SECOND QUARTER 2012
INTERIM FINANCIAL STATEMENTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three and six months ended June 30, 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") and six months ended June 30, 2012. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 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 August 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 "Second Quarter Overview", "Business Outlook", "Net Interest Income", "Non-Interest Expenses", "Income Taxes", "Mortgage Portfolio", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Deposits", "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.

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 offering insured deposits 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 disciplined approach to credit evaluation and collections. At June 30, 2012, Single Family represented $2.5 billion (or 26%) 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 underwriting capabilities, and the 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 91% at June 30, 2012 – are secured by multi-unit residential properties and are underwritten by the Company's commercial credit team. The remaining 9% 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, but have not yet been securitized.

The Single Family and Commercial segments above are collectively referred to as Equitable's "Core Lending" business. At period end, 47% of the Company's portfolio consisted of mortgages in the Core Lending business and 53% consisted of mortgages in the Securitization Financing segment.

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

FINANCIAL OVERVIEW

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
OPERATIONS				
Net income	**22,073**	15,735	**40,013**	31,799
Net income available to common shareholders	**21,167**	14,829	**38,201**	29,987
EPS – basic	**$ 1.41**	$ 0.99	**$ 2.54**	$ 2.00
EPS – diluted	**$ 1.40**	$ 0.98	**$ 2.52**	$ 1.99
Total revenue	**117,824**	107,453	**234,198**	211,910
Net interest income	**38,451**	32,461	**74,975**	63,666
Net interest margin – TEB – total assets[(1)(2)(3)]	**1.49%**	1.43%	**1.47%**	1.44%
Net interest margin – TEB – non-securitization assets[(1)(2)(3)]	**2.49%**	2.53%	**2.53%**	2.52%
Net interest margin – TEB – securitization assets[(1)(2)(3)]	**0.49%**	0.46%	**0.46%**	0.49%
Return on equity – annualized[(2)]	**21.1%**	16.8%	**19.4%**	17.4%
Return on average assets – annualized[(2)]	**0.8%**	0.6%	**0.7%**	0.7%
Mortgage production – Core Lending	**639,412**	411,625	**1,086,496**	810,809
Mortgage production – Securitization Financing	**115,698**	194,673	**230,529**	448,723
Productivity ratio – TEB[(2)(3)(4)]	**30.6%**	28.7%	**30.7%**	28.1%
BALANCE SHEET				
Total liquid assets			**975,994**	806,575
Total assets			**10,867,531**	9,567,355
Total liquid assets as a % of non-securitization assets			**17.7%**	17.9%
Total liquid assets as a % of total assets			**9.0%**	8.4%
Mortgages receivable			**9,978,718**	8,864,357
Shareholders' equity			**462,473**	408,715
COMMON SHARES				
Number of common shares outstanding at period end			**15,073,873**	14,979,482
Dividends declared per common share			**$ 0.24**	$ 0.22
Book value per common share			**$ 27.46**	$ 24.05
Common share price – close			**$ 25.74**	$ 28.75
Dividends declared per preferred share			**$ 0.91**	$ 0.91
Market capitalization			**388,001**	430,660
EQUITABLE TRUST CAPITAL RATIOS				
Tangible common equity ratio[(2)]			**12.0%**	12.8%
Tier 1 capital ratio[(2)]			**13.4%**	14.4%
Total capital ratio (including collective allowance)[(2)]			**15.6%**	17.1%
CREDIT QUALITY				
Realized loan losses – net of recoveries			**502**	6,116
Net impaired mortgages as a % of total mortgage assets[(5)]			**0.27%**	0.29%
Gross impaired mortgage assets			**31,226**	31,018
Allowance for credit losses			**23,068**	19,142
Allowance for credit losses as a % of total mortgage assets			**0.23%**	0.22%

(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) *For purposes of improving comparability across periods, the 2012 TEB adjustment has been calculated excluding the investment gain related to one of the Company's security portfolio investments.*
(4) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(5) *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.*

SECOND QUARTER OVERVIEW

During the second 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 productivity. In particular, activity in the Single Family segment contributed to strong growth in the Company's mortgage book. Management believes that performance is a reflection of the Company's continued focus on customer service and of recent changes in the competitive landscape. As a result:

- Core Lending mortgage principal outstanding amounted to $4.7 billion at period end, up 24% from a year ago (see Table 4);
- Single Family mortgage principal balances grew 37% year-over-year to $2.5 billion, and now represents 54% of total Core Lending mortgage principal, up from 49% a year ago (see Table 4);
- Second quarter Core Lending production was $639 million compared to $412 million a year ago; and
- Single Family mortgage production was particularly strong with a 65% year-over-year increase (see Table 7).

Growth in Equitable's mortgage portfolio helped to deliver strong performance across key operating metrics:

- Diluted earnings per share ("EPS")of $1.40 were up 43% from $0.98 in the second quarter of 2011
- Net income increased 40% over the same period of the prior year to $22.1 million, a new second quarter record
- Net interest income was $38.5 million, up 18% from $32.5 million in the corresponding period of 2011
- Return on equity ("ROE") was 21.1%, up from 17.7% in the prior quarter and 16.8% in the second quarter of 2011
- Net impaired mortgages were 0.27% of total mortgage assets at the end of the second quarter, down from 0.28% at March 31, 2012 and 0.29% at the end of June 30, 2011
- Equitable Trust's total capital ratio was 15.6% at June 30, 2012, up from 15.3% at the end of fiscal 2011 and compared to 16.6% at the end of Q2 2011

As a result of the Company's consistently strong financial performance and capital position, the Board of Directors has approved a 17% increase in the quarterly dividend from $0.12 to $0.14 per share, commencing with the dividend to be paid on October 4, 2012 to common shareholders of record at the close of business on September 15, 2012. This is the third dividend increase since the beginning of 2011 and reflects the Company's commitment to deliver shareholder value through both steady dividend growth and increases in book value.

Consistent with previous disclosures, results in the second quarter reflected an investment gain of $0.24 per share [diluted] related to one of the Company's security portfolio holdings. The gain is reflected in a lower effective tax rate during the quarter.

The following table presents certain financial metrics adjusted to remove the effect of this investment gain from the 2012 figures:

Adjusted selected financial information

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Adjusted net income	**$ 18,461**	$ 15,735	**$ 36,401**	$ 31,799
Adjusted EPS – basic	**$ 1.17**	$ 0.99	**$ 2.30**	$ 2.00
Adjusted EPS – diluted	**$ 1.16**	$ 0.98	**$ 2.28**	$ 1.99
Adjusted ROE – annualized	**17.5%**	16.8%	**17.7%**	17.4%

With respect to net interest income, the Company measures its profitability 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. For purposes of improving comparability across periods, the 2012 TEB adjustment in this report has been calculated excluding the dividend associated with the tax benefit discussed above.

BUSINESS OUTLOOK

Management is confident that the Company's momentum in the first half of 2012, and consumer demand for its lending products, will carry into the second half of the year and that on a year-over-year basis Equitable will be able to grow earnings, maintain healthy capital levels and enhance 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. Following on its successful expansion into the Province of Saskatchewan in 2011, Equitable began lending in the Halifax-Dartmouth area in June of this year, with the objective of increasing its presence in the single family residential market on the east coast. Management believes that this market provides an opportunity to further grow the Company's residential mortgage book and diversify its geographic profile.

The regulatory environment was active again in the quarter, and management believes that the developments have the potential, on a net basis, to positively impact Equitable. In June, the Minister of Finance announced changes to CMHC's high ratio residential mortgage insurance program, which does not affect Equitable directly because the Company offers only conventional residential mortgages. In addition, OSFI recently finalized "Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures" ("B-20"), which prescribes specific underwriting practices for regulated Canadian lenders. Equitable is already compliant with the majority of B-20's provisions, and does not expect that the changes it must make in order to be fully compliant will materially alter its operational practices or business strategy. While the downside appears limited, management believes that Equitable may benefit from these developments if competitors change their lending or pricing practices in response thereto.

Equitable continues to closely monitor the economic and credit market landscape, and management's view is that there is currently an elevated level of risk in the housing market. Accordingly, the Company remains vigilant with respect to risk as it pursues its strategy in 2012. Management has long focused on markets where it believes long-term fundamentals support the demand for real estate, principally in urban centres 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. Management will continue to apply this approach, along with its traditional discipline in setting loan-to-value ratios, its assessment of customers' ability to service their debt, and other prudent lending criteria going forward. Consequently, management expects defaults and arrears to remain low through the balance of 2012.

To supplement its prudent lending approach, the Company actively manages its potential exposures. As a result of market conditions over the past several years, Equitable has tightened its lending criteria, scaled-back lending activities, or avoided areas in which it believes prices have escalated beyond levels that are sustainable over the long-term, such as the downtown Toronto condominium market and parts of British Columbia.

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 accordingly the Company does not anticipate changes in the prime rate of interest from its current low level this year. Nonetheless, the Company recently increased pricing in its single family lending business relative to standard posted rates, the impact of which will be gradually reflected in net interest margins over time. The Company expects GIC and securitization funding rates to remain near or at current levels throughout 2012, and as such, overall net interest margins ("NIM") to remain stable this year.

