	831	7.1%	559	7.0%
Subordinated debt	626	7.4%	492	7.5%
Total interest bearing liabilities	27,604	4.2%	19,668	4.0%
Total liabilities and shareholders' equity	27,604	3.8%	19,668	3.6%
Net interest income - TEB(1)(2)	16,787		13,463	
Net interest margin - TEB(1)(2)		2.3%		2.5%
Less: Taxable equivalent adjustment(1)	1,449		877	
Less: Deposit agent commissions(2)	1,542		-	
Net interest income per financial statements	13,796		12,586	

($ thousands)	Six months ended June 30, 2007		Six months ended June 30, 2006	
Interest revenues or interest expenses derived from:	Revenue/ Expense	Average Rate	Revenue/ Expense	Average Rate
Assets:				
Liquidity investments	$6,850	4.7%	$3,727	4.0%
Equity securities - TEB(1)	5,976	6.6%	3,934	6.4%
Mortgage loans	73,188	6.7%	55,449	6.4%
Total interest earning assets - TEB(1)	86,014	6.4%	63,110	6.2%
Total assets - TEB(1)	86,014	6.3%	63,110	6.0%
Liabilities and shareholders' equity:				
Customer deposits	50,501	4.2%	35,528	3.8%
Bank term loan	1,446	6.9%	884	6.9%
Subordinated debt	1,183	7.4%	1,092	7.6%
Total interest bearing liabilities	53,130	4.3%	37,504	3.9%
Total liabilities and shareholders' equity	53,130	3.9%	37,504	3.6%
Net interest income - TEB(1)(2)	32,884		25,606	
Net interest margin - TEB(1)(2)		2.4%		2.4%
Less: Taxable equivalent adjustment(1)	2,669		1,661	
Less: Deposit agent commissions(2)	2,940		-	
Net interest income per financial statements	27,275		23,945	

(1) See explanation of TEB at the end of this MD&A.
(2) See explanation of treatment of deposit agent commissions at the end of this MD&A.Total interest revenues on a TEB were $44.4 million in the second quarter compared to $33.1 million in the comparable 2006 period, an increase of 34.0% due to growth in the Company's interest earning asset base and increases in interest rates. Mortgage revenues increased $8.4 million or 28.8% in the second quarter 2007 over 2006 while average rates remained consistent at 6.5% for both periods. Equity securities' income on a TEB increased $1.2 million or 56.5% on a quarter-over-quarter basis due primarily to the larger portfolio.

Interest rates on average customer deposits outstanding for the second quarter of 2007 increased to 4.1% from 3.9% in 2006 due to general increases in interest rates, while overall interest expense on customer deposits for the quarter grew $7.5 million or 40.4% over 2006 due to these higher interest rates as well as a 32.4% increase in average customer deposits outstanding during the second quarter of 2007 compared to 2006.

During the second quarter of 2007, the Company entered into $10.0 million of interest rate swaps in order to hedge interest rates on one-year term GICs used to fund floating rate mortgages. These swaps are derivative financial instruments. Any change in their value is included in interest expense. The GICs to which these swaps relate have been designated as held-for-trading financial instruments and are carried at fair value. Any change in their value is included in interest expense and all transaction costs related to raising these GICs are expensed as incurred.

Net interest income - TEB increased $3.3 million or 24.7% to $16.8 million for the second quarter of 2007 compared to the $13.5 million earned during the same period in 2006. As a result of the new accounting policies for financial instruments, deposit agent commissions are accounted for as a component of interest expense. This change from prior periods' financial statement presentation has not been applied retroactively and certain elements of this MD&A have been presented in a manner so that certain current ratios such as net interest margins - TEB and productivity ratios - TEB are consistent with past MD&A presentation.

Other Income

Other income includes ancillary fees related to the mortgage portfolio, gains on the securitization of mortgages and excess interest net of servicing fee earned on mortgages issued through the Company's CMHC-MBS program. Sundry income, gains or losses on the sale or redemption of investments and other non- mortgage related fees are also included in other income. Other income amounted to $1.8 million for the three months ended June 30, 2007, the same as in the second quarter a year ago but 21.1% less than the $2.3 million earned during the previous quarter when larger than usual discharge penalty income was recorded in loan securitizations - retained interests. Mortgage related fees increased to $1.0 million for the three months ended June 30, 2007 compared to $0.8 million in the comparable period of 2006 due primarily to the increase in the production of non-warehoused conventional mortgages in the second quarter of 2007 (Table 5).

During the second quarter, the Company securitized, through the CMHC-MBS program, $42.6 million of mortgages compared to $86.7 million during the comparable period in 2006. Even though securitization activity in the second quarter of 2007 was less than half that of the comparable 2006 period, gains on sale of mortgages were the same as in the comparable period of 2006 at $0.1 million. Gross margins on the securitization of mortgages increased to 32 basis points in the second quarter of 2007 from 16 basis points in the comparable period due to a widening of spreads on this business. Excess interest net of servicing fees was $0.6 million during the second quarter of 2007, a decrease of $0.2 million from the $0.8 million earned in the second quarter of 2006. This change was due to a decrease in outstanding securitized mortgages which stood at $1.79 billion at June 30, 2007 compared to $1.91 billion a year earlier.

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, premises and equipment expenses, capital taxes, insurance and other general and administrative expenses. In prior periods, deposit agent commissions were included in non-interest expenses. As a result of adopting new accounting policies for financial instruments, commencing in 2007 deposit agent commissions are accounted for as a component of interest expense. This change from prior periods' presentation has not been applied retroactively and commentary on non-interest expenses in this MD&A is presented including deposit agent commissions so that comparison with prior periods' results is meaningful. For more information, see the Non-GAAP Financial Measures section at the end of this MD&A. Non-interest expenses and deposit agent commissions totalled $6.6 million in the second quarter compared to $5.0 million during the same period in 2006. This increase primarily reflected higher employment levels to support growth and variable expenses related to the expansion of the business including deposit agent commissions as well as office and equipment costs to accommodate growth in staff. Also, the Company realized a one-time charge of $245 thousand in the second quarter of 2007 related to the failure of a lawyer to register a mortgage. The Company is pursuing a legal remedy.

Included in non-interest expenses during the second quarter of 2007 was a charge for stock-based compensation expense in the amount of $0.2 million related to grants of options from 2004 to 2007 compared to a $0.1 million charge for both the quarter ended June 30, 2006 and the previous quarter. The offset to this expense was an increase to contributed surplus in the same amount.

