



TSX Symbols: ETC and ETC.PR.A

## EQUITABLE GROUP REPORTS FIRST QUARTER 2010 RESULTS

- *Single family production up 479%*
- *NIM increases to 2.5%*

Toronto, Ontario (May 11, 2010): Equitable Group Inc. (“Equitable” or the “Company”) today reported its financial results for the three months ended March 31, 2010 including a 478.7% year-over-year increase in single family mortgage originations, solid growth in net interest margin (“NIM”) and the maintenance of its strong capital position.

### FIRST QUARTER RESULTS

- NIM expanded to 2.5% from 1.6% a year ago, a peak last reached in 2006;
- Net income was \$12.0 million, compared to \$11.9 million in the first quarter of 2009;
- Reflecting the payment of dividends on recently issued preferred share capital that is now being deployed to grow the business, diluted earnings were \$0.74 per share compared to \$0.80 per share a year ago and return on equity was 13.5% compared to 17.8% in the first quarter of 2009;
- Return on average assets improved to 1.3% from 1.2% a year ago;
- Productivity ratio on a taxable equivalent basis – a measure of efficiency – was 26.1% compared to 24.3% in the first quarter of 2009 and remained well ahead of the ratios of Canada’s chartered banks;
- Total capital ratio including general allowance improved to 17.5% compared to 14.3% at March 31, 2009;
- Tier 1 capital ratio improved to 14.6% from 10.8% a year ago;
- Tangible common equity ratio, a key measure of capital strength, improved to 12.7% from 10.8% a year ago;
- Book value per share increased 19.8% to \$22.64 from \$18.90 a year ago.

### DIVIDEND DECLARATIONS

The Company’s Board of Directors declared a quarterly dividend on the Company’s common shares in the amount of \$0.10 per share, payable on July 5, 2010, to shareholders of record at the close of business on June 15, 2010. The Board also declared a quarterly dividend on Equitable’s Series 1 preferred shares in the amount of \$0.453125 per share, payable June 30, 2010 to preferred shareholders of record on June 15, 2010.

### MANAGEMENT COMMENTARY

“This was a solid start to 2010 that was consistent with our plan for the year,” said Andrew Moor, President and CEO. “The clear highlight was the substantial growth achieved in both Single Family Lending and Commercial Mortgage – Broker Services production. We’re pleased not only with the pace of growth, but with the quality of the mortgage assets originated, which together speak to strong demand in our niches, the success of our recently increased sales efforts and our disciplined underwriting practices. We’re also very satisfied with NIM expansion,

which reflects improved conditions in our traditional mortgage markets, our pricing strategies and the replacement of cashable GICs with less expensive funding. These initiatives have more than made up for the necessary burden of higher than normal levels of liquidity on our balance sheet, which safeguard the integrity of our institution. Underlying this progress was a transition aimed at increasing our on-balance sheet mortgage assets to take advantage of better relative returns. This transition has occurred somewhat faster than anticipated due to normalization of securitization market conditions compared to earlier periods, which had the effect of reducing available margin opportunities in segments of that business. While we will continue to transact securitizations at spreads that make economic sense, we have and intend to continue to successfully offset this market-driven change through robust on-balance sheet production in mortgage niches where we have clear and compelling strengths and advantages. Overall, we believe this ongoing expansion of on-balance sheet mortgage business will improve Equitable's positioning for quality earnings growth and ROE enhancements."

John Ayanoglou, Chief Financial Officer commented: "Due to significant enhancements made to our capital structure in 2009 including the issuance of preferred shares, as well as the support we continue to give to our capital position through the retention of earnings and our emphasis on single family residential mortgage assets – which require lower levels of regulatory capital than other forms of mortgage lending – we have significant capacity for additional growth. Consistent with our overall strategy, our expansion will be controlled and channeled to ensure good returns without excessive risk taking. So as robust as first quarter production was in Single Family and Broker Services, it's only the beginning of what's possible for Equitable given our strength."