The GIC market remains a reliable and inexpensive source of funding for Equitable's business. The NHA MBS and CMB securitization programs also continue to be a source of cost effective and liquid funding for the Company's insured multi-unit residential mortgages. 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 in the immediate future. The Company has, however, worked with its partners to define new structures that will allow it to originate insured multi-unit residential mortgages, sell the mortgages and transfer the associated risks, and to realize an up-front gain on the transaction. Management believes that these proposed transactions will allow the Company to increase its multi-unit residential originations well beyond current levels. There is still some uncertainty regarding the regulatory treatment of the transactions and the Company hopes to obtain clarity from OSFI shortly.

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 be just above levels reported for the prior year. In Q2, the Company announced an Employee Share Purchase Plan, through which employees are provided an opportunity to invest in shares of Equitable and have their contributions matched at a 50% rate by the Company up to specified maximums. The plan is intended to increase employee engagement and make Equitable's compensation program more competitive, without significantly increasing the Company's non-interest expense run-rate.

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 should they arise, to maintain its capital strength. In addition, the Company has the option to redeem some of its existing debt during 2013 and 2014, and if it exercises those options it may choose to replace the debt with new issues. During the quarter, Equitable was pleased that DBRS recognized the solid financial position of the Company and the quality of its growing asset base by issuing investment grade ratings on the senior debt of Equitable Group Inc., and on the deposits, senior debt, and subordinated debt of the Equitable Trust Company. This rating gives Equitable the opportunity to raise capital at a lower cost in the future.

Management is confident that the trends driving demand in Equitable's niches and through the independent broker channel – including growth in business-for-self Canadians and in immigration – will remain well entrenched for the long term. Consequently, management believes that significant business opportunities lie ahead.

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 1 of this MD&A.**

FINANCIAL REVIEW - EARNINGS

Net Income

Second quarter 2012 net income increased 40% year-over-year to $22.1 million from $15.7 million in the corresponding period of 2011. Net income available to common shareholders increased 43% to $21.2 million from $14.8 million in the second quarter of 2011. Diluted earnings per share for the quarter increased 43% to $1.40 from $0.98 in the same period of 2011.

The increase in net income resulted primarily from higher mortgage interest income and an investment gain related to one of the Company's securities portfolio holdings. Those gains were partly offset by interest and non-interest expenses that were 5% and 26% higher, respectively. Excluding the impact of the investment gain, net income for the second quarter of 2012 was $18.5 million and diluted earnings per share were $1.16.

Net Interest Income

Net interest income is the main driver of profitability for the Company and is measured on a TEB. Net interest income – TEB increased $5.8 million or 17% to $39.3 million in the second quarter of 2012 compared to the $33.4 million earned during the same period of 2011.

Total interest revenues, using the TEB approach, increased 9% year-over-year to $118 million in the second quarter. Underpinning this result was 9% 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 17% and 2% growth in non-securitized and securitized mortgage income, respectively. The positive effect of the growth in mortgage balances was offset in part by a lower revenue yield on both its non-securitized and securitized mortgage assets. Revenue yields were lower in both portfolios because the average interest rates on loans have come down over time as a result of Canada's continued low interest rate environment.

During the second quarter of 2012, interest expense on deposits increased by $3.3 million or 12% over the corresponding 2011 period due primarily to higher average GIC balances that were required to support the Company's matched mortgage portfolio. Funding costs on GICs declined 21 basis points during the quarter relative to those experienced in the corresponding quarter of the prior year, and partly offset the 21% growth in average GIC balances. During the second quarter of 2012, interest expense related to the Company's securitization liabilities increased only $0.6 million or 1% over the corresponding 2011 period, as the impact of 7% growth in the securitization liability was offset by 21 basis points lower securitization funding costs.

Total NIM was 1.49% in the second quarter of 2012, up from the 1.43% achieved in the corresponding prior year quarter. NIM on non-securitized assets was 2.49% in the second quarter of 2012 compared to 2.53% in the prior year quarter, as reductions in the revenue yield on these assets slightly outweighed the reduced rates paid on GICs. NIM on securitized mortgages of 0.49% in the second quarter of 2012 was 0.03% higher than the prior year quarter due to the decline in securitization funding rates having a greater impact than the decrease in the revenue yield on the mortgage portfolio. 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's overall NIM 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.

In the second quarter of 2012, total NIM was 4 basis points higher than the NIM realized in the first quarter of year. The strengthening of the NIM reflects the continued shift in mix towards non-securitized mortgages.

Table 2 outlines the components of the Company's net interest income, as well as NIM for the three and six month periods ended June 30, 2012 and the corresponding prior year periods on a TEB.

Table 2: Net interest income

	Three months ended June 30, 2012		Three months ended June 30, 2011		**Six months ended June 30, 2012**		Six months ended June 30, 2011	
($ THOUSANDS)	**Revenue/ expense**	**Average rate[1]**	Revenue/ expense	Average rate[1]	**Revenue/ expense**	**Average rate[1]**	Revenue/ expense	Average rate[1]
Revenues derived from:								
Assets:								
Liquidity investments	**$ 2,186**	**1.50%**	$ 1,998	1.74%	**$ 4,139**	**1.52%**	$ 3,815	1.66%
Equity securities – TEB	**2,839**	**6.59%**	2,866	5.80%	**5,227**	**5.88%**	5,254	5.53%
Mortgages – non-securitized	**58,973**	**5.15%**	50,474	5.38%	**116,160**	**5.22%**	98,323	5.40%
Mortgages – Securitized	**53,598**	**4.14%**	52,610	4.30%	**108,057**	**4.16%**	104,762	4.37%
Total interest earning assets – TEB	**$ 117,596**	**4.48%**	$ 107,948	4.64%	**$ 233,583**	**4.51%**	$ 212,154	4.67%
Total assets – TEB	**$ 117,596**	**4.45%**	$ 107,948	4.62%	**$ 233,583**	**4.48%**	$ 212,154	4.65%
Expenses related to:								
Liabilities and shareholders' equity:								
Deposits	**$ 31,589**	**2.58%**	$ 28,251	2.79%	**$ 61,939**	**2.61%**	$ 54,991	2.79%
Securitization liability	**45,675**	**3.66%**	45,111	3.87%	**92,849**	**3.71%**	89,380	3.91%
Bank term loans	**202**	**6.51%**	203	6.50%	**404**	**6.51%**	403	6.50%
Subordinated debentures	**868**	**6.63%**	870	6.63%	**1,737**	**6.63%**	1,732	6.63%
Other interest bearing liabilities	**4**	**1.60%**	78	1.84%	**5**	**1.62%**	107	2.14%
Total interest bearing liabilities	**$ 78,338**	**3.15%**	$ 74,513	3.39%	**$ 156,934**	**3.20%**	$ 146,613	3.41%
Total liabilities and shareholders' equity	**$ 78,338**	**2.97%**	$ 74,513	3.19%	**$ 156,934**	**3.01%**	$ 146,613	3.21%
Net interest income – TEB	**$ 39,258**		$ 33,435		**$ 76,649**		$ 65,541	
Less: Taxable equivalent adjustment	**(807)**		(974)		**(1,674)**		(1,875)	
Net interest income	**$ 38,451**		$ 32,461		**$ 74,975**		$ 63,666	
Net interest margin – TEB								
Non-securitized assets[2]	**$ 32,758**	**2.49%**	$ 27,663	2.53%	**$ 64,419**	**2.53%**	$ 53,785	2.52%
Securitized assets[2]	**6,500**	**0.49%**	5,772	0.46%	**12,230**	**0.46%**	11,756	0.49%
Total assets – TEB[2]	**$ 39,258**	**1.49%**	$ 33,435	1.43%	**$ 76,649**	**1.47%**	$ 65,541	1.44%

(1) *Average rates are calculated based on the average of the month-end balances outstanding during the period.*

(2) *Net interest margin – TEB on non-securitized assets and total assets was 2.86% and 1.67%, respectively, if the TEB adjustment is calculated including the investment gain associated with one of the Company's security portfolio holdings.*

Non-interest Expenses

The year-over-year increase of $2.6 million or 26% in non-interest expenses reflected healthy growth in the Company's underlying business, the annualization effects of prior year investments, as well as the Company's legal and regulatory environment. As in Q1 2012, a significant portion of the expense increase was due to 2011 growth in Equitable's employee base and the related operating costs, investments that were necessary to operate as a regulated entity and to maintain the high levels of service provided to brokers and borrowers, a competitive advantage of the Company. Accordingly, year-over-year growth rates are expected to decrease as the Company moves through the quarters in 2012. The remainder of the increase resulted largely from legal and compliance costs that are associated with the alleged external fraud that the Company experienced in the prior year and with the regulatory environment, systems maintenance costs, and additional hires during 2012.

The Company continues to operate efficiently on both 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 was 30.6% in the second quarter of 2012 compared to 28.7% in the prior year period, with the increase attributable to the factors discussed

above. 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, the Company's need to staff its operations commensurate with volume expectations, and the legal and regulatory environment. Management expects productivity ratios to stabilize at lower levels than in Q2 over the remaining quarters of 2012 and on a full year basis.

Income Taxes

The Company's effective income tax rate in the second quarter of 2012 was 13.1% compared to 25.2% in the corresponding quarter of the prior year, largely due to the investment gain realized in Q2 2012 that was discussed earlier in this MD&A. Excluding the effects of this investment gain, the Company's effective tax rate was 27.3% in Q2 2012. The Company's statutory tax rate was 26.3% for the second quarter of 2012 compared to 28.0% in the corresponding period of the prior year. With the effect of the investment gain excluded, the Company's effective tax rate in Q2 2012 was higher than the statutory tax rate as a result of non-deductible expenses, movements of the Company's temporary differences, and other adjustments, offset by tax-exempt dividend income earned from its preferred securities portfolio. For the balance of 2012, the Company expects that its tax rate will be slightly above its statutory rate, but that it will fall below statutory levels in 2013.

