EQUITABLE GROUP INC.

ANNUAL REPORT

2005

CORPORATE PROFILE

Equitable Group Inc. provides first mortgage financing through its wholly-owned subsidiary, The Equitable Trust Company. It also offers Guaranteed Investment Certificates to depositors as a nationally-licensed deposit-taking institution.

Equitable Trust was founded in 1970, and by following a prudent, results-driven approach, Equitable has become a leader in its primary niches: alternative single family dwelling as well as multi-unit residential mortgage lending.

Equitable's primary geographic territory is the Greater Toronto Area – a region of more than 5 million people. In 2005, Equitable began to serve the Calgary alternative single family dwelling mortgage lending market.

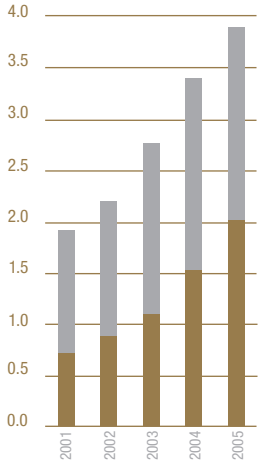
The Company's common stock is listed on The Toronto Stock Exchange, symbol ETC. For more information, visit the Company's web site at www.equitablegroupinc.com.

2005 HIGHLIGHTS

- Assets surpassed $2 billion milestone
- New records established for earnings, earnings per share
- All key financial objectives for 2005 achieved or surpassed (see page 16)
- Warehoused mortgage niche greatly expanded
- Calgary alternative single family dwelling mortgage niche entered
- Productivity ratio improved, despite significant increase in staffing
- New cashable GIC introduced
- Balance sheet strength sustained

Total On- and Off-Balance Sheet Assets

($ billions, years ended December 31)

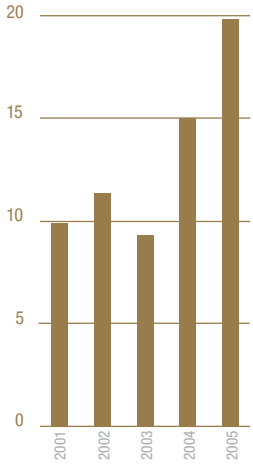


Off-balance sheet assets
On-balance sheet assets

Total on-balance assets grew 28.9% compounded annually over this five year period, while total on and off balance sheet assets grew 18.8%. Off-balance sheet assets are Canada Mortgage and Housing Corporation ("CMHC") insured multi-unit residential mortgages, securitized through the CMHC-Mortgage Backed Securities Program.

Net Earnings

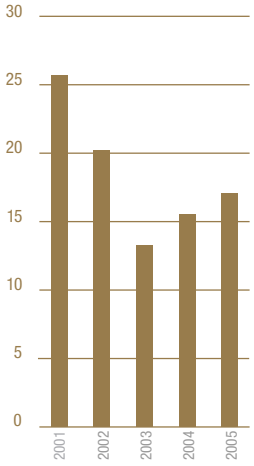
($ millions, years ended December 31)



Net earnings grew 30.2% on a compound annual basis over this five year period and increased 32% in 2005 over 2004 driven primarily by growth in assets.

Return on Average Equity

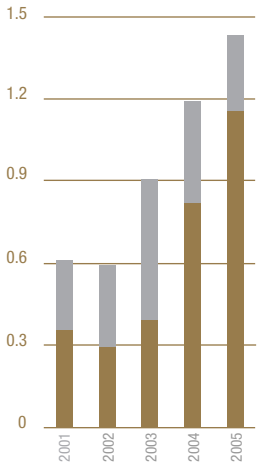
(%, years ended December 31)



ROE averaged 18.3% over this five year period and increased to 17% from 15.5% in 2004 on the strength of higher earnings.

Mortgage Production

($ billions, years ended December 31)



Insured
Conventional

Mortgage production increased 22.5% on a compound annual basis over this five year period and combined conventional and insured mortgage production in 2005 was 21% greater than in 2004.

FELLOW SHAREHOLDERS

In 2005, Equitable Group set new records for earnings and, on the strength of our niche mortgage lending strategies, our assets exceeded $2 billion for the first time. Moreover we achieved – and in most cases surpassed – all of our primary targets for the year.

Assets increased 30% to $2.01 billion, exceeding our 20% growth target for 2005 by 10 percentage points. Outpacing our growth objective by such a wide margin is a good accomplishment as is the fact that growth was achieved in all of our niches. As further testimony to the rapid pace of our growth, we reached the $1 billion mark just two and one half years ago.

As always, 2005 assets were amassed carefully and strategically so as to maintain a balanced and diversified mortgage portfolio – a portfolio that at year end well reflected our disciplined lending practices and risk management strategies.

Net earnings grew 32% to $19.76 million compared to $14.98 million in 2004, outpacing our target growth rate of 20%. On a diluted per share basis, earnings were $1.65, up 27% from 2004.

Return on average equity was 17%, compared to our objective of greater than 16% return. Equitable's 5 year return on average equity now stands at 18.3%, proving that mortgage lending is a great business.

Beyond our primary targets, we increased our quarterly dividend. Total dividends paid per share amounted to $0.32 in 2005, $0.08 in each quarter, representing a ratio of 25% of trailing net earnings. Using the same formula, we have increased our quarterly dividend for 2006 to $0.10 per share. As well, our year-end total capital ratio – the key benchmark of financial strength – was a healthy 11.6%.

We are proud of Equitable's performance and satisfied with the reception it has been given in capital markets. In the two years since our initial public offering, total annualized shareholder return – including reinvested dividends – was 22.14%. In other words, $100 invested March 18, 2004 was worth $142.86 at December 31, 2005.

Equitable chose to increase its provisions for loan losses during 2005 to $725 thousand from $700 thousand in the prior year, at the expense of reported earnings, even though some Canadian financial institutions have chosen to decrease theirs. Of more importance, despite the rapid pace of asset growth, no loan losses were realized in 2005, while mortgages in arrears 61 days or more amounted to just 17 basis points (0.17%) of total principal outstanding at year end.

FELLOW SHAREHOLDERS (CONTINUED)

This is not a matter of happenstance. Equitable has a well-deserved reputation for making sound credit decisions. Over the past five years, the Company had an aggregate of $5 thousand of realized loan losses, less than one one thousandth of 1% of the average mortgage principal outstanding over that time. This is an outstanding track record of risk management that we will strive to sustain while we grow.

Strengthening Our Business

2005 saw Equitable do more than achieve profitable, controlled growth. We also strengthened and broadened our business platform for the future.

As planned, in the second half of 2005, we established our presence in the Calgary market for alternative single family dwelling mortgage lending. With a population approaching one million, Calgary is attractive to us because it has a diversified and growing economy and is a destination city for newcomers to Canada. The City of Calgary estimates that almost 200,000 Calgarians are foreign born. Newcomers to Canada and the self-employed are primary users of alternative mortgage financing, and now in two distinct geographic regions – the Greater Toronto Area and Calgary – Equitable serves these consumers.

Although our presence in Calgary is currently modest and was immaterial to 2005 earnings, we now have the foundation to originate more business in that growing city. Calgary is an important venture for our future that, over time, will add meaningful geographic diversification to our business and become another earnings stream.

A far more material development in 2005 was an increase in what we call our warehoused mortgage operations. At December 31, 2005, we provided financing on almost $164 million of these conventional mortgages held for sale. These mortgages are assigned to a third party and are fully repaid within a short time. In the past, Equitable has engaged in warehoused mortgage operations but to a much more limited degree. In 2004, for example, $45 million of our year-end portfolio were conventional mortgages held for sale. However, we have decided to make this one of our niche focus areas because it offers attractive profit margins and involves only a temporary investment in quality first mortgages on commercial and residential properties. Participation in this niche will complement our activities on a go-forward basis.

FELLOW SHAREHOLDERS (CONTINUED)

To manage growth now and to contribute to growth in the future, we also expanded our workforce. Twenty-eight new employees were recruited in areas such as mortgage origination and servicing, finance and accounting, human resources and compliance, bringing total employment at Equitable to a modest – but for us record – level of 82 at year end.

As a service-based business, our people and our methodologies are vital to our ongoing success. We're convinced that the progress we made in expanding our team will allow us to sustain a strong level of performance in 2006.

Even with this employment expansion, our productivity ratio on a tax equivalent basis (a measure of how much it costs us to generate revenue – the lower the better) was 60 basis points lower in 2005 than in 2004. Equitable remains a very efficient, cost-effective organization with one of the most attractive productivity ratios in the Canadian financial services sector.

Equitable's cost-effectiveness reflects the value of our non-branch business model – a model that has stood the test of time. We expect it to continue to support the achievement of our growth objectives going forward as we work in concert with independent mortgage brokers and deposit agents to originate business and secure GIC sources of funding.

Equitable enjoys relationships with many individual independent mortgage brokers and deposit agents who helped us to originate $1.43 billion in new mortgage financing in 2005 and attract an additional $416 million in GICs, respectively. Offering these valued partners responsive service is a key operational goal each and every year.

2006 Agenda

Our primary financial objectives for 2006 are well understood by our team. Compared to 2005, we seek 20% growth in assets, 20% growth in net earnings, a 20% growth in diluted earnings per share, a return on average equity of greater than 17% and a productivity ratio on a tax equivalent basis of 32% to 34%.

We look to meet these objectives by staying the course and applying the same disciplined approach to business that has contributed to our corporate longevity and excellent track record of risk management.

FELLOW SHAREHOLDERS (CONTINUED)

Our agenda for 2006 is therefore populated by evolutionary initiatives that are consistent with our long-term vision for high quality growth, profitability and sustainability.

First, we intend to use a prudent mixture of Tier 1 (Equitable Trust's shareholders' equity) and Tier 2 (Equitable Trust's subordinated debt) regulatory capital to improve Return on Equity ("ROE"). Our capital management plan for 2006 has been formulated to support our ROE target and maintain our financial solidity. We do not expect to require additional equity financing in 2006.

Second, we will capitalize on opportunities in each of our four core lending segments. Alternative single family dwelling mortgage lending, multi-unit residential, commercial and now warehoused mortgages all offer good growth prospects and we intend to once again grow in each, but within well-defined portfolio parameters that reflect our risk management philosophies. Although our mortgage asset mix varies from year to year, and will continue to do so because of the temporary nature of warehoused mortgages, we expect single family dwelling mortgages will continue to grow and represent our largest segment in 2006.

Third, we will continue to focus efforts in our primary geographic market and on building momentum in the Calgary alternative single family dwelling niche. In 2006, we expect most of our mortgage business will come from the Greater Toronto Area ("GTA"), a healthy and growing real estate market. While Calgary will not yet be material to our lending business in 2006, we do expect it to contribute profitably and to show incremental, quarter by quarter progress.

Fourth, we will introduce our new cashable GIC to a broader number of deposit agents. This product was created in 2005 and it met with excellent market reception with a limited number of deposit agents. We feel the product is now well positioned to expand to a broader spectrum of agents.

As Equitable begins its 36th year in business, market conditions appear supportive of continued profitable growth. Interest rates have risen modestly in recent months – contributing positively to our spreads without dampening demand in our niches. Our plan assumes some modest rate increases in 2006.

FELLOW SHAREHOLDERS (CONTINUED)

While we cannot forecast the future, we can guarantee our shareholders that we will remain prudent in our use of capital, in our lending practices and in our pursuit of profitable growth.

We sincerely thank our shareholders for their confidence and trust, our directors for their wise counsel and our employees for contributing their time and effort to serving our shareholders, partners and customers.

We look forward to another year of value creation.

Austin Beutel
Chairman of the Board

Geoffrey Bledin
President and Chief Executive Officer

February 27, 2006

FOCUSED

At Equitable, our vision and purpose are clear.

As a niche mortgage lender we seek to generate ever-increasing shareholder value. We do not aspire to be a retail bank. We choose to confine ourselves to four specific niches in the mortgage lending industry because we believe these provide outstanding growth opportunities.

Our largest niche is alternative mortgages on single family dwellings. As an alternative lender, we serve qualified borrowers whose financial circumstances do not meet the criteria of conventional bank lenders. Although this is an attractive market for all mortgage lenders, it is underserved because it takes a unique hands-on approach to be successful. And Equitable has been successful.

Mortgages for multi-unit residences (primarily apartments) represent our second largest niche. It's an attractive complement to single family dwelling mortgage lending for several reasons. Multi-unit properties tend to retain stable, predictable cash flow, and hence mortgage serviceability, because professional property managers seek low vacancy rates at all times. The fact that a number of tenants effectively service the mortgage also improves credit quality and makes these properties attractive to investors.

