

THE COMPANY

Equitable Group, through its wholly owned subsidiary Equitable Trust, is a federally incorporated trust company that specializes in first mortgage financing. The Company serves single-family, small to large commercial borrowers and mortgage brokers primarily in Ontario and Alberta. Importantly, total assets of \$3.4 billion and mortgage assets of \$2.87 billion are funded by issuing guaranteed investment certificates as opposed to asset-backed commercial paper.

FINANCIAL DATA

	2008	2009	2010*
Earnings per Share (\$)	2.78	3.36	3.84
Price to Earnings (times)	9.3	7.7	6.8
Dividend (\$)	0.40	0.40	0.40
Dividend Yield (%)	1.5	1.5	1.5
Book Value (\$)	17.75	21.83	22.28
Price to Book (times)	1.5	1.2	1.2

* IFRS

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT EQUITABLE GROUP

The financial services industry has been in turmoil since the middle of 2007. A collapse in certain segments of the US housing market resulted in a breakdown in the asset-backed commercial paper market. In a vicious cycle, credit markets tightened, assets declined in value and lenders were forced to raise dilutive capital during a crisis of confidence. Central banks responded by injecting liquidity and lowering interest rates. The failure of a well-known and several other lesser-known financial institutions struck fear into investors. However, we believe that this nightmare scenario presented an opportunity to purchase a high-quality financial services company, Equitable Group Incorporated (TSX: ETC), cheaply.

Equitable Group is a niche mortgage lender that avoided the three major pitfalls of the current crisis: excessive leverage, unsound lending practices and asset-backed commercial paper as a source of funding. From a balance sheet perspective, Equitable Group has total regulatory capital (under Basel I) of 11.4% of total risk weighted assets compared to the minimum required level of 10%. The Company's assets-to-capital ratio of 12.9 isn't even close to the leverage of most aggressive US institutions, which were leveraged as high as 35 to 1. Further, Equitable Group is a relatively conservative lender with a high quality credit book. In 2007, the Company realized loan losses of only \$21,000 out of total mortgage assets of \$2.87 billion. This amount was identical to its 2006 write-off. Mortgages in arrears 90 days or more came to only 0.3% of total mortgages. Finally, the Company's guaranteed investment certificates remained a stable, low-cost and liquid source of funding during a period of tremendous market volatility.

Despite the crisis in the financial services sector, Equitable Group reported excellent results in 2007. Total revenue increased 30% from the previous year to reach \$185.9 million and net income grew 14% to \$31.2 million. Basic earnings per share were \$2.47 in 2007 compared to \$2.30 in 2006. The only significant hiccup in the financial results was a \$3.4 million after tax write down of an investment in preferred shares of Quebecor World. If we adjust the earnings per share for this unusual charge, earnings would have totaled \$2.74 per share, an increase of 19% from 2006. Return on equity was 17.2% including the preferred shares write down and an impressive 18.9% excluding the charge.

We purchased our position in this relatively thin stock by participating in a bought deal at \$21.50 on June 25, 2008. The Company was looking to raise some equity capital in order to meet its 2008 objectives. Management is targeting a return on equity of 16% to 18% and net income growth of 16% to 18% while maintaining total capital to assets of 13%. With the stock priced at 8.7 times 2007 earnings, 7.8 times adjusted earnings, 1.3 times book value and yielding 1.86% we felt Equitable was excellent value. It is interesting to note that the Company last raised \$25 million in April 2007 at \$32.50 per share. Due to considerable investor concern with regard to the financial services sector, this recent raise at \$21.50 was priced very attractively.

The upside potential of our investment is demonstrated by the valuation discount between Equitable Group and its closest peer, Home Capital Group. Equitable currently trades at 1.3 times book value and 8.7 times 2007 earnings compared to

WHY ABC FUNDS BOUGHT EQUITABLE GROUP (cont'd)

Home Capital at 3.7 times book value and 15.2 times 2007 earnings. Admittedly Home Capital is larger, more liquid and has a higher return on equity. Common sense dictates that Equitable can narrow this discount by growing its mortgage book and improving its return on equity.

Interestingly, Equitable should be able to grow its mortgage book and its return on equity simultaneously by shifting its product mix toward residential mortgages and away from commercial mortgages. Residential, single-family mortgages are simply more profitable and require only a third of the capital to backstop the loan. Incremental growth could come from selling complementary products, such as home equity loans or credit cards, to existing customers, which traditionally offer higher margins. Finally, we believe that tightening lending criteria at the big banks should allow the Company to steal market share. In short, we believe that we have been able to purchase a position in a high quality financial services company that had been unfairly tainted by the ABCP and US housing meltdown that offers both value and growth.