#### **MORTGAGE PORTFOLIO HIGHLIGHTS**

- Single Family Lending Services funded \$229.2 million of mortgages in the first quarter – compared to \$39.6 million in the same period of 2009, a 478.7% increase;
- Commercial Mortgage – Broker Services funded \$62.8 million of mortgages in the first quarter of 2010, a more than eight fold or \$55.7 million increase over the same period of 2009;
- Commercial Lending Services funded \$202.5 million of mortgages in the first quarter of 2010 – \$143.7 million of which were CMHC-insured multi-unit residential – compared to \$485.5 million in the first quarter of 2009;
- At March 31, 2010, fixed-rate mortgages represented 71.0% of the mortgage portfolio compared to 52.4% a year ago while floating rate mortgages with no interest rate floors amounted to 14.5% compared to 35.6% at March 31, 2009;
- Total mortgage fundings in the first quarter of 2010, excluding mortgages funded for securitization, were \$319.8 million compared to \$60.1 million in the same period of 2009.

Equitable also earns interest from the recurring cash flows it receives on its securitized mortgage portfolio. The Company securitized and sold \$231.2 million of CMHC-insured mortgages in the first quarter of 2010 compared to \$407.6 million in the same quarter of 2009, reflecting both lower volumes and gross margins. Gross margins on CMHC-insured mortgages decreased to 60 basis points from 118 basis points in the fourth quarter of 2009. The total securitized portfolio amounted to \$4.3 billion at March 31, 2010 compared to \$4.1 billion at December 31, 2009 and \$3.2 billion at March 31, 2009.

## **CREDIT QUALITY**

Mortgages in arrears 90 days or more (excluding CMHC-insured mortgages that are less than 365 days in arrears) were 1.24% of total principal outstanding compared to 1.49% at March 31, 2009 as the Company benefitted from the relative health of its mortgage portfolio and ongoing success in managing defaults. Mortgages in early stage delinquency – a leading indicator of credit quality in future periods – decreased to 0.44% of total outstanding principal at March 31, 2010 from 0.68% at year end 2009. In order to prudently provide for mortgages that were considered to be impaired at quarter end, the Company recorded \$1.4 million in net additional allowances, which increased its allowance for credit losses as a percentage of total mortgage principal outstanding to 0.56% from 0.53% at year end 2009. Net impaired mortgages were 1.34% of total mortgage principal outstanding, compared to 1.20% at year end 2009. Net realized loan losses of \$0.2 million were incurred in the first quarter.

## **LOOKING AHEAD**

“We expect to drive strong growth in single family mortgage production at Equitable this year through our own sales efforts supported by surprisingly robust demand for residential real estate caused by exceptionally low interest rates and a recovering economy,” said Mr. Moor. “With economic recovery comes the inevitable prospect of higher interest rates and in this regard, many economists anticipate the Bank of Canada will increase its benchmark rate next month and perhaps again later this year. All things considered, we continue to be aware of the potential for volatility in real estate markets, including risks of an asset bubble developing in certain regions. As a result, we will remain vigilant in managing our lending activities, including our risk appetite, to ensure we are not lending imprudently against unsustainable values in any of our niche markets.”

Mr. Moor said there are a number of ways that higher interest rates could impact the Company’s net interest margin, “both on the upside and downside, and while this combination of factors may result in some contraction in spread from the strong levels achieved in the first quarter, on balance, we are not expecting the impact to be significant.”

To further enhance growth prospects, Equitable established an office in Montreal to originate commercial mortgages in Quebec.

## **FIRST QUARTER WEBCAST**

Management will discuss Equitable's results during a conference call beginning at 9 a.m. ET on Wednesday, May 12. To listen to the audio webcast, log on to [www.equitablegroupinc.com](http://www.equitablegroupinc.com). To participate in the call, please dial 416-644-3421.

## **MD&A**

The Company will post its first quarter 2010 MD&A on its website [www.equitablegroupinc.com](http://www.equitablegroupinc.com). This document will also be archived on the site.