The Company's productivity ratio - TEB was 35.4% in the second quarter of 2007 compared to 33.1% in the second quarter of 2006. This increase primarily relates to a lag in net interest income growth due to the factors outlined in the "Earnings" section above, an increase in expenses and the one-time charge outlined above. Excluding the one-time charge, the productivity ratio - TEB in the second quarter would have been 34.1%. This ratio (the lower, the more efficient the operations) is a non-GAAP financial measure. In 2007 it is calculated by dividing non-interest expenses, plus deposit agent commissions, by the sum of net interest income - TEB, as illustrated in Table 2, and other income. When not measured on a TEB, these ratios were 38.4% and 35.1% in the second quarter of 2007 and 2006 respectively.

BALANCE SHEET

Mortgages

The Company's mortgage lending is focused on first charges for real estate in three primary niches: single family dwelling, multi-unit residential and commercial. At June 30, 2007, single family dwelling mortgages represented the largest portion of the portfolio (see Table 4). This portion of the portfolio increased 7.2% from December 31, 2006 and 19.3% from June 30, 2006. Multi-unit residential mortgages increased 22.7% compared to a year earlier and increased 9.4% from December 31, 2006. Commercial mortgages increased 44.0% from a year ago and 24.2% from December 31, 2006. Growth in all of these mortgage lending activities reflects strong demand.

The composition of the Company's mortgage portfolio at June 30, 2007 reflects management's mortgage asset weighting strategy as shown in the following table together with comparisons for prior periods.Table 4: Mortgages receivable

	June 30, 2007		December 31, 2006	
($ thousands)	$	% of total	$	% of total
Single family dwelling	795,281	34.4%	741,732	34.8%
Multi-unit residential	623,902	27.0%	570,312	26.7%
Commercial	535,497	23.2%	431,017	20.2%
Conventional mortgages held for sale	212,059	9.2%	268,396	12.6%
Construction	110,862	4.8%	87,043	4.1%
CMHC-insured	31,996	1.4%	33,617	1.6%
Total mortgage principal	2,309,597	100.0%	2,132,117	100.0%
Net premiums and sundry	1,271		1,423	
Mortgages reported	2,310,868		2,133,540	
Accrued interest	10,631		10,168	
Allowances for credit losses	(8,475)		(8,046)	
Total mortgages receivable	2,313,024		2,135,662	

	June 30, 2006	
($ thousands)	$	% of total
Single family dwelling	666,779	36.5%
Multi-unit residential	508,659	27.8%
Commercial	371,813	20.3%
Conventional mortgages held for sale	172,794	9.4%
Construction	86,447	4.7%
CMHC-insured	24,487	1.3%
Total mortgage principal	1,830,979	100.0%
Net premiums and sundry	(332)	
Mortgages reported	1,830,647	
Accrued interest	8,535	
Allowances for credit losses	(7,596)	
Total mortgages receivable	1,831,586	

Mortgage principal increased $177.5 million or 8.3% during the six month period ended June 30, 2007 and increased $478.6 million or 26.1% since June 30, 2006. The Company funded a total of $701.9 million of mortgages during the quarter, an increase of 68.9% over last year's second quarter when a total of $415.6 million of mortgages were funded. Conventional mortgages (other than warehoused mortgages) funded during the second quarter of 2007 amounted to $406.6 million, an increase of 155.2% year-over-year. CMHC mortgages funded during the second quarter of 2007 amounted to $45.7 million compared to $69.9 million a year earlier. Conventional mortgages repaid and discharged during the second quarter of 2007 totalled $642.5 million and included $388.5 million of short-term warehoused mortgages. In the second quarter of 2006, $265.8 million of conventional mortgages were repaid and discharged including $116.5 million of warehoused mortgages. These warehoused mortgage discharge levels are considered normal relative to the short term duration of these mortgages.

Table 5 segments mortgage principal funded.Table 5: Mortgage Production

($ thousands)	Three Months Ended June 30, 2007 Mortgage Principal Funded	% of total	June 30, 2006 Mortgage Principal Funded	% of total
Conventional mortgages other than warehoused mortgages	$406,625	57.9%	$159,355(1)	38.3%
Warehoused mortgages	249,643	35.6%	186,398(1)	44.9%
CMHC-insured mortgages	45,652	6.5%	69,884	16.8%
Total	$701,920	100.0%	$415,637	100.0%

($ thousands)	Six Months Ended June 30, 2007 Mortgage Principal Funded	% of total	June 30, 2006 Mortgage Principal Funded	% of total
Conventional mortgages other than warehoused mortgages	$677,603	49.6%	$434,479(1)	43.2%
Warehoused mortgages	544,508	39.9%	386,256(1)	38.4%
CMHC-insured mortgages	144,011	10.5%	184,754	18.4%
Total	$1,366,122	100.0%	$1,005,489	100.0%

(1) Amounts have been adjusted by $19.6 million (warehoused up, conventional other than warehoused down) from prior reports in order to correct a misclassification.The timing of the production and discharges of the Company's warehoused mortgages can lead to "lumpiness" in terms of the growth trends of the Company's total mortgages receivable as demonstrated by the variation in discharge amounts in Table 6. This table indicates a net decrease in warehoused mortgages during the second quarter of 2007 of $138.8 million compared to a net increase a year earlier of $69.9 million. During the first quarter of 2007, warehoused mortgages grew by a net amount of $82.5 million. Thus, although the Company has achieved its highest mortgage production ever in the second quarter of 2007, including record production of non-warehoused mortgages, the net growth in total mortgage principal from the first quarter of 2007 to the second quarter of 2007 of $14.4 million does not serve to illustrate these records in mortgage production.Table 6 represents a continuity schedule for warehoused mortgages.

Table 6: Warehoused Mortgage Program

($ thousands)	Three Months Ended June 30, 2007	June 30, 2006	Six Months Ended June 30, 2007	June 30, 2006
Principal balance, beginning of period	$350,886	$102,905	$268,396	$163,743
Production	249,643	186,398	544,508	386,256
Repayments and discharges	(388,470)	(116,509)	(600,845)	(377,205)

Principal balance, end of period	$212,059	$172,794	$212,059	$172,794
Net increase (decrease) in principal balance	$(138,827)	$69,889	$(56,337)	$9,051

Mortgage Credit Quality

The Company did not realize any credit losses during the second quarter of 2007 compared to $21 thousand a year earlier and $50 thousand in the first quarter of 2007. An $8 thousand recovery was realized during the second quarter. Mortgages in arrears 90 days or more amounted to 0.14% of total principal outstanding at June 30, 2007 compared to 0.03% of total principal outstanding at June 30, 2006. While this represents an increase in arrears over 90 days, these arrears statistics remain low and management does not believe the increase is reflective of any change in the market or in Equitable's lending practices. Mortgages identified as impaired amounted to 0.14% of total mortgage principal outstanding at June 30, 2007, compared to 0.13% a year earlier. The provision for credit losses for the second quarter of 2007 of $225 thousand was equal to the amount recorded in the comparable prior year period and in the first quarter.

