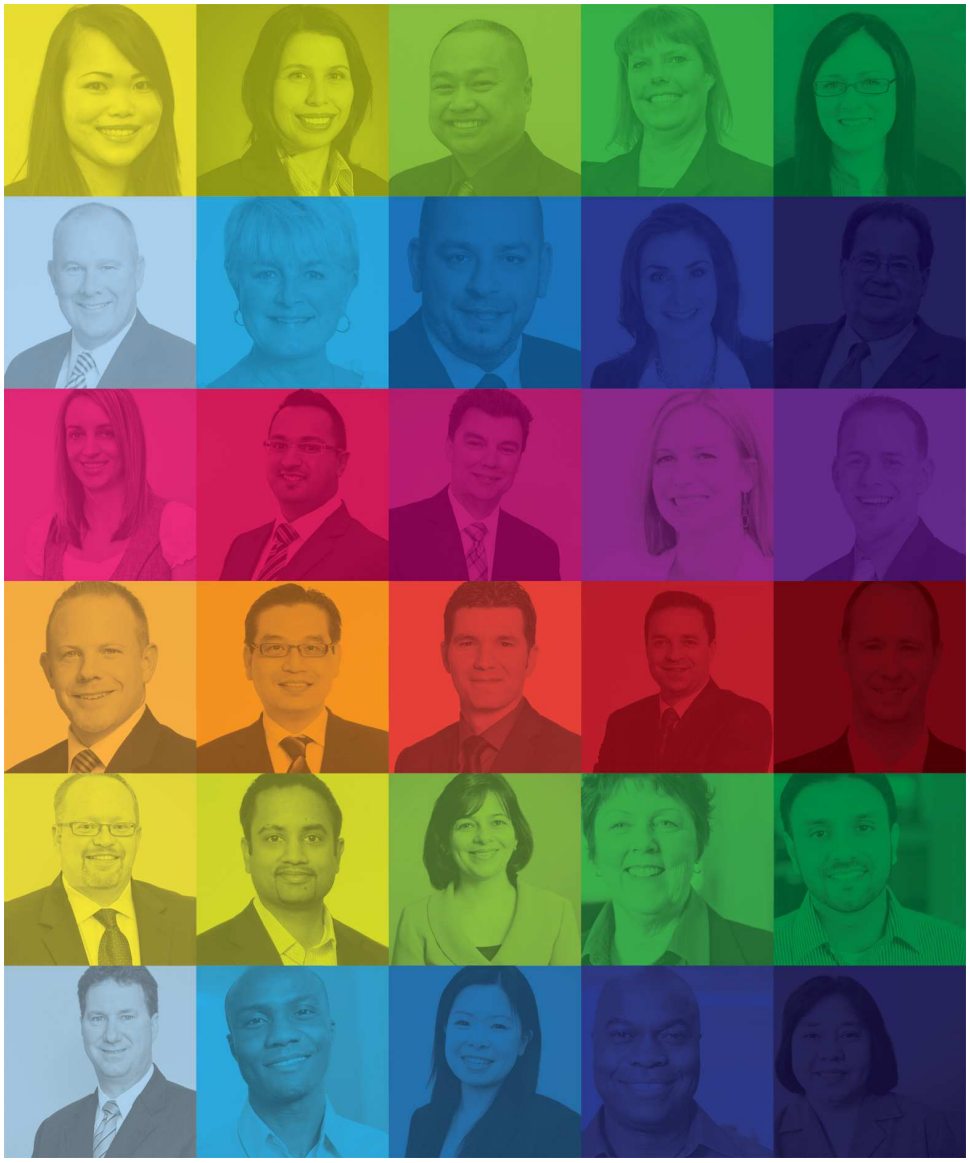

FIRST QUARTER 2012
INTERIM FINANCIAL STATEMENTS

EQUITABLE GROUP INC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three months ended March 31, 2012

Management's Discussion and Analysis ("MD&A") is provided to enable readers to assess the financial position and the results of operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") ended March 31, 2012. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2012, together with accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2011, together with accompanying notes. This report, and the information provided herein, is dated as at May 9, 2012. The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and Consolidated Financial Statements, Annual Information Form, Management Information Circular, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.equitabletrust.com and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

BUSINESS PROFILE

Equitable is a niche mortgage lender that provides loans secured by first mortgages and by Canada Mortgage and Housing Corporation ("CMHC") insured mortgages, through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust is a federally-regulated financial institution, founded in 1970, whose activities are supervised by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Company operates without a branch network, choosing instead to achieve lower overheads by using independent mortgage brokers to originate mortgages and independent deposit agents to originate deposits. This business model and the Company's strong competitive position have established it as a leader in its mortgage lending niches.

The primary sources of the Company's revenues are interest income as well as commitment, renewal and other ancillary fees derived from its mortgage lending business. In addition, the Company earns interest and dividend income from investments. Equitable Trust funds its mortgage business by attracting depositors as a regulated Canada Deposit Insurance Corporation ("CDIC") member and by securitizing insured mortgages facilitated by CMHC through the Government of Canada's National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") programs. Its deposit raising ability is a core strength of enduring enterprise value that has allowed Equitable to build a diversified mortgage portfolio secured by residential and commercial real estate. The Company's securitization activities allow it to reduce its funding costs, diversify its funding sources, and enhance its liquidity position.

The Company's business model and its strong competitive position have contributed to its exceptional long-term financial results. Equitable Trust is a leader in its mortgage lending niches, which are served through its three lending businesses:

- **Single Family Lending Services ("Single Family")**: This business funds mortgages for owner occupied and investment properties with up to four units, including detached or semi-detached houses, townhouses, and condominiums. It benefits from Equitable Trust's well-established relationships with a large and growing independent broker network, its service-oriented culture, and its experience in utilizing a disciplined approach to credit evaluation and collections. At March 31, 2012, Single Family represented $2.3 billion (or 24%) of mortgage principal outstanding.
- **Commercial Lending Services ("Commercial")**: This line of business funds mortgages on a variety of property types, including mixed-use (storefront), multi-unit residential, industrial, retail, office, condominium, and construction. Its mortgages are sourced from independent mortgage brokers and other business partners. The Company has been successful in the Commercial business due to its extensive relationships with mortgage brokers and bankers, its strong underwriting capabilities, and the high quality customer service it delivers as a result of its agility and market knowledge. At quarter end, Commercial represented $2.2 billion (or 22%) of mortgage principal outstanding.
- **Securitization Financing:** This third line of business focuses on originating and subsequently securitizing insured residential mortgages. The vast majority of securitized mortgages – approximately 92% at March 31, 2012 – are secured by multi-unit residential properties and are underwritten by the Company's commercial credit team. The remaining 8% of securitized mortgages is represented by insured single family residential mortgages. Reported assets for this segment also include mortgages that are being held specifically for the purposes of securitization.

The Single Family and Commercial segments above are collectively referred to as Equitable's "Core Lending" business. At period end, 48% of the Company's portfolio consisted of mortgages originated through the Core Lending business and 52% consisted of mortgages originated through the Securitization Financing segment.

Please refer to the Company's 2011 Annual Report for further descriptions of its strategies and objectives.

FIRST QUARTER OVERVIEW

During the first quarter, management continued to expand the lending businesses in which Equitable has the best opportunity to earn attractive and sustainable risk-adjusted returns, while adhering to its proven risk management processes, capital plan and focus on high levels of productivity. In particular, activity in the Single Family segment exceeded expectations and contributed to strong growth in the Company's mortgage book, even during what is normally a period of seasonal weakness in the Canadian residential real estate market. Growth in the portfolio was also achieved despite an unusually high level of competition in the commercial sector in Q1 of this year. As a result:

- Core Lending mortgage principal outstanding amounted to $4.4 billion at period end, up 23% from a year ago (see Table 4);
- Single Family mortgage principal balances grew 35% year-over-year to $2.3 billion, and now represents 51% of total Core Lending mortgage principal, up from 47% a year ago (see Table 4);
- First quarter Core Lending production was $447 million compared to $399 million a year ago, driven by 51% year-over-year growth in Single Family mortgage production (see Table 7).

Shifting the Company's focus towards single family residential mortgages, is intended to enhance the Company's earnings and support return on equity ("ROE") growth over time.

The growth in Equitable's mortgage portfolio also translated into strong performance across other operating metrics:

- Net income increased 12% over the same period of the prior year to $17.9 million;
- Net interest income was $36.5 million, up 17% from $31.2 million in the corresponding period of 2011;
- The Company delivered a solid ROE of 17.7% in the first quarter of 2012 up from 17.3% in the prior quarter and compared to 18.0% in the first quarter of 2011;
- Net impaired mortgages were 0.28% of total mortgage assets at the end of the first quarter compared to 0.25% at December 31, 2011 and down from 0.35% at the end of March 31, 2011;
- Equitable Trust's total capital ratio was 15.8% (including collective allowance) at March 31, 2012. The Company's Tier 1 capital and tangible common equity ratios at March 31, 2012 were 13.5% and 12.0%, respectively (see explanation in the Non-GAAP Financial Measures section of this MD&A).

BUSINESS OUTLOOK

In the first quarter of 2012, Equitable built on the momentum with which its business finished in 2011. Management is confident that this momentum and consumer demand for its products will continue in 2012, and that the Company will be able to successfully grow earnings, maintain healthy capital levels, and improve its ROE. The Company remains focused on its niche mortgage lending businesses, and will selectively seek opportunities to better serve segments of the Canadian financial services marketplace that are generally not the focus of Canada's large banking institutions. Equitable's strategic objectives include consistently increasing its national presence, as it did in 2011 with its expansion into the Province of Saskatchewan.

There were two significant developments during the first quarter that may affect both the competitive and regulatory environments in which the Company operates. First, CMHC announced a decision to curtail its portfolio insurance activities. This development has minimal direct impact on Equitable, as the Company has not been a significant user of this program in the past. The Company could benefit indirectly, however, if competitors change their lending or pricing practices in response to the reduction in CMHC's insurance capacity. Moreover, in March OSFI issued "*Draft Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures*", which, in its present form, could further alter the practices of Canada's major regulated lenders. Equitable is currently reviewing the draft guidance and, while management expects some revisions to the proposal, recognizes that the outcome of the process continues to be uncertain.

Equitable continues to monitor the economic and credit market landscape, and will remain vigilant with respect to risk as it pursues its strategy in 2012. Management's view is that there is an elevated level of risk in the housing market. To mitigate the risk associated with potential market corrections, management has long focused on markets where it believes long-term fundamentals support the demand for real estate, principally in urban centers that enjoy a diversified economy and population growth due to migration from within and immigration from outside of Canada. Equally important, Equitable has avoided single-industry towns and areas with declining populations. In addition, the Company has either scaled-back, tailored its lending criteria or avoided areas in which it believes prices have escalated beyond levels sustainable over the long-term, such as the downtown Toronto condominium market and parts of British Columbia. Management will continue to apply this approach, along with its traditional discipline in setting loan-to-value ratios, assessment of the customers' ability to service the debt and other prudent lending criteria going forward within its sales strategies. Consequently, management expects defaults and arrears to remain low in 2012.

In the context of the current economic and competitive environment, the Company expects to maintain sound interest rate spreads on its mortgage portfolio. Current market expectations are that benchmark interest rates will remain flat in 2012, and as such the Company does not anticipate changes in the prime rate of interest from its current very low level this year. The Company also expects GIC and securitization funding rates to remain in and around current levels throughout 2012, and as such, overall net interest margins ("NIM") to remain stable.

The GIC market continues to provide ample funding for Equitable's business. The Company also continues to originate insured multi-unit residential mortgage volumes and securitizing these mortgages through the NHA MBS and CMB programs, which provides another source of inexpensive and liquid funding. The volume of multi-unit residential mortgages that Equitable securitizes though these CMHC programs has been reduced in recent quarters, and management expects this lower pace of activity to continue for the foreseeable future.

Equitable anticipates that non-interest expenses will increase in 2012 to a level that will support the growth of the business and sustain high levels of customer service, while at the same time allowing for continued growth in its operating margins. The Company's 2012 productivity ratio should remain relatively flat as compared with the prior year. In recent periods, management has maintained higher than normal levels of liquidity on its balance sheet, notwithstanding the impact on the Company's NIM. Due to the expected growth in its business, and in light of the continued uncertainty in Europe and with the global economy, which elevates the level of risk in the capital markets, management intends to keep liquidity at high levels throughout 2012.