ABC Funds
July 4, 2008

UPDATES

Equitable Group has just reported financial and operating results for the second quarter and first half of 2008. In contrast to the well known difficulties in housing-related sectors south of the border, Equitable's results were solid. For the three months ended June 30, net income totaled \$10.28 million, an increase of 37% from the second quarter of 2007. Earnings per share of \$0.79 were 34% higher than the \$0.59 reported in the comparable period a year ago. Annualized return on equity was 19.1% for the most recent three months and 18.9% for the first 6 months of the year. These results were considerably better than the Company's target of 16% to 18% for 2008. Management also reaffirmed their confidence in meeting stated objectives for the full year, which were developed in anticipation of a challenging economic environment.

After examining the mortgage portfolio, we were pleased to see evidence of stable credit quality. Although \$36,000 of loan losses were incurred in the quarter, this represented only a tiny fraction of the \$2.9 billion of mortgage assets. Net impaired mortgages improved to 0.16% of total mortgage assets at the end of the second quarter from 0.29% at the end of the first quarter of 2008. It is apparent that Equitable did not employ the hazardous lending strategies and lax standards that led to the dramatic weakness in the US housing and credit markets.

Looking forward, the net interest margin, and therefore profitability, should expand in the coming quarters for two key reasons. First, the single-family mortgage division is the fastest growing segment of all the Company's business lines. Remember that single-family mortgages are more profitable than commercial mortgages yet require only a third of the capital. Second, the prime rate is expected to stabilize and the mortgage spread over prime should increase due to more normalized credit pricing. In summary, fewer competitors in Equitable's core market and tightening lending standards at the big banks are creating an opportunity for the Company to increase market share and profitably grow its business.

ABC Funds
August 8, 2008

Given the trading in Equitable Group since September, investors can be forgiven for thinking that the end of niche mortgage lending has arrived. The shares have fallen from the recent secondary issue price of \$21.50 to a low of \$11.05 on November 3, a decline of almost 50%. Thankfully, the shares rebounded to \$13.75, or almost 25%, by the end of the week.

Today Equitable released its financial and operating results for the third quarter of 2008, which should provide some reassurance to investors. Total assets reached \$4.1 billion, total mortgages receivable were \$3.0 billion and single-family dwelling mortgages surpassed \$1 billion. Net income increased 22.3% to \$10.8 million and diluted earnings per share were \$0.74 compared to \$0.67 a year ago. Return on equity was 16.7% in the quarter, within the Company's target range of 16% to 18%.

A critical assessment of the results yields the following. First, we were impressed that the Company funded \$976.9 million of mortgages in the third quarter, an increase of 25% over the third quarter of 2007. However, the Company benefited from turmoil in the credit markets, which allowed Equitable to securitize and sell \$440 million of CMHC-insured mortgages. This level of securitization is unlikely to be sustainable over the long-run. Second, the credit quality was good, but demonstrated some deterioration in the quarter. Net impaired mortgages were 0.33% of total mortgage assets compared to 0.16% in the second quarter of 2008 and 0.08% in the third quarter of 2007. Due to "changes in economic conditions and real estate values in certain regions of Western Canada" management took a \$1 million pre-tax charge to reflect potential losses in its multi-residential portfolio. Third, we saw some net interest margin compression in the quarter, as the prime rate declined

UPDATES (cont'd)

while the rate on GICs remained relatively flat. Finally, capital ratios improved in the quarter, as the Company strengthened its total capital ratio to 13.3%, up from 11% in January. Overall, the results are on target, but some softening in the results was apparent and management's tone was cautious.

However, we believe that the shares are pricing in a much greater deterioration in the Company's business than is warranted. At current price levels, the shares are trading at 0.76 times book value and approximately 5 times 2008 earnings. Obviously, the market is looking for a massive decline in profitability going forward. After stress testing the financials, we believe that the current price is more reflective of fear and uncertainty than anything else. With a forecasted ROE in the mid-teens, we do not believe that the shares should trade below book value. Nonetheless, as economic data stabilizes and trading liquidity improves we expect the shares to recover nicely.

ABC Funds
November 7, 2008

Nervous investors, fearing that Canadian home prices would decline in a similar fashion as American home prices, have punished shares of Equitable Group. The stock declined from a high of approximately \$35 in mid-2007 to reach a low of \$8.66 in early December 2008. As we discussed in our last update, management's tone has been quite cautious for some time now. However, economic data has been showing signs of stabilization and the shares have started to recover.