Table 7: Asset Categories

	June 30, 2007		December 31, 2006		June 30, 2006	
($ thousands)	Asset Amount	% of total	Asset Amount	% of total	Asset Amount	% of total
Liquidity investments	$331,256	11.4%	$260,490	9.9%	$215,348	9.6%
Equity securities	195,864	6.8%	166,669	6.4%	134,218	6.0%
Mortgage loans	2,313,024	79.7%	2,135,662	81.3%	1,831,586	81.6%
Loan securitizations - retained interests	46,491	1.6%	48,271	1.8%	50,971	2.3%
Other assets	14,559	0.5%	14,663	0.6%	12,335	0.5%
Total	$2,901,194	100.0%	$2,625,755	100.0%	$2,244,458	100.0%

Total assets at June 30, 2007 increased $275.4 million or 10.5% from $2.63 billion at December 31, 2006 and increased $656.7 million or 29.3% from $2.24 billion at June 30, 2006. Liquidity investments include cash and cash equivalents as well as government bonds and notes. Total liquid resources include liquidity investments and equity securities which comprised 18.2% of total assets at June 30, 2007, compared to 16.3% at December 31, 2006 and 15.6% as at June 30, 2006.

Equity securities are comprised of preferred shares. At June 30, 2007 equity securities were $29.2 million or 17.5% higher than at December 31, 2006 and $61.6 million or 45.9% higher compared to June 30, 2006. Tax exempt dividend income from equity securities assists in lowering the Company's effective tax rate. The Company's effective tax rate was 27.5% for the six months ended June 30, 2007 compared to 28.7% for the period ended June 30, 2006.

Loan securitizations - retained interests decreased $1.8 million to $46.5 million at June 30, 2007 from $48.3 million at December 31, 2006 and are $4.5 million or 8.8% lower than a year ago. The decline from June 30, 2006 was due to a decrease in mortgage-backed security assets under administration at June 30, 2007 as compared to June 30, 2006, and to the shorter average duration of securitized mortgages at June 30, 2007 as compared to a year earlier. Total mortgages in the CMHC-MBS program outstanding at June 30, 2007 were $1.79 billion, a $129.1 million decrease from $1.91 billion at June 30, 2006 but down only slightly from $1.81 billion outstanding at December 31, 2006.

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, 2007 increased $229.7 million or 9.8% from December 31, 2006 and $582.8 million or 29.4% from June 30, 2006. Sales of cashable GICs, first introduced in 2005, continued to increase. Cashable GICs totalled $800.1 million at June 30, 2007, up 79.8% from the June 30, 2006 balance of $444.9 million and 40.3% greater than the December 31, 2006 balance of $570.5 million. Commencing in 2007, as stated elsewhere in this MD&A, deferred deposit agent commissions are required to be presented as a component of customer deposits. Formerly, these were presented as an other asset.

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, allowance for credit losses and the unrealized losses of its equity securities portfolio.

Other Assets and Liabilities

Other assets at June 30, 2007 remained relatively unchanged from December 31, 2006 and increased $2.2 million or 18.0% from a year earlier due primarily to an increase in income taxes recoverable. In 2007, largely as a result of the mark-to-market treatment of equity securities for tax purposes, income tax installments paid exceeded tax liabilities at June 30, 2007 and are recorded as an other asset.

Other liabilities include the future servicing liability of securitized mortgages, realty taxes collected from borrowers, accounts payable, income taxes payable in 2006 and periodic drawings under the Company's bank line of credit facility. No drawings were made on this line at June 30, 2007, December 31, 2006 or at June 30, 2006.

Shareholders' Equity

Total shareholders' equity increased $36.7 million or 24.5% to $186.4 million at June 30, 2007 from $149.7 million at December 31, 2006 and grew 36.3% compared to June 30, 2006. The Company completed a $25.0 million equity issue on April 30, 2007 with the sale of 769,231 common shares to the public. Also, as a result of the exercise of employee stock options, 108,000 common shares were issued for cash proceeds of $2.0 million which was added to common share capital during the second quarter of 2007 compared to 31,000 common shares issued and $0.56 million cash proceeds added to common share capital in the second quarter of 2006. At June 30, 2007, the Company had 12,914,699 common shares issued and outstanding, up 1,011,054 or 8.5% from 11,903,645 common shares issued and outstanding at June 30, 2006.

Shareholders' equity now includes accumulated other comprehensive loss as a result of the adoption of the new accounting policies outlined in Note 2 to the interim unaudited consolidated financial statements for the period ended June 30, 2007.

Accumulated other comprehensive loss includes the after tax change in unrealized gains and losses on available-for-sale investments and retained interests - loan securitizations. This category of equity appears for the first time in 2007 and prior periods have not been restated.

Other comprehensive loss amounted to $4.9 million at June 30, 2007, $4.5 million of which was recorded during the second quarter of 2007. For the six months ended June 30, 2007, other comprehensive loss is primarily comprised of a loss of $4.8 million related to unrealized losses, net of income tax recovery, on the Company's preferred share portfolio; $3.3 million of which is attributable to BCE Inc. preferred shares. Subsequent to June 30, 2007, there has been a significant increase in the value of these BCE preferred shares as a result of the proposed terms of a takeover bid for BCE Inc. The balance of the other comprehensive loss relating to the Company's preferred share portfolio relates to lower preferred share fair values as a result of the increase in interest rates during the second quarter of 2007.

Also, as a result of adopting the new financial instrument accounting policies, the opening balance of retained earnings has been adjusted to reflect the January 1, 2007 fair values of assets and liabilities required to be, or designated to be, characterized as held-for-trading. Changes in the fair values of these held-for-trading assets and liabilities, which include CMHC mortgages to be securitized, mortgage commitments on CMHC mortgages to be securitized, GICs designated as held-for-trading and derivative financial instruments, will flow through the statement of income.

Capital Management

The Company maintains a capital management policy to govern the quality and quantity of capital utilized by Equitable Trust, the Company's wholly owned subsidiary, 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 first six months of 2007, the Company took two major steps to increase regulatory capital. The first was the authorization for Equitable Trust to issue up to $40.0 million of series 7 subordinated debentures eligible as Tier 2 capital. A total of $22.0 million of these debentures were issued in the first quarter of 2007, $12.5 million of which were financed by the receipt of a bank loan. During the second quarter of 2007, Equitable Trust redeemed $5.4 million of series 5 subordinated debentures. The second step to increase regulatory capital was the Company's $25.0 million equity issue and the subsequent investment of the net proceeds to increase Tier 1 capital in Equitable Trust. As a result of these measures, Equitable Trust's total capital ratio at June 30, 2007 was 12.4% compared to 10.6% at December 31, 2006 and 11.6% at June 30, 2006. Also, the discharge of warehoused mortgages increases total capital ratios through the reduction of risk weighted assets, as was the case at June 30, 2007.Table 8 summarizes Equitable Trust's regulatory capital position.