Commercial mortgages on retail, office and, to a lesser extent, industrial and hospitality properties represent an important, but smaller third niche. We are selective in this niche and seek to maintain a diversified portfolio of these property types. The commercial mortgages Equitable invests in are income producing and maintain stable, predictable cash flows.

Our newest and smallest niche is short-term financing on conventional first mortgages. Often referred to as warehoused loans because of their short duration, these mortgages are placed on residential and high quality commercial properties. We finance them as an interim step before they are pooled and sold to investors by their third-party originators. This is a desirable niche because these mortgages provide attractive yields and are easily matched to short-term GICs.

Regardless of the niche, we are very selective lenders, and we have the ability to be discriminating because of demand across all of the markets we serve.

BALANCED

At Equitable, balance is a key success factor.

Striking the right balance between risk and return is not a matter of happenstance. It takes constant effort to manage our business for growth, profitability, liquidity and prudence in the context of ever-changing market conditions.

Our balanced approach begins with our capital management policy. Here, we seek to ensure that we meet regulatory capital requirements while providing an attractive return to shareholders. This is a key consideration.

But managing for balance goes well beyond this and includes asset-liability matching. Simply stated, we adjust interest rates on a daily basis to raise GIC deposits with a repricing or maturity profile matching the profile of the assets we're funding. Specific Board of Director–approved policies are in place to measure and control these activities.

Seeking an optimal mortgage portfolio mix is also critical. We have latitude with respect to our asset weighting policies, but generally, our ongoing strategy is to heavily weight our portfolio with alternative single family dwelling mortgages and multi-unit residential mortgages. These are Equitable's primary niches and, excluding warehoused mortgages, usually represent no less than 70% of our mortgage portfolio.

Common practice for Equitable is to keep commercial mortgages at or below 25% of our portfolio. While this percentage fluctuates, we remain very selective in the commercial field. Construction loans, CMHC-insured mortgages held for securitization, and warehoused mortgages round out our mortgage portfolio. Although it is not a policy, we also expect warehoused loans to represent on average around 10% of our portfolio in the future.

Based on these metrics, Equitable begins 2006 as a balanced business. However, we see balance not as a one-time event, but a journey because we know that a perfect balance today may not be perfect tomorrow. One of the ways we seek a better balance is geographic diversification. Today, the vast majority of our business is in the Greater Toronto Area. The GTA is a well-diversified region. But prudence and growth suggest we add other regions. We've selected Calgary, and over time we believe that careful expansion there will give us additional strength and balance.

PRUDENT

At Equitable, risk management matters.

Every form of lending involves credit risk. To manage ours, Equitable's mortgage administration team has well-established policies and procedures in place governing our lending practices. Adjusted regularly based on market conditions, these strict underwriting criteria were developed over many years to minimize the inherent risks of lending in each of our niches.

Although we are a lean, efficient business, a key success factor for Equitable is the fact that we take a personal, hands-on approach. We do not rely on electronic score cards to evaluate applications. Our insistence on doing business in narrow geographic territories affords us the opportunity to get to know property valuation trends intimately.

By following made-at-Equitable lending criteria in a disciplined way, Equitable has achieved an enviable track record of risk management as we have grown. In each of the last three years, no loan losses were realized and over the course of the past 5 years, total net loan losses were just $5 thousand. Over the same five-year period, mortgages funded totalled more than $4 billion.

While we are proud of this track record, our key objective is to sustain it. Our management team, along with Equitable Trust's Investment Committee, regularly reviews credit policies and lending practices and makes adjustments as required. On an individual mortgage basis, after funding, we carefully follow it over its term and move quickly if payments fall into arrears.

Real-time reporting of the status of all outstanding mortgages is a key responsibility of our mortgage administration team and they do their job exceptionally well. At December 31, 2005, mortgage principal in arrears over 61 days was just 17 basis points (0.17%) of our total mortgage portfolio. 2005 was not an unusual year in this regard. Arrears 61 days or more have never exceeded 0.25% of outstanding principal at any year end over the past four years.

As we move into 2006, we are confident that our mortgage portfolio meets the time-tested standards we have set. It is well-diversified by niche and maturity and is managed in a prudent way to deliver our objective of profitable growth and outstanding credit risk management.

Equitable's interest rate risk and liquidity risk management also follow prudent standards. This discipline of adhering to policy is fundamental whether it be in the area of hedging interest rate risk on mortgages held for securitization or in keeping adequate liquid assets on hand at all times for liquidity purposes.

EFFICIENT

At Equitable, we strive to be one of Canada's most efficient lenders.

We have long believed that a key to business success is outsourcing. Our business model is founded on it, and we outsource production in two areas: mortgage origination and GIC deposit taking.

In the area of mortgage origination, we have well-established relationships with a broad network of independent mortgage brokers and an alliance with First National Financial Corporation, a leading mortgage originator and servicer that sources and administers conventional mortgages and mortgages for our CMHC-MBS program.

Independent mortgage brokers actively shop for the best mortgage rates possible using a number of lending sources. In our niches, demand for financing is great and Equitable is a prime choice for mortgage brokers, particularly in the GTA. With our newly established presence in Alberta, we are now developing a broker network to support our growth objectives there.

We believe in an outsourcing model for mortgage origination for two reasons. It allows us to bring greater focus internally on developing key risk management capabilities, and it keeps our fixed costs much lower than if we employed captive mortgage originators. This model of outsourced origination has worked well for Equitable over the years.

Outsourcing works equally well for GIC fundraising because it means we, as a nationally-licensed deposit-taking institution, do not need a costly retail branch infrastructure to attract deposits. Instead, we rely on relationships with members of the Investment Dealers Association and the Federation of Canadian Independent Deposit Brokers who help investors choose GICs that offer the best terms. By maintaining relationships with a cross-Canada network of independent agents, we gain wide distribution for our GICs at low cost, and we can select the GIC terms and amounts we wish to raise, with ultimate flexibility. In 2005, we benefited from this outsourcing model and introduced a new cashable GIC to provide flexibility to investors.

Overall, using this outsourcing model, we strive to be one of Canada's most efficient lenders, measured by how much it costs us to generate revenue. In 2005, we spent just 31.9¢ per $1 of net interest and other income generated on a tax equivalent basis, allowing us once again to live up to our goal.

MOTIVATED

At Equitable, we are motivated to succeed.

Our motivation is to deliver continuous improvement in our financial performance. Each year, we publicly state our primary objectives and, at the end of each year, hold ourselves publicly accountable for the performance we produced.

This simple act of accountability creates one of the most compelling motivators available to any organization: personal pride in a job well done.

But we're also motivated in other ways. A great number of us enjoy the rewards of shareholder value creation because we own shares in our Company.

In fact, we have a strong share ownership culture at both the Board and management levels. Combined, our team owned over 25% of Equitable's common stock at year end.

While infusing our team with the spirit of ownership, we also recognize that share purchases are a personal matter. So we offer competitive compensation tied to performance as a way to align results with objectives.

As our productivity ratio highlights, Equitable is a very efficient lender, and while this has a lot to do with our business model, it also comes down to the motivation of our people who make the model work.

STRONGER

At Equitable, our team is stronger than ever.

To capture growth in the future and to manage it well, we increased the size of our workforce 52% in 2005. In real terms, this expansion added 28 staff to our team, but as a lean organization, this represents the biggest increase in annual staffing levels we've ever had.

New employees were added in areas such as mortgage origination and servicing, finance and compliance, and we added two representatives in Calgary, our newest geographic territory. This meant growing our payroll, but we believe the end justifies the means and the end is a more capable organization.

Importantly, while we are now larger, we have not lost the small company "feel." In fact, our new-found size still allows us to be nimble and responsive to market opportunities.

Growth in staffing has also not distracted us from achieving strong results. While there are always some inefficiencies caused by training and new employee assimilation, Equitable's performance in 2005 shows we didn't miss a beat.

And best of all, with new employees now firmly established, we believe we are much better positioned to grow to the next level in an efficient manner.

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

For the year ended December 31, 2005

Forward-Looking Statements

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

Forward-looking statements relate to, among other things, realizing the value of Equitable's assets, capitalizing on increasing market demand for Equitable's mortgage products, executing Equitable's strategic plan, and the demand for Equitable's deposit products. The risks and uncertainties that may affect forward-looking statements include, among others, risks involved in fluctuating interest rates and general economic conditions, legislative and regulatory developments, the nature of Equitable's customers, competition and other risks detailed from time to time in Equitable's filings with Canadian provincial securities regulators, including Equitable's Annual Report and Annual Information Form dated March 24, 2006. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and Equitable does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.

The "Outlook" sections in this Management's Discussion and Analysis are forward looking, as previously defined, and actual outcomes are uncertain. When reviewing these sections specifically and the rest of the MD&A generally, readers are advised to consider the risk factors regarding forward-looking statements.

Non-Generally Accepted Accounting Principles ("GAAP") Financial Measures

The presentation of financial information on a taxable equivalent basis ("TEB") is a common practice of presentation in the banking and trust company industries and does not have a standardized meaning within generally accepted accounting principles (GAAP). Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, Equitable 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. In 2005 the gross-up amounted to $3.2 million and in 2004 it was $2.3 million.

Business Overview

Equitable Group is a niche lender providing residential first mortgage financing through its wholly owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust was founded in 1970. The primary sources of the Company's revenue are interest income derived from its mortgage financing business and interest and dividend income from its investments. In addition, the Company earns income from commitment, renewal and discharge fees on its mortgage portfolio and from the securitization of mortgages and recurring income from its continuing interest in these mortgages within the Canada Mortgage and Housing Corporation ("CMHC") mortgage-backed securities ("MBS") program. The Company's business model is based on outsourcing mortgage originations to independent mortgage brokers and outsourcing deposit originations to independent deposit agents rather than using a branch network to conduct its business. Equitable's business model and the growing nature of its mortgage lending niches have contributed to strong long-term financial results. In the five years ended December 31, 2005, the Company's net earnings have grown 30% compounded annually, its assets have grown 29% compounded annually and return on average shareholders' equity has averaged 18.3%.

Business Strategies

The Company's long-term strategies are to:

- maintain a niche market focus on mortgage financing of single family dwelling properties and multi-unit residential properties in selected geographic regions;
- complement that focus with selective mortgage lending on commercial properties and warehoused mortgages (for an explanation of warehoused mortgages see page 23); and
- emphasize a strict, disciplined approach to mortgage financing, concentrating on sound product underwriting.

- Support growth at low cost by:
  - funding its mortgage financing operations through deposits from the public across Canada in the form of Canada Deposit Insurance Corporation ("CDIC") insured GICs.
  - outsourcing mortgage origination and deposit-taking functions and growing without a branch network.
- Develop and nurture strategic business alliances in the mortgage financing industry.
- Maintain strong regulatory capital ratios.
- Foster a strong growth orientation and culture.

2005 Operating Highlights

During 2005, Equitable expanded its asset and regulatory capital base, its product lines and its staffing levels and began to expand its geographical scope of operations. This expansion was consistent with the Company's stated strategies, and was carried out with the same attention to mortgage credit quality and the same disciplined approach that the Company has demonstrated in the past.

More specifically:

- In keeping with its ability to capitalize on market niche opportunities, Equitable expanded its warehoused mortgage operations.
- A new cashable GIC product was introduced and was well accepted by the GIC investing public.
- Equitable established a presence in the Calgary market for single family dwelling mortgage lending – to complement its substantial presence in the Greater Toronto Area, its primary geographic region.
- To ensure that all of these areas of expansion are well financed and managed on a disciplined basis, Equitable completed a Series 5 Subordinated Debenture financing, the proceeds of which are eligible as regulatory capital for leverage purposes, and significantly increased staffing levels in key operational areas.

2005 Performance Versus Objectives

2005 – Equitable's second year as a public company following its initial public offering on The Toronto Stock Exchange in March 2004 – was a year of strong financial progress. The Company met, and in most cases exceeded, its financial objectives for 2005. The following table sets out the Company's financial objectives for 2005, its 2005 performance and its objectives for 2006.

Table 1: Performance and Objectives

	2005 Objectives	**2005 Performance**	2006 Objectives
% growth in assets over that at the end of the prior year	20%	**30.4%**	20%
% increase in net earnings over that of the prior year	20%	**31.9%**	20%
Return on average equity	greater than 16%	**17.0%**	greater than 17%
% increase in diluted earnings per share over that of the prior year		**26.9%**	20%
Productivity ratio – TEB[1], the lower the better		**31.9%**	32 to 34%

Notes:

[1] *Productivity ratio – TEB is a non-GAAP financial measure derived by dividing non-interest expense by the sum of net interest income – TEB and other income. See explanation at the beginning of this Management's Discussion and Analysis.*

Outlook

Management believes Equitable can meet its financial objectives for 2006. Revenues and net interest income are expected to increase as a result of continued asset growth and customer demand in the Company's market niches. Asset and revenue growth, in combination with modestly increasing interest rates, an efficient productivity ratio and minimal loan losses, should positively impact net earnings and return on average equity.