The Company anticipates a one-time increase in net income in Q2 as a result of a restructuring occurring within one of its portfolio companies and a related dividend. Based on publicly available disclosure of the portfolio company, Equitable expects the earnings per share impact to range from $0.20 and $0.25. Although the portfolio company has publicly stated its intention to pay the dividend in Q2, it has not yet been declared, so there is uncertainty as to the timing and amount of the ultimate distribution.

Management is confident that the trends driving demand in Equitable's niches – including growth in mortgage originations through the independent mortgage broker channel, in business-for-self Canadians, and in immigration – will remain well entrenched for the long term. Consequently, management believes that significant business opportunities will continue to exist but that a measured approach to capturing that growth is warranted due to the ongoing global economic uncertainty and concerns about Canadian real estate prices.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near term. Readers should be aware that information contained in this section may not be appropriate for any other purpose. **See "Cautionary Note Regarding Forward-Looking Statements" on page 3 of this MD&A.**

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended March 31, 2012	December 31, 2011	March 31, 2011	Change from March 31, 2011	
OPERATIONS					
Net income	**17,940**	17,025	16,063	1,877	11.7%
Net income available to common shareholders	**17,034**	16,119	15,157	1,877	12.4%
EPS – basic	**$ 1.13**	$ 1.07	$ 1.01	$ 0.12	12.2%
EPS – diluted	**$ 1.13**	$ 1.07	$ 1.00	$ 0.13	12.6%
Total revenue	**116,374**	114,336	104,457	11,917	11.4%
Net interest income	**36,524**	35,346	31,205	5,319	17.0%
Net interest margin – TEB – total assets[(1)(2)]	**1.45%**	1.41%	1.44%		
Net interest margin – TEB – non-securitization assets[(1)(2)]	**2.57%**	2.47%	2.52%		
Net interest margin – TEB – securitization assets[(1)(2)]	**0.43%**	0.45%	0.51%		
Return on equity – annualized[(2)]	**17.7%**	17.3%	18.0%		
Return on average assets – annualized[(2)]	**0.7%**	0.6%	0.7%		
Mortgage production – Core Lending	**447,085**	553,575	399,185	47,900	12.0%
Mortgage production – Securitization Financing	**114,831**	90,102	254,050	(139,219)	(54.8%)
Productivity ratio – TEB[(2)(3)]	**30.8%**	29.7%	27.4%		
BALANCE SHEET					
Total liquid assets	**836,770**	784,386	753,954	82,816	11.0%
Total assets	**10,470,238**	10,257,013	9,172,981	1,297,257	14.1%
Total liquid assets as a % of non-securitization assets	**16.3%**	16.2%	17.8%		
Total liquid assets as a % of total assets	**8.0%**	7.6%	8.2%		
Mortgages receivable	**9,687,878**	9,577,087	8,560,408	1,127,470	13.2%
Shareholders' equity	**443,457**	426,640	397,321	46,136	11.6%
COMMON SHARES					
Number of common shares outstanding at period end	**15,042,278**	15,018,401	14,956,305		
Dividends declared per common share	**$ 0.12**	$ 0.12	$ 0.11	$ 0.01	9.1%
Book value per common share	**$ 26.26**	$ 25.18	$ 23.32	$ 2.94	12.6%
Common share price – close	**$ 28.64**	$ 25.00	$ 29.72	$ (1.08)	(3.6%)
Dividends declared per preferred share	**$ 0.45**	$ 0.45	$ 0.45	$ -	- %
Market capitalization	**430,811**	375,460	444,501	(13,690)	(3.1%)
EQUITABLE TRUST CAPITAL RATIOS					
Tangible common equity ratio[(2)]	**12.0%**	11.9%	13.0%		
Tier 1 capital ratio[(2)]	**13.5%**	13.4%	14.7%		
Total capital ratio (including collective allowance)[(2)]	**15.8%**	15.8%	17.4%		
CREDIT QUALITY					
Realized loan losses – net of recoveries	**522**	2,311	2,900		
Net impaired mortgages as a % of total mortgage assets[(4)]	**0.28%**	0.25%	0.35%		
Gross impaired mortgage assets	**31,487**	28,196	36,282		
Allowance for credit losses	**21,355**	19,650	20,141		
Allowance for credit losses as a % of total mortgage assets	**0.22%**	0.20%	0.24%		

(1) Average net interest margins are calculated based on the average of the month-end balances outstanding during the period.
(2) See Non-GAAP Financial Measures section of this MD&A.
(3) Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.
(4) Net impaired mortgages do not include CMHC-insured mortgages that are less than 365 days in arrears and reflect gross impaired mortgage assets less individual allowances.

FINANCIAL REVIEW - EARNINGS

Net Income

First quarter 2012 net income increased 12% year-over-year to $17.9 million from $16.1 million in the corresponding period of 2011. Net income available to common shareholders increased 12% to $17.0 million from $15.2 million in the first quarter of 2011. Diluted earnings per share for the quarter increased 13% to $1.13 from $1.00 in the same period of 2011.

The increase in net income resulted primarily from higher mortgage interest income, which was partly offset by increases in both interest and non-interest expenses.

Net Interest Income

Net interest income is the main driver of profitability for the Company. It is measured on a taxable equivalent basis ("TEB" – see explanation in the Non-GAAP Financial Measures section of this MD&A) so that income from equity securities may be compared, on a pre-tax basis, to ordinary interest income. Table 2 illustrates the Company's NIM in the first quarter of 2012 compared to the first quarter of the prior year on a TEB. Net interest income − TEB increased $5.3 million or 16% to $37.4 million in the first quarter of 2012 compared to the $32.1 million earned during the same period of 2011.

Total interest revenues, using the TEB approach, increased 11% year-over-year to $116.0 million in the first quarter. Underpinning this result was 12% year-over-year growth in mortgage interest income, which reflected the increased size of the Company's overall mortgage portfolio. This increase in mortgage interest income was comprised of 20% and 4% growth in non-securitized and securitized mortgage income respectively. The positive effect of the growth in mortgage balances was offset in part by a slightly lower revenue yield on both its non-securitized and securitized mortgage assets. Revenue yields were lower mainly because the average interest rates of loans in both portfolios have come down over time as a result of Canada's continued low interest rate environment. Revenue generated from the Company's liquid assets was unchanged from the prior year.

During the first quarter of 2012, interest expense on deposits increased by $3.6 million or 13% over the corresponding 2011 period due primarily to higher average GIC balances that were required to support the Company's matched mortgage portfolio. Funding rates on GICs declined by 0.15% during the quarter relative to those experienced in the corresponding quarter of the prior year. During the first quarter of 2012, interest expense related to the Company's securitization liabilities increased $2.9 million over the corresponding 2011 period, also due primarily to the increased size of the obligations required to carry a larger securitized mortgage portfolio. Average funding rates related to the securitization liability decreased by 0.19% during the quarter compared to 2011, which partly offset the effect of growth of the securitization liability.

Total NIM was 1.45% in the first quarter of 2012, up marginally from the 1.44% achieved in the corresponding prior year quarter. NIM on non-securitized mortgages was 2.57% in the first quarter of 2012 compared to 2.52% in the prior year quarter, as reductions in the rates paid on GICs outweighed a decline in the revenue yield on these assets. NIM on securitized mortgages of 0.43% in the first quarter of 2012 was 0.08% lower than the prior year quarter due to a drop in mortgage prepayment charge income received on discharged mortgages and as declines in the revenue yield on the portfolio had a greater impact than declines in securitization funding rates. NIM on securitized assets is lower than NIM on non-securitized assets because securitized assets generally earn lower interest spreads as they are insured under government programs and experience a different competitive environment. In that respect, the Company benefitted from a shift in mix over the year, as balance growth in the higher NIM non-securitized mortgage portfolio outpaced growth in securitized assets.

Table 2 outlines the components of the Company's net interest income, as well as NIM for the three month period ended March 31, 2012 and the corresponding prior year period on a TEB.

Table 2: Net interest income

	Three months ended March 31, 2012			Three months ended March 31, 2011		
($ THOUSANDS)	**Average balance**	**Revenue/ expense**	**Average rate[1]**	Average balance	Revenue/ expense	Average rate[1]
Interest revenues derived from:						
Assets:						
Liquidity investments	**$ 518,979**	**$ 1,953**	**1.51%**	$ 451,686	$ 1,818	1.63%
Equity securities – TEB	**182,467**	**2,388**	**5.26%**	187,547	2,387	5.16%
Mortgages – non-securitized	**4,343,174**	**57,187**	**5.30%**	3,584,955	47,849	5.41%
Mortgages – Securitized	**5,232,811**	**54,459**	**4.19%**	4,765,239	52,152	4.44%
Total interest earning assets – TEB	**$ 10,277,431**	**$ 115,987**	**4.54%**	$ 8,989,427	$ 104,206	4.70%
Total assets – TEB	**$ 10,337,942**	**$ 115,987**	**4.51%**	$ 9,034,741	$ 104,206	4.68%
Interest expenses related to:						
Liabilities and shareholders' equity:						
Deposits	**$ 4,615,368**	**$ 30,350**	**2.64%**	$ 3,887,308	$ 26,741	2.79%
Securitization liability	**5,048,009**	**47,174**	**3.76%**	4,544,464	44,268	3.95%
Bank term loans	**12,500**	**202**	**6.50%**	12,500	200	6.50%
Subordinated debentures	**52,671**	**869**	**6.63%**	52,671	862	6.63%
Other interest bearing liabilities[2]	**215**	**1**	**1.00%**	9,183	29	1.30%
Total interest bearing liabilities	**$ 9,728,763**	**$ 78,596**	**3.25%**	$ 8,506,126	$ 72,100	3.44%
Total liabilities and shareholders' equity	**$ 10,337,942**	**$ 78,596**	**3.06%**	$ 9,034,741	$ 72,100	3.24%
Net interest income – TEB		**$ 37,391**			$ 32,106	
Less: Taxable equivalent adjustment		**(867)**			(901)	
Net interest income		**$ 36,524**			$ 31,205	
Net interest margin – TEB						
Non-securitized assets	**$ 4,957,810**	**$ 31,637**	**2.57%**	$ 4,181,153	$ 25,976	2.52%
Securitized assets	**5,380,132**	**5,754**	**0.43%**	4,853,588	6,130	0.51%
Total assets – TEB	**$ 10,337,942**	**$ 37,391**	**1.45%**	$ 9,034,741	$ 32,106	1.44%

(1) *Average rates are calculated based on the average of the month-end balances outstanding during the period.*
(2) *Average rates for other interest bearing liabilities are calculated based on weighted average daily balances outstanding during the period.*

Non-interest Expenses

The year-over-year increase of $2.8 million or 31% in first quarter of 2012 compared to the corresponding quarter of the prior year reflected healthy growth in the Company's underlying business. More than half of the expense growth was due to an increase in 2011 in Equitable's employee base and related operating costs, which was necessary to maintain the high levels of service it provides to brokers and borrowers, a competitive advantage of the Company. The remainder of the increase resulted largely from legal and compliance costs that are associated with operating in a regulated environment and with the alleged fraud that the Company experienced in the prior year.

Although the Company continues to invest for growth, a substantial portion of the required investment occurred in 2011 or earlier. The Company financed much of the growth of its nascent and strategically important Single Family mortgage operations during those earlier periods. As a result, a portion of the expense increase in 2012 reflects the annualization effects of prior period investments. As compared with the prior quarter, non-interest expenses are up $0.8 million due to several factors including a new compensation cycle and the annualization effects discussed above. Management expects lower incremental increases in non-interest expenses and for productivity ratios to stabilize over the remaining quarters of 2012.

The Company continues to operate efficiently on both on an absolute basis and in comparison to other financial institutions, particularly taking into account the relative scale of its operations. Equitable's productivity ratio – TEB (see explanation in the Non-GAAP Financial Measures section of this MD&A) was 30.8% in the first quarter of 2012 compared to 27.4% in the prior year period. While a lower productivity ratio is generally associated with a more efficient cost structure, the Company's productivity index can also be affected by growth in single family mortgage production, increases and declines in funding volumes, and the Company's need to staff its operations commensurate with volume expectations.