Table 8: Capital measures (relating solely to Equitable Trust)

($ thousands)	June 30, 2007	December 31, 2006	June 30, 2006
Tier 1 capital	$185,385	$148,466	$135,462
Tier 2 capital	76,564	60,000	60,000
Total capital	261,949	208,466	195,462
Total risk weighted assets	2,107,986	1,967,779	1,685,403
Total capital as a % of total risk weighted assets	12.4%	10.6%	11.6%
Authorized asset to capital multiple	17.5x	17.5x	17.5x
Utilized asset to capital multiple	11.1x	12.6x	11.5x

OSFI has issued guidance on new capital requirements in accordance with the Bank for International Settlements, Basel II pronouncements. These include a revision of capital requirements based on the nature of the Equitable Trust's assets and an introduction of additional capital requirements based on the operational and other risks of Equitable Trust. Calculation of capital under Basel II takes effect on January 1, 2008.

Eight Quarter Summary

Table 9 summarizes the Company's performance over the last eight quarters. Generally, the real estate market experiences periods of seasonality at different times of the year, but traditionally, this has had little impact on Equitable's results. Of much greater importance, as stated elsewhere in this MD&A, is any movement in interest rates.Table 9: Summary of Quarterly Results

($ thousands, except assets and per share amounts)	2007 Q2	2007 Q1	2006 Q4	2006 Q3
Total assets at quarter end - $ millions	2,901	2,866	2,626	2,414
Total revenues - TEB(1)	46,177	43,888	41,941	38,552
Total revenues	44,728	42,668	40,819	37,572
Net interest income - TEB(1)(2)	16,787	16,097	15,359	14,435
Net interest income(2)	15,338	14,877	14,237	13,455
Net earnings	7,480	7,992	7,752	7,144
EPS - basic	$ 0.59	$ 0.67	$ 0.65	$ 0.60
EPS - diluted	$ 0.59	$ 0.66	$ 0.64	$ 0.59
ROAE	17.0%	21.1%	21.0%	20.3%

	2006 Q2	2006 Q1	2005 Q4	2005 Q3
Total assets at quarter end - $ millions	2,244	2,113	2,012	1,821
Total revenues - TEB(1)	34,885	31,604	28,881	26,530
Total revenues	34,008	30,820	27,867	25,667
Net interest income - TEB(1)(2)	13,463	12,143	12,017	10,439
Net interest income(2)	12,586	11,359	11,003	9,576
Net earnings	6,609	5,833	5,562	4,985
EPS - basic	$ 0.56	$ 0.49	$ 0.47	$ 0.42
EPS - diluted	$ 0.55	$ 0.49	$ 0.46	$ 0.42
ROAE	19.8%	18.6%	18.1%	16.8%

(1) For an explanation of TEB see the end of this MD&A.
(2) See explanation of treatment of deposit agent commissions at the end of this MD&A.

OFF BALANCE SHEET ACTIVITIES

The Company's off balance sheet activities include its securitization activities, its interest rate hedging derivative financial instruments and its commitments to fund mortgages (see Notes 4, 5 and 14 to the interim unaudited consolidated financial statements for the period ended June 30, 2007). For additional information regarding these and other off balance sheet items, please also refer to pages 34 to 36 in the Company's 2006 Annual Report.

RISKS AND UNCERTAINTIES

The Company faces a number of risks. Please refer to pages 36 to 42 in the Company's 2006 Annual Report, page 9 in the December 31, 2006 Annual Information Form and pages 7 to 11 of the Short Form Prospectus dated April 23, 2007, all of which are available at www.sedar.com for further information on risks of the business. The risk factors below are not all-inclusive, but do include risks which vary as the assets and liabilities of the Company change.

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 $326.3 million at June 30, 2007 compared to $260.5 million at December 31, 2006 and $215.3 million at June 30, 2006. Total liquid resources, including marketable equity securities, were $522.1 million at June 30, 2007 compared to $427.2 million as at December 31, 2006 and $349.6 million at June 30, 2006.

Interest Rate Risk Management

The Company's primary method of mitigating interest rate risk is matching asset and liability maturity or re-pricing terms, employing derivatives to simulate re-pricing matching, 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 income.

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 behavior based upon historical experience. As estimated by the Company, an immediate and sustained 1% increase in interest rates as of June 30, 2007, would positively impact net interest income before any tax effect for the following twelve month period by $2.4 million. If interest rates were to decrease 1% on an immediate and sustained basis as at June 30, 2007, and if cashable GICs were to stay on the books until maturity in the manner forecast by management, the estimated negative impact to net interest income before any tax effect for the following twelve month period would be $6.9 million.

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

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 investments 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 73.2% of the preferred share equity securities portfolio at June 30, 2007, compared to 78.6% a year earlier.

Changes in Accounting Policies

Significant accounting policies are detailed on pages 51 to 67 of the Company's 2006 Annual Report. Effective January 1, 2007, the Company adopted new accounting policies issued by the Canadian Institute of Chartered Accountants: Financial Instruments - Recognition and Measurement, Hedges, Comprehensive Income and Financial Instruments - Disclosure and Presentation. A new section of shareholders' equity - Accumulated other comprehensive income - has been created by virtue of the adoption of these new standards. Please refer to Note 2 of the interim unaudited consolidated financial statements for further details on these accounting changes.

Please also see Note 15 of the interim unaudited consolidated financial statements for the period ended June 30, 2007 for information on future accounting changes.

Changes in Internal Control over Financial Reporting:

There are no changes in the Company's internal control over financial reporting that occurred during the second quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Subsequent to the quarter end, the Company appointed William Edmunds Senior Vice-President, Credit and Chief Risk Officer and Stephen Coffey, Senior Vice-President and Chief Financial Officer announced his intention to resign from the Company effective September 30, 2007.

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, 2007, this gross-up amounted to $2.7 million as compared to $1.7 million during the comparable period in 2006.

The adoption on January 1, 2007 of new accounting policies for financial instruments requires that Equitable report deferred deposit agent commissions as a component of customer deposits and the amortization or current expense of these deferred charges as a component of interest expense in its financial statements. Formerly, deferred deposit agent commissions were reported in other assets and amortization was presented as a non-interest expense. Prior period presentation is not restated. In order to make comparisons of current results for net interest income, net interest margins and productivity ratios meaningful, this MD&A presents deposit agent commissions on the same basis as that presented in the prior year.

Updated Share Information

As a result of the issue of 769,231 common shares on April 30, 2007 and the exercise of employee stock options, the Company currently has 12,914,699 common shares issued and outstanding. There are unexercised options to purchase 635,011 common shares and a further 656,459 common shares are reserved for option grants.