We believe that the upwards momentum could continue given the solid first quarter results, released May 7, 2009. Net income increased 23.3% to \$11.9 million or \$0.80 per fully diluted share compared to \$9.7 million or \$0.74 per fully diluted share a year ago. Return on equity was an impressive 17.8% in the quarter and book value increased from \$17.75 per share at year end to \$18.90 per share. Management's tone was noticeably better on the quarterly conference call.

Admittedly, some may view the gains on securitization and sale of mortgages through the CMHC MBS and CMB Programs as unsustainable. Over the past few quarters, the Company benefited from unusual credit market conditions and securitized these mortgages at wider spreads and volumes that were higher than historical levels. However, on the earnings call, management suggested that volumes should remain firm in the near term but the gross margin would decline somewhat. This should be mitigated in the second half of 2009 as spread compression related to rapidly falling interest rates dissipates. The net interest margin is expected to improve as GIC's roll over at lower rates, new and renewing mortgages are priced more favourably and interest rate floors are implemented on variable rate mortgages.

Finally, we need to examine the credit quality of the Company's mortgage book. Thankfully, the Company actually showed a sequential improvement in the quarter. Net impaired mortgages were 0.94% of total mortgage assets at the end of the first quarter of 2009 compared to 1.21% at the end of the fourth quarter of 2008. The improvement stemmed from successfully dealing with one problem borrower in Western Canada. Management took over several key properties that were subsequently sold for losses of approximately \$2.5 million, though the majority of the loan was recovered. As they stated in the press release, "the level of defaults and losses that the Company has experienced in the last few quarters has been manageable and reflect management's focus on protecting its portfolio".

We believe that the solid financial results should give investors greater confidence. In fact, Bay Street analysts were quick to upgrade their earnings estimates and price targets for the stock. Annualizing the first quarter results, the shares are trading at only five times expected earnings. We need to monitor the credit quality carefully, but it is safe to say that the Canadian home-owner is typically much more conservative than his or her American counterpart. We therefore don't expect to be surprised by a spike in defaults or loss losses. As investors look past the worst case scenario and management continues to under-promise and over-deliver, the P/E multiple should continue to expand.

ABC Funds
May 8, 2009

Equitable Group has, once again, reported a quarter that was ahead of "the Street's" expectations. On August 6, ETC reported a 15.5% increase in net income to \$11.9 million from \$10.3 million a year ago. Diluted earnings per share increased slightly to \$0.80 from \$0.79 a year ago versus estimates of \$0.73 per share. Perhaps even more importantly, the press release contained the following statement, "Economic conditions appear to be improving relative to the past few quarters and, based on our increasing comfort with credit and real estate market dynamics, we have increased our sales efforts within the context of ongoing lending and risk management discipline". Given management's conservative nature, this positive tone struck a real chord with investors, who pushed the shares up \$1.40 to \$19.90 or 7.6%.

UPDATES (cont'd)

The solid earnings performance stemmed from several factors. First, the net interest margin increased to 1.9% from 1.6% in the first quarter in 2009. Pricing strategies, such as converting floating to fixed rate mortgages and putting in interest rate floors on floating rate mortgages as they came due are working nicely. Additionally, reduced competition for GIC sales meant that the cost of funding new mortgages declined. The second main driver of the better-than-expected profitability was the securitization of \$353.9 million of CMHC-insured mortgages that earned \$5.8 million for the Company. The implied rate on the securitization was 1.64%, double some forecaster's expectations.

Finally, we like to examine the credit quality closely to ensure that the Company's mortgage book remains solid. Net impaired mortgages improved to 0.79% of total mortgage principal outstanding from 0.94% at the end of the first quarter of 2009. Mortgages in arrears 90 days or more improved to 1.34% of total principal outstanding from 1.49% at the end of the first quarter of 2009. Finally, in the most recently completed quarter, net realized loan losses related to workout activities amounted to \$1 million, which is acceptable on a \$3 billion book of mortgages.

Considering management's optimism, the improving profitability and the solid credit quality, we were quite pleased with Equitable Group's most recent quarter. Despite the move in the stock today, we still believe that the shares are cheap. The stock should trade above the current book value of \$19.94 per share given the profitability and outlook of this Company.

ABC Funds
August 7, 2009

Equitable Group has once again released a solid earnings report on the back of net interest margin expansion and improving credit metrics. The Company reported a 12% increase in net income to \$12.0 million in the third quarter of 2009 compared to \$10.8 million a year ago. Diluted earnings per share grew 9.5% to \$0.81 versus \$0.74 a year ago. Book value now totals \$20.86 per share, up 16% on a year over year basis.