Dividends

On August 9, 2012, the Company's Board of Directors declared a quarterly dividend in the amount of $0.14 per common share, payable on October 4, 2012, to common shareholders of record at the close of business on September, 15, 2012.

Also, on August 9, 2012, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on September 30, 2012, to preferred shareholders of record at the close of business on September 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 June 30, 2012 to $10.0 billion.

Table 3 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

						June 30, 2012
($ THOUSANDS)		**Non-securitized**		**Securitized**		**Total**
Mortgage principal	**$**	**4,729,680**	**$**	**5,216,171**	**$**	**9,945,851**
Net deferred fees and sundry		**(2,582)**		**22,728**		**20,146**
Accrued interest		**19,263**		**16,526**		**35,789**
Total mortgage assets		**4,746,361**		**5,255,425**		**10,001,786**
Allowance for credit losses		**(23,068)**		**-**		**(23,068)**
Total mortgages receivable	**$**	**4,723,293**	**$**	**5,255,425**	**$**	**9,978,718**
		47.3%		**52.7%**		**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%

						June 30, 2011
($ THOUSANDS)		Non-securitized		Securitized		Total
Mortgage principal	$	3,869,373	$	4,954,845	$	8,824,218
Net deferred fees and sundry		(312)		27,380		27,068
Accrued interest		15,750		16,463		32,213
Total mortgage assets		3,884,811		4,998,688		8,883,499
Allowance for credit losses		(19,142)		-		(19,142)
Total mortgages receivable	$	3,865,669	$	4,998,688	$	8,864,357
		43.6%		56.4%		100.0%

The Company's non-securitized mortgage principal increased by $860 million or 22% during the 12 months ended June 30, 2012 to $4.7 billion. This increase reflected the successful ongoing emphasis management has placed on growing its Core

Lending portfolio – particularly single family residential mortgages. The securitized portfolio increased by $261 million or 5% during the 12 months ended June 30, 2012 to $5.2 billion.

Mortgage Assets by Lending Business

Each of the Company's Core Lending businesses posted double digit growth rates on a year-over-year basis. Single Family showed particular strength, with mortgage principal in that segment up by 37% over June of last year. Single Family's growth gained momentum in Q2 of 2012, as balances were up 11% over March 31, 2012 even with $79 million of securitizations in the period. Growth was attributable to strong origination volumes and the Company's success in retaining mortgages that were up for renewal. Commercial mortgage principal experienced a slight decrease quarter-over-quarter due to a higher than normal level of discharges.

The Securitization Financing portfolio grew by $212 or 4% in Q2 2012 compared with the same quarter of the prior year. 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 and an additional $79 million in the second quarter of 2012. Prior to securitization, those mortgages were reported in its Core Lending balances. The remainder of the growth was attributable to originations of multi-unit residential properties net of prepayments and natural amortization.

Table 4: Mortgage principal outstanding – by lending business

	June 30, 2012		December 31, 2011		June 30, 2011	
($ THOUSANDS)		**% of total**		% of total		% of total
Single Family Lending Services	**$ 2,537,802**	**25.5%**	$ 2,076,659	21.8%	$ 1,851,463	21.0%
Commercial Lending Services	**2,169,097**	**21.8%**	2,188,593	22.9%	1,945,333	22.0%
Mortgages – Core Lending	**4,706,899**	**47.3%**	4,265,252	44.7%	3,796,796	43.0%
CMHC-insured mortgages held for securitization	**22,781**	**0.2%**	1,340	0.0%	72,577	0.8%
Securitized Mortgages[1]	**5,216,171**	**52.4%**	5,271,561	55.3%	4,954,846	56.2%
Mortgages – Securitization Financing	**5,238,952**	**52.7%**	5,272,901	55.3%	5,027,423	57.0%
Total mortgage principal outstanding	**$ 9,945,851**	**100.0%**	$ 9,538,153	100.0%	$ 8,824,219	100.0%
Non-securitized mortgage principal[2]	**$ 4,729,680**	**47.6%**	$ 4,266,592	44.7%	$ 3,869,373	43.8%

[1] *Includes $249.0 million (December 31, 2011 – $ 256.7 million, June 30, 2011 – $72.4 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 53% of the mortgage principal outstanding at June 30, 2012 compared to 58% in the corresponding period of the prior year, which reflected greater emphasis on the Company's Core Lending portfolio (see Tables 4 and 5);
- Fixed rate mortgages represented 89% of the portfolio at June 30, 2012, compared to 91% at June 30, 2011;
- Floating rate mortgages with interest rate floors amounted to 6% of the portfolio as at June 30, 2012; and
- Floating rate mortgages that had no interest rate floors represented the remaining 5% of the portfolio at June 30, 2012.

Management believes that the Company's mortgage portfolio is diversified across geographies and will become more so over time as the Company expands its national presence. At June 30, 2012, 58% of the Company's mortgages were secured by properties located in Ontario. Of the remaining portfolio, 15% is located in Alberta, 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 diversified across property types, and as a result its exposure to residential and commercial real estate borrowers is well balanced. Mortgages on single family dwellings increased by $789 million or 34% from Q2 2011, consistent with the Company's strategy of shifting the mix of its Core Lending business towards lower risk-weighted assets. At June 30, 2012, single family dwelling mortgages comprised 31% of the portfolio, up from 26% in the same period in 2011.

Table 5: Mortgage principal outstanding – by property type

							June 30, 2012
($ THOUSANDS)		**Uninsured**		**Insured**		**Total**	**% of total**
Single family dwelling	**$**	**2,587,717**	**$**	**54,863**	**$**	**2,642,580**	**26.6%**
Mixed-use property		**349,321**		**-**		**349,321**	**3.5%**
Multi-unit residential		**473,108**		**1,055**		**474,163**	**4.8%**
Commercial		**882,525**		**-**		**882,525**	**8.9%**
Mortgages held for sale		**15,705**		**14,131**		**29,836**	**0.3%**
Construction		**328,474**		**-**		**328,474**	**3.3%**
Mortgage principal – Core Lending		**4,636,850**		**70,049**		**4,706,899**	**47.3%**
Single family dwelling		**-**		**457,298**		**457,298**	**4.6%**
Multi-unit residential		**-**		**4,781,654**		**4,781,654**	**48.1%**
Mortgage principal – Securitization Financing		**-**		**5,238,952**		**5,238,952**	**52.7%**
Total mortgage principal outstanding	**$**	**4,636,850**	**$**	**5,309,001**	**$**	**9,945,851**	**100.0%**
		46.6%		**53.4%**		**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%	

($ THOUSANDS)	Uninsured	Insured	Total	June 30, 2011 % of total
Single family dwelling	$ 1,942,092	$ 42,358	$ 1,984,450	22.5%
Mixed-use property	329,262	-	329,262	3.7%
Multi-unit residential	384,822	1,145	385,967	4.4%
Commercial	894,236	-	894,236	10.1%
Mortgages held for sale	16,017	12,300	28,317	0.3%
Construction	174,564	-	174,564	2.0%
Mortgage principal – Core Lending	$ 3,740,993	$ 55,803	$ 3,796,796	43.0%
Single family dwelling	-	326,312	326,312	3.7%
Multi-unit residential	-	4,701,110	4,701,110	53.3%
Mortgage principal – Securitization Financing	$ -	$ 5,027,422	$ 5,027,422	57.0%
Total mortgage principal outstanding	$ 3,740,993	$ 5,083,225	$ 8,824,218	100.0%
	42.4%	57.6%	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, or retained on the Company's balance sheet and reported as mortgages receivable – securitized. 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 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. The Company believes that it may have an opportunity to increase production in the future, however, by entering into transactions that effectively transfer the risks associated with the mortgages to third parties, and at the same time realizing an up-front gain on the transaction.

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

Three months ended				**June 30, 2012**
			Mortgage Principal	**Liability Principal**
($ THOUSANDS)	**Single family**	**Multi-unit residential**	**Total**	
Mortgages securitized and sold	**$ -**	**$ 126,113**	**$ 126,113**	**$ 126,113**
Mortgages securitized and retained	**78,909**	**-**	**78,909**	**-**
Total	**$ 78,909**	**$ 126,113**	**$ 205,022**	**$ 126,113**

Six months ended				**June 30, 2012**
			Mortgage Principal	**Liability Principal**
($ THOUSANDS)	**Single family**	**Multi-unit residential**	**Total**	
Mortgage securitized and sold	**$ -**	**$ 202,561**	**$ 202,561**	**$ 202,459**
Mortgage securitized and retained	**78,909**	**6,000**	**84,909**	**-**
Total mortgage principal	**$ 78,909**	**$ 208,561**	**$ 287,470**	**$ 202,459**

Three months ended				June 30, 2011
			Mortgage Principal	Liability Principal
($ THOUSANDS)	Single family	Multi-unit residential	Total	
Mortgages securitized and sold	$ -	$ 169,271	$ 169,271	$ 168,059
Mortgages securitized and retained	5,018	16,600	21,618	-
Total	$ 5,018	$ 185,871	$ 190,889	$ 168,059

Six months ended				June 30, 2011
			Mortgage Principal	Liability Principal
($ THOUSANDS)	Single family	Multi-unit residential	Total	
Mortgages securitized and sold	$ -	$ 387,036	$ 387,036	$ 386,462
Mortgages securitized and retained	8,921	40,770	49,691	-
Total	$ 8,921	$ 427,806	$ 436,727	$ 386,462

Mortgage Asset Production

Overall mortgage production was $755 million for the second quarter of 2012, up $149 million or 25% compared to the corresponding prior year quarter. Commensurate with Equitable's strategic focus, Core Lending production was up by $228 million or 55% over Q2 of the prior year and 64% of fundings during the quarter were for Single Family mortgages. Commercial mortgage production in the quarter was up by 32% compared with 2011, which contrasts to the 34% year-over-year decline experienced in Q1 2012. As planned, CMHC-insured multi-unit residential production decreased in Q2 2012 as compared with Q2 2011 due to the Company's reduced emphasis on its Securitization Financing business.