Income Taxes

The Company's effective income tax rate in the first quarter of 2012 was 24.3% compared to 25.7% in the corresponding quarter of the prior year, largely due to a drop in the Company's statutory tax rate to 26.1% from 28.0% in first quarter of 2011. The effective tax rate was less than the statutory tax rate primarily as a result of tax-exempt dividend income earned from its equity securities portfolio, offset by non-deductible expenses and movements of the Company's temporary differences.

Dividends

On May 9, 2012, the Company's Board of Directors declared a quarterly dividend in the amount of $0.12 per common share, payable on July 5, 2012, to common shareholders of record at the close of business on June, 15, 2012.

Also, on May 9, 2012, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on June 30, 2012, to preferred shareholders of record at the close of business on June 15, 2012.

FINANCIAL REVIEW - BALANCE SHEET

Mortgage Portfolio

Total Mortgage Assets

Equitable's mortgage portfolio is diversified across both residential and commercial real estate asset categories and consists of first charge and CMHC-insured mortgages. Total mortgages receivable increased $1.1 billion or 13% during the 12 months ended March 31, 2012 to $9.7 billion.

Table 3 below is intended to provide the reader with a view of the components of mortgages receivable on the Company's Balance Sheet and does not reconcile specifically with the segmented presentation of mortgage balances elsewhere in this MD&A. The reader should also note that mortgage disclosures by lending business and property type that follow Table 3 relate only to principal balances and exclude the other components of mortgages receivable detailed within Table 3.

Table 3: Mortgages receivable

			March 31, 2012
($ THOUSANDS)	**Non-securitized**	**Securitized**	**Total**
Mortgage principal	**$ 4,480,972**	**$ 5,170,401**	**$ 9,651,373**
Net deferred fees and sundry	**(1,698)**	**24,129**	**22,431**
Accrued interest	**18,718**	**16,711**	**35,429**
Total mortgage assets	**4,497,992**	**5,211,241**	**9,709,233**
Allowance for credit losses	**(21,355)**	**-**	**(21,355)**
Total mortgages receivable	**$ 4,476,637**	**$ 5,211,241**	**$ 9,687,878**
	46.2%	**53.8%**	**100.0%**

			December 31, 2011
($ THOUSANDS)	Non-securitized	Securitized	Total
Mortgage principal	$ 4,266,592	$ 5,271,561	$ 9,538,153
Net deferred fees and sundry	(2,726)	26,187	23,461
Accrued interest	17,931	17,192	35,123
Total mortgage assets	4,281,797	5,314,940	9,596,737
Allowance for credit losses	(19,650)	-	(19,650)
Total mortgages receivable	$ 4,262,147	$ 5,314,940	$ 9,577,087
	44.5%	55.5%	100.0%

			March 31, 2011
($ THOUSANDS)	Non-securitized	Securitized	Total
Mortgage principal	$ 3,688,638	$ 4,832,259	$ 8,520,897
Net deferred fees and sundry	(170)	28,285	28,115
Accrued interest	15,450	16,087	31,537
Total mortgage assets	3,703,918	4,876,631	8,580,549
Allowance for credit losses	(20,141)	-	(20,141)
Total mortgages receivable	$ 3,683,777	$ 4,876,631	$ 8,560,408
	43.0%	57.0%	100.0%

The Company's non-securitized mortgage principal increased by $792 million or 21% during the 12 months ended March 31, 2012 to $4.5 billion. This increase reflected the successful ongoing emphasis management has placed on Core Lending – particularly single family residential mortgages.

The securitized portfolio increased by $338 million or 7% during the 12 months ended March 31, 2012 to $5.2 billion. Part of this increase reflected management's decision to insure and securitize $234 million of single family residential mortgage assets in the second half of 2011, which were originated and previously reported in its Core Lending business. The remainder of the growth was attributable to originations of multi-unit residential properties, net of prepayments and natural amortization.

Mortgage Assets by Lending Business

Each of the Company's Core Lending businesses posted double digit growth on a year–over-year basis. Single Family showed particular strength, with mortgage principal in that segment up by 35% over March of last year. Single Family continued with its momentum in Q1 of 2012, as balances were up 10% over December 31, 2011. In addition to the pace of growth, this increase is notable in light of the seasonal weakness in residential mortgage fundings which is typically seen in the first quarter of the calendar year. Commercial mortgage principal experienced a slight decrease quarter-over-quarter due to a challenging competitive environment, but recent indications are that those pressures may be diminishing.

Table 4: Mortgage principal outstanding – by lending business

		March 31, 2012			December 31, 2011			March 31, 2011	
($ THOUSANDS)			**% of total**			% of total			% of total
Single Family Lending Services	**$**	**2,284,823**	**23.7%**	$	2,076,659	21.8%	$	1,696,027	19.9%
Commercial Lending Services		**2,162,703**	**22.4%**		2,188,593	22.9%		1,918,181	22.5%
Mortgages – Core Lending		**4,447,526**	**46.1%**		4,265,252	44.7%		3,614,208	42.4%
CMHC-insured mortgages held for securitization		**33,446**	**0.3%**		1,340	0.0%		74,430	0.9%
Securitized Mortgages[(1)]		**5,170,401**	**53.6%**		5,271,561	55.3%		4,832,259	56.7%
Mortgages – Securitization Financing		**5,203,847**	**53.9%**		5,272,901	55.3%		4,906,689	57.6%
Total mortgage principal outstanding	**$**	**9,651,373**	**100.0%**	$	9,538,153	100.0%	$	8,520,897	100.0%
Non-securitized mortgage principal[(2)]	**$**	**4,480,972**	**46.4%**	$	4,266,592	44.7%	$	3,688,638	43.3%

(1) Includes $222.6 million (December 31, 2011 - $256.7 million, March 31, 2011 - $70.3 million) of single family dwelling mortgage principal originated through Single Family Lending Services.

(2) Non-securitized mortgage principal is comprised of "Mortgages – Core Lending" and "CMHC-insured mortgages held for securitization".

Mortgage Asset Diversification

Management believes that its mortgage portfolio is adequately diversified and that the risk inherent in it is low. In terms of the risk profile of the Company's mortgage portfolio:

- Insured mortgages represented 55% of the mortgage principal outstanding at March 31, 2012 compared to 58% in the corresponding period of the prior year;
- Fixed rate mortgages represented 89% of the portfolio at March 31, 2012, compared to 91% at March 31, 2011;
- Floating rate mortgages with floors amounted to 6% of the portfolio as at March 31, 2012;
- Floating rate mortgages that had no floors represented the remaining 5% of the portfolio at March 31, 2012.

Management believes that the Company's mortgage portfolio is diversified across geographies, and is becoming more so over time as the Company expands its national presence. At March 31, 2012, consistent with a year ago, 58% of the Company's mortgages were secured by properties located in Ontario. The Company's Alberta business continued to grow at a conservative pace in 2012 to 15% of the portfolio. Of the remaining portfolio, 13% is located in Quebec, 6% in British Columbia, 2% in Manitoba, with the remaining 6% in the rest of Canada.

Similarly, the Company's mortgage assets are also diversified across property types and as a result, its exposure to borrowers on residential and commercial real estate is well balanced. Mortgages on single family dwellings increased by $557 million or 30% from Q1 2011, consistent with the Company's strategy of shifting the mix of its Core Lending business towards lower risk-weighted assets. At March 31, 2012, single family dwelling mortgages comprised 25% of the portfolio, up from 22% in the same period in 2011.

Table 5: Mortgage principal outstanding – by property type

							March 31, 2012
($ THOUSANDS)		**Uninsured**		**Insured**		**Total**	**% of total**
Single family dwelling	**$**	**2,287,097**	**$**	**110,722**	**$**	**2,397,819**	**24.8%**
Mixed-use property		**343,101**		**-**		**343,101**	**3.6%**
Multi-unit residential		**424,394**		**1,079**		**425,473**	**4.4%**
Commercial		**933,229**		**-**		**933,229**	**9.7%**
Mortgages held for sale		**15,785**		**6,003**		**21,788**	**0.2%**
Construction		**326,116**		**-**		**326,116**	**3.4%**
Mortgage principal – Core Lending		**4,329,722**		**117,804**		**4,447,526**	**46.1%**
Single family dwelling		**-**		**438,114**		**438,114**	**4.5%**
Multi-unit residential		**-**		**4,765,733**		**4,765,733**	**49.4%**
Mortgage principal – Securitization Financing		**-**		**5,203,847**		**5,203,847**	**53.9%**
Total mortgage principal outstanding	**$**	**4,329,722**	**$**	**5,321,651**	**$**	**9,651,373**	**100.0%**
		44.9%		**55.1%**		**100.0%**	

							December 31, 2011
($ THOUSANDS)		Uninsured		Insured		Total	% of total
Single family dwelling	$	2,132,410	$	61,975	$	2,194,385	23.0%
Mixed-use property		345,154		-		345,154	3.6%
Multi-unit residential		397,954		1,102		399,056	4.2%
Commercial		962,457		-		962,457	10.1%
Mortgages held for sale		15,863		15,672		31,535	0.3%
Construction		332,860		-		332,860	3.5%
Mortgage principal – Core Lending		4,186,698		78,749		4,265,447	44.7%
Single family dwelling		-		477,467		477,467	5.0%
Multi-unit residential		-		4,795,239		4,795,239	50.3%
Mortgage principal – Securitization Financing		-		5,272,706		5,272,706	55.3%
Total mortgage principal outstanding	$	4,186,698	$	5,351,455	$	9,538,153	100.0%
		43.9%		56.1%		100.0%	

							March 31, 2011
($ THOUSANDS)		Uninsured		Insured		Total	% of total
Single family dwelling	$	1,789,061	$	52,032	$	1,841,093	21.6%
Mixed-use property		321,977		-		321,977	3.8%
Multi-unit residential		380,736		1,167		381,903	4.5%
Commercial		884,973		-		884,973	10.4%
Mortgages held for sale		20,550		8,856		29,406	0.3%
Construction		154,856		-		154,856	1.8%
Mortgage principal – Core Lending		3,552,153		62,055		3,614,208	42.4%
Single family dwelling		-		329,501		329,501	3.9%
Multi-unit residential		-		4,577,188		4,577,188	53.7%
Mortgage principal – Securitization Financing		-		4,906.689		4,906,689	57.6%
Total mortgage principal outstanding	$	3,552,153	$	4,968,744	$	8,520,897	100.0%
		41.7%		58.3%		100.0%	

Mortgage Asset Securitization

The Company regularly securitizes mortgages to reduce its funding costs, diversify its funding sources, and enhance its liquidity position. The Company securitizes CMHC and other insured mortgages through the creation of MBS. The MBS may then either be sold directly to third party investors or to the Canada Housing Trust ("CHT") through the CMB program. The sale of these MBS provides the Company with a reliable source of funding which is cost effective relative to the cost of raising GICs with similar terms. Management has made the strategic decision to reduce the level of securitization activity in its Securitization Financing segment, due to the lower relative returns on capital that the business currently generates.

Insured single family mortgages that are securitized during a given period will subsequently be reported in the Securitization Financing segment asset balances as securitized mortgages rather than as part of the Single Family segment balances.

Table 6: Mortgages securitized in the period

									March 31, 2012
						Mortgage Principal			**Liability Principal**
($ THOUSANDS)		**Single family**		**Multi-unit residential**		**Total**			
Mortgages securitized and sold	**$**	**-**	**$**	**76,448**	**$**	**76,448**	**$**		**76,346**
Mortgages securitized and retained		**-**		**6,000**		**6,000**			**-**
Total	**$**	**-**	**$**	**82,448**	**$**	**82,448**	**$**		**76,346**

									March 31, 2011
						Mortgage Principal			Liability Principal
($ THOUSANDS)		Single family		Multi-unit residential		Total			
Mortgages securitized and sold	$	-	$	217,764	$	217,764	$		218,403
Mortgages securitized and retained		3,902		16,670		20,572			-
Total	$	3,902	$	234,434	$	238,336	$		218,403

Mortgage Asset Production

Overall mortgage production was $562 million for the first quarter of 2012, down $91 million or 14% compared to the corresponding prior year's quarter. Commensurate with Equitable's strategic focus, however, Core Lending production was up by $44.4 million or 11% over Q1 of the prior year and, $327 million or 58% of the mortgages funded during the quarter were Single Family mortgages. As planned, CMHC-insured multi-unit residential production decreased in Q1 2012 as compared with Q1 2011 due to the Company's reduced emphasis on its Securitization Financing business and management expects this reduced level of origination to continue in subsequent quarters.