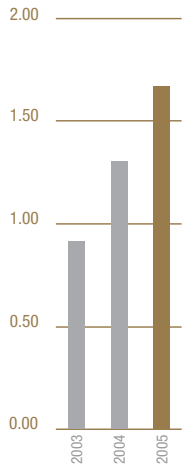
Dividend Increase and Outlook

As a result of its 2005 performance, the Company's Board of Directors increased the quarterly dividend to $0.10 per share – a 25% increase over the prior quarterly dividend of $0.08 per share – effective with the April 4, 2006 payment.

The Company's dividend policy is the prerogative of the Board. Current policy is to maintain a dividend payout ratio of 25% of trailing net earnings.

Diluted EPS

($, years ended December 31)



2005 Financial Highlights

In 2005, Equitable set new performance records for earnings and asset growth and continued to realize no loan losses. The Company met or exceeded all of its 2005 objectives. Asset growth was 30.4%, well in excess of Equitable's 2005 objective of 20%. Similarly, the increase in net earnings of 31.9% comfortably exceeded the 2005 objective of 20% while return on average equity of 17% achieved the stated objective of greater than 16% return.

In addition, the Company increased its regulatory capital in the form of subordinated debt which in turn enabled it to better utilize its capital and increase its return on equity while maintaining the same strong total capital ratio as at December 31, 2004.

The Company also increased staffing levels to support ongoing growth and public company corporate governance requirements but at the same time improved its productivity ratio. The following table provides a useful summary that should be read in conjunction with the "Financial Review" section below.

Table 2: Selected financial information

($ thousands, except share and per share amounts)	2005	2004	2003	Change from 2004 $	Change from 2004 %
Operations					
Net earnings	**19,757**	14,978	9,297	4,779	31.9%
Earnings per share – basic	**$ 1.68**	$ 1.33	$ 0.93	$ 0.35	26.3%
Earnings per share – diluted	**$ 1.65**	$ 1.30	$ 0.91	$ 0.35	26.9%
Net interest income	**37,906**	26,780	23,098	11,126	41.5%
Total revenue	**100,432**	74,767	65,667	25,665	34.3%
Return on weighted average equity	**17.0%**	15.5%	13.2%		
Return on average assets	**1.1%**	1.1%	0.9%		
Productivity ratio[1] – TEB[2]	**31.9%**	32.5%	36.1%		
Number of employees at year end	**82**	54	40		
Balance sheet and off-balance sheet					
Total assets	**2,012,252**	1,543,251	1,103,278	469,001	30.4%
Mortgages receivable	**1,678,420**	1,302,084	889,271	376,336	28.9%
Shareholders' equity	**124,608**	107,553	76,657	17,055	15.9%
Mortgage-backed security assets under administration	**1,878,405**	1,858,442	1,653,972	19,963	1.1%
Common shares					
Number of common shares outstanding at year end[3]	**11,781,940**	11,680,750	10,364,435		0.9%
Dividends per share	**$ 0.32**	$ 0.13	$ 0.12	$ 0.19	146.2%
Book value per common share	**$ 10.58**	$ 9.21	$ 7.40	$ 1.37	14.9%
Common share price – close	**$ 24.60**	$ 22.85	n/a	$ 1.75	7.7%
Market capitalization	**289,836**	266,905	n/a	22,931	8.6%
Credit quality					
Realized loan losses[1]	**0**	0	0		
Mortgages in arrears 61 days or more as a % of total mortgages[1]	**0.17%**	0.17%	0.21%		
Net impaired mortgages as a % of total mortgages[1]	**0.09%**	0.16%	0.12%		
Allowance for credit losses as a % of gross impaired mortgages	**199.8%**	141.8%	139.4%		

Notes:

[1] *The lower the better.*

[2] *See explanation of TEB at the beginning of this Management's Discussion and Analysis.*

[3] *The number of common shares outstanding at year end 2003 has been restated to conform to current presentation. See Note 12 of the Consolidated Financial Statements.*

FINANCIAL REVIEW

Earnings

Net interest income is the main driver of profitability for the Company. It is measured on a TEB so that income from equity securities may be compared on a pre-tax basis to ordinary interest income. The following table illustrates the Company's absolute performance with respect to total interest income in 2005 as compared to 2004 and relative performance in the form of percentage comparisons between the two years, all presented on a TEB.

Table 3: Net interest income

($ thousands)	**Average balance**	**Revenue/ Expense**	**2005 Average rate**	Average balance	Revenue/ Expense	2004 Average rate
Interest revenues or interest expenses derived from:						
Assets:						
Liquidity investments	**129,517**	**3,642**	**2.8%**	104,438	2,367	2.3%
Equity securities – TEB[1]	**94,600**	**6,166**	**6.5%**	61,529	5,096	8.3%
Mortgage loans	**1,483,942**	**88,026**	**5.9%**	1,090,854	64,597	5.9%
Total interest-earning assets – TEB[1]	**1,708,059**	**97,834**	**5.7%**	1,256,821	72,060	5.7%
Total assets – TEB[1]	**1,777,752**	**97,834**	**5.5%**	1,323,264	72,060	5.4%
Liabilities and shareholders' equity:						
Customer deposits	**1,563,786**	**53,351**	**3.4%**	1,162,451	41,642	3.6%
Bank term loan	**9,875**	**1,043**	**6.4%**[2]	–	–	–
Subordinated debt	**30,422**	**2,382**	**7.8%**	23,224	1,325	8.1%[2]
Total interest-bearing liabilities	**1,604,083**	**56,776**	**3.5%**	1,185,675	42,967	3.6%
Total liabilities and shareholders' equity	**1,777,752**	**56,776**	**3.2%**	1,323,264	42,967	3.2%
Net interest income – TEB[1]		**41,058**			29,093	
Net interest margin – TEB[1]			**2.3%**			2.2%
Less: Taxable equivalent adjustment		**3,152**			2,313	
Net interest income per financial statements		**37,906**			26,780	

Notes:

[1] *See explanation of TEB at the beginning of this Management's Discussion and Analysis.*

[2] *In order to provide more accurate disclosure, the average rate is calculated based on the weighted average outstanding bank term loan during 2005 and subordinated debt during 2004 using month-end balances outstanding.*

Total interest revenues increased $26 million or 36% to $98 million in 2005 compared to $72 million in 2004. This increase was primarily due to growth in mortgages. Mortgage interest revenues increased $23 million or 36% in 2005 over 2004.

The average prime rate in 2005, based on the rate in effect at each month end, was 4.42% compared to 4.04% in 2004. Net interest margin increased to 2.3% in 2005 from 2.2% in 2004 as a result of the prime rate increases in late 2005 and due to an increase in interest penalties received on the early payout of mortgages as compared to 2004. Generally, interest on the Company's floating rate mortgages is immediately affected by any change in the prime rate, while on the liabilities' side, only the Company's cashable GICs might be immediately affected by depositor early redemption and reinvestment. All other GICs would be re-priced as they come due and as market interest rates moved. Therefore, an increase in the prime rate of interest can lead to temporary improvements in net interest margins for the Company.

The TEB adjustment in 2005 of $3.2 million was 36% higher than in 2004 due to increased dividends received from the Company's larger equity securities portfolio. Premiums or discounts on preferred shares with defined maturity or repricing dates (retractable, wind-up shares, fixed/floater securities) within the equity securities portfolio are amortized against the dividend income from these securities.

Interest income from the Company's liquidity investments increased $1.3 million or 54% from 2004 due to higher interest rates in 2005 compared to 2004, a larger debt securities portfolio and a longer-term profile of the assets held in the portfolio.

Interest expense on average customer deposits outstanding decreased to 3.4% in 2005 from 3.6% in 2004 due to a shorter repricing profile of the GICs raised by the Company during 2005 to match with an increase in floating rate mortgages funded. Overall interest expense on customer deposits grew $11.7 million or 28% over 2004 due to a 35% increase in average customer deposits outstanding.

Outlook

Management believes Equitable will be able to achieve the same net interest margins in 2006 as it has realized in 2005. The prime rate is expected to increase at least once more in 2006. Revenue growth and earnings targets for 2006 should be achieved with further growth in the Company's interest-earning asset base.

Table 4: Other income

($ thousands)	**2005**	2004	Change from 2004 $	Change from 2004 %
Loan securitizations – excess interest net of servicing fee	**2,693**	2,628	65	2.5%
Loan securitizations – gains on sale of mortgages	**1,141**	748	393	52.5%
Total income from loan securitizations	**3,834**	3,376	458	13.6%
Mortgage commitment income and other fees	**1,991**	1,946	45	2.3%
Net loss on sale or redemption of investments	**(75)**	(302)	227	n/a
Total	**5,750**	5,020	730	14.5%

Other Income (continued):

The components of securitization income are excess interest, net of servicing fee, and gains on sale of mortgages. Total income from loan securitizations increased $0.5 million or 14% to $3.8 million in 2005 from $3.4 million in 2004 even though loans sold through securitization were $92 million or 25% lower in 2005 than in 2004. Increased competition for multi-unit residential mortgages and the decision to fund and securitize only those loans meeting the Company's profitability criteria caused the decrease in insured loans being funded and the consequential decrease in securitization activities. Gross margin on the securitization of CMHC mortgages increased to 42 basis points from 21 basis points in 2004. As a result, gain on sale of mortgages was higher in 2005 than in 2004. Excess interest, net of servicing fee, increased $0.1 million or 2% in 2005 over 2004. This slight increase reflected the fact that the administered mortgage-backed securities ("MBS") portfolio remained relatively flat at $1.9 billion as at December 31, 2005 and December 31, 2004.

Mortgage commitment income and other fees (consisting of mortgage-related fees, commitment and renewal fees and other non-mortgage related fees) were flat on a year-over-year basis even though mortgage originations were greater in 2005 than in 2004. This was due to the fact that originations of mortgages held for securitization or for sale do not attract commitment income and a major component of the Company's mortgage origination increase was in warehoused mortgages.

Net loss on sale or redemption of investments was $0.1 million in 2005 compared with a loss of $0.3 million in 2004. In 2005, the Company wrote down the carrying value of certain of its preferred share positions by $0.6 million. In 2004, the Company wrote down one of its preferred share positions by $0.5 million and realized a loss on redemption of another one of its positions in the amount of $0.2 million. In 2004, the loss on redemption of this tax-preferred security was offset by a $0.8 million tax benefit included in the 2004 income tax provision related to this security.

Outlook

Management believes that other income will not change significantly in 2006 compared to 2005. Securitization levels in 2006 are expected to approximate the experience in 2005 while increased mortgage funding should augment commitment fee income. The Company does not expect to realize any significant gains or losses in its equity securities portfolio in 2006.

Table 5: Non-interest expenses and productivity ratio

($ thousands)	2005	2004	Change from 2004 $	Change from 2004 %
Compensation and employee benefits	**6,052**	4,765	1,287	27.0%
GIC deposit agent commissions	**3,360**	2,364	996	42.1%
Capital taxes, licences, regulatory fees and insurance	**2,010**	1,382	628	45.4%
Premises and equipment	**1,103**	802	301	37.5%
Marketing, travel and communications	**799**	531	268	50.5%
Servicing	**743**	580	163	28.1%
Professional services	**298**	252	46	18.3%
Other	**557**	398	159	39.9%
Total	**14,922**	11,074	3,848	34.7%
Productivity Ratio[1] – TEB[2]	**31.9%**	32.5%		

Notes:
[1] *The lower the better.*
[2] *See explanation of TEB at the beginning of this Management's Discussion and Analysis.*

Total non-interest expenses increased $3.8 million or 35% in 2005. The most significant non-interest expense was compensation and employee benefits, including directors' fees and stock-based compensation expense. Total number of employees as at December 31, 2005 was 82 compared to 54 a year earlier. Included in employee salaries and benefits in 2005 was $0.4 million of expense related to stock option grants to directors and employees during the year compared to $0.4 million in 2004. (See Shareholders' Equity discussion for details on the stock option plan.)

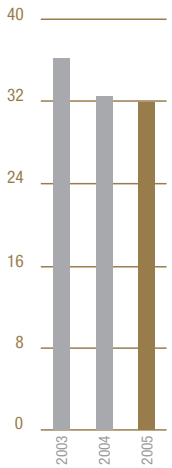
The second most significant non-interest expense is GIC deposit agent commissions. These are expensed over the term of the GIC to which they relate. The increase in deposit agent commissions over 2004 levels was due to an increase in agent-sourced GIC deposits during 2005.