Table 7: Mortgage production – by lending business

	Three months ended				Six months ended			
	June 30, 2012		June 30, 2011		**June 30, 2012**		June 30, 2011	
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total
Single Family Lending Services	**$ 482,902**	**64.0%**	$ 293,441	48.4%	**$ 810,240**	**61.5%**	$ 510,052	40.5%
Commercial Lending Services	**156,510**	**20.7%**	118,184	19.5%	**276,256**	**21.0%**	300,757	23.9%
Mortgage production – Core Lending	**639,412**	**84.7%**	411,625	67.9%	**1,086,496**	**82.5%**	810,809	64.4%
Securitization Financing – CMHC-insured multi-unit residential	**115,698**	**15.3%**	194,673	32.1%	**230,529**	**17.5%**	448,723	35.6%
Total mortgage production	**$ 755,110**	**100.0%**	$ 606,298	100.0%	**$ 1,317,025**	**100.0%**	$ 1,259,532	100.0%

Single Family production has been strong and gaining momentum in recent quarters. Production levels have been consistently robust since the first quarter of 2011, and the 65% year–over–year growth in the second quarter of 2012 exceeded the 51% growth reported for Q1. Management believes that this success can be attributed to healthy demand for the Company's mortgages in its niche markets, Equitable's growing reputation for high quality service, and changes in the competitive landscape. Table 13 provides an overview of Single Family mortgage originations by quarter from Q3 2010 through to Q2 2012.

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)	**June 30, 2012**	December 31, 2011	June 30, 2011
Net realized loan (recoveries) losses for the three month period ended	**$ (20)**	$ 2,311	$ 3,216
Gross impaired mortgage assets[1]	**31,226**	28,196	31,018
Net impaired mortgage assets[1][2]	**26,874**	24,331	26,613
Allowance for credit losses	**23,068**	19,650	19,142
Allowance for credit losses as a % of total mortgage assets	**0.23%**	0.20%	0.22%
Mortgage principal in arrears 90 days or more[3]	**21,866**	20,770	23,716
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[3]	**0.22%**	0.22%	0.27%

[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 0.27% of total mortgage assets outstanding at June 30, 2012, compared to 0.28% at March 31, 2012 and 0.29% at the end of June 2011. Mortgages in arrears 90 days or more were 0.22% of total mortgage principal outstanding at June 30, 2012 compared to 0.25% at March 31, 2012 and 0.27% a year earlier. Mortgages in early stage delinquency, between 30 to 89 days past due, amounted to 0.23% of total outstanding principal at June 30, 2012, a decrease from 0.39% at March 31, 2012. 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 June 30, 2012, total allowances for credit losses as a percentage of total mortgage assets outstanding was 0.23%, compared to 0.22% at March 31, 2012. At June 30, 2012, individual allowances amounted to $4.4 million, up $0.5 million compared to the individual allowances outstanding at March 31, 2012. The Company recognized a net recovery of $20 thousand during the second quarter of 2012. As a measure of the adequacy of total allowances at the end of the second quarter of 2012, 74% of the portfolio's gross impaired mortgage assets were covered by the Company's total allowances for credit losses.

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 reduce its access to funding. In recent periods, due to the ongoing global macroeconomic and capital markets uncertainty, management has maintained higher than normal levels of liquidity, notwithstanding the impact on NIM. 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 $464 million in mortgage commitments issued by the Company that were outstanding at June 30, 2012.

The Company strengthened its liquidity position relative to its asset base slightly over the course of the second quarter primarily due to securitization proceeds received in June, consumer demand for its Cashable GIC product, and the need to position itself for seasonally strong July mortgage fundings. At June 30, 2012, assets held for the purpose of providing liquidity protection amounted to $812 million and represented 7.5% of Equitable Trust's total assets, compared to 6.4% at June 30, 2011. Liquidity levels have and will remain well in excess of those stipulated by current Company policy. While actual liquidity may vary period to period mainly due to the timing of securitization related cash flows and residential mortgage funding seasonality, management expects that balances will decrease slightly in the latter half of the year as mortgage fundings decline from their seasonal highs.

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 $976 million at June 30, 2012, compared to $807 million at June 30, 2011, and represented 9.0% of the Company's total assets.

Equity securities in which the Company invests are comprised of common and preferred shares that are held to yield tax-preferred dividend income, and are classified as at fair value through income and as available for sale assets for accounting purposes, respectively. Unrealized changes in the fair value of the Company's common share portfolio are included in income while unrealized changes in the fair value of the preferred share portfolio are included in other comprehensive income, net of tax. At June 30, 2012, equity securities were $29.7 million or 15% lower than at June 30, 2011. The decrease resulted from $10.3 million in net sales and redemptions, $3.0 million of premium amortization and $3.3 million in realized and unrealized losses. With respect to the investment gain discussed above, Equitable recorded a reduction in the balance of the common share investment of $13.1 million which was offset by the receipt $13.7 million in associated dividend income.

Table 9: Liquid assets

($ THOUSANDS)	June 30, 2012	December 31, 2011	June 30, 2011
Eligible deposits with regulated financial institutions[1]	**$ 304,938**	$ 170,558	$ 264,520
Debt securities issued by regulated financial institutions	**125,902**	94,999	80,041
Government issued or guaranteed debt instruments:			
Investments purchased under reverse repurchase agreements	**85,243**	9,967	5,115
Debt securities issued by Government of Canada	**33,873**	34,145	33,912
Debt securities guaranteed by Government of Canada	**25,358**	28,400	43,044
Mortgages held in the form of debt securities guaranteed by Government of Canada[2]	**236,541**	247,785	220,310
Obligations under repurchase agreements	**–**	–	(34,298)
Assets held for regulatory purposes	**$ 811,855**	$ 585,854	$ 612,644
Other deposits with regulated financial institutions	**99**	287	204
Equity securities	**164,040**	198,245	193,727
Total liquid assets	**$ 975,994**	$ 784,386	$ 806,575
Total assets held for regulatory purposes as a % of total Equitable Trust assets	**7.5%**	5.7%	6.4%
Total liquid assets as a % of total assets	**9.0%**	7.6%	8.4%

[1] Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $18.9 million (December 31, 2011 – $16.2 million, June 30, 2011 – $7.9 million) of restricted cash held as collateral by third parties for the Company's interest rate swap transactions and $47.6 million (December 31, 2011 – $66.9 million, June 30, 2011 – $40.4 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 financial institution offering insured deposits, 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 was $5.1 billion at June 30, 2012, which is an increase of $599 million or 13% from December 31, 2011 and an increase of $969 million or 23% from June 30, 2011. At June 30, 2012, Cashable GICs represented 15% of total deposits outstanding, consistent with 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)	June 30, 2012	December 31, 2011	June 30, 2011
Deposits – cashable GICs	**$ 774,108**	$ 700,301	$ 605,074
Deposits – fixed-term GICs	**4,359,794**	3,834,837	3,559,831
	5,133,902	4,535,138	4,164,905
Deferred deposit agent commissions	**(11,856)**	(12,151)	(11,898)
Accrued interest	**109,557**	104,917	101,264
Total	**$ 5,231,603**	$ 4,627,904	$ 4,254,271

Securitization Liabilities

The current structure of the Company's securitization transactions does not qualify the securitized mortgages for balance sheet derecognition under IFRS and therefore the associated obligations are recognized on the Consolidated Balance Sheet and accounted for as secured financing.

Table 11: Securitization liabilities

($ THOUSANDS)	**June 30, 2012**	December 31, 2011	June 30, 2011
Securitization principal	**$ 5,066,760**	$ 5,093,981	$ 4,778,325
Deferred net discount and issuance costs	**(11,362)**	(14,346)	(23,667)
Accrued interest	**20,925**	21,286	21,583
Total	**$ 5,076,323**	$ 5,100,921	$ 4,776,241

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 totalled $24.8 million at June 30, 2012, down from $28.6 million at December 31, 2011 and compared to $21.2 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 during 2012.

The Company is in compliance with all of the covenants required by its bank loan facilities, $12.5 million of which remained outstanding at June 30, 2012. Details related to the Company's bank term loans can be found in Note 13 to the interim consolidated financial statements for Q2 2012 and in Note 16 to the audited consolidated financial statements found within the Company's 2011 Annual Report. Details related to the Company's subordinated debentures can be found in Note 17 to the audited consolidated financial statements found within the Company's 2011 Annual Report.

Shareholders' Equity

Total shareholders' equity increased $35.8 million or 8% to $462 million at June 30, 2012 from $427 million at December 31, 2011 and increased $53.8 or 13% over June 30, 2011. The growth was mainly due to the high level of earnings retained by the Company, partly offset by fair value adjustments 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 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 positioned to maintain strong capital levels through the retention of earnings and the management of its risk-weighted asset balances. Management believes that its earnings in future periods will generate adequate organic capital growth to support its strategic objectives and ongoing growth.