Table 7: Mortgage production – by lending business

	Three months ended				
	March 31, 2012			March 31, 2011	
($ THOUSANDS)		**Mortgage principal funded**	**% of total**		Mortgage principal funded	% of total
Single Family Lending Services	**$**	**327,338**	**58.3%**	$	216,611	33.2%
Commercial Lending Services		**119,747**	**21.3%**		182,574	27.9%
Mortgage production – Core Lending		**447,085**	**79.6%**		399,185	61.1%
Securitization Financing – CMHC-insured multi-unit residential		**114,831**	**20.4%**		254,050	38.9%
Total mortgage production	**$**	**561,916**	**100.0%**	$	653,235	100.0%

The majority of the Company's mortgages are sourced each year by a network of independent mortgage brokers and other mortgage originators. A mortgage brokerage arrangement exists with First National Financial LP ("FNFLP"), one of Canada's leading mortgage banking organizations, to source and administer CMHC-insured multi-unit residential and Core Lending mortgages, and that relationship drives a significant portion of the business of the Company's Securitization financing segment.

Credit Quality and Allowance for Credit Losses

Table 8: Mortgage credit quality

($ THOUSANDS)		**March 31, 2012**		December 31, 2011		March 31, 2011
Net realized loan losses for the three month period ended	**$**	**522**	$	2,311	$	2,900
Gross impaired mortgage assets[1]		**31,487**		28,196		36,282
Net impaired mortgage assets[1][2]		**27,562**		24,331		29,958
Allowance for credit losses		**21,355**		19,650		20,141
Allowance for credit losses as a % of total mortgage assets		**0.22%**		0.20%		0.24%
Mortgage principal in arrears 90 days or more[3]		**23,719**		20,770		27,773
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[3]		**0.25%**		0.22%		0.33%

(1) Conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days.
(2) Net impaired mortgages reflect gross impaired mortgage assets less individual allowances.
(3) Mortgage principal in arrears 90 days or more does not include CMHC-insured mortgages that are less than 365 days in arrears.

Management actively analyzes the profile of its lending businesses and its originations in tandem with external market conditions, including market values and employment conditions that prevail in those markets where it lends. When management judges that the commensurate risk associated with a particular region or product is no longer acceptable, it adjusts its underwriting criteria to ensure that its underwriting policies continue to be prudent and reflective of current and expected economic conditions and thereby safeguards the future health of its portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased mortgage originations, while continuing to ensure a prudent credit risk profile for its portfolio. The low level of loan losses that the Company has incurred in most recent years reflects the quality of its mortgage portfolio and the effectiveness and prudence of its underwriting.

Management's workout activities on impaired loans continue to yield positive results. Net impaired mortgages were 0.28% of total mortgage assets outstanding at March 31, 2012, compared to 0.25% at December 31, 2011 and 0.35% at the end of March 2011. Mortgages in arrears 90 days or more were 0.25% of total mortgage principal outstanding at March 31, 2012 compared to 0.22% at December 31, 2011 and to 0.33% a year earlier. Mortgages in early stage delinquency, between 30 to 89 days past due, amounted to 0.39% of total outstanding principal at March 31, 2012, an increase from 0.22% at December 31, 2011. A majority of the increase in the quarter was the result of only three commercial borrowers missing payments. Two of those borrowers, representing 8 bps of the 17 bps change in the quarter, became current on their payments shortly after quarter-end. Early stage delinquency is a leading indicator of credit quality in future periods and management believes these continuing low levels of delinquency reflect the health of the Company's mortgage portfolio and its ongoing success in managing defaults.

Management is comfortable that its allowances for credit losses adequately provide for the risk of loss entailed in the Company's mortgage portfolio. At March 31, 2012, total allowances for credit losses as a percentage of total mortgage assets outstanding was 0.22%, compared to 0.20% at December 31, 2011. At March 31, 2012, individual allowances amounted to $3.9 million, which is a decrease of $0.1 million compared to the individual allowances outstanding at December 31, 2011. The Company recognized $0.5 million of realized loan losses during the first quarter of 2012 and charged these against specific allowances recorded in prior quarters. As a measure of the adequacy of total allowances at the end of the first quarter of 2012, 67.8% of the portfolio's gross impaired mortgage assets had been provided for within the Company's total allowances for credit losses.

In actively managing its arrears, the Company has foreclosed on certain properties in order to ensure successful collection of the respective mortgage principal. Real estate owned is recorded as held for sale at its net realizable value and is included in other assets on the balance sheet. Fair value of real estate owned as a result of foreclosure was $0.9 million at March 31, 2012 and related to three properties, compared with a balance of $1.1 million in the prior year quarter that related to six properties. Real estate owned at March 31, 2012 has been appraised by third-party consultants and the amounts recorded represent management's best estimate of the net proceeds to be received on sale.

Liquidity Investments and Equity Securities

The Company holds sufficient levels of liquidity on its balance sheet to ensure it is well-positioned to manage unexpected and unforeseen events that may impact its ability to obtain funding. Management closely monitors the Company's liquidity position and believes that the level of liquid resources held, together with Equitable's ability to raise GIC deposits, is sufficient to meet funding and GIC maturity commitments, as well as to ensure the collection of its other receivables and the discharge of its liabilities and other obligations. Liquidity is used by the Company to manage its funding needs, which include the funding of $441 million in mortgage commitments issued by the Company that were outstanding at March 31, 2012.

The Company strengthened its liquidity position relative to its asset base slightly over the course of the first quarter primarily due to securitization proceeds received in mid-March, consumer demand for its cashable GIC product, and the need to position itself for the seasonally strong spring financing season. At all times, liquidity levels have and will remain well in excess of those stipulated by current Company policy and regulatory guidelines, though actual liquidity may vary month to month mainly due to the timing of securitization related cash flows.

At March 31, 2012, assets held for the purpose of providing liquidity protection amounted to $664 million and represented 6.3% of Equitable Trust's total assets, compared to 6.0% at March 31, 2011. In addition to assets that are held for the

purpose of providing liquidity protection, the Company holds additional liquid assets, which include other deposits held with the Company's bank and investments in equity securities. Total liquid assets were $837 million at March 31, 2012, as compared to $754 million at the end of Q1 2011, and represented 8.0% of the Company's total assets.

Equity securities in which the Company invests are comprised of preferred shares that are held to yield tax-preferred dividend income, and those shares are classified as available for sale assets for accounting purposes. Unrealized changes in the fair value of this portfolio are included in the Company's other comprehensive income, net of tax. At March 31, 2012, equity securities were $27.2 million or 14% lower than at March 31, 2011. The decrease resulted from $22.5 million in net sales and redemptions, $3.1 million of premium amortization and $1.6 million in realized and unrealized losses.

Table 9: Liquid assets

($ THOUSANDS)	**March 31, 2012**	December 31, 2011	March 31, 2011
Eligible deposits with regulated financial institutions[1]	**$ 239,416**	$ 170,558	$ 177,100
Debt securities issued by regulated financial institutions	**95,046**	94,999	67,096
Government guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**39,922**	9,967	24,993
Debt securities issued by Government of Canada	**33,929**	34,145	33,690
Debt securities guaranteed by Government of Canada	**26,580**	28,400	43,031
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**229,056**	247,785	208,000
Assets held for regulatory purposes	**$ 663,949**	$ 585,854	$ 553,910
Other deposits with regulated financial institutions	**101**	287	151
Equity securities	**172,720**	198,245	199,893
Total liquid assets	**$ 836,770**	$ 784,386	$ 753,954
Total assets held for regulatory purposes as a % of total Equitable Trust assets	**6.3%**	5.7%	6.0%
Total liquid assets as a % of total assets	**8.0%**	7.6%	8.2%

(1) *Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $13.6 million (December 31, 2011 – $16.2 million, March 31, 2011 – $3.2 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $76.6 million (December 31, 2011 – $67.0 million, March 31, 2011 – $33.2 million) of cash held in trust accounts and deposits held with banks as collateral for the Company's securitization activities.*

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

Deposits

As a regulated CDIC member, Equitable Trust's ability to fund its mortgage businesses by attracting depositors and providing superior customer service is critical to its success. Equitable Trust is licensed to accept deposits in all Canadian jurisdictions. Deposits are sourced primarily through a national distribution network of independent deposit agents. These deposits, which are primarily in the form of GICs, provide a reliable and stable source of funding that can be matched against mortgage maturities and are used to fund most of the Company's liquidity needs. Deposits are a deep and liquid source of funding for the Company.

Total deposit principal of $4.8 billion at March 31, 2012 increased $226 million or 5% from December 31, 2011 and increased $814 million or 21% from March 31, 2011. At March 31, 2012, Cashable GICs represented 18% of total deposits outstanding compared to 14% in the same quarter of the prior year. The Company's Cashable GIC is a one-year product, cashable after its initial 30-day term at any time upon demand. Other GIC products consist of 30-day to five-year fixed term GICs.

Table 10: Deposits

($ THOUSANDS)	March 31, 2012	December 31, 2011	March 31, 2011
Deposits – cashable GICs	$ 866,995	$ 700,301	$ 566,142
Deposits – fixed-term GICs	3,894,078	3,834,837	3,380,938
	4,761,073	4,535,138	3,947,080
Deferred deposit agent commissions	(11,510)	(12,151)	(11,653)
Accrued interest	110,984	104,917	96,964
Total	$ 4,860,547	$ 4,627,904	$ 4,032,391

Securitization Liabilities

The Company's securitization of CMHC-insured mortgages through the creation of MBS does not qualify for balance sheet derecognition under IFRS and therefore are recognized on the Consolidated Balance Sheet and accounted for as secured financing.

Table 11: Securitization liabilities

($ THOUSANDS)	March 31, 2012	December 31, 2011	March 31, 2011
Securitization principal	$ 5,058,117	$ 5,093,981	$ 4,660,784
Deferred net discount and issuance costs	(12,920)	(14,346)	(27,636)
Accrued interest	24,656	21,286	20,334
Total	$ 5,069,853	$ 5,100,921	$ 4,653,482

Other Liabilities

Other liabilities include realty taxes collected from borrowers, accounts payable and accrued liabilities, and the fair value of derivative financial instruments owing to hedging counterparties. Other liabilities totaled $24.6 million at March 31, 2012, down from $28.6 million at December 31, 2011 and compared to $17.3 million a year ago.

Contractual obligations by year of maturity are outlined in Table 24 on page 50 of the Company's 2011 Annual Report. There have been no material changes to contractual obligations that are outside the ordinary course of the Company's operations.

The Company is in compliance with all of the covenants required by its bank loan facilities, $12.5 million of which remained outstanding at March 31, 2012. During the quarter, the Company successfully negotiated an extension of its $12.5 million bank term loan through to January 16, 2013, on comparable terms to the previous loan. The extension will provide the Company with time to evaluate long-term financing alternatives for replacing this loan, in the context of new regulatory requirements related to the structure and terms of debt issued by financial institutions.

Details related to the Company's bank term loans and subordinated debentures can be found in Notes 16 and 17 to the audited consolidated financial statements found within the Company's 2011 Annual Report.

Shareholders' Equity

Total shareholders' equity increased $16.8 million or 4% to $444 million at March 31, 2012 from $427 million at December 31, 2011 and grew 12% over March 31, 2011. The growth was mainly due to the high level of earnings retained by the Company, which were offset partly by fair value losses recorded through other comprehensive income and by dividends paid.

Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("BCBS"). In order to determine prudent capital levels and govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Trust utilizes an Internal Capital Adequacy Assessment Process ("ICAAP").