Other non-interest expenses increased in accordance with the expanded operations of the Company during 2005. Non-interest expenses excluding compensation and employee benefits and GIC deposit agent commissions totalled $5.5 million in 2005, an increase of $1.6 million or 40% over $3.9 million in 2004.

The Company's productivity ratio – TEB was 31.9% in 2005, an improvement over the 32.5% achieved in 2004. This ratio (the lower the better) is a non-GAAP financial measure derived by dividing non-interest expenses by the sum of net interest income – TEB and other income.

Productivity Ratio – TEB

(%, years ended December 31)



Outlook

Management is targeting a productivity ratio – TEB of between 32% and 34% in 2006 and hopes to achieve this attractive rate by levering its low cost business model and through proactive expense management.

Income Taxes

The Company's effective tax rate in 2005 was 29.5% compared to 25.2% in 2004. The 2004 effective rate was lower due to a one time $0.8 million tax benefit related to the redemption of a tax preferred security during 2004. In both years, tax rates were less than the statutory 36.1% tax rate due to tax exempt income earned in the equity securities portfolio.

Income taxes are allocated between current and future taxes. Future taxes result from timing differences between the Company's financial statement earnings and its earnings for tax purposes. These future taxes are established at the rates expected to be in effect at the date of the reversal of the timing differences.

Outlook

Management expects to be able to achieve an effective tax rate of between 30% and 32% in 2006 by actively managing taxation through the Company's investments in its tax exempt/preferred, income yielding, equity securities portfolio.

BALANCE SHEET

Mortgages

The composition of the principal outstanding of the Company's mortgage portfolio as at December 31, 2005 reflects management's mortgage asset mix strategy and is shown in the table below together with comparisons for prior periods.

Table 6: Mortgages receivable

($ thousands)	**2005**	**% of total**	2004	% of total	2003	% of total
Single family dwelling	**628,240**	**37.5%**	510,146	39.2%	317,943	35.7%
Multi-unit residential	**500,666**	**29.8%**	463,391	35.6%	377,842	42.4%
Commercial	**292,200**	**17.4%**	232,943	17.9%	163,190	18.3%
Conventional mortgages held for sale	**163,743**	**9.8%**	45,120	3.5%	–	–
Construction	**61,836**	**3.7%**	26,680	2.0%	15,804	1.8%
CMHC-insured	**30,452**	**1.8%**	24,063	1.8%	15,520	1.8%
Total mortgage principal	**1,677,137**	**100.0%**	1,302,343	100.0%	890,299	100.0%
Net premiums and sundry	**1,422**		590		654	
Mortgages reported	**1,678,559**		1,302,933		890,953	
Accrued interest	**7,028**		5,593		4,055	
Allowances for credit losses	**(7,167)**		(6,442)		(5,737)	
Total mortgages receivable	**1,678,420**		1,302,084		889,271	

Mortgage lending activity increased in all of the Company's niches in 2005. However, the biggest increase was registered in a new niche area – conventional mortgages held for sale (see below). This changed the Company's mortgage portfolio mix in that single family dwelling and multi-unit residential mortgages declined, to represent 67.3% of total mortgage principal compared to a combined 74.8% a year ago. However, single family dwelling and multi-unit residential mortgages remain the Company's primary niches.

Despite this decline in portfolio weighting, single family dwelling mortgages represented the largest portion of the portfolio at 37.5% and in dollar terms increased $118 million or 23% from December 31, 2004. In this niche, Equitable is an alternative lender to borrowers who are unable to satisfy the underwriting criteria of conventional mortgage lenders. This is a large, and management believes, growing niche market.

The Company's second largest niche is multi-unit residential mortgages. Here, the mortgage portfolio increased $37 million or 8% compared to December 31, 2004. In this niche, the Company provides mortgages on properties such as apartment buildings and retirement residences.

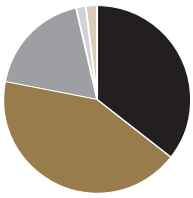
Commercial mortgage lending also increased during the year by $59 million or 25% from December 31, 2004. Equitable is highly selective in the commercial area as part of its risk management activities and generally strives to ensure that its commercial mortgage portfolio does not exceed 25% of the total portfolio in any given year – a limit the Company believes is prudent in managing overall portfolio risk.

The growth leader among Equitable's niches in 2005 was the category "conventional mortgages held for sale" where mortgage principal increased by a factor of over three times. These mortgages are comprised of residential (52% of the 2005 portfolio) and high quality commercial mortgages (48% in 2005) originated by third-party lenders who require financing prior to pooling and eventually selling the mortgages to investors. These mortgages usually stay on the books of the Company for periods of up to six months and are therefore often referred to as "warehoused" mortgages. Equitable derives several advantages from participating in this market niche: no broker commission is paid on origination; the loans are floating rate and therefore easily matched with short-term GICs; and the yields from carrying the loans are attractive. The funding of these loans represents a new niche area for the Company, one on which it expects to capitalize more in future.

Construction mortgages increased $35 million or 132% compared to December 31, 2004 to comprise 3.7% of the portfolio. CMHC-insured mortgages remained constant at 1.8% of the portfolio while principal balances outstanding increased $6 million over that of the preceding year.

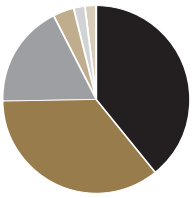
Mortgage Principal Components

December 31, 2003



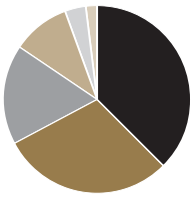
- Single family dwelling 35.7%
- Multi-unit residential 42.4%
- Commercial 18.3%
- Warehoused mortgages 0.0%
- Construction 1.8%
- CMHC-insured 1.8%

December 31, 2004



- Single family dwelling 39.2%
- Multi-unit residential 35.6%
- Commercial 17.9%
- Warehoused mortgages 3.5%
- Construction 2.0%
- CMHC-insured 1.8%

December 31, 2005



- Single family dwelling 37.5%
- Multi-unit residential 29.8%
- Commercial 17.4%
- Warehoused mortgages 9.8%
- Construction 3.7%
- CMHC-insured 1.8%

Mortgages (continued):

Floating rate mortgages within the portfolio increased 33% to $810 million at December 31, 2005 from $611 million at December 31, 2004.

The vast majority of mortgages are sourced by the Company's network of independent mortgage brokers. Equitable also has an arrangement with First National Financial Corporation ("FNFC"), one of Canada's leading mortgage specialists, to source and administer both the mortgages in the Company's CMHC-MBS Program and conventional mortgage product, including a component of mortgages held for sale. FNFC originated approximately $605 million or 36% of the Company's outstanding reported mortgage principal as at December 31, 2005, down from approximately 38% of the outstanding reported principal a year earlier, reflecting growth in the Company's independent mortgage broker network.

All of Equitable's mortgages are first charges on real estate. Conventional (uninsured) mortgages are located primarily in Ontario, with those mortgages being concentrated in and around the Greater Toronto Area. CMHC-insured multi-unit residential mortgages are funded almost exclusively for securitization through the CMHC-MBS Program and are located across Canada. The Company has an ongoing interest in CMHC-insured mortgages held for securitization purposes but no ongoing interest in conventional mortgages held for sale. This is a fundamental difference between the two programs. The Company records a gain on securitization and retains the servicing rights and the obligation to service the mortgages securitized under the CMHC-MBS Program, whereas no gain or loss on sale or further obligation or right exists with respect to the conventional mortgages after discharge.

At December 31, 2005 approximately 89% of the Company's mortgage principal was located in Ontario compared to almost 95% at December 31, 2004. This decrease is primarily due to an increase in warehoused mortgages on properties located outside of Ontario. Also, in the late summer of 2005, Equitable commenced single family dwelling mortgage operations in Calgary and expects that further selective geographic diversification of its mortgages will occur in future. The Company's Calgary presence is, at present, insignificant with just over $8 million in mortgages outstanding at year end, but the portfolio in this market is also expected to grow over time.

Mortgage principal increased $375 million or 29% during 2005 to $1.7 billion at year end. Mortgage production is classified into two major sub-categories, conventional (uninsured) mortgage production and CMHC-insured production. The Company funded $1.16 billion of conventional mortgages during 2005, up 41% from $820 million funded in 2004. CMHC-insured mortgages funded during 2005 amounted to $276 million compared to $371 million in 2004. The decrease in insured mortgage funding is discussed in the section "Other Income" above. The combined conventional and insured mortgage production in 2005 was 21% greater than in 2004.

Outlook

Management believes Equitable can maintain good growth in mortgage assets in 2006 supported by stable business conditions, the unique niches in which the Company operates and modestly increasing interest rates. As part of its ongoing growth strategy, the Company will continue to emphasize the single family dwelling and multi-unit residential mortgage areas as well as conventional mortgages held for sale.

Mortgage Credit Quality

The Company did not realize any credit losses on mortgages during 2005 or 2004. Mortgages in arrears 61 days or more amounted to 0.17% of total principal outstanding at December 31, 2005, the same as at December 31, 2004, while mortgages identified as impaired amounted to 0.21% of total mortgage principal outstanding as at December 31, 2005, down from 0.35% a year earlier. Although there has been no loss experience in the mortgage portfolio in the last four years, the Company has increased its provision for credit losses in 2005 by 4% to $0.725 million from $0.700 million in 2004 to reflect growth in the portfolio.

Table 7: Mortgage credit quality

($ thousands)	**2005**	2004	2003	Change from 2004 $	Change from 2004 %
Credit quality measures:					
Gross impaired mortgage principal	**3,587**	4,543	4,115	(956)	(21.0%)
Allowance for credit losses	**7,167**	6,442	5,737	725	11.3%
Allowance for credit losses as a % of gross impaired mortgages	**199.8%**	141.8%	139.4%		
Mortgage principal in arrears over 61 days	**2,806**	2,187	1,832	619	28.3%
Mortgage principal in arrears over 61 days as a % of total mortgage principal	**0.17%**	0.17%	0.21%		
Continuity of allowance for credit losses:					
Balance beginning of year	**6,442**	5,737	5,021		
Provision charged to statement of earnings	**725**	700	660		
Realized losses deducted from allowance	**–**	–	–		
Recovery of prior year losses added to allowance	**–**	5	56		
Balance end of year	**7,167**	6,442	5,737		

Outlook

Management expects to maintain its track record of minimal loan losses. Although increases in interest rates may cause a modest increase in arrears in the mortgage industry generally, management expects its disciplined lending policies, the quality of the Company's borrowers and its collection practices will result in continued low arrears.

Cash, Cash Equivalents, Investments and Liquidity Practices

The Company maintains two components of liquid resources. The first is holdings which are eligible as liquidity for regulatory purposes at Equitable Trust including cash, short-term investments and government guaranteed bonds, treasury bills and notes. The second component is investments which are not eligible as liquidity for regulatory purposes. These include preferred and common shares which have been utilized as security for a credit facility of $35 million with the Company's bank for short-term liquidity purposes.

Table 8: Liquid resources

($ thousands)	2005	2004	2003	Change from 2004 $	Change from 2004 %
Deposits with regulated financial institutions	**46,039**	39,942	43,493	6,097	15.3%
Government guaranteed debt instruments	**113,771**	59,281	66,160	54,490	91.9%
Liquid assets for regulatory purposes	**159,810**	99,223	109,653	60,587	61.1%
Portfolio securities	**111,833**	77,367	45,691	34,466	44.5%
Total liquid assets	**271,643**	176,590	155,344	95,053	53.8%
Total liquid assets for regulatory purposes as a % of total assets	**7.9%**	6.4%	9.9%		
Total liquid assets as a % of total assets	**13.5%**	11.4%	14.1%		

At December 31, 2005 liquid assets eligible for regulatory purposes increased 61% to represent 7.9% of total assets compared to 6.4% of total assets at December 31, 2004. This increase was made in anticipation of mortgage fundings after year end. Mortgage commitments at December 31, 2005 were $308 million, up 52% from $202 million at December 31, 2004. Cash and cash equivalents increased $37 million to $77 million at December 31, 2005 from $40 million at December 31, 2004, and longer-term government bonds, treasury bills and notes increased $23 million or 39% to $83 million from $59 million during the same period.

Portfolio securities increased $34 million or 45% to $112 million at December 31, 2005 from $77 million a year earlier. This increase relates to the Company's strategy of earning additional tax-exempt income in an effort to manage its effective tax rate.

Outlook

In 2006 the Company expects to continue to maintain regulatory liquidity at approximately 6% of assets. Further, it expects to increase its equity security portfolio in order to manage its effective tax rate – provided that additional equity investments meet the Company's investment criteria.