OUTLOOK

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

Demand for residential and commercial mortgage financing is strong in the Company's primary niche markets, resale housing activity in Equitable's target geographical markets is robust and, while the prime rate has recently increased, the interest rate environment is currently supportive to the real estate industry. Activity levels so far in the third quarter are strong and management continues to position Equitable to take advantage of these conditions through the continuation of disciplined niche lending practices.

Based on Equitable's performance during the first half of 2007, except for the impact on EPS of the increased number of shares resulting from its equity issue, management remains confident of the Company's ability to achieve its 2007 targets and performance objectives.

During this time of strong demand, the Company remains committed to its disciplined lending practices and intends to continue to build a well balanced, quality portfolio based primarily on single family, multi-unit residential and commercial mortgage lending. The Company is investigating new geographical market opportunities and will cautiously expand its single family dwelling operations when opportunities are identified.

August 1, 2007CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2007 - UNAUDITED
With comparative figures as at December 31, 2006 and June 30, 2006
(In thousands of dollars)

	June 30, 2007	December 31, 2006	June 30, 2006
Assets			
Cash and cash equivalents	$169,232	$107,842	$147,477
Investments (note 3)	357,888	319,317	202,089
Loan securitizations - retained interests (note 4)	46,491	48,271	50,971
Mortgages receivable (note 5)	2,313,024	2,135,662	1,831,586
Other assets (note 6)	14,559	14,663	12,335
	$2,901,194	$2,625,755	$2,244,458
Liabilities and Shareholders' Equity			
Liabilities:			
Customer deposits (note 7)	$2,613,504	$2,389,755	$2,023,297
Future income taxes payable	5,541	4,700	6,224
Other liabilities (note 8)	19,173	21,564	18,171
Bank term loan (note 10)	44,595	34,750	34,750
Subordinated debt (note 11)	31,969	25,250	25,250
	2,714,782	2,476,019	2,107,692
Shareholders' equity:			
Capital stock (note 12)	86,339	57,849	57,569
Contributed surplus (note 12)	1,415	1,539	1,362
Retained earnings	103,215	90,348	77,835

Accumulated other comprehensive (loss) (note 13)	(4,557)	-	-
	186,412	149,736	136,766
	$2,901,194	$2,625,755	$2,244,458

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007 - UNAUDITED
With comparative figures for the three and six month periods ended June 30, 2006
(In thousands of dollars, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Interest income:				
Mortgages	$37,415	$29,044	$73,188	$55,449
Investments	3,478	1,890	6,632	3,644
Other	2,049	1,320	3,525	2,356
	42,942	32,254	83,345	61,449
Interest expense:				
Customer deposits	26,147	18,617	50,501	35,528
Deposit agent commissions (note 2)	1,542	-	2,940	-
Term loan	831	559	1,446	884
Subordinated debt	626	492	1,183	1,092
	29,146	19,668	56,070	37,504
Interest income, net	13,796	12,586	27,275	23,945
Provision for credit losses (note 5)	225	225	450	450
Net interest income after provision for credit losses	13,571	12,361	26,825	23,495
Other income:				
Mortgage commitment income and other fees	1,016	802	1,926	1,476
Net gain (loss) on sale or redemption of Investments	-	-	(15)	2
Loan securitizations - retained interests (note 4)	770	952	2,140	1,901
	1,786	1,754	4,051	3,379
Net interest income and other income	15,357	14,115	30,876	26,874
Non-interest expenses:				
Compensation and benefits	2,780	2,342	5,361	4,390
Deposit agent commissions (note 2)	-	1,111	-	2,156
Other	2,257	1,577	4,169	2,883
	5,037	5,030	9,530	9,429

Income before income taxes	10,320	9,085	21,346	17,445
Income taxes (recovery) (note 9):				
Current	2,978	2,284	5,033	5,317
Future	(138)	192	841	(314)
	2,840	2,476	5,874	5,003
Net income	$7,480	$6,609	$15,472	$12,442
Earnings per share:				
Basic	$0.59	$0.56	$1.26	$1.05
Diluted	$0.59	$0.55	$1.24	$1.03
Weighted average number of shares outstanding:				
Basic	12,592,821	11,894,569	12,274,836	11,848,877
Diluted	12,776,704	12,081,098	12,485,598	12,044,672

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, 2007 - UNAUDITED
With comparative figures for the three and six month periods ended June 30, 2006
(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Common shares:				
Balance, beginning of period	$60,050	$56,959	$57,849	$55,510
Common shares issued (note 12)				
Gross proceeds of equity issue	25,000	-	25,000	-
Issue expenses, net of tax recovery of $498	(962)	-	(962)	-
Proceeds from exercise of employee stock Options	1,966	555	3,965	1,880
Transfer from contributed surplus relating to the exercise of stock options	285	55	487	179
Balance, end of period	86,339	57,569	86,339	57,569
Contributed surplus:				
Balance, beginning of period	1,485	1,323	1,539	1,327
Stock-based compensation (note 12)	215	94	363	214
Transfer to common shares relating to the exercise of stock options	(285)	(55)	(487)	(179)
Balance, end of period	1,415	1,362	1,415	1,362
Retained earnings:				
Balance, beginning of period	97,025	72,417	90,348	67,771
Transition adjustment -				

Financial instruments (note 2)	-	-	(113)	-
Net income	7,480	6,609	15,472	12,442
Dividends	(1,290)	(1,191)	(2,492)	(2,378)
Balance, end of period	103,215	77,835	103,215	77,835
Accumulated other comprehensive income (loss):				
Balance, beginning of period	(63)	-	-	-
Transition adjustment - Financial instruments (note 2)	-	-	302	-
Other comprehensive income (loss) (note 13)	(4,494)	-	(4,859)	-
Balance, end of period	(4,557)	-	(4,557)	-
Total shareholders' equity	$186,412	$136,766	$186,412	$136,766

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007 - UNAUDITED
(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Net income	$7,480	$6,609	$15,472	$12,442
Other comprehensive income (loss)				
Available-for-sale assets, change in unrealized gains (losses) (note 13)	(4,886)	-	(4,877)	-
Reclassification to earnings for realization of available-for-sale assets fair value changes (note 13)	392	-	18	-
Other comprehensive income (loss)	(4,494)	-	(4,859)	-
Comprehensive income	$2,986	$6,609	$10,613	$12,442

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007 - UNAUDITED
With comparative figures for the three and six month periods ended
June 30, 2006
(In thousands of dollars)

	Three months ended		Six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006

Cash provided by (used in):