Management considers Equitable Trust to be well capitalized and believes it is well positioned to maintain strong capital levels through the retention of earnings and the effective management of its risk-weighted asset mix. During the first quarter of 2012, Equitable Trust's capital ratios remained strong and well in excess of expected Basel III standards for 2019, even with the significant deployment of capital into its lending businesses. Equitable Trust's total capital ratio (when its collective impairment allowance is included in capital) was 15.8% at March 31, 2012 and December 31, 2011 as compared to 17.4% at March 31, 2011. Equitable Trust's Tier 1 regulatory capital position was 13.5% compared to 13.4% and 14.7% at December 31, 2012 and March 31, 2011, respectively. Capital ratios were down year-over-year due to high relative levels of growth in the Company's uninsured asset base, the effects of which more than offset the benefits of shifting towards lower risk-weighted single family residential mortgage assets.

Also as at March 31, 2012, the tangible common equity ratio (see explanation in the Non-GAAP Financial Measures section of this MD&A) was 12.0% as compared to 11.9% at December 31, 2011 and 13.0% one year earlier. The tangible common equity ratio is considered by management and many investors and investment analysts to be a key measure of capital strength.

Management believes that its earnings in future periods will generate adequate capital to support its strategic objectives and ongoing growth. Nonetheless the Company will remain open to raising additional, non-dilutive capital to fund meaningful incremental growth opportunities, if needed, to maintain its capital strength. Over the course of the year, management intends to continue with its lower levels of securitization activity in respect of insured multi-family mortgages in order to further optimize its capital structure and manage its assets-to-capital multiple.

Table 12: Capital measures of Equitable Trust

($ THOUSANDS, EXCEPT ACM)	March 31, 2012	December 31, 2011	March 31, 2011
Risk weighted assets:			
Credit risk	**$ 3,214,724**	$ 3,166,717	$ 2,715,480
Operational risk[1]	**224,931**	217,088	189,802
Total risk-weighted assets	**$ 3,439,655**	$ 3,383,805	$ 2,905,282
Tier 1 capital:			
Common shares	**$ 133,111**	$ 132,819	$ 129,997
Non-cumulative preferred shares	**50,000**	50,000	50,000
Contributed surplus	**4,398**	4,303	3,754
Retained earnings	**264,043**	248,752	210,824
Accumulated other comprehensive loss[2]	**(1,900)**	(2,095)	(840)
IFRS transition adjustment[3]	**14,198**	18,931	33,129
Total	**463,850**	452,710	426,864
Tier 2 capital:			
Subordinated debentures (Tier 2B)[4]	**60,781**	65,171	65,171
Total	**60,781**	65,171	65,171
Total regulatory capital	**$ 524,631**	$ 517,881	$ 492,035
Regulatory capital to risk-weighted assets:[5]			
Tier 1 capital	**13.5%**	13.4%	14.7%
Tier 2 capital	**1.8%**	1.9%	2.2%
Total regulatory capital as a % of total risk-weighted assets	**15.3%**	15.3%	16.9%
Total capital calculated as defined under ICAAP:			
Total regulatory capital	**$ 524,631**	$ 517,881	$ 492,035
Collective allowance[6]	**17,430**	15,785	13,817
Total capital as defined under ICAAP	**$ 542,061**	$ 533,666	$ 505,852
Total capital ratio as defined under ICAAP	**15.8%**	15.8%	17.4%
Tangible common equity ratio[5]	**12.0%**	11.9%	13.0%
Assets-to-capital multiple (ACM)	**13.2**	12.8	10.9

(1) For operational risk, Equitable Trust uses the Basic Indicator Approach – calculated as 15% of the previous three-year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.

(2) As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.

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

(4) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.

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

(6) Equitable Trust includes its collective allowance in capital when assessing its capital requirements under its ICAAP.

SUMMARY OF QUARTERLY RESULTS

Table 13 summarizes the Company's performance over the last eight quarters. Equitable does not typically experience material seasonality in its earnings, but changes in short-term interest rates and the impact thereof on the Company's hedging activities may cause some volatility in earnings from quarter to quarter.

Table 13: Summary of quarterly results

	2012	2011				2010		
($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**Q1**	Q4	Q3[1]	Q2	Q1	Q4	Q3	Q2
OPERATIONS								
Net income	**17,940**	17,025	13,363	15,735	16,063	24,084[3]	8,586	11,071
Net income available to common shareholders	**17,034**	16,119	12,456	14,829	15,157	23,178	7,679	10,165
EPS – basic	**$ 1.13**	$ 1.07	$ 0.83	$ 0.99	$ 1.01	$ 1.55	$ 0.51	$ 0.68
EPS – diluted	**$ 1.13**	$ 1.07	$ 0.82	$ 0.98	$ 1.00	$ 1.54	$ 0.51	$ 0.68
Net interest income	**36,524**	35,346	34,759	32,461	31,205	32,811	30,493	27,984
NIM – TEB – total assets[2]	**1.45%**	1.41%	1.44%	1.43%	1.44%	1.53%	1.49%	1.45%
NIM – TEB – non-securitization assets[2]	**2.57%**	2.47%	2.44%	2.53%	2.51%	2.68%	2.57%	2.58%
NIM – TEB – securitization assets[2]	**0.43%**	0.45%	0.53%	0.46%	0.52%	0.56%	0.53%	0.53%
Total revenues	**116,374**	114,336	112,744	107,453	104,457	106,897	100,675	93,862
Return on equity – annualized	**17.7%**	17.3%	13.7%	16.8%	18.0%	28.6%	9.9%	13.7%
Return on average assets – annualized	**0.7%**	0.6%	0.5%	0.6%	0.7%	1.1%	0.4%	0.5%
Productivity ratio – TEB	**30.8%**	29.7%	42.8%	28.7%	27.4%	25.2%	26.0%	28.3%
Mortgage origination – Core Lending	**447,085**	553,575	657,893	408,116	399,185	395,108	247,146	497,962
Mortgage origination – Securitization Financing	**114,831**	90,102	287,638	194,673	254,050	244,572	425,651	165,760
BALANCE SHEET								
Total liquid assets	**836,770**	784,386	956,922	806,575	753,956	799,740	783,699	588,635
Total assets	**10,470,238**	10,257,013	10,254,391	9,567,355	9,172,981	8,884,129	8,624,032	8,109,334
Mortgages receivable	**9,687,878**	9,577,087	9,422,939	8,864,357	8,560,408	8,217,301	7,963,445	7,611,334
Shareholders' equity	**443,457**	426,640	408,434	408,715	397,321	381,455	359,356	350,449
Book value per common share	**$ 26.26**	$ 25.18	$ 24.02	$ 24.05	$ 23.32	$ 22.28	$ 20.83	$ 20.24

[1] The Company took a pre-tax provision related to an alleged fraud of $5.0 million ($3.6 million after-tax) or $0.24 per share in the third quarter of 2011. Excluding the provision, net income in the third quarter of 2011 was $17.0 million or $1.06 per diluted share; ROE was 17.6%; and productivity ratio-TEB was 29.2%.

[2] NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.

[3] During Q4 of 2010, the Company benefitted from both an unusually high level of prepayment charge income and a lower effective tax rate.

FUTURE ACCOUNTING POLICY CHANGES

The Company's significant accounting policies are essential to an understanding of its reported results of operations and financial position. A summary of the Company's significant accounting policies is presented in Note 3 to the audited consolidated financial statements found within the Company's 2011 Annual Report.

Future Accounting Changes

(i) IFRS 7 *Financial Instruments: Disclosures*

IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7") was amended by the IASB in October 2010. The amendment is effective for annual periods beginning on or after July 1, 2011 with earlier application permitted. The amendments include additional disclosures on transfer transactions of financial assets. These amendments will not have an impact on the results of operations of the Company as they pertain only to disclosure requirements.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

(iii) IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* ("IFRS 13") was issued by the IASB in May 2011, which is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 sets out in a single IFRS framework the application of fair value to those assets and liabilities qualifying or permitted to be carried at fair value and provides enhanced disclosure requirements when fair value is applied.

CRITICAL ACCOUNTING ESTIMATES

The critical estimates and judgments utilized in preparing the Company's consolidated financial statements affect the assessment of the impairment of financial instruments, allowance for credit losses, the fair values of financial assets and liabilities, derecognition of financial assets transferred upon securitization transactions, effectiveness of financial hedges for accounting purposes and income taxes.

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

The policies and methodologies used to determine these estimates and their significance to the Company's financial condition are outlined in the notes to the consolidated financial statements found within the Company's 2011 Annual Report.

OFF-BALANCE SHEET ACTIVITIES

The Company's off-balance sheet activities include the commitments it makes to fund its pipeline of mortgage originations (see Note 6 to the unaudited interim consolidated financial statements for the period ended March 31, 2012) and letters of credit issued in the normal course of business. Letters of credit in the amount of $788 were outstanding at March 31, 2012 (March 31, 2011 – nil), none of which have been drawn upon.

RELATED PARTY TRANSACTIONS

From time to time, certain of the Company's directors and officers purchase GICs and subordinated debentures from the Company in the ordinary course of business, on market terms. See Note 23 to the consolidated financial statements found within the Company's 2011 Annual Report.

RISK MANAGEMENT

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

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are credit risk, funding and liquidity risk, and interest rate risk. For a detailed discussion of the risks that affect the Company, please refer to pages 45 to 53 of the Company's 2011 Annual Report which is available on SEDAR at www.sedar.com.

Credit Risk

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

Equitable's focus is on providing first mortgages on real estate. For information related to the credit quality of the portfolio, see the section entitled Credit Quality and Allowance for Credit Losses on page 15 of this MD&A.

The Company also invests in preferred share securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 71.2% of the preferred share equity securities portfolio at March 31, 2012, compared to 68.9% a year earlier.

Funding and Liquidity Risk

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

The Company has a very low tolerance for funding and liquidity risk and adheres to a liquidity and funding risk management policy that requires it to maintain a pool of high quality liquid assets. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions. These assets amounted to $664 million at March 31, 2012 and $554 million at March 31, 2011.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets or liabilities have unmatched terms, interest rates or other attributes. For the interest sensitivity position of the Company as at March 31, 2012, see Note 18 to the consolidated interim financial statements.

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

The table below illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The models measure the impact of interest rate changes on EVE and net interest income during the 12-month periods following March 31, 2012. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change.

Table 14: Interest rate shock

($ THOUSANDS)		Increase in interest rates		Decrease in interest rates[1]
100 basis point shift				
Impact on net interest income	$	4,383	$	(3,288)
Impact on EVE	$	(3,919)	$	6,572
EVE impact as a % of common shareholders' equity		(1.0%)		1.7%
200 basis point shift				
Impact on net interest income	$	9,586	$	(3,338)
Impact on EVE	$	(7,287)	$	10,764
EVE impact as a % of common shareholders' equity		(1.8%)		2.7%

[1] *Interest rate is not allowed to decrease beyond a floor of 0% and is therefore not allowed to be negative.*

UPDATED SHARE INFORMATION

At May 7, 2012, the Company had 15,048,873 common shares and 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were also 685,427 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of $16.0 million.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Effective January 3, 2012, and as previously announced on December 6, 2011, the Company appointed Tim Wilson as Vice President and Chief Financial Officer of the Company. There were no other changes in the Company's internal control over financial reporting that occurred during the first quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

- Taxable equivalent basis: the presentation of financial information on a TEB is a common practice in the banking and trust company industries and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax-exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. For the three months ended March 31, 2012 and 2011, the TEB adjustment was $0.9 million.
- Return on equity: this profitability measure is calculated on an annualized basis and is defined as a net income available to common shareholders as a percentage of the weighted average common equity outstanding during the period.
- Return on average assets: this profitability measure is calculated on an annualized basis and is defined as net income as a percentage of average total assets outstanding during the period.
- Productivity ratio: this measure is used to assess the efficiency of the Company's cost structure in terms of revenue generation. This ratio is derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. A lower productivity ratio reflects a more efficient cost structure.
- Net interest margin: this profitability measure is calculated on an annualized basis by dividing net interest income – TEB by the average total assets – TEB for the period. The assets used in the calculation represent assets employed to generate the income.
- Tangible common equity: this key measure of capital strength is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets.
- Tier 1 and total capital ratios: these adequacy ratios are calculated for the Company's subsidiary, Equitable Trust, in accordance with the guidelines issued by OSFI.
- Adjusted results: in periods where management determines that non-recurring or unusual items will have a significant impact on a user's assessment of business performance, the Company will present adjusted results in addition to reported results by removing the non-recurring or unusual items from the reported results. Adjusted results are intended to provide the user with a better assessment of the Company's performance and provide greater consistency and comparability with other financial institutions. Adjustments that remove non-recurring or unusual items from net income will affect the calculation of other measures such as adjusted ROE and adjusted EPS.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2012