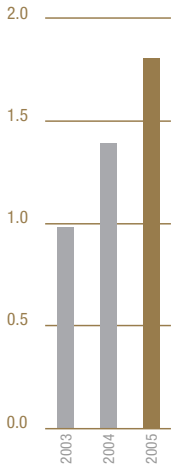
Loan Securitizations – Retained Interests

Total mortgages in the CMHC-MBS Program outstanding remained relatively constant at December 31, 2005 and 2004 at $1.9 billion. The Company securitized $270 million of CMHC-insured multi-unit residential mortgages during 2005, a decrease of $92 million or 25% from the 2004 level of $362 million. This decrease in securitization activity is discussed in the section "Other Income." Decreased securitization activity in 2005 and a decrease in the duration of securitized mortgages resulted in a decrease in the asset balance of loan securitizations – retained interests, which was $52 million at December 31, 2005, down $4 million or 7.6% from December 31, 2004.

Loan securitizations – retained interests represents the discounted future earnings to be received relating to the insured mortgages securitized through the CMHC-MBS Program. It is gross of the estimated future servicing liability included in other liabilities representing the future cost of servicing these securitized mortgages. For further information see Note 4 of the Company's Consolidated Financial Statements for the year ended December 31, 2005 (the "Consolidated Financial Statements") and the Critical Accounting Estimates, Financial Instruments and Off-Balance Sheet Arrangements sections of this Management's Discussion and Analysis.

Customer Deposits

($ billions, years ended December 31)



Outlook

The Company expects that the level of securitization activity in 2006 will approximate that experienced in 2005, due to increased competition for multi-unit product and the Company's decision to fund and securitize only those loans which meet the Company's profitability criteria.

Deposits

The Company introduced a cashable GIC to certain of its deposit brokers in 2005. Acceptance by GIC customers was strong. The product is a one-year GIC, cashable at any time upon demand. When rolled out to additional deposit brokers, management anticipates continued strong acceptance from the GIC investing public. The Company's other GIC products consist of 30-day to five-year fixed term GICs. The Company is licensed in all jurisdictions in Canada to accept deposits.

Deposit principal outstanding increased $416 million or 31% to $1.8 billion at December 31, 2005 from $1.4 billion at December 31, 2004. Accrued interest has increased 27% over the December 31, 2004 balance, roughly in line with the increase in GIC principal balances outstanding.

Table 9: Deposits

				Change from 2004	
($ thousands)	**2005**	2004	2003	$	%
Cashable GIC deposits	**348,885**	–	–	348,885	n/a
Fixed term GIC deposits	**1,423,066**	1,355,620	969,282	67,446	5.0%
Accrued interest on deposits	**37,004**	29,028	22,448	7,976	27.5%
Total	**1,808,955**	1,384,648	991,730	424,307	30.6%

Outlook

The Company plans to increase its deposit base in 2006 by increasing market share with existing deposit brokers and by expanding its cashable product line to more deposit brokers.

Subordinated Debt and Bank Term Loan

Subordinated debt is subordinated to the rights of the Company's depositors and other creditors. It represents eligible regulatory Tier 2 capital for Equitable Trust to a maximum level of 50% of Tier 1 capital (Equitable Trust's shareholder's equity) and forms an integral part of the Company's capital management plan.

Subordinated debt is issued for a period of 10 years. Subject to the receipt of regulatory approval, debt is redeemed each year in an amount equal to 20% or 25% of the prior year's net earnings. Subordinated debt of $3.5 million was redeemed in 2005 compared to $2.3 million in 2004.

Table 10: Subordinated debentures and bank term loan

($ thousands)	Interest rate	**2005**	2004	2003	Change from 2004 $	Change from 2004 %
Subordinated debentures						
Series 2	8.50%	**–**	–	894	n/a	n/a
Series 3	8.48%–8.82%	**–**	3,530	4,960	(3,530)	(100.0%)
Series 4	7.54%–8.15%	**11,444**	11,444	11,444	–	–
Series 5	7.31%–7.58%	**20,250**	14,175	–	6,075	42.9%
Total sub debt		**31,694**	29,149	17,298	2,545	8.7%
Bank term loan	6.37%	**19,750**	–	–	19,750	n/a
Total sub debt and bank term loan		**51,444**	29,149	17,298	22,295	76.5%

During 2005, Equitable Trust completed its issuance of Series 5 Subordinated Debentures. A total of $40 million of debentures was issued: $20.2 million to subscribers directly and $19.8 million purchased by the Company as the parent of Equitable Trust using proceeds from a five-year bank term loan in the same amount. On consolidation of Equitable Trust, $19.8 million of intercompany subordinated debt was eliminated and the $19.8 million bank term loan is presented in the Company's Consolidated Financial Statements. The Company is in compliance with all of the covenants required by the bank lender.

One of the Company's objectives is to provide ongoing financing of Equitable Trust's capital requirements using an appropriate mixture of Tier 1 and Tier 2 capital. By doing so, management hopes to achieve a more enhanced return on equity than would otherwise be the case without the use of Tier 2 capital.

Outlook

The Company expects to maintain an appropriate mixture of Tier 1 and Tier 2 capital in 2006 to assist it in meeting its corporate capital and return objectives. It does not expect to require additional equity financing in 2006.

Other Assets, Future Income Taxes and Other Liabilities

Other assets include deferred GIC commissions paid to deposit brokers; capital assets consisting of leasehold improvements, office furniture and computer equipment; and sundry

receivables and prepaid expenses. Other assets increased $1.8 million or 21% to $10.6 million as at December 31, 2005 from $8.8 million a year earlier. The largest component of these assets was deferred GIC commissions. These are commissions paid to deposit agents, which are expensed over the term of the GICs to which they relate, and have increased generally in proportion to the increase in the Company's deposits and the term profile of the GICs sourced by deposit brokers during 2005.

Table 11: Other assets, future income taxes and other liabilities

($ thousands)	**2005**	2004	2003	Change from 2004 $	Change from 2004 %
Other assets					
Deferred GIC commissions	**5,791**	3,803	2,627	1,988	52.3%
Capital assets	**1,502**	1,370	571	132	9.6%
Other receivables and prepaids	**3,301**	3,582	3,134	(281)	(7.8%)
Total	**10,594**	8,755	6,332	1,839	21.0%

($ thousands)	**2005**	2004	2003	Change from 2004 $	Change from 2004 %
Future income taxes and other liabilities					
Future income taxes	**6,538**	8,040	7,798	(1,502)	(18.7%)
Securitized mortgage servicing liability	**6,460**	6,180	5,114	280	4.5%
Mortgagor realty taxes	**5,266**	4,595	3,456	671	14.6%
Accounts payable	**4,315**	2,111	1,110	2,204	104.4%
Income taxes payable	**4,666**	975	115	3,691	378.6%
Total	**27,245**	21,901	17,593	5,344	24.4%

Future income taxes payable result from differences between the measurement of assets and liabilities for financial statement purposes as opposed to tax purposes. A large portion of these future taxes relate to the Company's securitization activities and its general allowance for credit losses. Future income taxes decreased and current income taxes payable increased primarily as a result of the increase in mortgage credit reserves, less securitization activity in 2005 as compared to 2004 and the shorter duration of the securitized mortgages at December 31, 2005 compared to 2004. The securitized mortgage servicing liability relates to the Company's estimate of the future costs of FNFC's servicing of the mortgages in the CMHC-MBS portfolio.

Outlook

The Company does not expect any significant change in its other assets, future income taxes and other liabilities in 2006.

Shareholders' Equity

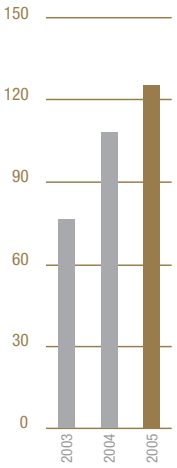
Total shareholders' equity increased $17 million or 16% to $124.6 million at December 31, 2005 from $107.6 million at December 31, 2004. In 2005, the Company issued 101,190 common shares and added $0.7 million to common share capital through the exercise of employee stock

Shareholders' Equity (continued):

options. In 2004 1,027,113 common shares were issued by way of the Company's initial public offering ("IPO") in March 2004 and net proceeds of $16 million were added to common share capital as a result. An additional $1.3 million was added to common share capital in 2004 from the exercise of employee stock options.

Shareholders' Equity

($ millions, years ended December 31)



The Company operates a stock option plan for directors and eligible employees, whereby up to 10% of the issued and outstanding shares of the Company at the date of its IPO may be reserved for option purposes (1,139,154 as of the date hereof, all of which have been granted, with a further 19,777 options granted subject to shareholder approval). The Company uses this stock option plan to motivate and reward its valued workforce. During 2005, a total of 135,000 options were granted to directors and employees. In 2004, 680,000 options were granted. Total options outstanding at December 31, 2005 amounted to 6.5% of issued common shares compared to 6.9% a year earlier. Stock-based compensation expense has been added to contributed surplus. At the Equitable Group annual meeting in May 2006, the Company's shareholders will be asked to approve an amendment to the stock option plan that will increase the maximum shares to be reserved for options to a "rolling" (reserve for options renewed by exercises) 10% of outstanding common shares at any time.

The Company's stated dividend payout target is 25% of trailing net earnings (earnings of the preceding year). As a result of the increase in net earnings in 2005 over 2004, the Board increased the Company's quarterly dividend 25% to $0.10 per share commencing with the first 2006 quarterly dividend as compared to the $0.08 quarterly per share dividend in 2005.

Table 12: Shareholders' equity

($ thousands)	**2005**	2004	2003	Change from 2004 $	%
Shareholders' equity:					
Common shares	**55,510**	54,815	37,483	695	1.3%
Contributed surplus	**1,327**	959	556	368	38.4%
Retained earnings	**67,771**	51,779	38,618	15,992	30.9%
Total shareholders' equity	**124,608**	107,553	76,657	17,055	15.9%
Dividends paid	**3,765**	1,517	1,209	2,248	148.2%

Capital Management

The Company maintains a capital management policy to govern the quality and quantity of capital utilized by Equitable Trust in its regulated operations. The objective of the policy is to ensure that adequate capital requirements are met, while providing sufficient return to investors. Capital guidelines, as stipulated by the Office of the Superintendent of Financial Institutions ("OSFI"), require that total capital be in excess of 10% of total risk weighted

assets in order for a company to be considered "well capitalized"; Tier 1 capital be not less than 7% of total risk weighted assets; Tier 2 capital cannot exceed 50% of Tier 1 capital; and the ratio of total assets to capital cannot exceed 17.5 times. As shown in the following table, Equitable Trust met these standards at December 31, 2005, 2004 and 2003.

Table 13: Capital measures (relating solely to Equitable Trust)

($ thousands)	**2005**	2004	2003
Tier 1 capital	**122,793**	106,210	76,657
Tier 2 capital	**51,444**	29,149	17,298
Total risk weighted assets	**1,504,815**	1,168,328	827,991
Tier 1 capital as a % of total risk weighted assets	**8.2%**	9.1%	9.3%
Tier 2 capital as a % of total risk weighted assets	**3.4%**	2.5%	2.1%
Total capital as a % of total risk weighted assets	**11.6%**	11.6%	11.3%
Authorized asset to capital multiple	**17.5x**	17.5x	17.5x
Utilized asset to capital multiple	**11.6x**	11.4x	11.7x

Risk weighted assets are derived from assigning a risk weighting of 0%, 20%, 50% or 100% to individual asset components on the balance sheet depending upon their risk characteristics as determined by OSFI. As indicated in the table above, Equitable Trust had a total capital ratio of 11.6% at both December 31, 2005 and December 31, 2004. Total regulatory capital at December 31, 2005 increased $39 million or 29% over December 31, 2004. The increase was due to the additional regulatory capital raised through the issuance of Series 5 Subordinated Debentures in 2005, 2005 earnings retained net of dividends paid and the increase in contributed surplus. The Company's utilized asset to capital multiple at December 31, 2005 was 11.6 times, significantly less than the maximum authorized of 17.5 times.

Outlook

Management believes Equitable Trust can maintain regulatory capital at sufficient levels to support the asset growth it expects to realize in 2006. Management continues to prefer to employ a mixture of Tier 1 and Tier 2 regulatory capital to maximize return on equity for the Company.

Fourth Quarter Review

The fourth quarter of 2005 was the Company's most profitable quarter on record, and this led to a significant year-over-year increase in the return on average equity. Return on average equity for the fourth quarter of 2005 was 18.1% compared to 16.2% in the fourth quarter of 2004.