The Company's net interest margin, the key driver of profitability, improved from 1.7% a year ago and 1.9% in the second quarter of 2009 to 2.2% in the third quarter of 2009. The net interest margin is expected to continue to improve as the Bank of Canada holds the benchmark rate stable. Equitable's pricing and product mix strategies should lead to higher average interest revenue while a lower cost of financing, as relatively expensive sources of funds (raising during the credit crisis) roll over, should lead to a lower average interest expense. Netting out higher average interest revenue with lower average interest expenses obviously results in a better net interest margin.

Despite rising unemployment, Equitable's credit quality actually improved in the most recently completed quarter with mortgages in arrears 90 days or more dropping to 0.88% of total principal outstanding from 1.34% in the second quarter of 2009. Excluding one mortgage that was categorized as impaired but is actually current on its payments, net impaired mortgages amounted to 0.57% of total mortgage assets from 0.79% at the end of the second quarter of 2009. Management suggested that they have avoided unreasonable losses due to the relative health of the Company's mortgage portfolio and a general recovery in various real estate markets.

From a capital perspective, the Company issued \$50 million of preferred shares and redeemed \$2.5 million of sub-debt in the third quarter. Equitable's total capital position was 17.5%, well ahead of the Company's internal target of 13%, and will be used to grow the mortgage book in coming quarters. As Andrew Moor, President and CEO, stated, "We are confident in our business approach and current strength of demand for mortgage financing will translate into strong performance for Equitable going forward".

Despite the solid results, Equitable currently trades just slightly above book value of \$20.86 and less than seven times 2009 expected earnings. With a nine-month trailing return on equity of 16.7%, the stock should trade at a more significant premium to book value. This discrepancy is particularly puzzling when we examine Home Capital Group (HCG). We acknowledge that Home Capital has a larger market capitalization and a higher return on equity. However, with HCG trading at 2.6 times book value and ten times 2009 expected earnings, we believe that Equitable Group is simply a bargain in the alternative-lending sector.

ABC Funds
November 6, 2009

Equitable has continued its impressive operating and financial performance. Since reporting its fourth quarter and fiscal 2009 results, the stock has rallied approximately 20%. Investors were appreciative of the improvement of almost every single operating and financial metric on a year over year basis.

UPDATES (cont'd)

In fiscal 2009, net income grew 33.2% to \$51.4 million or \$3.36 per share from \$38.6 million or \$2.78 per share a year ago. This implied a return on equity of 17.0% compared to 16.6% in 2008. Note that the earnings growth did not compromise the balance sheet, as the total capital ratio improved to 17.6% versus 13.5% a year ago. Book value per share grew 23% to \$21.83 from \$17.75 at the end of fiscal 2008. Importantly, these impressive results were generated without relaxing underwriting standards, evidenced by the improvement in mortgages in arrears 90 days or more to 0.64% of total principal outstanding from 1.57% at December 31, 2008.

Based on analysis of the results and the Company's outlook, we believe that that Equitable Group should trade at a greater premium to its book value than the current multiple of 1.16 times. From regression analysis of several financial service companies, we believe that 1.5 to 1.6 times book value would not be an unrealistic expectation as the path to economic recovery becomes clearer. As Andrew Moor, President and CEO, stated, "Given our well-capitalized balance sheet, quality mortgage portfolio and focused risk management processes, we are confident in Equitable's ability to translate opportunity into value in 2010 for our shareholders".

We are extremely heartened by these comments by the CEO, Andrew Moor. As a result, we remain very comfortable continuing to hold Equitable Group as we patiently await its true valuation to be recognized by the marketplace.

ABC Funds
April 16, 2010

Despite the surprisingly weak share price performance recently, both on an absolute basis and relative to Home Capital, Equitable Group has just reported solid results for the second quarter of 2010. Neither the slowing housing market nor the reduction of mortgage securitization activities in favour of on-balance sheet lending seem to have negatively impacted Equitable's financial performance or credit quality of the loan book.

In terms of financial performance, Equitable reported net income of \$12.6 million or \$0.78 per fully diluted share compared to \$11.9 million or \$0.80 per fully diluted share in the comparable period last year. The results were driven by a 29% increase in the Company's net interest margin to \$22.6 million. On a percentage basis, the net interest margin improved significantly to 2.4% in the second quarter of 2010 compared to 1.9% in the second quarter of 2009. These results implied a return on common equity of 13.6% in the most recently completed quarter.