Operating activities:				
Net income	$7,480	$6,609	$15,472	$12,442
Non-cash items:				
Financial instruments - fair value adjustments and reclassifications	2,564	-	2,640	-
Loan securitizations - gains on sale of mortgages	(135)	(143)	(838)	(420)
Amortization	159	109	359	218
Provision for credit losses	225	225	450	450
Net (gain) loss on sale or redemption of investments	-	-	15	(2)
Future income taxes (recovery)	(138)	192	841	(314)
Stock-based compensation	215	94	363	214
Amortization of premiums on investments	992	653	2,063	1,534
	11,362	7,739	21,365	14,122
Changes in operating assets and liabilities:				
Other assets	(4,118)	(115)	228	(1,529)
Other liabilities	3,380	2,026	(2,428)	(3,143)
	10,624	9,650	19,165	9,450
Financing activities:				
Increase in customer deposits	8,977	110,592	223,752	214,342
Issuance (redemption) of subordinated debt, net	(2,731)	(2,603)	6,719	(6,444)
Receipt (repayment) of bank term loan, net	(2,655)	15,000	9,845	15,000
Dividends paid on common shares	(1,290)	(1,191)	(2,492)	(2,378)
Issuance of common shares	26,004	555	28,003	1,880
	28,305	122,353	265,827	222,400
Investing activities:				
Purchase of investments	(62,615)	(29,400)	(123,897)	(49,360)
Proceeds on sale or redemption of investments	39,816	25,377	76,385	40,168
Investments in mortgages receivable	(701,984)	(415,839)	(1,367,839)	(1,006,124)
Mortgage principal repayments	645,083	267,216	1,045,494	662,388
Proceeds from loan securitizations	41,502	84,239	140,038	184,205
Loan securitizations - retained interests	3,332	4,092	6,625	7,566
Purchase of capital assets	(50)	(390)	(408)	(430)
	(34,916)	(64,705)	(223,602)	(161,587)
Increase in cash and cash equivalents	4,013	67,298	61,390	70,263
Cash and cash equivalents, beginning of period	165,219	80,179	107,842	77,214
Cash and cash equivalents, end of period	$169,232	$147,477	$169,232	$147,477
Comprised of:				
Deposits at banks	$85,666	$140,993	$85,666	$140,993

Short term investments	89,967	15,000	89,967	15,000
Cheques and other items in transit	(6,401)	(8,516)	(6,401)	(8,516)
	$169,232	$147,477	$169,232	$147,477

Supplemental cash flow information:				
Interest paid	$27,163	$18,715	$51,509	$34,600
Income taxes paid	6,294	2,455	13,340	8,902

See accompanying notes to interim unaudited consolidated financial statements.

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, 2006 as set out on pages 51 to 67 of the 2006 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, 2006 except as described in note 2.

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. Changes in accounting policy:

Effective January 1, 2007, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"): Comprehensive Income, Financial Instruments - Recognition and Measurement, Hedges and Financial Instruments - Disclosure and Presentation. As a result of adopting these standards, a new category, accumulated other comprehensive income (loss), has been added to shareholders' equity and certain unrealized gains and losses are reported in accumulated other comprehensive income (loss) until realization.

As a result of adopting these new accounting standards, certain financial assets and liabilities are measured at fair value with the remainder recorded at amortized cost. Under the new standards, adjustments to the previously recorded amounts have been made either to retained earnings or to accumulated other comprehensive income (loss) as at January 1, 2007. The Company has not restated prior period consolidated financial statements.

Significant aspects of the Company's implementation of these new standards include:

- Investments in preferred shares, government bonds, treasury bills and notes and loan securitizations - retained interests have been designated as available-for-sale and are reported on the balance sheet at fair value with changes in fair value included in other comprehensive income, net of income taxes.

- Government guaranteed mortgages held for securitization and commitments to fund government guaranteed mortgages for securitization have been recorded on the balance sheet at fair value, with changes in fair value included in loan securitizations - retained interests in the statement of income.

- Cash and cash equivalents, mortgages, with the exception of government guaranteed mortgages held for securitization, customer deposits, with the exception of those designated as held-for-trading, bank term loans and subordinated debt continue to be recorded at amortized cost using the effective interest method.

- Guaranteed investment certificates designated as held-for-trading have been recorded on the balance sheet at fair value, with changes in fair value included in interest expense in the statement of income.

- Derivative financial instruments are recorded on the balance sheet at fair value, with changes in fair value included in loan securitizations - retained interests for derivatives relating to securitization activities and in interest expense for derivatives relating to interest rate swaps.

- Deferred deposit agent commissions are accounted for as a component of customer deposits with the amortization of these commissions, with the exception of commissions relating to customer deposits designated as held-for-trading being expensed as incurred, being calculated on an effective yield basis as a component of interest expense. In prior years, deferred deposit agent commissions were reported as an other asset, with amortization being reported as a non-interest expense.

For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices used for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which refer to observable market data and include discounted cash flow analysis and other commonly used valuation techniques.

Transition adjustments - financial instruments recorded at January 1, 2007 relate to:

	Gross	Income Taxes	Net
Retained earnings - increase (decrease)			
Fair value adjustment of government guaranteed mortgages held for securitization	$(5)	$(2)	$(3)
Fair value of government guaranteed mortgage commitments for securitization	284	103	181
Fair value of derivatives	(456)	(165)	(291)
	$(177)	$(64)	$(113)
Accumulated other comprehensive income (loss)			
Available-for-sale investments, unrealized gains (losses)	$850	$307	$543
Available-for-sale loan securitizations - retained interests, unrealized gains (losses)	(378)	(137)	(241)
	$472	$170	$302

3. Investments:

(a) Carrying value:

	June 30, 2007	December 31, 2006	June 30, 2006

Preferred shares	$195,864	$166,669	$133,099
Government bonds, treasury bills and notes	162,024	152,648	67,871
Common shares	-	-	1,119
	$357,888	$319,317	$202,089

Investments are accounted for at settlement date. Net unrealized gains (losses) included in carrying value on the balance sheet as at June 30, 2007 as required by the change in accounting policies described in note 2 are as follows:

	June 30, 2007
Preferred shares	$(6,484)
Government bonds, treasury bills and notes	(381)
	$(6,865)

(b) Derivative financial instruments:

The Company's equity securities contain embedded derivatives which are bifurcated from the investment and valued separately. These embedded derivatives do not currently have significant value and therefore they are not reported separately.

(c) Credit facility:

The Company has a bank line of credit facility. Under this facility, the Company may borrow up to $35.0 million (December 31, 2006 - $35.0 million, June 30, 2006 - $35.0 million) for short-term liquidity purposes. The facility is secured by the Company's investments in preferred shares. There was no outstanding balance on the line as at June 30, 2007 (December 31, 2006 - $Nil, June 30, 2006 - $Nil).

4. Loan securitizations:

(a) 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, 2007, outstanding securitized mortgages totalled $1,785,271 (December 31, 2006 - $1,807,479, June 30, 2006 - $1,914,418), substantially all of which are multi-family residential mortgage loans.