Other highlights of the fourth quarter included:

- a 29% increase in net earnings to $5.6 million from $4.3 million in the fourth quarter of 2004;
- a 28% increase in earnings per share (diluted) which stood at $0.46 per share in the fourth quarter compared to $0.36 in the same period in 2004;
- a 27% increase in earnings per share (basic) which stood at $0.47, up from $0.37 in the same period in 2004;

Fourth Quarter Review (continued):

- a 51% increase in mortgage originations which totalled $435 million compared to $288 million a year ago;
- a 30% or $469 million increase in total assets compared to a year ago;
- a productivity ratio – TEB of 33% compared to 37% in the fourth quarter of 2004; and
- book value per common share of $10.58 compared to $9.21 at the end of 2004.

The following earnings statement provides additional details.

Table 14: Earnings Statement – Fourth Quarter 2005 and 2004

($ thousands, except share and per share amounts)	Three months ended **Dec. 31, 2005**	Dec. 31, 2004
Interest income:		
Mortgages	**24,512**	18,508
Investments	**1,504**	869
Other	**543**	325
	26,559	19,702
Interest expense:		
Customer deposits	**14,610**	11,647
Subordinated debt	**614**	362
Bank term loan	**332**	–
	15,556	12,009
Interest income, net	**11,003**	7,693
Provision for credit losses	**200**	175
Net interest income after provision for credit losses	**10,803**	7,518
Other income:		
Mortgage commitment income and other fees	**522**	445
Net gain on sale or redemption of investments	**(119)**	(442)
Loan securitizations – retained interests	**905**	774
	1,308	777
Net interest income and other income	**12,111**	8,295
Non-interest expenses	**4,338**	3,358
Earnings before income taxes	**7,773**	4,937
Income taxes:		
Current	**2,391**	891
Future	**(180)**	(255)
	2,211	636
Net earnings	**5,562**	4,301
Earnings per share:		
Basic	**$ 0.47**	$ 0.37
Diluted	**$ 0.46**	$ 0.36
Weighted average number of shares outstanding:		
Basic	**11,780,419**	11,664,627
Diluted	**11,965,385**	11,817,435

During the fourth quarter, the balance of average interest-earning assets was $1.854 billion, up 29% from $1.433 billion during the fourth quarter of 2004. Mortgage interest income increased 32% to $24.5 million in the fourth quarter of 2005 compared to $18.5 million a year earlier due to the increase in the mortgage portfolio, higher interest rates and greater penalty interest received on the early discharge of mortgages. Investment income increased 73% on a quarter-over-quarter basis due to increases in the debt security and equity security portfolios. These factors, combined with two separate 25 basis point increases in the prime rate in the fourth quarter of 2005, resulted in net interest income increasing $3.3 million or 43% on a quarter-over-quarter basis. The Company realized no loan losses in the fourth quarter of either 2005 or 2004.

The provision for credit losses increased 14% or $25 thousand on a quarter-over-quarter basis due to Company prudence in increasing its general reserves in response to increases in the mortgage portfolio. Other income increased $0.5 million or 68% in the fourth quarter of 2005 compared to 2004 due primarily to a $549 thousand write-down in the Company's equity security portfolio in 2004 compared to a smaller write-down in 2005.

Non-interest expenses increased 29% in the fourth quarter of 2005 compared to the same quarter of 2004 due to increased staff levels and increased general operating activity. Productivity ratio – TEB for the 2005 fourth quarter was 33%, a significant improvement over the ratio of 37% a year earlier. The effective tax rate in the fourth quarter of 2005 was 28.4% compared to 12.9% a year earlier. The 2004 tax rate of 12.9% was due primarily to a one time $0.8 million tax benefit relating to the redemption of a tax preferred security during the fourth quarter of 2004.

Sequentially, fourth quarter 2005 net earnings were 11.6% higher than in the third quarter of 2005, while earnings per share (diluted) in the fourth quarter of 2005 increased $0.04 or 10% over the third quarter of 2005. Total assets also grew sequentially by 10% from September 30, 2005. Return on weighted average equity increased sequentially to 18.1% in the fourth quarter of 2005 compared to 16.8% in the third quarter.

Summary of Quarterly Results

Key performance highlights of the past eight quarters are presented in the following table.

Table 15: Summary of Quarterly Results

($ thousands, except assets and per share amounts)	2005				2004			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Total assets at quarter end – $ millions	**2,012**	**1,821**	**1,788**	**1,704**	1,543	1,450	1,334	1,181
Net interest income – TEB[1]	**12,017**	**10,439**	**9,843**	**8,759**	8,299	7,624	7,106	6,064
Less TEB[1] adjustment	**1,014**	**863**	**719**	**556**	606	655	680	372
Net interest income per financial statements	**11,003**	**9,576**	**9,124**	**8,203**	7,693	6,969	6,426	5,692
Other income	**1,308**	**1,451**	**1,324**	**1,667**	777	1,454	1,528	1,261
Net interest margin – TEB[1]	**2.5%**	**2.3%**	**2.3%**	**2.2%**	2.2%	2.2%	2.3%	2.1%
Total revenues – TEB[1]	**28,881**	**26,530**	**25,039**	**23,134**	21,087	20,264	18,676	17,055
Total revenues	**27,867**	**25,667**	**24,320**	**22,578**	20,479	19,609	17,996	16,683
Net earnings	**5,562**	**4,985**	**4,728**	**4,482**	4,301	3,934	3,716	3,027
Return on average equity	**18.1%**	**16.8%**	**16.7%**	**16.6%**	16.2%	15.4%	15.3%	15.1%
Return on average assets – annualized	**1.2%**	**1.1%**	**1.1%**	**1.1%**	1.1%	1.1%	1.2%	1.1%
EPS – basic	**$ 0.47**	**$ 0.42**	**$ 0.40**	**$ 0.38**	$ 0.37	$ 0.34	$ 0.33	$ 0.29
EPS – diluted	**$ 0.46**	**$ 0.42**	**$ 0.40**	**$ 0.38**	$ 0.36	$ 0.34	$ 0.32	$ 0.28
Productivity ratio – TEB[1]	**32.6%**	**32.2%**	**31.9%**	**30.6%**	37.0%	30.2%	30.3%	32.2%

Notes:

[1] *See the explanation of TEB at the beginning of this Management's Discussion and Analysis.*

This summary of quarterly results reflects the effects of the Company's growing asset base and increased capital, as well as fluctuating prime interest rates. Throughout the eight quarters summarized, the Company continued to increase its asset base primarily through mortgage growth and, to a lesser extent, through growth in its equity securities portfolio. This growth has led to continually higher net interest income – TEB, and not adjusted for TEB – in all quarters. As a result of increased earnings and capital management practices, return on average equity has also continually risen on a quarterly basis from 15.1% in the first quarter of 2004 to 18.1% in the fourth quarter of 2005.

Risk Management

The Board of Directors and the Committees of the Board of both the Company and of Equitable Trust play an active role in monitoring operational and structural risk and in determining the

policies which are best suited to mitigate these risks. It is management's responsibility to illustrate and communicate the existing and potential risks that the Company endures or may endure to the Board, and it is the Board's responsibility to ensure that this communication is as complete and as detailed as is necessary in order to enable Board members to determine risk management policy.

The Board of Directors of the Company and the Board of Directors of Equitable Trust each has an Audit Committee and a Corporate Governance Committee. The Board of Directors of Equitable Trust has, in addition to Audit and Corporate Governance, an Investment Committee, a Human Resources and Compensation Committee and a Conduct Review Committee.

Liquidity Risk Management

Liquidity risk relates to the Company's ability to redeem its deposit obligations as they come due or otherwise arise, and to fund asset commitments as scheduled. Mitigating liquidity risk requires the Company to match its asset and liability maturities and to keep sufficient liquid assets on hand at all times to meet mortgage funding and investment purchase commitments, mortgage renewals or extensions and any GIC redemptions. Eligible liquid assets for regulatory purposes consist of cash and cash equivalents and debt instruments guaranteed by governments. Assets eligible for regulatory liquidity purposes were $160 million as at December 31, 2005 and $99 million at December 31, 2004. The increase on a year-over-year basis relates to liquid assets accumulated for mortgage commitments at the year ends amounting to $308 million for 2005 and $202 million for 2004. Total liquid resources, including the Company's equity securities portfolio, were $272 million at December 31, 2005 and $177 million as at December 31, 2004. As part of its liquidity contingency planning, the Company has arranged a line of credit with its bank in the amount of $35 million, secured by preferred shares in its equity securities portfolio.

Interest Rate Risk Management

Interest rate risk involves the Company's sensitivity of earnings to sudden changes in interest rates. The Company's primary method of mitigating interest rate risk is matching asset and liability maturity/repricing profiles (the "profile"), closely monitoring interest rates and acting upon any mismatch in a timely fashion to ensure that any sudden or prolonged change in interest rates does not significantly affect the Company's net interest earnings.

The Company manages its asset liability profile by adjusting GIC interest rates on a daily basis to raise GICs with the appropriate characteristics to match the profile of assets being funded. It is the Company's policy not to allow an annual maturity gap on all maturities with terms greater than 12 months in excess of 5% of total assets.

The Company uses simulated interest rate change sensitivity modeling to determine the effects of various interest rate change scenarios on net interest income for the following 12 months from the measurement date and on the economic value of shareholders' equity. Certain assumptions such as pre-maturity redemptions of GICs and early payouts of mortgages based upon actual experience are built into the economic value model for simulation purposes. With the introduction of a one-year cashable GIC in 2005, the probabilities of cashable GIC redemptions are also modeled. When interest rates increase, it is expected that the majority of these depositors will cash in the GIC in order to obtain a better rate. When interest rates decrease, it is assumed that the majority will hold until maturity.

Interest Rate Risk Management (continued):

In the event of an immediate and sustained 1% interest rate increase, net interest income before any tax effect for the following 12-month period from December 31, 2005 would be positively impacted by $1.7 million. If interest rates were to decrease and if cashable GICs were to stay on the books until maturity, a negative impact to net interest income before any tax effect for the following 12-month period of $4.0 million would result.

The Company uses a consistent and disciplined approach to hedging the interest rate risk attached to its MBS activities. MBS interest rate risk refers to the risk that interest rates will vary between the time a mortgage interest rate is committed to and the time the underlying mortgage is securitized and that the change in rates will reduce the value of the mortgage being sold. The Company hedges the interest rate risk for all mortgages that are targeted to be sold through the CMHC-MBS Program. Hedging protects the Company from losses due to changes in interest rates during the relevant period. The hedge is initiated on the date that the mortgage is priced and committed to and terminated on the date that the pool is sold. Changes in interest rates affect the price at which the mortgage pool is sold and inversely affects the value of the hedge. All costs related to hedging activities are matched to mortgages and are accounted for when the mortgage is securitized under the CMHC-MBS Program.

Credit Risk Management

Credit risk is the risk of financial loss resulting from the failure of a borrower or any counterparty to fully honour its financial or contractual obligations. Under the Company's lending criteria, all mortgages are individually evaluated under a risk rating system to determine the level of risk to be attributed to each loan.

In accordance with sound business and financial practices, Equitable Trust's credit risk policies include the annual review of all commercial loans and mortgages. In addition, all loans that are in arrears are reviewed to determine whether any should be classified as doubtful or as a potential loss. Generally, a loan is classified as impaired when management is of the opinion that there is no longer reasonable assurance of full and timely collection of principal and interest. On a regular basis, management reviews all loans in these categories in order to determine the appropriate loan loss reserves required. Reviews of credit policies and lending practices are regularly undertaken by senior management and approved by Equitable Trust's Investment Committee. The Committee meets on a quarterly basis to review all lending activity undertaken during the quarter and to review significant trends in the industry in order to better direct credit policies.

Equitable Trust's Investment Committee quarterly meetings also encompass a review of the Company's debt and equity securities portfolio. The review covers the current status of investments, the transactions during the past quarter, the portfolio characteristics such as term, credit rating, type of security and investment lending, and compliance under the OSFI regulations. Investment policies are reviewed regularly by Equitable Trust's Investment Committee to ensure that the type, credit quality, duration and concentration of investments in marketable securities are appropriate, prudent and consistent with the risk profile targets adopted by the Company. P-2 and better rated securities comprised 76% of the preferred share equity securities portfolio at December 31, 2005, compared to 78% a year earlier.

Outsourcing Risk

The Company's business model includes outsourcing as a key element to control costs, enhance service levels and to obtain mortgage and deposit product in quantities and on terms that meet with the Company's requirements. Outsourcing risk is the risk that any of the key administrative functions outsourced to third parties fail or that the products obtained by the Company through third parties are insufficient for the Company's requirements. Should a provider of administrative services fail to perform in accordance with Company expectations, the Company would be required to find an alternative service provider or take back that administrative function. In such a case extra costs in the form of additional staff and overhead may result. If the Company were to lose a major mortgage broker or deposit agent, it would have to replace that source of product supplied by that broker either from existing or new brokers in order to meet corporate targets.