## ABOUT EQUITABLE GROUP INC.

Equitable Group Inc. is a niche mortgage lender. Our core business is first charge mortgage financing, which we offer through our wholly owned subsidiary, The Equitable Trust Company. Founded in 1970, Equitable Trust is a federally incorporated trust company, serving single family, small and large commercial borrowers and their mortgage advisors. We actively originate mortgages in Ontario, Alberta, Manitoba, British Columbia and Quebec. We also serve the investing public as a provider of Guaranteed Investment Certificates and provide GICs across all Canadian provinces and territories. Equitable Group's common and preferred shares are traded on the Toronto Stock Exchange under the symbols ETC and ETC.PR.A, respectively. Visit the Company on line at [www.equitablegroupinc.com](http://www.equitablegroupinc.com) or [www.equitabletrust.com](http://www.equitabletrust.com).

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEETS (unaudited)

AS AT MARCH 31, 2010

With comparative figures as at December 31, 2009 and March 31, 2009

(\$ THOUSANDS)

	March 31, 2010	December 31, 2009	March 31, 2009
<b>Assets</b>			
Cash and cash equivalents	\$ 275,053	\$ 395,835	\$ 17,236
Restricted cash	5,000	5,000	6,300
Investment purchased under reverse repurchase agreements	149,876	129,721	540,693
Investments	409,214	388,037	270,269
Securitization retained interests	150,283	147,195	122,734
Mortgages receivable	2,840,231	2,763,020	2,895,085
Other assets	12,553	17,266	36,183
	<b>\$ 3,842,210</b>	<b>\$ 3,846,074</b>	<b>\$ 3,888,500</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Customer deposits	\$ 3,282,827	\$ 3,332,319	\$ 3,471,953
Obligations under repurchase agreements	29,918	-	-
Future income taxes	21,070	19,999	20,196
Other liabilities	56,944	54,724	38,532
Bank term loans	27,500	27,500	44,595
Subordinated debentures	37,671	37,671	31,969
	<b>3,455,930</b>	<b>3,472,213</b>	<b>3,607,245</b>
<b>Shareholders' equity:</b>			
Preferred shares	48,523	48,523	-
Common shares	127,656	127,424	126,993
Contributed surplus	3,457	3,267	2,872
Retained earnings	203,195	193,635	159,821
Accumulated other comprehensive income (loss)	3,449	1,012	(8,431)
	<b>386,280</b>	<b>373,861</b>	<b>281,255</b>
	<b>\$ 3,842,210</b>	<b>\$ 3,846,074</b>	<b>\$ 3,888,500</b>

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010

*With comparative figures for the three month period ended March 31, 2009*

(\$ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three months ended	
	March 31, 2010	March 31, 2009
Interest income:		
Mortgages	\$ 41,306	\$ 41,014
Investments	3,493	2,465
Other	602	1,825
	45,401	45,304
Interest expense:		
Customer deposits	19,807	27,297
Deposit agent commissions	1,965	1,684
Bank term loans	464	738
Subordinated debentures	627	579
Other	9	-
	22,872	30,298
Net interest income	22,529	15,006
Provision for credit losses	2,375	1,850
Net interest income after provision for credit losses	20,154	13,156
Other income:		
Fees and other income	742	753
Net (loss) gain on investments	(56)	36
Gains on securitization activities and income from retained interests	2,653	9,334
	3,339	10,123
Net interest income and other income	23,493	23,279
Non-interest expenses:		
Compensation and benefits	4,382	3,964
Other	2,596	2,307
	6,978	6,271
Income before income taxes	16,515	17,008
Income taxes:		
Current	4,937	2,707
Future	(380)	2,357
	4,557	5,064
Net income	11,958	11,944
Dividends on preferred shares	906	-
Net income available to common shareholders	\$ 11,052	\$ 11,944
Weighted average number of common shares outstanding:		
Basic	14,911,853	14,882,710
Diluted	14,985,996	14,882,710
Earnings per share:		
Basic	\$ 0.74	\$ 0.80
Diluted	\$ 0.74	\$ 0.80

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010

*With comparative figures for the three month period ended March 31, 2009*

(\$ THOUSANDS)