During the second quarter of 2012, Equitable Trust's capital ratios remained in excess of expected Basel III standards for 2019. Equitable Trust's total capital ratio was 15.6% at June 30, 2012, up from 15.3% at December 31, 2011 and as compared to 16.6% at June 30, 2011. Equitable Trust's Tier 1 regulatory capital position was 13.4% compared to 13.4% and

14.4% at December 31, 2011 and June 30, 2011, respectively. Capital ratios were down year-over-year due to high relative growth in the Company's uninsured asset base, the effects of which more than offset an 11% increase in the Company's regulatory capital and the benefits of shifting towards lower risk-weighted single family residential mortgage assets.

Also as at June 30, 2012, the Company's 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 12.8% one year earlier.

Table 12: Capital measures of Equitable Trust

($ THOUSANDS, EXCEPT ACM)	**June 30, 2012**	December 31, 2011	June 30, 2011
Risk-weighted assets:			
Credit risk	**$ 3,332,165**	$ 3,166,717	$ 2,826,943
Operational risk[1]	**234,360**	217,088	198,031
Total risk-weighted assets	**$ 3,566,525**	$ 3,383,805	$ 3,024,974
Tier 1 capital:			
Common shares	**$ 133,715**	$ 132,819	$ 130,533
Non-cumulative preferred shares	**50,000**	50,000	50,000
Contributed surplus	**4,498**	4,303	3,877
Retained earnings	**283,555**	248,752	224,048
Accumulated other comprehensive loss[2]	**(2,754)**	(2,095)	(247)
IFRS transition adjustment[3]	**9,466**	18,931	28,396
Total	**478,480**	452,710	436,607
Tier 2 capital:			
Collective allowance (Tier 2A)[4]	**18,716**	-	-
Subordinated debentures (Tier 2B)[5]	**60,781**	65,171	65,171
Total	**79,497**	65,171	65,171
Total regulatory capital	**$ 557,977**	$ 517,881	$ 501,778
Regulatory capital to risk-weighted assets:[6]			
Tier 1 capital	**13.4%**	13.4%	14.4%
Tier 2 capital	**2.2%**	1.9%	2.2%
Total regulatory capital as a % of total risk-weighted assets	**15.6%**	15.3%	16.6%
Total capital calculated as defined under ICAAP:			
Total regulatory capital[4]	**$ 557,977**	$ 517,881	$ 501,778
Collective allowance[4]	**-**	15,785	14,737
Total capital as defined under ICAAP	**$ 557,977**	$ 533,666	$ 516,515
Total capital ratio as defined under ICAAP	**15.6%**	15.8%	17.1%
Tangible common equity ratio[6]	**12.0%**	11.9%	12.8%
Assets-to-capital multiple (ACM)	**13.4**	12.8	11.5

(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) Effective Q2 2012, Equitable Trust's collective allowance is included in the calculation of regulatory capital and in the capital calculated for the ICAAP.

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

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

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)	**Q2[1]**	Q1	Q4	Q3[2]	Q2	Q1	Q4[3]	Q3
OPERATIONS								
Net income	**22,073**	17,940	17,025	13,363	15,735	16,063	24,084	8,586
Net income available to common shareholders	**21,167**	17,034	16,119	12,456	14,829	15,157	23,178	7,679
EPS – basic	**$ 1.41**	$ 1.13	$ 1.07	$ 0.83	$ 0.99	$ 1.01	$ 1.55	$ 0.51
EPS – diluted	**$ 1.40**	$ 1.13	$ 1.07	$ 0.82	$ 0.98	$ 1.00	$ 1.54	$ 0.51
Net interest income	**38,451**	36,524	35,346	34,759	32,461	31,205	32,811	30,493
NIM – TEB – total assets[4][5]	**1.49%**	1.45%	1.41%	1.44%	1.43%	1.44%	1.53%	1.49%
NIM – TEB – non-securitization assets[4][5]	**2.49%**	2.57%	2.47%	2.44%	2.53%	2.51%	2.68%	2.57%
NIM – TEB – securitization assets[4][5]	**0.49%**	0.43%	0.45%	0.53%	0.46%	0.52%	0.56%	0.53%
Total revenues	**117,824**	116,374	114,336	112,744	107,453	104,457	106,897	100,675
Return on equity – annualized	**21.1%**	17.7%	17.3%	13.7%	16.8%	18.0%	28.6%	9.9%
Return on average assets – annualized	**0.8%**	0.7%	0.6%	0.5%	0.6%	0.7%	1.1%	0.4%
Productivity ratio – TEB[5]	**30.6%**	30.8%	29.7%	42.8%	28.7%	27.4%	25.2%	26.0%
MORTGAGE PRODUCTION								
Single Family Lending Services	**482,902**	327,338	361,045	389,833	293,441	216,611	348,373	384,380
Commercial Lending Services	**156,510**	119,747	192,530	268,060	118,184	182,574	46,735	89,553
Core Lending	**639,412**	447,085	553,575	657,893	411,625	399,185	395,108	473,933
Securitization financing	**115,698**	114,831	90,102	287,638	194,673	254,050	244,572	198,864
BALANCE SHEET								
Total liquid assets	**975,994**	836,770	784,386	956,922	806,575	753,956	799,740	783,699
Total assets	**10,867,531**	10,470,238	10,257,013	10,254,391	9,567,355	9,172,981	8,884,129	8,624,032
Mortgages receivable	**9,978,718**	9,687,878	9,577,087	9,422,939	8,864,357	8,560,408	8,217,301	7,963,445
Shareholders' equity	**462,473**	443,457	426,640	408,434	408,715	397,321	381,455	359,356
Book value per common share	**$ 27.46**	$ 26.26	$ 25.18	$ 24.02	$ 24.05	$ 23.32	$ 22.28	$ 20.83

(1) The Company recorded an after-tax investment gain of $3.6 million or $0.24 per share in the second quarter of 2012. Excluding the investment gain, net income in the period was $18.5 million, or $1.16 per diluted share; and ROE was 17.5%.

(2) 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%.

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

(4) NIM – TEB is calculated based on the average of the month-end balances outstanding during the period.

(5) For purposes of improving comparability across periods, the 2012 TEB adjustment has been calculated excluding the investment gain related to one of the Company's security portfolio holdings. Including the investment gain, the productivity ratio – TEB was 27.3%.

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. The Company does not expect the application of this standard to have a material impact on its results.

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 interim consolidated financial statements for the period ended June 30, 2012) and letters of credit issued in the normal course of business. Letters of credit in the amount of $788 were outstanding at June 30, 2012 (June 30, 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 equity securities to generate returns that meet an acceptable ROE threshold. Securities rated P-2 and higher comprised 67.5% of the preferred share equity securities portfolio at June 30, 2012, compared to 71.7% 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's main sources of funding come from deposits and the securitization of insured mortgage assets.

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 $812 million at June 30, 2012 and $613 million at June 30, 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 June 30, 2012, see Note 18 to the interim consolidated 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 on an after-tax basis. This measure is more comprehensive than measuring changes in net interest income given that it captures all interest rate mismatches across all terms.

Table 14 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 June 30, 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	$ 4,035	$ (3,247)
Impact on EVE	$ (3,232)	$ 4,731
EVE impact as a % of common shareholders' equity	(0.8%)	1.1%
200 basis point shift		
Impact on net interest income	$ 9,303	$ (3,248)
Impact on EVE	$ (5,838)	$ 8,076
EVE impact as a % of common shareholders' equity	(1.4%)	2.0%

[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 August 7, 2012, the Company had 15,081,588 common shares and 2,000,000 non-cumulative 5-year rate reset preferred shares issued and outstanding. In addition, there were also 670,427 unexercised stock options, which are or will be exercisable, to purchase common shares for maximum proceeds of $15.7 million.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the second quarter of 2012, there were no changes 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. Management 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 2012 reporting periods, the TEB adjustment has been calculated excluding the investment gain associated with one of the Company's security portfolio holdings. For the three months ended June 30, 2012, the TEB adjustment was $0.8 million as compared to $1.0 million during the corresponding period in 2011.
- ROE: 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 JUNE 30, 2012

With comparative figures as at December 31, 2011, June 30, 2011

($ THOUSANDS)

		June 30, 2012		December 31, 2011		June 30, 2011
Assets						
Cash and cash equivalents	**$**	**305,037**	$	170,845	$	264,724
Restricted cash		**66,537**		83,156		48,346
Securities purchased under reverse repurchase agreements		**101,351**		9,967		5,115
Investments *(Note 5)*		**391,169**		390,340		372,045
Mortgages receivable *(Note 6)*		**4,723,293**		4,262,147		3,865,669
Mortgages receivable – securitized *(Notes 6 & 7)*		**5,255,425**		5,314,940		4,998,688
Other assets *(Note 9)*		**24,719**		25,618		12,768
	$	**10,867,531**	$	10,257,013	$	9,567,355
Liabilities and Shareholders' Equity						
Liabilities:						
Deposits *(Note 10)*	**$**	**5,231,603**	$	4,627,904	$	4,254,271
Securitization liabilities *(Note 7)*		**5,076,323**		5,100,921		4,776,241
Obligations related to securities sold short		**1,515**		–		–
Obligations related to securities sold under repurchase agreements		**–**		–		34,298
Deferred tax liabilities *(Note 11)*		**5,666**		7,790		7,457
Other liabilities *(Note 12)*		**24,780**		28,587		21,202
Bank term loans *(Note 13)*		**12,500**		12,500		12,500
Subordinated debentures		**52,671**		52,671		52,671
		10,405,058		9,830,373		9,158,640
Shareholders' equity:						
Preferred shares *(Note 14)*		**48,494**		48,494		48,494
Common shares *(Note 14)*		**131,045**		129,771		129,054
Contributed surplus *(Note 15)*		**4,913**		4,718		4,292
Retained earnings		**288,596**		254,006		228,881
Accumulated other comprehensive loss		**(10,575)**		(10,349)		(2,006)
		462,473		426,640		408,715
	$	**10,867,531**	$	10,257,013	$	9,567,355