The improvement in the net interest margin was offset by lower mortgage securitizations of \$141.3 million compared to \$353.9 million due to lower spreads. However, we believe that management's decision to reduce the dependence on securitizations actually improves the quality of the Company's earnings. Earnings in the quarter were also impacted by the payment of dividends on preferred shares that were issued in the third quarter of 2009, which reduced net income available to common shareholders. Management summed up their outlook as follows, "as the Company continues to deploy capital in future quarters, management expects EPS and ROE to increase commensurate with the success of the Company's growth objectives, as earnings from high quality on-balance sheet mortgage lending activity more than offset the decline in earnings from securitization activities".

Due to prudent underwriting practices, as the Canadian housing markets slowed, the quality of the Company's mortgage portfolio remained solid. Mortgages in arrears 90 days or more were 0.92% of total mortgage principal compared to 1.24% at the end of the first quarter of 2010 and 1.34% a year ago. Net impaired mortgages were 0.74% of total mortgage principal outstanding compared to 1.34% at the end of the first quarter of 2010 and 0.79% in the second quarter of 2009. Net loan losses of \$1.4 million were realized in the second quarter of 2010 and were charged against specific allowances recorded in prior quarters. We believe that management has done an excellent job managing the Company's risk exposure during the current cycle.

On the quarterly conference call, Andrew Moor, Equitable's President and CEO, expressed his disappointment with the Company's share price. Normally executives refrain from making such comments, but with the shares trading below the Company's book value of \$23.38 and below seven times 2010 expected earnings we share his frustration. If the market does not price the shares more efficiently, we believe that Equitable Group might become an accretive acquisition for an institution such as Canadian Western Bank. Remember that CWB participated in Equitable's preferred share offering and purchased 360,000 preferred shares at \$25 per share. Given the complementary geographic footprint of the companies and Equitable's discounted valuation, the possibility is definitely intriguing.

ABC Funds
August 6, 2010

UPDATES (cont'd)

On May 17th, Equitable Group reported its Q1 2011 financial results. In our view, ETC's first quarter results were surprisingly strong, with diluted EPS of \$0.99 versus \$0.88 in Q1 2010, and an adjusted ROE of 17.8%. Q1 2011 originations totaled \$667 million, up 35% year-over-year, and total assets reached a record \$9.2 billion. While the change to International Financial Reporting Standards (IFRS), resulted in a downward adjustment to shareholders' equity of \$44 mm (approximately \$3.00/share), this will be recovered in future periods reported under IFRS.

For 2011, Equitable expects the Canadian real estate market and a general healthy employment outlook will provide a favourable operating environment for the company. With this in mind, after achieving exceptional growth rates for its origination and lending business in 2010, ETC expects more moderate growth rates in certain areas this year, including single family residential mortgage lending. However, recent expansion efforts in Canada, including the commencement of lending activities in Saskatchewan, is expected to result in increased origination volumes from these markets in 2011 and positions the company to achieve significant earnings growth in future periods.

We continue to believe Equitable Group is an inexpensive stock trading at a discount valuation. At current levels, ETC is trading at just 1.2x book value, and a P/E ratio 7.5x 2011 consensus analysts' estimates. With a strong growth platform and a 1.4% dividend yield, we continue to see significant upside for ETC shares.

ABC Funds
May 20, 2011

On November 2nd, Equitable Group reported its Q3/2011 financial results. During the quarter, ETC generated net income of \$0.84 per share – which was consistent with Q3 2010. However, excluding a \$0.24 per share provision related to an alleged fraudulent loan, which management believes is an isolated event, Q3 2011 EPS would have totaled \$1.08. ROE for the quarter increased to 17.9% (excluding the provision) compared to 16.2% last year. Total assets increased by 18.9% year-over-year, and stood at a record \$10.3 billion at the end of the quarter.

Operationally, ETC's Q3 2011 results benefited from a 41% increase in mortgage production, which resulted in record quarterly net interest income. As a result of an expanded geographic footprint, ETC funded \$380 million in conventional single family residential mortgages in Q3 2011 – a 31% sequential increase. Going forward, management believes the company's mortgage portfolio is positioned to deliver strong earnings growth and that the fundamentals of its business are strong.

In connection with its Q3 2011 earnings release, ETC raised its quarterly dividend by one cent to \$0.12 per share (\$0.48 per share annualized) – a 9.1% increase. We believe the dividend increase exemplifies management's confidence in Equitable's outlook and its strong financial position.

We maintain our view that ETC shares are undervalued. At current levels, the stock is trading at only a slight premium to its Q3/2011 book value of \$24.02, and a 5.7x P/E multiple to 2012 consensus EPS estimates. In addition, following the one cent quarterly dividend increase, ETC now provides a dividend yield of 2% at current levels.

ABC Funds
November 11, 2011