With comparative figures as at December 31, 2011 and March 31, 2011

($ THOUSANDS)

		March 31, 2012		December 31, 2011		March 31, 2011
Assets						
Cash and cash equivalents	**$**	**239,517**	$	170,845	$	177,251
Restricted cash		**90,246**		83,156		36,404
Securities purchased under reverse repurchase agreements		**39,922**		9,967		24,993
Investments *(Note 5)*		**389,497**		390,340		360,137
Mortgages receivable *(Note 6)*		**4,476,637**		4,262,147		3,683,777
Mortgages receivable – securitized *(Notes 6 & 7)*		**5,211,241**		5,314,940		4,876,631
Other assets *(Note 9)*		**23,178**		25,618		13,788
	$	**10,470,238**	$	10,257,013	$	9,172,981
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits *(Note 10)*	**$**	**4,860,547**	$	4,627,904	$	4,032,391
Securitization liabilities *(Note 7)*		**5,069,853**		5,100,921		4,653,482
Deferred tax liabilities *(Note 11)*		**6,608**		7,790		7,318
Other liabilities *(Note 12)*		**24,602**		28,587		17,298
Bank term loans *(Note 13)*		**12,500**		12,500		12,500
Subordinated debentures		**52,671**		52,671		52,671
		10,026,781		9,830,373		8,775,660
Shareholders' equity:						
Preferred shares *(Note 14)*		**48,494**		48,494		48,494
Common shares *(Note 14)*		**130,251**		129,771		128,369
Contributed surplus *(Note 15)*		**4,813**		4,718		4,169
Retained earnings		**269,235**		254,006		215,700
Accumulated other comprehensive (loss) income *(Note 16)*		**(9,336)**		(10,349)		589
		443,457		426,640		397,321
	$	**10,470,238**	$	10,257,013	$	9,172,981

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2012

With comparative figures for the three month period ended March 31, 2011

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended	
	March 31, 2012	March 31, 2011
Interest income:		
Mortgages	**$ 57,187**	$ 47,849
Mortgages – securitized	**54,459**	52,152
Investments	**2,248**	2,279
Other	**1,226**	1,025
	115,120	103,305
Interest expense:		
Deposits	**30,350**	26,741
Securitization liabilities *(Note 7)*	**47,174**	44,268
Bank term loans	**202**	200
Subordinated debentures	**869**	862
Other	**1**	29
	78,596	72,100
Net interest income	**36,524**	31,205
Provision for credit losses *(Note 6)*	**2,227**	1,938
Net interest income after provision for credit losses	**34,297**	29,267
Other income:		
Fees and other income	**1,005**	854
Net gain on investments	**249**	298
	1,254	1,152
Net interest and other income	**35,551**	30,419
Non-interest expenses:		
Compensation and benefits	**6,570**	5,473
Other	**5,339**	3,643
	11,909	9,116
Income before income taxes and fair value gain	**23,642**	21,303
Fair value gain on derivative financial instruments – securitization activities	**51**	319
Income before income taxes	**23,693**	21,622
Income taxes *(Note 11) :*		
Current	**6,935**	5,327
Deferred	**(1,182)**	232
	5,753	5,559
Net income	**$ 17,940**	$ 16,063
Earnings per share *(Note 17):*		
Basic	**$ 1.13**	$ 1.01
Diluted	**$ 1.13**	$ 1.00

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2012

With comparative figures for the three month period ended March 31, 2011

($ THOUSANDS)

	Three months ended	
	March 31, 2012	March 31, 2011
Net income	**$ 17,940**	$ 16,063
Other comprehensive income:		
Available for sale investments:		
Net unrealized gains from change in fair value	**833**	1,143
Reclassification of net gains to income	**(1,082)**	(265)
	(249)	878
Income tax	**65**	(246)
	(184)	632
Cash flow hedges *(Note 8)*		
Net unrealized gains from change in fair value	**1,028**	1,665
Reclassification of net losses (gains) to income	**592**	(18)
	1,620	1,647
Income tax	**(423)**	(461)
	1,197	1,186
Total other comprehensive income	**1,013**	1,818
Total comprehensive income	**$ 18,953**	$ 17,881

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2012

With comparative figures for the three month period ended March 31, 2011

($ THOUSANDS)

March 31, 2012	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**
Balance, beginning of period	**$ 48,494**	**$ 129,771**	**$ 4,718**	**$ 254,006**	**$ (10,349)**	**$ 426,640**
Net income	**-**	**-**	**-**	**17,940**	**-**	**17,940**
Other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**1,013**	**1,013**
Contributions from reinvestment of dividends	**-**	**188**	**-**	**-**	**-**	**188**
Contributions from exercise of stock options	**-**	**237**	**-**	**-**	**-**	**237**
Dividends:						
Preferred shares	**-**	**-**	**-**	**(906)**	**-**	**(906)**
Common shares	**-**	**-**	**-**	**(1,805)**	**-**	**(1,805)**
Stock-based compensation	**-**	**-**	**150**	**-**	**-**	**150**
Transfer relating to the exercise of stock options	**-**	**55**	**(55)**	**-**	**-**	**-**
Balance, end of period	**$ 48,494**	**$ 130,251**	**$ 4,813**	**$ 269,235**	**$ (9,336)**	**$ 443,457**

March 31, 2011	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 128,068	$ 3,935	$ 202,187	$ (1,229)	$ 381,455
Net income	-	-	-	16,063	-	16,063
Other comprehensive income, net of tax	-	-	-	-	1,818	1,818
Contributions from reinvestment of dividends	-	127	-	-	-	127
Contributions from exercise of stock options	-	144	-	-	-	144
Dividends:						
Preferred shares	-	-	-	(906)	-	(906)
Common shares	-	-	-	(1,644)	-	(1,644)
Stock-based compensation	-	-	264	-	-	264
Transfer relating to the exercise of stock options	-	30	(30)	-	-	-
Balance, end of period	$ 48,494	$ 128,369	$ 4,169	$ 215,700	$ 589	$ 397,321

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2012

With comparative figures for the three month period ended March 31, 2011

($ THOUSANDS)

	Three months ended	
	March 31, 2012	March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 17,940**	$ 16,063
Adjustments to determine cash flows relating to operating activities:		
Financial instruments at fair value through income	**1,836**	99
Depreciation of capital assets	**231**	63
Provision for credit losses	**2,227**	1,938
Net gain on sale or redemption of investments	**(249)**	(298)
Income taxes	**5,825**	5,559
Income taxes paid	**(4,801)**	(4,771)
Stock-based compensation	**150**	264
Amortization of premiums/discount on investments	**784**	785
Net increase in mortgages receivable	**(113,976)**	(345,787)
Net increase in deposits	**232,643**	153,538
Net change in securitization liabilities	**(31,068)**	121,802
Net interest income, excluding non-cash items	**(54,751)**	(47,713)
Interest paid	**(63,692)**	(58,179)
Other assets	**(191)**	(1,430)
Other liabilities	**(3,260)**	(2,342)
Interest received	**115,934**	103,542
Dividends received	**2,509**	2,350
Cash flows from (used in) operating activities	**108,091**	(54,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid on preferred shares	**(906)**	(906)
Dividends paid on common shares	**(1,614)**	(1,367)
Proceeds from issuance of common shares	**237**	144
Cash flows used in financing activities	**(2,283)**	(2,129)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	**(20,000)**	(39,651)
Proceeds on sale or redemption of investments	**46,730**	20,943
Net change in Canada Housing Trust re-investment accounts	**(26,671)**	(2,638)
Purchase of securities under reverse repurchase agreements	**(39,922)**	(24,993)
Proceeds on sale or redemption of securities under reverse repurchase agreements	**9,967**	74,908
Change in restricted cash	**(7,090)**	50,166
Purchase of capital assets	**(150)**	(80)
Cash flows (used in) from investing activities	**(37,136)**	78,655
Net increase in cash and cash equivalents	**68,672**	22,009
Cash and cash equivalents, beginning of period	**170,845**	155,242
Cash and cash equivalents, end of period	**$ 239,517**	$ 177,251

Note 1 – Reporting Entity

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

Note 2 – Basis of Preparation

(a) Statement of Compliance

These interim consolidated financial statements of the Company have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These interim consolidated financial statements should be read in conjunction with the Company's 2011 annual audited consolidated financial statements.

These interim consolidated financial statements were approved by the Board of Directors (the "Board") on May 9, 2012.

(b) Basis of measurement

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

(c) Functional currency

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

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

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

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

Note 2 – Basis of Preparation (continued)

(e) Consolidation

The interim consolidated financial statements as at and for the three months ended March 31, 2012 include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, Equitable Trust, after the elimination of intercompany transactions and balances. The Company has control of Equitable Trust since it has the power directly or indirectly, to govern its financial and operating policies so as obtain benefit from its activities.

Note 3 – Significant Accounting Policies

The accounting policies applied by the Company in these interim consolidated financial statements are the same as those applied by the Company as at and for the year ended December 31, 2011. Refer to Note 3 of the audited consolidated financial statements found within the Company's 2011 Annual Report.

Note 4 – Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results, which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control. The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. A discussion of the Company's risk exposures and how it manages those risks can be found on pages 45 to 53 of the Company's 2011 Annual Report.

Note 5 – Investments

Carrying value:

	March 31, 2012	December 31, 2011	March 31, 2011
Debt securities issued by regulated financial institutions	**$ 95,046**	$ 94,999	$ 67,096
Debt securities issued by Government of Canada	**33,929**	34,145	33,690
Debt securities guaranteed by Government of Canada	**26,580**	28,400	43,031
Equity securities – preferred shares	**172,720**	198,245	199,893
Canada Housing Trust re-investment accounts	**61,222**	34,551	16,427
	$ 389,497	$ 390,340	$ 360,137

Net unrealized gains (losses) included in carrying value on the consolidated balance sheet are as follows:

	March 31, 2012	December 31, 2011	March 31, 2011
Debt securities issued by regulated financial institutions	**$ -**	$ (29)	$ 49
Debt securities issued by Government of Canada	**377**	547	(48)
Debt securities guaranteed by Government of Canada	**1,204**	1,575	123
Equity securities – preferred shares	**(3,149)**	(3,412)	(1,669)
	$ (1,568)	$ (1,319)	$ (1,545)

Note 6 - Mortgages Receivable

(a) Mortgages receivable:

March 31, 2012		Allowance for credit losses			
	Gross amount	**Individual**	**Collective**	**Total**	**Net amount**
Residential mortgages	**$ 3,272,335**	**$ 2,020**	**$ 13,467**	**$ 15,487**	**$ 3,256,848**
Residential mortgages – securitized	**5,194,530**	**-**	**-**	**-**	**5,194,530**
Other mortgages	**1,075,672**	**1,905**	**3,912**	**5,817**	**1,069,855**
Mortgages held for securitization or for sale	**131,267**	**-**	**51**	**51**	**131,216**
Accrued interest	**35,429**	**-**	**-**	**-**	**35,429**
	$ 9,709,233	**$ 3,925**	**$ 17,430**	**$ 21,355**	**$ 9,687,878**

December 31, 2011		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Residential mortgages	$ 3,093,289	$ 2,053	$ 11,660	$ 13,713	$ 3,079,576
Residential mortgages – securitized	5,297,748	-	-	-	5,297,748
Other mortgages	1,110,153	1,812	4,005	5,817	1,104,336
Mortgages held for securitization or for sale	60,424	-	120	120	60,304
Accrued interest	35,123	-	-	-	35,123
	$ 9,596,737	$ 3,865	$ 15,785	$ 19,650	$ 9,577,087

March 31, 2011		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Residential mortgages	$ 2,630,121	$ 1,359	$ 8,338	$ 9,697	$ 2,620,424
Residential mortgages – securitized	4,860,573	-	-	-	4,860,573
Other mortgages	952,629	4,965	4,788	9,753	942,876
Mortgages held for securitization or for sale	105,689	-	691	691	104,998
Accrued interest	31,537	-	-	-	31,537
	$ 8,580,549	$ 6,324	$ 13,817	$ 20,141	$ 8,560,408

Included in mortgages held for securitization or for sale are Government of Canada insured residential mortgages of $112,062 (December 31, 2011 − $28,887, March 31, 2011 − $74,431). Also included in this balance are mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet date at their investment cost. These mortgages are carried at amortized cost.