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012

With comparative figures for the three and six month periods ended June 30, 2011

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Interest income:				
Mortgages	**$ 58,973**	$ 50,474	**$ 116,160**	$ 98,323
Mortgages – securitized	**53,598**	52,610	**108,057**	104,762
Investments	**2,878**	2,648	**5,126**	4,927
Other	**1,340**	1,242	**2,566**	2,267
	116,789	106,974	**231,909**	210,279
Interest expense:				
Deposits	**31,589**	28,251	**61,939**	54,991
Securitization liabilities *(Note 7)*	**45,675**	45,111	**92,849**	89,380
Bank term loans	**202**	203	**404**	403
Subordinated debentures	**868**	870	**1,737**	1,732
Other	**4**	78	**5**	107
	78,338	74,513	**156,934**	146,613
Net interest income	**38,451**	32,461	**74,975**	63,666
Provision for credit losses *(Note 6)*	**1,693**	2,217	**3,920**	4,155
Net interest income after provision for credit losses	**36,758**	30,244	**71,055**	59,511
Other income:				
Fees and other income	**981**	790	**1,986**	1,644
Net gain (loss) on investments	**54**	(311)	**303**	(13)
	1,035	479	**2,289**	1,631
Net interest and other income	**37,793**	30,723	**73,344**	61,142
Non-interest expenses:				
Compensation and benefits	**6,965**	5,540	**13,535**	11,013
Other	**5,354**	4,208	**10,693**	7,850
	12,319	9,748	**24,228**	18,863
Income before income taxes and the undernoted fair value (loss) gain	**25,474**	20,975	**49,116**	42,279
Fair value (loss) gain on derivative financial instruments – securitization activities	**(85)**	48	**(34)**	367
Income before income taxes	**25,389**	21,023	**49,082**	42,646
Income taxes *(Note 11):*				
Current	**4,258**	5,149	**11,193**	10,476
Deferred	**(942)**	139	**(2,124)**	371
	3,316	5,288	**9,069**	10,847
Net income	**$ 22,073**	$ 15,735	**$ 40,013**	$ 31,799
Earnings per share *(Note 16):*				
Basic	**$ 1.41**	$ 0.99	**$ 2.54**	$ 2.00
Diluted	**$ 1.40**	$ 0.98	**$ 2.52**	$ 1.99

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012

With comparative figures for the three and six month periods ended June 30, 2011

($ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net income	**$ 22,073**	$ 15,735	**$ 40,013**	$ 31,799
Other comprehensive loss:				
Available for sale investments:				
Net unrealized (losses) gains from change in fair value	**(782)**	1,255	**51**	2,399
Reclassification of net (gains) losses to income	**(55)**	275	**(1,137)**	10
	(837)	1,530	**(1,086)**	2,409
Income tax	**219**	(429)	**284**	(676)
	(618)	1,101	**(802)**	1,733
Cash flow hedges *(Note 8)*				
Net unrealized losses from change in fair value	**(1,387)**	(5,143)	**(359)**	(3,476)
Reclassification of net losses (gains) to income	**547**	6	**1,139**	(13)
	(840)	(5,137)	**780**	(3,489)
Income tax	**219**	1,441	**(204)**	979
	(621)	(3,696)	**576**	(2,510)
Total other comprehensive loss	**(1,239)**	(2,595)	**(226)**	(777)
Total comprehensive income	**$ 20,834**	$ 13,140	**$ 39,787**	$ 31,022

See accompanying notes to interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2012

With comparative figures for the three month period ended June 30, 2011

($ THOUSANDS)

June 30, 2012	**Preferred shares**	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**
Balance, beginning of period	**$ 48,494**	**$ 130,251**	**$ 4,813**	**$ 269,235**	**$ (9,336)**	**$ 443,457**
Net income	**-**	**-**	**-**	**22,073**	**-**	**22,073**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(1,239)**	**(1,239)**
Reinvestment of dividends	**-**	**190**	**-**	**-**	**-**	**190**
Exercise of stock options	**-**	**491**	**-**	**-**	**-**	**491**
Dividends:						
Preferred shares	**-**	**-**	**-**	**(906)**	**-**	**(906)**
Common shares	**-**	**-**	**-**	**(1,806)**	**-**	**(1,806)**
Stock-based compensation	**-**	**-**	**213**	**-**	**-**	**213**
Transfer relating to the exercise of stock options	**-**	**113**	**(113)**	**-**	**-**	**-**
Balance, end of period	**$ 48,494**	**$ 131,045**	**$ 4,913**	**$ 288,596**	**$ (10,575)**	**$ 462,473**

June 30, 2011	Preferred shares	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, beginning of period	$ 48,494	$ 128,369	$ 4,169	$ 215,700	$ 589	$ 397,321
Net income	-	-	-	15,735	-	15,735
Other comprehensive loss, net of tax	-	-	-	-	(2,595)	(2,595)
Reinvestment of dividends	-	149	-	-	-	149
Exercise of stock options	-	455	-	-	-	455
Dividends:						
Preferred shares	-	-	-	(906)	-	(906)
Common shares	-	-	-	(1,648)	-	(1,648)
Stock-based compensation	-	-	204	-	-	204
Transfer relating to the exercise of stock options	-	81	(81)	-	-	-
Balance, end of period	$ 48,494	$ 129,054	$ 4,292	$ 228,881	$ (2,006)	$ 408,715

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

With comparative figures for the six month period ended June 30, 2011

($ THOUSANDS)

June 30, 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	**-**	**-**	**-**	**40,013**	**-**	**40,013**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(226)**	**(226)**
Reinvestment of dividends	**-**	**378**	**-**	**-**	**-**	**378**
Exercise of stock options	**-**	**728**	**-**	**-**	**-**	**728**
Dividends:						
Preferred shares	**-**	**-**	**-**	**(1,812)**	**-**	**(1,812)**
Common shares	**-**	**-**	**-**	**(3,611)**	**-**	**(3,611)**
Stock-based compensation	**-**	**-**	**363**	**-**	**-**	**363**
Transfer relating to the exercise of stock options	**-**	**168**	**(168)**	**-**	**-**	**-**
Balance, end of period	**$ 48,494**	**$ 131,045**	**$ 4,913**	**$ 288,596**	**$ (10,575)**	**$ 462,473**

June 30, 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	-	-	-	31,799	-	31,799
Other comprehensive loss, net of tax	-	-	-	-	(777)	(777)
Reinvestment of dividends	-	276	-	-	-	276
Exercise of stock options	-	599	-	-	-	599
Dividends:						
Preferred shares	-	-	-	(1,812)	-	(1,812)
Common shares	-	-	-	(3,293)	-	(3,293)
Stock-based compensation	-	-	468	-	-	468
Transfer relating to the exercise of stock options	-	111	(111)	-	-	-
Balance, end of period	$ 48,494	$ 129,054	$ 4,292	$ 228,881	$ (2,006)	$ 408,715

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012

With comparative figures for the three and six month periods ended June 30, 2011

($ THOUSANDS)

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**$ 22,073**	$ 15,735	**$ 40,013**	$ 31,798
Adjustments to determine cash flows relating to operating activities:				
Financial instruments at fair value through income	**12,153**	1,000	**13,989**	1,099
Depreciation of capital assets	**238**	173	**469**	237
Provision for credit losses	**1,693**	2,217	**3,920**	4,155
Net loss (gain) on sale or redemption of investments	**(11)**	311	**(260)**	13
Income taxes	**3,315**	5,288	**9,140**	10,847
Income taxes paid	**(5,454)**	(4,770)	**(10,255)**	(9,541)
Stock-based compensation	**213**	204	**363**	468
Amortization of premiums/discount on investments	**(108)**	887	**676**	1,672
Net increase in mortgages receivable	**(291,926)**	(304,697)	**(405,903)**	(650,482)
Net increase in deposits	**371,056**	221,880	**603,699**	375,418
Change in obligations related to securities sold	**1,515**	-	**1,515**	-
Change in obligations related to securities under repurchase agreements	**-**	34,298	**-**	34,298
Net change in securitization liabilities	**6,471**	122,759	**(24,597)**	244,561
Net interest income, excluding non-cash items	**(52,573)**	(43,732)	**(107,324)**	(90,975)
Interest paid	**(78,947)**	(62,371)	**(142,639)**	(118,161)
Other assets	**250**	(3,663)	**59**	(5,093)
Other liabilities	**(601)**	2,158	**(3,856)**	(35)
Interest received	**115,493**	103,570	**231,427**	204,253
Dividends received	**16,027**	2,533	**18,536**	4,883
Cash flows from operating activities	**120,877**	93,780	**228,972**	39,415
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid on preferred shares	**(906)**	(906)	**(1,812)**	(1,812)
Dividends paid on common shares	**(1,616)**	(1,499)	**(3,233)**	(3,018)
Proceeds from issuance of common shares	**491**	455	**728**	599
Cash flows used in financing activities	**(2,031)**	(1,950)	**(4,317)**	(4,231)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	**(47,532)**	(20,071)	**(67,532)**	(59,722)
Proceeds on sale or redemption of investments	**12,789**	13,406	**59,519**	34,349
Net change in Canada Housing Trust re-investment accounts	**19,227**	(4,893)	**(7,444)**	(7,531)
Purchase of securities under reverse repurchase agreements	**(101,351)**	(5,115)	**(141,273)**	(30,108)
Proceeds on sale or redemption of securities under reverse repurchase agreements	**39,922**	24,993	**49,889**	99,901
Change in restricted cash	**23,710**	(11,942)	**16,619**	38,224
Purchase of capital assets	**(91)**	(735)	**(241)**	(815)
Cash flows (used in) from investing activities	**(53,326)**	(4,357)	**(90,463)**	74,298
Net increase in cash and cash equivalents	**65,520**	87,473	**134,192**	109,482
Cash and cash equivalents, beginning of period	**239,517**	177,251	**170,845**	155,242
Cash and cash equivalents, end of period	**$ 305,037**	$ 264,724	**$ 305,037**	$ 264,724