During the period, the Company securitized Canadian government guaranteed residential mortgage loans and received net cash proceeds of $140,038 (June 30, 2006 - $184,205). The Company retained the rights to future excess interest on the residential mortgages valued at $6,062 (June 30, 2006 - $7,145) and received net cash flows on interests retained of $7,927 (June 30, 2006 - $9,047). 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 $981 (June 30, 2006 - $810) relating to loans securitized during the period.

Retained interests are accounted for at settlement date. The fair value of the retained interests is determined with internal valuation models using market data inputs, where possible, by discounting the expected future cash flows at like term Government of Canada bond interest rates plus a spread. Net unrealized gains (losses) included in carrying value on the balance sheet as required by the change in accounting policies described in note 2 are as follows:

	June 30, 2007
Loan securitizations - retained interests	$(270)

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

	June 30, 2007	June 30, 2006
Gain on sale of mortgages	$838	$420
Excess interest net of servicing fee	1,302	1,481
	$2,140	$1,901

There are no expected credit losses, as the mortgages underlying the retained interests are government guaranteed.

(b) Derivative financial instruments:

The Company enters into hedging transactions to manage market interest rate exposures on government guaranteed mortgages held for securitization and commitments for government guaranteed mortgages to be securitized, typically for periods of up to 90 days. Hedge instruments outstanding at June 30, 2007, December 31, 2006 and June 30, 2006 relating to forward contracts on Government of Canada bonds, where the counterparties for which are chartered banks, are as follows:

	June 30, 2007		December 31, 2006		June 30, 2006	
Bond term (years)	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
1 to 5	$200	$194	$14,400	$14,289	$3,700	$3,689
5 to 10	32,200	31,411	21,800	22,444	54,300	54,126
	$32,400	$31,605	$36,200	$36,733	$58,000	$57,815

The hedge instruments are fair value hedges and are required to be classified as held-for-trading and carried at fair value. The fair values of the hedge instruments are determined by reference to the ask side of the related Government of Canada bonds as at the reporting date. The period end fair value of hedges of $35 is disclosed in note 6, other assets.

(c) Mortgage commitments:

Mortgage commitments for government guaranteed mortgages to be securitized are designated as held-for-trading and are carried at fair value. Fair value is determined by reference to the bid side of a like term Government of Canada bond plus a spread between the bond yield and the mortgage rate. Changes in fair value reflect changes in interest rates which have occurred since the mortgage interest rate was committed to. The period end fair value of mortgage commitments of $40 is disclosed in note 6, other assets.

5. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

June 30, 2007

	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$1,506,532	$50	$5,962	$6,012	$1,500,520
Other mortgages	573,919	-	1,933	1,933	571,986
Mortgages held for securitization or for sale	230,417	-	530	530	229,887
Accrued interest	10,631	-	-	-	10,631
	$2,321,499	$50	$8,425	$8,475	$2,313,024

December 31, 2006

	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$1,373,842	$160	$5,168	$5,328	$1,368,514
Other mortgages	472,635	-	2,047	2,047	470,588
Mortgages held for securitization or for sale	287,063	-	671	671	286,392
Accrued interest	10,168	-	-	-	10,168
	$2,143,708	$160	$7,886	$8,046	$2,135,662

June 30, 2006

	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
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

Included in mortgages held for securitization or for sale are Canadian Government insured mortgages of $18,333, as at June 30, 2007 (December 31, 2006 - $18,551, June 30, 2006 - $9,214). These Government of Canada guaranteed loans held for securitization have been designated as held-for-trading and are carried at fair value determined by reference to the bid side of a like term Government of Canada bond plus a spread between the bond yield and the mortgage rate. Changes in fair value reflect changes in interest rates which have occurred since the mortgage interest rate was committed to. The period end fair value adjustment of Government of Canada guaranteed loans held for securitization is ($105). 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, 2007, December 31, 2006 and June 30, 2006.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at June 30, 2007 aggregated $3,120 (December 31, 2006 - $1,138, June 30, 2006 - $2,437) and $3,070

(December 31, 2006 - $978, June 30, 2006 - $867), respectively.

The Company has commitments to fund a total of $422,074 (December 31, 2006 - $279,278, June 30, 2006 - $330,760) of mortgages as at the end of the period.

(b) Allowance for credit losses:

	June 30, 2007		
	Specific allowance	General allowance	Total
Balance, beginning of period	$160	$7,886	$8,046
Provision for credit losses	(89)	539	450
Recoveries	29	-	29
Realized losses	(50)	-	(50)
Balance, end of period	$50	$8,425	$8,475

	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
Recoveries	-	-	-
Realized losses	(21)	-	(21)
Balance, end of period	$1,570	$6,026	$7,596

6. Other assets:

	June 30, 2007	December 31, 2006	June 30, 2006
Income taxes recoverable	$4,736	$-	$-
Prepaid expenses and other	3,673	2,378	1,767
Capital assets	2,312	2,263	1,714
Accrued interest on non-mortgage assets	1,885	1,866	1,251
Other receivables	1,878	1,868	1,516
Mortgage commitments (note 4)	40	-	-
Derivative financial instruments - securitization activities (note 4)	35	-	-
Deferred deposit agent commissions (note 2)	-	6,288	6,087
	$14,559	$14,663	$12,335

7. Customer deposits:

	June 30, 2007	December 31, 2006	June 30, 2006

Cashable GICs, payable on demand	$800,132	$570,455	$444,947
GICs with fixed maturity dates	1,766,058	1,766,011	1,538,442
Accrued interest	54,858	53,289	39,908
Deferred deposit agent commissions (note 2)	(7,544)	-	-
	$2,613,504	$2,389,755	$2,023,297

Included in GICs with fixed maturity dates are $10,000 of GICs designated as held-for-trading. These GICs are carried at fair market value determined by reference to market interest rates of like term GICs as at the reporting date. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued. The period end fair value adjustment of these GICs is $3.

8. Other liabilities:

	June 30, 2007	December 31, 2006	June 30, 2006
Accounts payable and accrued liabilities	$7,554	$6,860	$5,584
Securitized mortgage servicing liability	6,187	6,044	6,421
Mortgagor realty taxes	5,429	5,089	5,085
Derivative financial instruments - interest rate swaps (note 14)	3	-	-
Income taxes payable	-	3,571	1,081
	$19,173	$21,564	$18,171

9. Income taxes:

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

	June 30, 2007	June 30, 2006
Canadian statutory income tax rate	36.1%	36.1%
Increase (decrease) resulting from:		
Tax exempt income	(8.0%)	(6.0%)
Future tax rate reductions	(0.8%)	(1.5%)
Non-deductible expenses and other	0.2%	0.1%
Effective income tax rate	27.5%	28.7%

10. Bank term loans:

The Company has received three non-revolving term loans from Canadian Western Bank. 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, $15,000 of Series 6 and $12,500 of Series 7 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.