Included in other mortgages are certain mortgages designated as at fair value through income and are carried at fair value with changes in fair value included in interest income − mortgages. As at March 31, 2012, mortgage principal outstanding for these mortgages was $49,816 (December 31, 2011 – $50,036, March 31, 2011 – $50,681) and the fair value adjustment was $3,169 (December 31, 2011 – $4,127, March 31, 2011 – $318).

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

	March 31, 2012	March 31, 2011
Changes in fair value recognized in income	**$ (958)**	$ (740)

Note 6 - Mortgages Receivable (continued)

Real estate owned held for sale at March 31, 2012 amounted to $857 (December 31, 2011 – $197, March 31, 2011 – $1,068) and is included in Other Assets (Note 9).

At March 31, 2012, the Company had commitments to fund a total of $440,506 (December 31, 2011 – $388,101, March 31, 2011 – $334,221) of mortgages in the ordinary course of business.

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest. As a matter of practice, conventional mortgages are deemed to be impaired at the earlier of the date they have been individually provided for or when they have been in arrears for 90 days. Mortgages guaranteed by the Government of Canada are deemed to be impaired when payment is contractually past due 365 days. However, management does not anticipate credit losses on such mortgages as they are insured.

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

			March 31, 2012	December 31, 2011	March 31, 2011
	Gross	**Individual allowance**	**Net**	Net	Net
Residential mortgages	**$ 22,401**	**$ 2,020**	**$ 20,381**	$ 16,896	$ 20,108
Residential mortgages – securitized	**939**	**-**	**939**	899	1,601
Other mortgages	**8,147**	**1,905**	**6,242**	6,536	8,249
Mortgages held for securitization or for sale	**-**	**-**	**-**	-	-
	$ 31,487	**$ 3,925**	**$ 27,562**	$ 24,331	$ 29,958

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

				March 31, 2012
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 13,614**	**$ 5,576**	**$ 193**	**$ 19,383**
Residential mortgages – securitized	**3,516**	**5,029**	**2,721**	**11,266**
Other mortgages	**9,278**	**231**	**-**	**9,509**
Mortgages held for securitization or for sale	**-**	**-**	**-**	**-**
	$ 26,408	**$ 10,836**	**$ 2,914**	**$ 40,158**

				December 31, 2011
	30 – 59 days	60 – 89 days	90 days or more	Total
Residential mortgages	$ 10,576	$ 4,710	$ 927	$ 16,213
Residential mortgages – securitized	2,342	3,224	1,810	7,376
Other mortgages	-	144	-	144
Mortgages held for securitization or for sale	-	-	-	-
	$ 12,918	$ 8,078	$ 2,737	$ 23,733

Note 6 - Mortgages Receivable (continued)

(c) Allowance for credit losses:

			March 31, 2012
	Individual allowance	**Collective allowance**	**Total**
Balance, beginning of period	**$ 3,865**	**$ 15,785**	**$ 19,650**
Provision for credit losses	**487**	**1,740**	**2,227**
Allowance for credit losses on acquired portfolio	**95**	**(95)**	**-**
Realized losses	**(546)**	**-**	**(546)**
Recoveries	**24**	**-**	**24**
Balance, end of period	**$ 3,925**	**$ 17,430**	**$ 21,355**

			March 31, 2011
	Individual allowance	Collective allowance	Total
Balance, beginning of period	$ 9,463	$ 11,640	$ 21,103
Provision for credit losses	(350)	2,288	1,938
Allowance for credit losses on acquired portfolio	111	(111)	-
Realized losses	(2,936)	-	(2,936)
Recoveries	36	-	36
Balance, end of period	$ 6,324	$ 13,817	$ 20,141

Note 7 – Securitization

In the normal course of business, the Company participates in the NHA MBS program by securitizing Government of Canada guaranteed or other insured residential mortgages through the creation of MBS. The Company either sells the issued MBS to third party investors, or predominantly to a CMHC sponsored trust (Canada Housing Trust – "CHT") under the CMB program. The Company also retains certain issued MBS as part of its liquidity management strategy as well as to manage interest rate risk associated with the Company's participation in the CMB program. The CHT periodically issues CMB, which are guaranteed by the government, and sells them to third party investors. Proceeds from the CMB issuances are used by the trust to purchase MBS from eligible MBS issuers who participate in the issuance of a particular CMB series.

Under the NHA MBS program, the Company is responsible for making all payments due on its issued MBS, regardless of whether or not the Company collected the funds from the mortgagor or the insurer. The sale of MBS through the NHA MBS and CMB programs do not qualify for derecognition under IFRS and the mortgages continue to be accounted for at amortized cost on the consolidated balance sheets. The transfers are accounted for as secured financing transactions with the mortgages transferred pledged as collateral for these liabilities. For further details, refer to Note 10 in the audited consolidated financial statements found within the Company's 2011 Annual Report.

The following table presents the Company's outstanding securitization liabilities:

	March 31, 2012	December 31, 2011	March 31, 2011
Securitization principal	**$ 5,058,117**	$ 5,093,981	$ 4,660,784
Deferred net discounts and issuance costs	**(12,920)**	(14,346)	(27,636)
Accrued interest	**24,656**	21,286	20,334
	$ 5,069,853	$ 5,100,921	$ 4,653,482

Note 8 – Derivative Financial Instruments

(a) Hedge instruments:

Cash flow hedges:

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

Fair value hedges:

The Company also enters into hedging transactions to manage interest rate exposures on certain mortgages designated as at fair value through income and on GICs used to fund floating rate mortgages. The hedging instruments used to manage these exposures are interest rate swaps and short sale and repurchase agreements of Government of Canada guaranteed debt securities. Interest rate swaps are secured by investments in preferred shares and cash equivalents. The Company does not apply hedge accounting to these hedging relationships.

Note 8 – Derivative Financial Instruments (continued)

(b) Financial impact of derivatives:

The following table presents the notional amounts and fair values of hedge instruments outstanding:

				March 31, 2012
Derivative instrument and term (years)[1]	**Notional amount**	**Assets**	**Liabilities**	**Fair Value[2]**
Cash flow hedges:				
Bond forwards agreements				
1 to 5	**$ 33,600**	**$ 197**	**$ -**	**$ 197**
6 to 10	**25,500**	**(148)**	**-**	**(148)**
Fair value hedges:				
Interest rate swaps				
1 to 5	**100,000**	**-**	**(10)**	**(10)**
6 to 10	**37,148**	**-**	**(2,027)**	**(2,027)**
Short sale and repurchase agreements				
1 to 5	**13,445**	**-**	**(41)**	**(41)**
	$ 209,693	**$ 49**	**$ (2,078)**	**$ (2,029)**

				December 31, 2011
Derivative instrument and term (years)[1]	Notional amount	Assets	Liabilities	Fair Value[2]
Cash flow hedges:				
Bond forwards agreements				
1 to 5	$ 10,200	$ -	$ (2)	$ (2)
Fair value hedges:				
Interest rate swaps				
6 to 10	37,322	-	(2,808)	(2,808)
Short sale and repurchase agreements				
1 to 5	13,445	36	-	36
	$ 60,967	$ 36	$ (2,810)	$ (2,774)

				March 31, 2011
Derivative instrument and term (years)[1]	Notional amount	Assets	Liabilities	Fair Value[2]
Cash flow hedges:				
Bond forwards agreements				
1 to 5	$ 23,100	$ (27)	$ -	$ (27)
6 to 10	89,400	536	-	536
Fair value hedges:				
Interest rate swaps				
6 to 10	37,830	264	-	264
Short sale and repurchase agreements				
1 to 5	250	-	-	-
6 to 10	13,445	12	-	12
	$ 164,025	$ 785	$ -	785

[1] The terms of the bond forward contracts and short sale and repurchase agreements are based on the terms of the underlying bonds and debt securities.
[2] Derivative financial assets are included in Other Assets (Note 9) and derivative financial liabilities are included in Other Liabilities (Note 12).

Note 8 – Derivative Financial Instruments (continued)

Cash flow hedges:

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

	March 31, 2012	March 31, 2011
Fair value changes recorded in other comprehensive income	**$ 1,620**	$ 1,647
Hedge ineffectiveness recognized in income	**51**	(218)
Amounts reclassified from other comprehensive income	**592**	(18)

Fair value hedges:

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

	March 31, 2012	March 31, 2011
Changes in fair value – interest rate swaps	**$ 439**	$ 262
Changes in fair value – short sale and repurchase agreements	**360**	142
Changes in fair value recognized in income	**$ 799**	$ 404

Note 9 – Other Assets

	March 31, 2012	December 31, 2011	March 31, 2011
Prepaid expenses and other	**$ 14,985**	$ 14,981	$ 7,802
Capital assets	**3,683**	3,764	2,148
Receivables relating to securitization activities	**2,551**	2,630	623
Real estate owned	**857**	197	1,068
Accrued interest and dividends on non-mortgage assets	**594**	986	377
Income taxes recoverable	**459**	3,024	985
Derivative financial instruments – securitization activities	**49**	-	509
Derivative financial instruments – hedges	**-**	36	12
Derivative financial instruments – interest rate swaps	**-**	-	264
	$ 23,178	$ 25,618	$ 13,788

In 2011, the Company reported an alleged fraud relating to four condominium corporation loans with a total outstanding balance of $14.0 million. This amount was reduced to $13.9 million as a result of a partial recovery. Management has engaged external counsel to assist in this matter. The Company has been named, along with other defendants, in two separate statements of claim made by parties seeking relief from mortgage amounts owing and has commenced an action against several parties involved in the remaining two loan transactions. In addition to any potential recoveries under its claims, the Company will also claim under its Financial Institution Bond, which is intended to protect against fraud losses, however, there is no assurance that proceeds or recoveries, if any, will be received in a timely manner or that such proceeds will be sufficient to recover the full amount of the loans. Accordingly, the Company recorded a pre-tax operational provision of $5.0 million in the third quarter of 2011 and reclassified the mortgages in question from Mortgages Receivable to Other Assets. The net outstanding balance reported in Other Assets is $8.9 million and is included in Prepaid expenses and other. While the total loss, if any, arising from this alleged fraud cannot be definitively determined at this time, management has established the allowance based on the information available at the reporting date and will continue to assess the progress of recovery efforts and the resulting estimate of recoverable amounts.

Note 10 – Deposits

	March 31, 2012	December 31, 2011	March 31, 2011
GICs – cashable, payable on demand	**$ 866,995**	$ 700,301	$ 566,142
GICs – fixed maturity dates	**3,894,078**	3,834,837	3,380,938
Deferred deposit agent commissions	**(11,510)**	(12,151)	(11,653)
Accrued interest	**110,984**	104,917	96,964
	$ 4,860,547	$ 4,627,904	$ 4,032,391

Included in GICs with fixed maturity dates are $100,000 (December 31, 2011 − Nil, March 31, 2011 − Nil) of GICs designated as at fair value through income and are carried at fair value with changes in fair value included in interest expense - deposits. The fair value is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued. The fair value adjustment of $7 (December 31, 2011 − Nil, March 31, 2011 – Nil) is included in interest expense.