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 for issuance by the Company's Board of Directors (the "Board") on August 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, held for trading assets, 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 six months ended June 30, 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:

	June 30, 2012	December 31, 2011	June 30, 2011
Debt securities issued by regulated financial institutions	**$ 125,902**	$ 94,999	$ 80,041
Debt securities issued by Government of Canada	**33,873**	34,145	33,912
Debt securities guaranteed by Government of Canada	**25,358**	28,400	43,044
Equity securities – preferred shares	**159,633**	198,245	193,727
Equity securities – common shares	**4,406**	-	-
Canada Housing Trust re-investment accounts	**41,997**	34,551	21,321
	$ 391,169	$ 390,340	$ 372,045

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

	June 30, 2012	December 31, 2011	June 30, 2011
Debt securities issued by regulated financial institutions	**$ 14**	$ (29)	$ 22
Debt securities issued by Government of Canada	**366**	547	221
Debt securities guaranteed by Government of Canada	**1,519**	1,575	605
Equity securities – preferred shares	**(4,305)**	(3,412)	(844)
Equity securities – common shares[1]	**(13,126)**	-	-
	$ (15,532)	$ (1,319)	$ 4

[1] *These securities are classified as at fair value through income with any unrealized losses recorded in the Company's consolidated statement of income. The fair value loss was offset by dividends received of $13.7 million.*

Note 6 – Mortgages Receivable

(a) Mortgages receivable:

June 30, 2012		Allowance for credit losses			
	Gross amount	**Individual**	**Collective**	**Total**	**Net amount**
Residential mortgages	**$ 3,607,693**	**$ 2,399**	**$ 14,393**	**$ 16,792**	**$ 3,590,901**
Residential mortgages – securitized	**5,238,900**	**-**	**-**	**-**	**5,238,900**
Other mortgages	**1,036,640**	**1,953**	**4,275**	**6,228**	**1,030,412**
Mortgages held for securitization or for sale	**82,763**	**-**	**48**	**48**	**82,715**
Accrued interest	**35,790**	**-**	**-**	**-**	**35,790**
	$ 10,001,786	**$ 4,352**	**$ 18,716**	**$ 23,068**	**$ 9,978,718**

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

June 30, 2011		Allowance for credit losses			
	Gross amount	Individual	Collective	Total	Net amount
Residential mortgages	$ 2,798,162	$ 1,912	$ 11,208	$ 13,120	$ 2,785,042
Residential mortgages – securitized	4,982,225	-	-	-	4,982,225
Other mortgages	968,345	2,493	3,475	5,968	962,377
Mortgages held for securitization or for sale	102,554	-	54	54	102,500
Accrued interest	32,213	-	-	-	32,213
	$ 8,883,499	$ 4,405	$ 14,737	$ 19,142	$ 8,864,357

Included in mortgages held for securitization or for sale are Government of Canada insured residential mortgages of $62,387 (December 31, 2011 − $28,887, June 30, 2011 − $72,577). 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 June 30, 2012, mortgage principal outstanding for these mortgages was $49,592 (December 31, 2011 – $50,036, June 30, 2011 – $50,469) and the fair value adjustment was $3,777 (December 31, 2011 – $4,127, June 30, 2011 – $1,788).

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

	June 30, 2012	June 30, 2011
Changes in fair value recognized in income	**$ (350)**	$ 729

Note 6 – Mortgages Receivable (continued)

Real estate owned held for sale at June 30, 2012 amounted to $533 (December 31, 2011 – $197, June 30, 2011 – $827) and is included in Other Assets (Note 9).

At June 30, 2012, the Company had commitments to fund a total of $463,573 (December 31, 2011 – $388,101, June 30, 2011 – $453,469) 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:

			June 30, 2012	December 31, 2011	June 30, 2011
	Gross	**Individual allowance**	**Net**	Net	Net
Residential mortgages	**$ 21,324**	**$ 2,399**	**$ 18,925**	$ 16,896	$ 19,567
Residential mortgages – securitized	**1,462**	**-**	**1,462**	899	-
Other mortgages	**8,440**	**1,953**	**6,487**	6,536	5,736
Mortgages held for securitization or for sale	**-**	**-**	**-**	-	-
	$ 31,226	**$ 4,352**	**$ 26,874**	$ 24,331	$ 25,303

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

				June 30, 2012
	30 – 59 days	**60 – 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 14,275**	**$ 6,113**	**$ -**	**$ 20,388**
Residential mortgages – securitized	**1,764**	**316**	**2,774**	**4,854**
Other mortgages	**340**	**-**	**-**	**340**
Mortgages held for securitization or for sale	**-**	**-**	**-**	**-**
	$ 16,379	**$ 6,429**	**$ 2,774**	**$ 25,582**

				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:

						June 30, 2012
		Individual allowance		**Collective allowance**		**Total**
Balance, beginning of period	**$**	**3,865**	**$**	**15,785**	**$**	**19,650**
Provision for credit losses		**1,056**		**2,864**		**3,920**
Allowance for credit losses on acquired portfolio		**(67)**		**67**		**-**
Realized losses		**(619)**		**-**		**(619)**
Recoveries		**117**		**-**		**117**
Balance, end of period	**$**	**4,352**	**$**	**18,716**	**$**	**23,068**

						June 30, 2011
		Individual allowance		Collective allowance		Total
Balance, beginning of period	$	9,463	$	11,640	$	21,103
Provision for credit losses		881		3,274		4,155
Allowance for credit losses on acquired portfolio		177		(177)		-
Realized losses		(6,179)		-		(6,179)
Recoveries		63		-		63
Balance, end of period	$	4,405	$	14,737	$	19,142

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 of Canada, and sells them to third party investors. Proceeds from the CMB issuances are used by the CHT 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 current structure of the Company's securitization transactions does not qualify for balance sheet derecognition under IFRS, and therefore, 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:

		June 30, 2012		December 31, 2011		June 30, 2011
Securitization principal	**$**	**5,066,760**	$	5,093,981	$	4,778,325
Deferred net discounts and issuance costs		**(11,362)**		(14,346)		(23,667)
Accrued interest		**20,925**		21,286		21,583
	$	**5,076,323**	$	5,100,921	$	4,776,241

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 certain 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:

				June 30, 2012
	Notional	**Fair Value**		**Net**
Derivative instrument and term (years)[1]	**amount**	**Assets**	**Liabilities**	**Fair Value[2]**
Cash flow hedges:				
Bond forwards agreements				
1 to 5	**$ 60,900**	**$ -**	**$ (91)**	**$ (91)**
Fair value hedges:				
Interest rate swaps				
1 to 5	**150,000**	**352**	**-**	**352**
6 to 10	**36,972**	**-**	**(2,529)**	**(2,529)**
Short sale and repurchase agreements				
1 to 5	**13,445**	**-**	**(237)**	**(237)**
	$ 261,317	**$ 352**	**$ (2,857)**	**$ (2,505)**

				December 31, 2011
	Notional	Fair Value		Net
Derivative instrument and term (years)[1]	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)

				June 30, 2011
	Notional	Fair Value		Net
Derivative instrument and term (years)[1]	amount	Assets	Liabilities	Fair Value[2]
Cash flow hedges:				
Bond forwards agreements				
1 to 5	$ 78,700	$	$ (49)	$ (49)
6 to 10	54,800		(683)	(683)
Fair value hedges:				
Interest rate swaps				
6 to 10	37,662		(1,015)	(1,015)
Short sale and repurchase agreements				
1 to 5	13,445	78		78
	$ 184,607	$ 78	$ (1,747)	$ (1,669)

[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:

	June 30, 2012	June 30, 2011
Fair value changes recorded in other comprehensive income (loss)	**$ 780**	$ (3,489)
Hedge ineffectiveness recognized in net income	**(34)**	367
Amounts reclassified from other comprehensive income (loss)	**1,139**	(13)

Fair value hedges:

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

	June 30, 2012	June 30, 2011
Changes in fair value – interest rate swaps	**$ 312**	$ (1,020)
Changes in fair value – short sale and repurchase agreements	**(306)**	(256)
Changes in fair value recognized in income	**$ 6**	$ (1,276)

Note 9 – Other Assets

	June 30, 2012	December 31, 2011	June 30, 2011
Prepaid expenses and other	**$ 15,036**	$ 14,981	$ 6,002
Capital assets	**3,536**	3,764	2,711
Income taxes recoverable	**2,094**	3,024	1,607
Receivables relating to securitization activities	**1,863**	2,630	784
Accrued interest and dividends on non-mortgage assets	**1,305**	986	759
Real estate owned	**533**	197	827
Derivative financial instruments – interest rate swaps	**352**	-	-
Derivative financial instruments – hedges	**-**	36	78
	$ 24,719	$ 25,618	$ 12,768

Note 10 – Deposits

	June 30, 2012	December 31, 2011	June 30, 2011
GICs – cashable, payable on demand	**$ 774,108**	$ 700,301	$ 605,074
GICs – fixed maturity dates	**4,359,794**	3,834,837	3,559,831
Deferred deposit agent commissions	**(11,856)**	(12,151)	(11,898)
Accrued interest	**109,557**	104,917	101,264
	$ 5,231,603	$ 4,627,904	$ 4,254,271

Included in GICs with fixed maturity dates are $149 million (December 31, 2011 − Nil, June 30, 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 ($168) (December 31, 2011 − Nil, June 30, 2011 – Nil) is included in interest expense.