Changes in Competition

Equitable competes with banks, trust companies, private lenders and other deposit-taking institutions in Ontario and Alberta. In the single family dwelling market, the Company is an alternative mortgage lender and provides residential mortgages to borrowers who do not qualify at the major banks. The Company is registered to do business in every province and territory across Canada. Equitable's ability to attract retail and institutional deposits depends largely on the interest rates it offers. Equitable competes with other mortgage lenders but concentrates on providing both residential and commercial first mortgages. The Company is in the CMHC-insured mortgage market to further expand its insured mortgage product offerings. There is always a risk that there will be new entrants in the market who are better capitalized and have more efficient systems and operations that could impact the Company's market share in its mortgage-lending and deposit-taking activities.

Regulatory Risk

The Trust and Loan Companies Act and Regulations (TLCA) and provincial and territorial legislation require the filing of Equitable Trust's annual and other reports on its financial condition, impose restrictions on transactions with related parties and set out requirements governing capital requirements and other matters. The TLCA is administered by, and the activities of Equitable Trust are supervised by, OSFI.

Changes to laws and regulations, including changes in their interpretation or implementation, could affect Equitable Trust by limiting the products or services it may provide and increasing the ability of competitors to compete with its products or services. Also, Equitable Trust's failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact its earnings and damage its reputation. Equitable Trust undertakes reasonable and prudent measures designed to ensure compliance with governing laws and regulations including its legislative compliance management framework. There is, however, no guarantee that it will always be in compliance or deemed to be in compliance.

Basel II Implementation

In June 2004, the Basel Committee on Banking Supervision released its report entitled *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* (Basel II). The new framework is designed to more closely align regulatory capital requirements with underlying risks by introducing substantive changes in the treatment of credit risk. An explicit new capital charge for operational risk is also being introduced.

There are several accepted approaches under the new Basel framework. Equitable Trust will be utilizing the simpler approaches allowed by the regulators.

As a result of this more risk-based capital attribution approach, potential capital reductions or increases might be possible; however, it is too early to predict the impact at this stage.

The new Basel II Framework is expected to be fully effective for fiscal 2008.

Other Risks

For other risks relating to the Company, please refer to the Company's Annual Information Form dated March 24, 2006 under the headings entitled "Risk Management" and "Risks Relating to the Company". It will be posted to www.equitablegroupinc.com.

Changes in Accounting Policies Including Initial Adoption

A summary of the Company's significant accounting policies is presented in Note 1 of the Consolidated Financial Statements. The Company had no changes in accounting policies, nor did it adopt any new policies, during 2005. The following recently enacted accounting policies by the Canadian Institute of Chartered Accountants ("CICA") have either been followed by the Company on a consistent basis throughout the current and prior years or are not applicable to the Company's circumstances. The Company has not had to amend or change any financial recognition practices in order to comply with the following standards:

- CICA Accounting Standard on the Consolidation of Variable Interest Entities
- CICA Accounting Standard on Financial Instruments having the characteristics of both Liability and Equity
- CICA Accounting Guideline on Asset Retirement Obligations

Critical Accounting Estimates

The Company's critical accounting estimates are primarily in the areas of management of credit risk and allowance for credit losses and loan securitizations – retained interests. The policies and methodology used to determine these estimates and the significance of these accounting estimates to the Company's financial condition have been outlined in this Management's Discussion and Analysis and in Note 1 of the Consolidated Financial Statements.

The allowance for credit losses reflects management's best estimate of probable losses in the mortgage portfolio as at the balance sheet date. In order to assess the likelihood of a loss, management takes into consideration a great variety of information including economic factors, developments affecting particular property types and geographic areas, the age of a mortgage and specific issues with respect to single borrowers. Changes in any of these factors may cause

future assessment of credit risk to be significantly different than current assessments and could affect the level of allowance for credit losses being maintained by the Company. The Company's general allowance for credit losses of $5 million as at December 31, 2005 represents 0.30% of total mortgage principal outstanding. A 0.01% movement in the general allowance for credit losses, up or down, would increase or decrease the allowance by $0.17 million.

The Company uses estimates in valuing its retained interest in loan securitizations. This valuation and changes thereto affect the gain on sale of mortgages in a securitization and could affect the measurement of excess interest net of servicing fee. Management uses its best estimates in determining the value of retained interests on each securitization, taking into account current interest rates, the terms of the mortgages being sold, propensity for prepayment and the cost of the future servicing of the sold mortgages. On a quarterly basis, management reassesses its estimates to ensure they are still valid under the then current economic environment and using historical data to support any amendments to its estimation methodology and the carrying value of its loan securitizations – retained interests. A sensitivity analysis of two adverse changes in the estimates used to value the Company's retained interest in loan securitizations is presented in Note 4 of the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company is responsible for the servicing of the mortgages it has securitized through the CMHC-MBS Program, including the collection of principal and interest, payments to the MBS investors, and the management and collection of mortgages in arrears. Under a contract expiring December 2009, the Company has entered into a servicing agreement with FNFC as the sub-servicer of the securitized mortgage portfolio. Should FNFC be unable or unwilling to act as sub-servicer, the Company can choose to either service the mortgages itself or appoint a replacement sub-servicer. The Company has recorded a liability of $6.5 million in other liabilities for the future servicing of mortgages in the CMHC-MBS program which have been securitized subsequent to June 2001. The servicing liability for mortgages securitized prior to that time is netted against the asset loan securitizations – retained interests.

Financial Instruments

The Company uses Government of Canada bond forwards to hedge interest rate risk on CMHC-insured multi-unit residential mortgages and mortgage commitments targeted for securitization. The risk is that interest rates rise between rate commitment date and the sale date, leading to a reduced value of the mortgage upon securitization. The hedge acts to ensure that the proceeds on the sale of the mortgage (made up of the fair value of the mortgage and the fair value of bond forward) do not vary from the fair value of the mortgage at the date of rate commitment as a result of interest rate movements. For more information on the hedges and the forward bond contracts see note 4 of the Consolidated Financial Statements.

Contractual Obligations

The material contractual obligations of the Company at December 31, 2005 are outlined in the following table.

Table 16: Contractual obligations

($ thousands)	Total	Payments due by period Less than 1 year	1–3 years	4–5 years	After 5 years
GIC principal and interest	1,911,693	1,165,782	329,309	416,602	–
Subordinated debt principal and interest[1]	51,778	2,435	4,868	4,868	39,607
Bank term loan principal and interest	25,041	1,258	2,516	21,267	–
Operating lease[2]	900	300	600	–	–
Mortgage funding commitments	307,970	307,970	–	–	–
Total contractual obligations	2,297,382	1,477,745	337,293	442,737	39,607

Notes:

[1] *These obligations do not include any pre-maturity redemptions relating to prior year's earnings as these are subject to regulatory approval.*

[2] *In addition to these minimum lease payments for premises rental, the Company will pay its share of common area maintenance and realty taxes over the term of the lease.*

In addition to these contractual obligations, the Company is responsible to CMHC for the ongoing servicing of the mortgages it has securitized through the CMHC-MBS Program. This obligation is discussed in "Off-Balance Sheet Arrangements", above.

Related Party Transactions

Certain of the Company's employees, directors and shareholders have purchased GICs and subordinated debt from the Company in the ordinary course of business, at market terms and conditions. During 2005, an officer of the Company had a personal loan from the Company which was repaid during 2005.

Note 14 of the Consolidated Financial Statements provides further detail on these related party transactions.

Responsibilities of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and the accompanying Consolidated Financial Statements and has in place appropriate information systems and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying Consolidated Financial Statements. In addition, Equitable's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005 and have concluded that these controls and procedures provide reasonable assurance that material information relating to the Company are made known to them by others within the Company during the year ended December 31, 2005.

February 27, 2006

Additional information relating to Equitable Group Inc., including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Consolidated Financial Statements of Equitable Group Inc. (the "Company") are prepared by management, who are responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared, within reasonable limits of materiality, using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles as well as the requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") as these apply to its subsidiary, The Equitable Trust Company, based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains a system of internal control to meet its responsibility for the integrity of the financial statements. Management also administers a program of ethical business conduct, which includes quality standards in hiring and training employees, written policies and a written corporate code of conduct.

The Board of Directors of the Company (the "Board") oversees management's responsibilities for the financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the financial statements with management and internal and external auditors before recommending their approval to the Board.

The Company's subsidiary, The Equitable Trust Company, is federally regulated under the Trust and Loan Companies Act (Canada) by OSFI. On a regular basis, OSFI conducts an examination to assess the operations of The Equitable Trust Company and its compliance with statutory requirements and sound business practices.

KPMG LLP have been appointed as external auditors by the shareholders to examine the financial statements of the Company in accordance with Canadian generally accepted auditing standards. The external auditors have unrestricted access to and periodically meet with the Audit Committee, with and without management present, to discuss their audit and related matters.

Geoffrey Bledin, CA
President and Chief Executive Officer

Stephen Coffey, CA
Senior Vice-President and Chief Financial Officer

February 7, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Equitable Group Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada

February 7, 2006

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)
December 31, 2005 and 2004

	2005	2004
Assets		
Cash and cash equivalents (note 2)	**$ 77,214**	$ 39,942
Investments (note 3)	**194,429**	136,648
Loan securitizations – retained interests (note 4)	**51,595**	55,822
Mortgages receivable (note 5)	**1,678,420**	1,302,084
Other assets (note 6)	**10,594**	8,755
	$ 2,012,252	$ 1,543,251
Liabilities and Shareholders' Equity		
Liabilities:		
Customer deposits (note 7)	**$ 1,808,955**	$ 1,384,648
Future income taxes (note 8)	**6,538**	8,040
Other liabilities (note 9)	**20,707**	13,861
Bank term loan (note 10)	**19,750**	–
Subordinated debt (note 11)	**31,694**	29,149
	1,887,644	1,435,698
Shareholders' equity (note 12):		
Capital stock	**55,510**	54,815
Contributed surplus	**1,327**	959
Retained earnings	**67,771**	51,779
	124,608	107,553
Commitments and contingencies (note 13)		
	$ 2,012,252	$ 1,543,251

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of dollars, except per share amounts)
Years ended December 31, 2005 and 2004

		2005		2004
Interest income:				
Mortgages	**$**	**88,026**	$	64,597
Investments		**5,013**		3,338
Other		**1,643**		1,812
		94,682		69,747
Interest expense:				
Customer deposits		**53,351**		41,642
Subordinated debt		**2,382**		1,325
Bank term loan		**1,043**		–
		56,776		42,967
Interest income, net		**37,906**		26,780
Provision for credit losses (note 5)		**725**		700
Net interest income after provision for credit losses		**37,181**		26,080
Other income:				
Mortgage commitment income and other fees		**1,991**		1,946
Net loss on sale or redemption of investments		**(75)**		(302)
Loan securitizations – retained interests (note 4)		**3,834**		3,376
		5,750		5,020
Net interest income and other income		**42,931**		31,100
Non-interest expenses:				
Compensation and benefits		**6,052**		4,765
Deposit agent commissions		**3,360**		2,364
Other		**5,510**		3,945
		14,922		11,074
Earnings before income taxes		**28,009**		20,026
Income taxes (recovery) (note 8):				
Current		**9,754**		3,937
Future		**(1,502)**		1,111
		8,252		5,048
Net earnings	**$**	**19,757**	$	14,978
Earnings per share (note 12):				
Basic	**$**	**1.68**	$	1.33
Diluted		**1.65**		1.30

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of dollars)
Years ended December 31, 2005 and 2004

	2005	2004
Common shares:		
Balance, beginning of year	**$ 54,815**	$ 37,483
Common shares issued (note 12):		
Proceeds from exercise of employee stock options	**666**	1,269
Transfer from contributed surplus relating to the exercise of stock options	**29**	12
Gross proceeds of initial public offering	**–**	17,975
Issue expenses, net of tax recovery of nil (2004 – $1,088)	**–**	(1,924)
Balance, end of year	**55,510**	54,815
Retained earnings:		
Balance, beginning of year	**51,779**	38,618
Distribution of equity on formation of Company (note 12)	**–**	(300)
	51,779	38,318
Net earnings	**19,757**	14,978
Dividends	**(3,765)**	(1,517)
Balance, end of year	**67,771**	51,779
Contributed surplus:		
Balance, beginning of year	**959**	556
Stock-based compensation (note 12)	**397**	415
Transfer to common shares relating to the exercise of stock options	**(29)**	(12)
Balance, end of year	**1,327**	959
Total shareholders' equity	**$ 124,608**	$ 107,553

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)
Years ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operating activities:		
Net earnings	**$ 19,757**	$ 14,978
Non-cash items:		
Loan securitizations – gains on sale of mortgages	**(1,141)**	(748)
Amortization of capital assets	**370**	247
Provision for credit losses	**725**	700
Net loss on sale or redemption of investments	**75**	302
Future income taxes	**(1,502)**	1,111
Stock-based compensation	**397**	415
Amortization of premiums on investments, net	**3,727**	1,728
	22,408	18,733
Changes in operating assets and liabilities:		
Other assets	**(1,707)**	(1,624)
Other liabilities	**5,359**	3,985
	26,060	21,094
Financing activities:		
Increase in customer deposits	**424,307**	392,918
Issuance of bank term loan	**19,750**	–
Issuance of subordinated debt, net	**2,545**	11,851
Dividends paid on common shares	**(3,765)**	(1,517)
Issuance of capital stock	**666**	16,232
	443,503	419,484
Investing activities:		
Purchase of investments	**(179,483)**	(142,727)
Proceeds on sale or redemption of investments	**117,900**	61,968
Increase in mortgages receivable	**(1,432,473)**	(1,211,448)
Mortgage principal repayments	**781,497**	430,052
Proceeds from loan securitizations	**266,200**	355,806
Loan securitizations – retained interests	**14,570**	9,334
Purchase of capital assets	**(502)**	(1,046)
	(432,291)	(498,061)
Increase (decrease) in cash and cash equivalents	**37,272**	(57,483)
Cash and cash equivalents, beginning of year	**39,942**	97,425
Cash and cash equivalents, end of year	**$ 77,214**	$ 39,942
Supplemental cash flow information:		
Interest paid	**$ 48,800**	$ 36,351
Income taxes paid	**6,063**	3,179

See accompanying notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars, except per share amounts)
Years ended December 31, 2005 and 2004

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"). Equitable Trust is federally regulated under the Trust and Loan Companies Act (Canada) by OSFI.