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

	March 31, 2012	March 31, 2011
Changes in fair value recognized in income	**$ 7**	**$ -**

Note 11 – Income Taxes

(a) Income tax provision

	March 31, 2012	March 31, 2011
Current tax expense:		
Current year	**$ 6,935**	$ 5,327
Deferred tax expense:		
Reversal of temporary differences	**(1,210)**	55
Reduction in tax rate	**28**	177
	(1,182)	232
Total income tax expense	**$ 5,753**	$ 5,559

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

	March 31, 2012	March 31, 2011
Canadian statutory income tax rate	**26.1%**	28.0%
Increase (decrease) resulting from:		
Tax-exempt income	**(2.3%)**	(3.6%)
Future tax rate changes	**0.1%**	0.9%
Non-deductible expenses and other	**0.4%**	0.4%
Effective income tax rate	**24.3%**	25.7%

The statutory tax rate has decreased due to scheduled Federal and Provincial tax rate reductions that were previously enacted.

(b) Deferred taxes

The net deferred income tax liability is comprised of:

	March 31, 2012	December 31, 2011	March 31, 2011
Deferred income tax assets:			
Allowance for credit losses	**$ 4,344**	$ 3,928	$ 3,646
Share issue expenses	**340**	396	642
Other	**-**	-	426
	4,684	4,324	4,714
Deferred income tax liabilities:			
Net mortgage fees	**6,002**	6,426	7,599
GIC commissions	**2,970**	3,141	3,131
Securitization activities	**2,271**	2,397	1,302
Other	**49**	150	-
	11,292	12,114	12,032
Deferred tax liabilities	**$ 6,608**	$ 7,790	$ 7,318

Note 12 – Other Liabilities

	March 31, 2012	December 31, 2011	March 31, 2011
Mortgagor realty taxes	**$ 13,491**	$ 18,975	$ 10,582
Accounts payable and accrued liabilities	**9,033**	6,802	6,716
Derivative financial instruments – interest rate swaps	**2,037**	2,808	-
Derivative financial instruments – hedges	**41**	-	-
Derivative financial instruments – securitization activities	**-**	2	-
	$ 24,602	$ 28,587	$ 17,298

Note 13 – Bank Facilities

The Company extended the maturity date of its non-revolving term loan of $12,500. The balance of the loan, together with all accrued and unpaid interest, is due on January 15, 2013. There were no material changes to the other terms and conditions of the loan. For further details, refer to Note 16 in the audited consolidated financial statements found within the Company's 2011 Annual Report.

Note 14 – Shareholders' Equity

Capital stock:

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

Issued and outstanding shares:

	March 31, 2012			March 31, 2011		
	Number of shares	**Amount**	**Dividends per share[1]**	Number of shares	Amount	Dividends per share[1]
Preferred shares, Series 1	**2,000,000**	**$ 48,494**	**$ 0.45**	2,000,000	$ 48,494	$ 0.45

	March 31, 2012			March 31, 2011		
	Number of shares	**Amount**	**Dividends per share[1]**	Number of shares	Amount	Dividends per share[1]
Common shares:						
Balance, beginning of period	**15,018,401**	**$ 129,771**		14,943,437	$ 128,068	
Contributions from reinvestment of dividends	**7,427**	**188**		5,068	127	
Contributions from exercise of stock options	**16,450**	**237**		7,800	144	
Transferred from contributed surplus relating				-	-	
to the exercise of stock options	**-**	**55**		-	30	
Balance, end of period	**15,042,278**	**$ 130,251**	**$ 0.12**	14,956,305	$ 128,369	$ 0.11

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

Note 15 – Stock-based Compensation

(a) Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five to seven years and vest over a four or five-year period. 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 2019. A summary of the Company's stock option activity and related information for the periods ended March 31, 2012 and March 31, 2011 is as follows:

	March 31, 2012		March 31, 2011	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	**733,950**	**$ 24.36**	966,150	$ 24.20
Granted	**127,927**	**29.32**	-	-
Exercised	**(16,450)**	**14.42**	(7,800)	18.44
Forfeited/cancelled	**(160,000)**	**33.68**	(1,500)	24.75
Outstanding, end of period	**685,427**	**$ 23.29**	956,850	$ 24.25
Exercisable, end of period	**220,400**	**$ 22.46**	375,800	$ 27.40

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $150 (March 31, 2011 – $264) related to grants of options under the stock option plan. This amount has been credited to contributed surplus. The fair value of options granted during the period ended March 31, 2012 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	March 31, 2012
Risk-free rate	**1.5%**
Expected option life (years)	**4.8**
Expected volatility	**30.5%**
Expected dividends	**1.8%**
Weighted average fair value of each option granted	**$ 6.24**

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

The Company has a DSU plan for Directors. Under the plan, notional units are allocated to a Director from time to time by the Board and the units vest at the time of the grant. For further details, refer to Note 19 to the audited consolidated financial statements found within the Company's 2011 Annual Report.

For the period ended March 31, 2012 and March 31, 2011, no DSUs had been granted by the Company. DSUs outstanding as at March 31, 2012 amounted to 23,520 (March 31, 2011 – 16,373) and the recorded liability was $678 (March 31, 2011 - $483). Compensation expense recorded in the first quarter of 2012 relating to DSUs outstanding during the year amounted to $87 (March 31, 2011 – $73).

Note 15 – Stock-based Compensation (continued)

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

The Company's Board approved an RSU plan in 2012. RSUs are awarded by the Board to eligible employees during the annual compensation process and vest at the end of three years ("cliff vest"). Under the RSU plan, each RSU represents one notional common share and earns notional dividends, which are re-invested into additional RSUs when cash dividends are paid on the Company's common shares. Each RSU held at the end of the vesting period including those acquired as dividend equivalents will be paid to the eligible employee in cash, the value of which will be based on the volume-weighted average closing price of the Company's common shares on the TSX for the five consecutive trading days immediately prior to the vesting. For the period ended March 31 2012, RSUs granted totaled 20,940 and the compensation expense recorded relating to RSUs outstanding during the period amounted to $13. As at March 31, 2012, RSUs outstanding amounted to 20,585 and the recorded liability was $13.

Note 16 – Earnings Per Share

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

	March 31, 2012	March 31, 2011
Earnings per common share – basic:		
Net income	**$ 17,940**	$ 16,063
Dividends on preferred shares	**906**	906
Net income available to common shareholders	**$ 17,034**	$ 15,157
Weighted average basic number of common shares outstanding	**15,030,234**	14,950,454
Earnings per common share – basic	**$ 1.13**	$ 1.01
Earnings per common share – diluted:		
Net income available to common shareholders	**$ 17,034**	$ 15,157
Weighted average basic number of common shares outstanding	**15,030,234**	14,950,454
Adjustment to weighted average number of common shares outstanding:		
Stock options	**102,971**	133,342
Weighted average diluted number of common shares outstanding	**15,133,205**	15,083,796
Earnings per common share – diluted	**$ 1.13**	$ 1.00

For the period ended March 31, 2012, the calculation of the diluted earnings per share excluded 220,427 (March 31, 2011 – 143,301) average options outstanding with a weighted average exercise price of $29.38 (March 31, 2011 – $28.83) as the exercise price of these options was greater than the average price of the Company's common shares.

Note 17 – Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision (Basel II). OSFI has established that deposit-taking institutions need to maintain a minimum total capital ratio of 10%, with a Tier 1 ratio of not less than 7%. Equitable Trust's Tier 1 capital is comprised of common and preferred shareholder's equity while Tier 2 capital is comprised of subordinated debentures. In addition to Tier 1 and total capital ratios, Canadian deposit-taking institutions are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by total capital, does not exceed the maximum level prescribed by OSFI.

Equitable Trust maintains capital management policies to govern the quality and quantity of capital utilized in its operations. The objective of these policies is to ensure that adequate capital requirements are met, while providing sufficient return to investors. During the period, Equitable Trust complied with all internal and external capital requirements.

As a result of an advisory issued by OSFI in March 2010, Equitable Trust is permitted to phase in the January 1, 2010 IFRS transition adjustment to retained earnings over an eight quarter period, to be completed by the quarter ending December 31, 2012. The amount amortized to retained earnings for the three months ended March 31, 2012 was $4.7 million.

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

	March 31, 2012	December 31, 2011
Tier 1 capital:		
Common shares	**$ 133,111**	$ 132,819
Non-cumulative preferred shares	**50,000**	50,000
Contributed surplus	**4,398**	4,303
Retained earnings	**264,043**	248,752
Accumulated other comprehensive loss[1]	**(1,900)**	(2,095)
IFRS transition adjustment[2]	**14,198**	18,931
Total	**463,850**	452,710
Tier 2 capital:		
Subordinated debentures (Tier 2B)[3]	**60,781**	65,171
Total	**60,781**	65,171
Total regulatory capital	**$ 524,631**	$ 517,881

(1) *As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.*
(2) *As permitted by OSFI, the transition adjustment for IFRS will be amortized over an eight quarter period ending on December 31, 2012.*
(3) *Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.*

Note 18 – Interest Rate Sensitivity

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at March 31, 2012:

								March 31, 2012
	Floating rate or within 1 month	**1 to 3 months**	**4 months to 1 year**	**Total within 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest sensitive**	**Total[1]**
Total assets	**$ 1,572,446**	**$ 462,888**	**$ 1,666,435**	**$ 3,701,769**	**$ 5,548,830**	**$ 1,129,462**	**$ 90,177**	**$ 10,470,238**
Total liabilities and equity[2]	**(879,730)**	**(506,684)**	**(2,312,239)**	**(3,698,653)**	**(5,141,417)**	**(1,092,791)**	**(537,377)**	**(10,470,238)**
Off-balance sheet items[3]	**-**	**(186,756)**	**117,660**	**(69,096)**	**118,963**	**(49,867)**	**-**	**-**
Interest rate sensitive gap	**$ 692,716**	**$ (230,552)**	**$ (528,144)**	**$ (65,980)**	**$ 526,376**	**$ (13,196)**	**$ (447,200)**	**$ -**
Cumulative gap[2]	**$ 692,716**	**$ 462,164**	**$ (65,980)**	**$ (65,980)**	**$ 460,396**	**$ 447,200**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**6.62%**	**4.41%**	**(0.63%)**	**(0.63%)**	**4.40%**	**4.27%**	**0.00%**	**0.00%**

								December 31, 2011
	Floating rate or within 1 month	1 to 3 months	4 months to 1 year	Total within 1 year	1 year to 5 years	Over 5 years	Non-interest sensitive	Total[1]
Cumulative gap[2][3]	$ 759,527	$ 529,876	$ 51,677	$ 51,677	$ 413,155	$ 419,083	$ -	$ -
Cumulative gap as a percentage of total assets	7.40%	5.17%	0.50%	0.50%	4.03%	4.09%	0.00%	0.00%

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

DIRECTORS

Austin Beutel

Chairman, Oakwest Corporation Limited, an investment holding company

Eric Beutel

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

Joseph Dickstein

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

Eric Kirzner

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

David LeGresley

Corporate Director

Lynn McDonald

Corporate Director

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Trust

Katherine Rethy

Corporate Director and President, KAR Development Corp., a leadership consulting company

Lionel Robins

President, PFDL Investments Limited, an investment holding company

Morris Shohet

Principal, The Dorchester Corporation, a real estate investment company

Michael Shulman

President, The Birchwood Group Inc., an investment holding company

OFFICERS

Andrew Moor

President and Chief Executive Officer of the Company and Equitable Trust

Tim Wilson

Vice-President and Chief Financial Officer of the Company and Equitable Trust

William Edmunds

Senior Vice-President and Chief Risk Officer of Equitable Trust

Kimberley Graham

Vice-President, General Counsel, Chief Compliance Officer and Secretary of the Company and Equitable Trust

Kimberly Kukulowicz

Vice-President, Residential Sales and Partner Relationships of Equitable Trust

Brian Leland

Vice-President, Residential Credit of Equitable Trust

Tamara Malozewski

Vice-President, Finance of the Company and Equitable Trust

David Soni

Vice-President, Risk Policy of Equitable Trust

Jody Sperling

Vice-President, Human Resources of Equitable Trust

Ron Tratch

Vice-President, Commercial Credit of Equitable Trust

John Simoes

Controller of Equitable Trust

Nicholas Strube

Treasurer of Equitable Trust

SHAREHOLDER AND CORPORATE INFORMATION

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Stock Listings
TSX: ETC and ETC.PR.A

Annual Meeting of Shareholders
Tuesday, May 15, 2012, 10 a.m. EST
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario, Canada

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