2007 Bank term loans	Interest rate	Date loan received	Maturity date	Outstanding December 31, 2006	Received during the period	Repaid during the period	Outstanding June 30, 2007
Loan 1	6.37%	March 2005	March 2010	$19,750	$ -	$2,655	$17,095
Loan 2	6.82%	April 2006	April 2011	15,000	-	-	15,000
Loan 3	6.41%	March 2007	March 2012	-	12,500	-	12,500
				$34,750	$12,500	$2,655	$44,595

2006 Bank term loans	Interest rate	Date loan received	Maturity date	Outstanding December 31, 2005	Received during the period	Repaid during the period	Outstanding June 30, 2006
Loan 1	6.37%	March 2005	March 2010	$19,750	$ -	$ -	$19,750
Loan 2	6.82%	April 2006	April 2011	-	15,000	-	15,000
				$19,750	$15,000	$ -	$34,750

11. 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.

2007 Debenture series	Interest Rate	Issue date	Maturity date	Outstanding December 31, 2006	Issued during the period	Redeemed during the period	Outstanding June 30, 2007
Series 5	7.31%- 7.58%	2004/ 05	January 2015	$20,250	$ -	$2,731	$17,519
Series 6	7.27%	2006	January 2016	5,000	-	-	5,000
Series 7	7.10%	2007	January 2017	-	9,450	-	9,450
				$25,250	$9,450	$2,731	$31,969

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

12. Shareholders' equity:

(a) Capital stock:

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

Issued:
Common shares:

	June 30, 2007		June 30, 2006	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	11,924,468	$57,849	11,781,940	$55,510
Issued during the period	990,231	28,003	121,705	1,880
Transfer from contributed surplus relating to the exercise of stock options	-	487	-	179
Balance, end of period	12,914,699	$86,339	11,903,645	$57,569

The Company completed an equity issue on April 30, 2007. As a result of this issue, 769,231 common shares were issued to the public for cash proceeds of $25,000 before issue expenses. Transaction costs related to the issue have been capitalized net of income taxes recovered.

(b) Stock-based compensation plans:

Stock option plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five years and vest over a four 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 March 2012. A summary of the Company's stock option activity and related information for the periods ended June 30, 2007 and June 30, 2006 is as follows:

	June 30, 2007		June 30, 2006	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	749,011	$20.54	768,539	$18.07
Granted	150,000	34.49	-	-
Exercised	(221,000)	17.94	(121,705)	15.45
Forfeited/cancelled	(43,000)	21.85	-	-
Outstanding, end of period	635,011	$24.65	646,834	$18.56
Exercisable, end of period	107,900	$18.28	146,111	$17.37

Under the fair value-based method of accounting for stock options, the

Company has recorded compensation expense in the amount of $363 (June 30, 2006 - $214) related to grants of options in 2004 to 2007 under the stock option plan. This amount has been credited to contributed surplus. During the period ended June 30, 2007, a total of 150,000 stock options were granted (2006 - nil). The fair value of options granted in 2007 is estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 4.0%; (ii) expected option life of 4.0 years; (iii) expected volatility of 23.0%; and (iv) expected dividends of 1.2%. The weighted average fair value of each option granted was $6.71.

13. Accumulated other comprehensive income (loss):

Accumulated other comprehensive income (loss) includes the after tax change in unrealized gains and losses on available-for-sale investments and retained interests - loan securitizations.

	June 30, 2007
Available-for-sale investments:	
Transition adjustment on adoption of new accounting standards, net (note 2)	$543
Losses from changes in fair value, net of income taxes (recovered) of ($2,796)	(4,944)
Reclassification to earnings for gain (loss) on sale or redemption of investments, net of income taxes paid of $9	16
Balance, end of period	(4,385)
Available-for-sale loan securitizations - retained interests:	
Transition adjustment on adoption of new accounting standards, net (note 2)	(241)
Gains from changes in fair value, net income taxes of $38	67
Reclassification to earnings for loan securitizations - retained interests, net of income taxes of $1	2
Balance, end of period	(172)
Total accumulated other comprehensive income (loss)	$(4,557)

14. 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, 2007, December 31, 2006 and June 30, 2006:

	June 30, 2007			
	Floating rate or within 1 month	1 to 3 months	3 months to 1 year	Total within 1 year
Total assets	$1,437,055	$91,751	$401,377	$1,930,183
Total liabilities and equity	1,177,760	178,058	439,788	1,795,606
Interest rate sensitive gap	$259,295	$(86,307)	$(38,411)	$134,577
Cumulative gap	$259,295	$172,988	$134,577	$134,577
Cumulative gap as a percentage of total assets	8.94%	5.96%	4.64%	4.64%

	1 year to 5 years	Over 5 years	Non-interest sensitive	Total(a)
Total assets	$901,199	$57,215	$12,597	$2,901,194
Total liabilities and equity	815,182	31,969	258,437	2,901,194
Interest rate sensitive gap	$86,017	$25,246	$(245,840)	$ -
Cumulative gap	$220,594	$245,840	$ -	$ -
Cumulative gap as a percentage of total assets	7.60%	8.47%	0.00%	0.00%

December 31, 2006

	Floating rate or within 1 month	1 to 3 months	3 months to 1 year	Total within 1 year
Cumulative gap	$261,613	$83,012	$113,316	$113,316
Cumulative gap as a percentage of total assets	9.96%	3.16%	4.32%	4.32%

	1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Cumulative gap	$203,091	$211,366	$ -	$ -
Cumulative gap as a percentage of total assets	7.73%	8.05%	0.00%	0.00%

June 30, 2006

	Floating rate or within 1 month	1 to 3 months	3 months to 1 year	Total within 1 year
Cumulative gap	$388,273	$236,174	$120,168	$120,168
Cumulative gap as a percentage of total assets	17.30%	10.52%	5.35%	5.35%

	1 year to 5 years	Over 5 years	Non-interest sensitive	Total

Cumulative gap	$175,087	$184,251	$ -	$ -
Cumulative gap as a percentage of total assets	7.80%	8.21%	0.00%	0.00%

(a) Totals include interest sensitive interest rate hedges at the notional amount.
(b) Accrued interest is excluded in calculating interest sensitive assets and liabilities.
(c) 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.

The Company has interest rate hedging facilities available at chartered banks secured by investments in preferred shares and cash equivalents. Interest rate swaps are classified as held-for-trading and are carried at fair market value with changes in fair value included in interest expense. The period end fair value of these hedges of ($3) is disclosed in note 8, other liabilities.

15. Future accounting changes:

The CICA has issued a new accounting standard: "Capital Disclosures" which will be in effect for the Company for its 2008 fiscal year. This standard requires the disclosure of qualitative and quantitative information enabling financial statement users to evaluate the Company's objectives, policies and processes for managing capital.

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of IFRS convergence of financial reporting standards on the Company's consolidated financial statements is not yet determinable.%SEDAR: 00020356E

For further information:

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