	Three months ended	
	March 31, 2010	March 31, 2009
Preferred shares:		
Balance, beginning of period	\$ 48,523	\$ -
Issued	-	-
Balance, end of period	48,523	-
Common shares:		
Balance, beginning of period	127,424	126,993
Proceeds from reinvestment of dividends	112	-
Proceeds from exercise of stock options	103	-
Transfer from contributed surplus relating to the exercise of stock options	17	-
Balance, end of period	127,656	126,993
Contributed surplus:		
Balance, beginning of period	3,267	2,553
Stock-based compensation	207	319
Transfer to common shares relating to the exercise of stock options	(17)	-
Balance, end of period	3,457	2,872
Retained earnings:		
Balance, beginning of period	193,635	149,365
Net income	11,958	11,944
Dividends		
Preferred shares	(906)	-
Common shares	(1,492)	(1,488)
Balance, end of period	203,195	159,821
Accumulated other comprehensive income (loss):		
Balance, beginning of period	1,012	(14,765)
Other comprehensive income	2,437	6,334
Balance, end of period	3,449	(8,431)
Total retained earnings and accumulated other comprehensive income	206,644	151,390
Total shareholders' equity	\$ 386,280	\$ 281,255

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010

*With comparative figures for the three month period ended March 31, 2009*

(\$ THOUSANDS)

	Three months ended	
	March 31, 2010	March 31, 2009
Net income	\$ 11,958	\$ 11,944
Other comprehensive income (loss), net of tax:		
Available for sale investments:		
Net unrealized gains from change in fair value	3,790	7,440
Reclassification of net gains to income	(1,353)	(1,106)
Other comprehensive income	2,437	6,334
Comprehensive income	\$ 14,395	\$ 18,278

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2010

*With comparative figures for the three month period ended March 31, 2009*

(\$ THOUSANDS)

	Three months ended	
	March 31, 2010	March 31, 2009
Cash provided by (used in):		
Operating activities:		
Net income	\$ 11,958	\$ 11,944
Non-cash items:		
Financial instruments – fair value adjustments	(671)	(5,594)
Securitization gains	(1,571)	(7,619)
Amortization of capital assets	137	141
Provision for credit losses	2,375	1,850
Net gain on investments	(676)	(84)
Future income taxes	1,071	2,357
Stock-based compensation	207	319
Amortization of premiums on investments, net	412	204
	13,242	3,518
Changes in operating assets and liabilities:		
Other assets	2,614	212
Other liabilities	(2,605)	(4,693)
	13,251	(963)
Financing activities:		
Decrease in customer deposits	(49,429)	(219,157)
Change in obligations related to investments sold under repurchase agreements	29,918	-
Dividends paid on preferred shares	(906)	-
Dividends paid on common shares	(1,379)	(1,488)
Issuance of common shares	103	-
	(21,693)	(220,645)
Investing activities:		
Purchase of investments	(129,557)	-
Proceeds on sale or redemption of investments	137,803	4,459
Change in investments purchased under reverse repurchase agreements	(20,155)	157,583
Change in restricted cash	-	2,122
Increase in mortgages receivable	(569,513)	(811,716)
Mortgage principal repayments	227,742	419,292
Proceeds from loan securitizations	232,356	411,179
Securitization retained interests	9,077	5,919
Purchase of capital assets	(93)	(115)
	(112,340)	188,723
Decrease in cash and cash equivalents	(120,782)	(32,885)
Cash and cash equivalents, beginning of period	395,835	50,121
Cash and cash equivalents, end of period	\$ 275,053	\$ 17,236

**FOR MORE INFORMATION:**

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*Certain forward-looking statements are made in this news release, including statements found in the Outlook and Objectives section, above, regarding possible future business. Investors are cautioned that such forward-looking statements involve risks and uncertainties detailed from time to time in the Company's periodic reports filed with Canadian regulatory authorities. 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. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by these assumptions and the related forward-looking statements. Equitable does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf except in accordance with applicable securities laws. See the MD&A for further information on forward-looking statements.*