The impact of change in fair value for GIC designation as at fair value through income is as follows:

	June 30, 2012	June 30, 2011
Changes in fair value recognized in income	**$ (168)**	$ -

Note 11 – Income Taxes

(a) Income tax provision

	June 30, 2012	June 30, 2011
Current tax expense:		
Current period	**$ 11,193**	$ 10,476
Deferred tax expense:		
Reversal of temporary differences	**(2,391)**	176
Reduction in tax rate	**267**	195
	(2,124)	371
Total income tax expense	**$ 9,069**	$ 10,847

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:

	June 30, 2012	June 30, 2011
Canadian statutory income tax rate	**26.3%**	28.0%
Increase (decrease) resulting from:		
Tax-exempt income	**(9.7%)**	(3.6%)
Future tax rate changes	**0.5%**	0.5%
Non-deductible expenses and other	**1.4%**	0.5%
Effective income tax rate	**18.5%**	25.4%

Note 11 – Income Taxes (continued)

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:

	June 30, 2012	December 31, 2011	June 30, 2011
Deferred income tax assets:			
Allowance for credit losses	**$ 4,910**	$ 3,928	$ 3,672
Share issue expenses	**290**	396	560
Other	**-**	-	127
	5,200	4,324	4,359
Deferred income tax liabilities:			
Net mortgage fees	**4,198**	6,426	7,148
GIC commissions	**3,122**	3,141	3,163
Securitization activities	**3,500**	2,397	1,505
Other	**46**	150	-
	10,866	12,114	11,816
Deferred tax liabilities	**$ 5,666**	$ 7,790	$ 7,457

Note 12 – Other Liabilities

	June 30, 2012	December 31, 2011	June 30, 2011
Mortgagor realty taxes	**$ 13,006**	$ 18,975	$ 11,556
Accounts payable and accrued liabilities	**8,917**	6,802	7,899
Derivative financial instruments – interest rate swaps	**2,529**	2,808	1,015
Derivative financial instruments – hedges	**237**	-	-
Derivative financial instruments – securitization activities	**91**	2	732
	$ 24,780	$ 28,587	$ 21,202

Note 13 – Bank Facilities

The Company extended the maturity date of its non-revolving term loan of $12,500 in the first quarter of 2012. 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:

	June 30, 2012			June 30, 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**	**$ 0.91**	2,000,000	$ 48,494	$ 0.91

	June 30, 2012			June 30, 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	
Reinvestment of dividends	**14,022**	**378**		10,045	276	
Exercise of stock options	**41,450**	**728**		26,000	599	
Transferred from contributed surplus relating to the exercise of stock options	**-**	**168**		-	111	
Balance, end of period	**15,073,873**	**$ 131,045**	**$ 0.24**	14,979,482	$ 129,054	$ 0.22

[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 1,504,198. The outstanding options expire on various dates to May 2019. A summary of the Company's stock option activity and related information for the periods ended June 30, 2012 and June 30, 2011 is as follows:

	June 30, 2012		June 30, 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	**137,927**	**29.17**	-	-
Exercised	**(41,450)**	**17.55**	(26,000)	23.03
Forfeited/cancelled	**(160,000)**	**33.68**	(20,100)	21.06
Outstanding, end of period	**670,427**	**$ 23.49**	920,050	$ 24.30
Exercisable, end of period	**200,400**	**$ 22.80**	368,600	$ 27.34

Note 15 – Stock-Based Compensation (continued)

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $363 (June 30, 2011 − $468) 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 June 30, 2012 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions:

	June 30, 2012
Risk-free rate	1.5%
Expected option life (years)	4.8
Expected volatility	30.5%
Expected dividends	1.9%
Weighted average fair value of each option granted	$ 6.14

(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 June 30, 2012, 9,181 (June 30, 2011 – 6,770) DSUs had been granted by the Company. DSUs outstanding as at June 30, 2012 amounted to 32,799 (June 30, 2011 – 23,141) and the recorded liability was $841 (June 30, 2011 – $661). During the period, the Company has recorded compensation expense in the amount of $249 (June 30, 2011 − $59) related to grants of DSUs that have occurred since the inception of the plan.

(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 June 30, 2012, RSUs granted totaled 20,940 and the compensation expense recorded relating to RSUs outstanding during the period amounted to $60. As at June 30, 2012, RSUs outstanding amounted to 20,671 and the recorded liability was $60.

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.

		June 30, 2012		June 30, 2011
Earnings per common share – basic:				
Net income	**$**	**40,013**	$	31,799
Dividends on preferred shares		**1,812**		1,812
Net income available to common shareholders	**$**	**38,201**	$	29,987
Weighted average basic number of common shares outstanding		**15,041,030**		14,959,479
Earnings per common share – basic	**$**	**2.54**	$	2.00
Earnings per common share – diluted:				
Net income available to common shareholders	**$**	**38,201**	$	29,987
Weighted average basic number of common shares outstanding		**15,041,030**		14,959,479
Adjustment to weighted average number of common shares outstanding:				
Stock options		**89,356**		145,727
Weighted average diluted number of common shares outstanding		**15,130,386**		15,105,206
Earnings per common share – diluted	**$**	**2.52**	$	1.99

For the period ended June 30, 2012, the calculation of the diluted earnings per share excluded 420,792 (June 30, 2011 – 379,475) average options outstanding with a weighted average exercise price of $27.17 (June 30, 2011 – $31.45) 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 and Equitable Trust's collective allowance. 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 six months ended June 30, 2012 was $9.5 million.

Note 17 – Capital Management (continued)

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

	June 30, 2012	December 31, 2011
Tier 1 capital:		
Common shares	**$ 133,715**	$ 132,819
Non-cumulative preferred shares	**50,000**	50,000
Contributed surplus	**4,498**	4,303
Retained earnings	**283,555**	248,752
Accumulated other comprehensive loss[1]	**(2,754)**	(2,095)
IFRS transition adjustment[2]	**9,466**	18,931
Total	**478,480**	452,710
Tier 2 capital:		
Collective allowance (Tier 2A)[3]	**18,716**	-
Subordinated debentures (Tier 2B)[4]	**60,781**	65,171
Total	**79,497**	65,171
Total regulatory capital	**$ 557,977**	$ 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] *Effective Q2 2012, Equitable Trust's collective allowance is included in the calculation of regulatory capital and in the capital calculated for the ICAAP.*
[4] *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 June 30, 2012:

								June 30, 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[1]**	**Total**
Total assets	**$ 1,722,281**	**$ 592,473**	**$ 1,997,313**	**$ 4,312,067**	**$ 5,460,571**	**$ 1,004,389**	**$ 90,504**	**$ 10,867,531**
Total liabilities and equity[2]	**(785,814)**	**(833,384)**	**(2,595,694)**	**(4,214,892)**	**(5,100,541)**	**(1,000,190)**	**(551,908)**	**(10,867,531)**
Off-balance sheet items[3]	**-**	**(246,677)**	**117,441**	**(129,236)**	**156,536**	**(27,300)**	**-**	**-**
Interest rate sensitive gap	**$ 936,467**	**$ (487,588)**	**$ (480,940)**	**$ (32,061)**	**$ 516,566**	**$ (23,101)**	**$ (461,404)**	**$ -**
Cumulative gap [2]	**$ 936,467**	**$ 448,879**	**$ (32,061)**	**$ (32,061)**	**$ 484,505**	**$ 461,404**	**$ -**	**$ -**
Cumulative gap as a percentage of total assets	**8.62%**	**4.13%**	**(0.30%)**	**(0.30%)**	**4.46%**	**4.25%**	**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[1]	Total
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

Corporate Office
30 St. Clair Avenue West, Suite 700
Toronto, Ontario, Canada, M4V 3A1

Quebec Office
3333 Graham Boulevard, Suite 604
Town of Mount-Royal, Quebec,
Canada, H3R 3L5

Western Region Office
600 1333 8th Street S.W.
Calgary, Alberta, Canada, T2R 1M6

Website
www.equitabletrust.com

Transfer Agent And Registrar
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario, Canada, M5J 2Y1
1.800.564.6253

Investor Relations
Tim Wilson
Vice-President and Chief Financial Officer of the Company and Equitable Trust
416.515.7000
investor@equitablegroupinc.com

Stock Listings
TSX: ETC and ETC.PR.A

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.