The Company operates principally in one industry segment as a deposit-taking institution investing in mortgages.

1. Significant accounting policies:

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The following notes describe the Company's significant accounting policies:

(a) Basis of presentation:
The Consolidated Financial Statements 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.

Certain of the 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2005.

(b) Cash and cash equivalents:
Cash and cash equivalents consist of deposits with regulated financial institutions and highly liquid short-term investments, including government guaranteed investments and other money market instruments, whose term to maturity at date of purchase is less than three months. Interest earned on cash and cash equivalents is included in interest income – other in the statement of earnings. These short-term investments are carried at cost plus accrued interest which approximates fair value.

(c) Investments:
Investments are purchased with the intention of holding until maturity or until market conditions provide a better investment opportunity. Investments, including loan securitizations – retained interests, are carried at cost, adjusted for amortization of premiums and discounts to maturity. When there is an other than temporary decline in value, investments are written down to reflect the estimated loss. All gains and losses on the sale, redemption or write-down of investments, are recorded in the statement of earnings. Interest income earned, amortization of premiums and discounts and dividends are included in interest income – investments in the statement of earnings. The fair value of investments is based on quoted market prices.

(d) Mortgages receivable and revenue recognition:
Mortgages receivable are recorded at cost plus accrued interest, less an allowance for credit losses. Fees relating to loan origination are amortized to income over the term of the mortgages to which they relate, and are included in other income in the statement of earnings.

1. Significant accounting policies (continued):

Interest on mortgages receivable is recorded on the accrual basis. The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the collectibility, either in whole or in part, of principal or interest. Mortgages where payment is contractually past due 90 days are automatically placed on a non-accrual basis, unless management determines that there is no reasonable doubt as to the ultimate collectibility of principal and interest. Thereafter, interest income is recognized on a cash basis, but only after prior write-offs and provisions for losses have been recovered, provided there is no further doubt as to the collectibility of principal.

Impaired loans are measured on the basis of expected future cash flows, discounted at the loan's effective interest rate. This impairment is reflected in the statement of earnings in the year in which the impairment is recognized.

(e) Allowance for credit losses:
The allowance for credit losses consists of both specific and general provisions. Specific provisions relate to individual loans that, in the opinion of management, are necessary to reflect the estimated net realizable value of the particular loan as described in (d) above. General provisions are based on management's assessment of probable, unidentified losses in the portfolio at the balance sheet date that have not been specifically identified in the determination of specific provisions. The assessment includes statistical and qualitative analyses of the performance of the portfolio taking into account such factors as economic conditions, security and loan type, concentration risks and geographical exposure.

Concentration of credit exposure may arise when a group of counterparties have similar economic characteristics or are located in the same geographical region. The ability of these counterparties to meet contractual obligations may be affected by changing economic or other conditions. The Company's mortgage portfolio is primarily related to property located in the Province of Ontario.

(f) Loan securitizations:
When loan receivables are sold in a securitization transaction under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the balance sheet. As part of the securitization, certain interests are retained including the right to receive the future excess interest spread and the mortgage servicing obligation. For securitizations entered into after July 1, 2001 the servicing liability is reported as a component of other liabilities. For securitizations entered into prior to this date, the servicing liability and the future excess interest spread are reported on a net basis. The retained interests are classified as investment account securities and are carried at cost or amortized cost. A gain or loss on the sale of the loan receivables is recognized immediately in the statement of earnings. The amount of the gain or loss recognized depends in part on the previous carrying amount of the loan receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, the Company uses estimates based on the present value of future expected cash flows

determined using management's best estimates of key assumptions including prepayment rates and discount rates commensurate with the risks involved.

Subsequent to the securitization, any retained interests that cannot be contractually settled in such a way that the Company can recover substantially all of its recorded investment, are adjusted to fair value and the charge is recognized immediately in the statement of earnings. The fair value of retained interests is determined using the present value of future expected cash flows as discussed above.

(g) Derivative financial instruments:
The Company uses forward contracts on Government of Canada bonds to manage market interest rate exposure on mortgages held for securitization and commitments for mortgages to be securitized. Gains and losses on these hedge instruments are deferred in other assets and are recognized in the statement of earnings at the time the related mortgages are securitized in accordance with hedge accounting. Hedge accounting requires that certain documentation, designation and effectiveness standards be met. The fair value of derivative financial instruments is based on quoted market prices.

(h) Stock-based compensation plans:
The Company operates a stock option plan for directors and eligible employees of Equitable Trust. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares on the date prior to the date the options were granted. Prior to the Initial Public Offering ("IPO") of the Company's shares on March 18, 2004, the options were granted to purchase common shares at prices equal to the fair value of the shares as determined under the plan. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and contributed surplus. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock.

Compensation expense related to the stock-based compensation plans is included in the statement of earnings.

(i) Income taxes:
The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities represent the amount of tax applicable to temporary differences between the carrying amounts of the assets and liabilities and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

1. Significant accounting policies (continued):

(j) Capital assets:
Capital assets are carried at cost less accumulated amortization. Amortization is provided on a reducing-balance method over the estimated useful life of the assets as follows:

Furniture, fixtures and office equipment	20%
Computer hardware and software	30%

Leasehold improvements are amortized on a straight-line basis over the remaining term of the lease.

(k) Use of estimates:
The preparation of 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 date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(l) Fair values of financial instruments:
The estimated fair value of mortgages receivable is determined using a discounted cash flow calculation and the market interest rates currently charged for mortgages receivable with similar terms and credit risks. Similarly, the estimated fair values of the customer deposits, loan securitizations – retained interests and subordinated debt are determined by discounting contractual cash flows, using market interest rates currently offered for similar terms.

The fair values of other financial instruments not specifically disclosed elsewhere in these notes are assumed to approximate their carrying values due to their short-term nature.

2. Cash and cash equivalents:

	2005	2004
Deposits with regulated financial institutions	**$ 46,039**	$ 39,942
Short-term investments	**31,175**	–
	$ 77,214	$ 39,942

The weighted average effective yield of cash and cash equivalents is approximately 3.20% (2004 – 2.41%).

3. Investments:

The analysis of investments at carrying value, by type and maturity, is as follows:

	Maturities				**2005**	2004
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	**Total carrying value**	Total carrying value
Debt securities issued or guaranteed by:						
Canada	$ 34,681	$ –	$ –	$ –	**$ 34,681**	$ 22,917
Province or municipality	43,145	4,770	–	–	**47,915**	36,364
Equity securities:						
Preferred shares	3,621	25,298	19,925	61,870[1]	**110,714**	76,849
Common shares	–	–	–	1,119[1]	**1,119**	518
	$ 81,447	$ 30,068	$ 19,925	$ 62,989	**$ 194,429**	$ 136,648

[1] *Includes investments with no specific maturity.*

The analysis of investments at fair value is as follows:

	Carrying value	**Unrealized gains (losses)**	**2005 Estimated market value**	Carrying value	Unrealized gains (losses)	2004 Estimated market value
Debt securities issued or guaranteed by:						
Canada	**$ 34,681**	**$ (91)**	**$ 34,590**	$ 22,917	$ 169	$ 23,086
Province or municipality	**47,915**	**33**	**47,948**	36,364	(15)	36,349
Equity securities:						
Preferred shares	**110,714**	**731**	**111,445**	76,849	248	77,097
Common shares	**1,119**	**337**	**1,456**	518	(157)	361
	$ 194,429	**$ 1,010**	**$ 195,439**	$ 136,648	$ 245	$ 136,893

The weighted average effective yield for debt securities is 3.20% (2004 – 2.65%) based on yield to maturity, and for preferred shares is 3.82% (2004 – 3.60%).

3. Investments (continued):

The Company has established a bank line of credit facility. Under this facility, the Company may borrow up to $35 million for short-term liquidity purposes. The facility is secured by the Company's investments in common and preferred shares. There was no outstanding balance on the line as at December 31, 2005 (2004 – nil).

4. Loan securitizations – retained interests:

The Company securitizes Canadian Government guaranteed residential mortgage loans through the creation of mortgage-backed securities and removes the mortgages from the balance sheet. As at December 31, 2005, outstanding securitized mortgages totalled $1,878,405 (2004 – $1,858,442), substantially all of which are multi-family residential mortgage loans.

During 2005, the Company securitized Canadian Government guaranteed multi-family residential mortgage loans and received net cash proceeds of $266,200 (2004 – $355,806). The Company retained the rights to future excess interest on the mortgages valued at $10,672 (2004 – $14,955) and received net cash flows on interests retained of $17,263 (2004 – $11,962). The Company retained the responsibility for servicing the mortgages and enjoys the right to receive the future excess interest spread. The Company has outsourced the servicing of the transferred loans to an unrelated third party and has recorded a servicing liability of $6,460 (2004 – $6,180) which is included in other liabilities (note 9). The amount of servicing liability amortized during the year was $1,285 (2004 – $1,028).

The components of income from loan securitization – retained interests are as follows:

	2005	2004
Gain on sale of mortgages	**$ 1,141**	$ 748
Excess interest, net of servicing fee	**2,693**	2,628
	$ 3,834	$ 3,376

The valuation of the future excess interest spread includes an excess spread of 0.84% (2004 – 0.86%), and the key assumption of a discount rate of 5.08% (2004 – 5.28%). There are no expected credit losses as the mortgages are government guaranteed, and no prepayment rate estimates as under the terms of the multi-family residential mortgages, prepayment penalties are sufficient to ensure that the Company will receive all of its investment upon the early discharge of any mortgage.

The following table presents the key economic assumption and the sensitivity of the fair value of retained interests to two adverse changes in the key assumption as at December 31. The following sensitivity analysis is hypothetical and should be used with caution.

	Multi-family residential loans
Carrying value of retained interests	$ 51,595
Discount rate	5.08%
Impact of a 10% adverse change	$ (700)
Impact of a 20% adverse change	$ (1,400)

The Company estimates that the future excess interest spread and servicing liability will be received or paid as follows:

	Excess interest spread	Servicing liability
2006	$ 11,462	$ 1,394
2007	9,862	1,244
2008	8,412	1,048
2009	6,023	765
2010	4,499	600
Thereafter	11,337	1,409
	$ 51,595	$ 6,460

The Company's securitization activities are subject to market risk, which represents the potential for changes in the value of assets and liabilities due to fluctuations in market interest rates. The Company enters into hedging transactions to manage market interest rate exposures on mortgages held for securitization and commitments for mortgages to be securitized, typically for periods of up to 90 days. Hedging gains and losses are recognized at the time the related mortgages are securitized.

Hedge instruments outstanding at December 31, 2005 and 2004 relating to forward contracts on Government of Canada bonds, where the counterparties are chartered banks, are as follows:

	2005			2004		
Bond term (years)	**Notional amount**	**Market value**	**Unrealized loss**	Notional amount	Market value	Unrealized gain (loss)
1 to 5	**$ 10,200**	**$ 10,381**	**$ (16)**	$ 10,600	$ 11,464	$ 3
5 to 10	**39,200**	**42,320**	**(382)**	19,100	20,227	(41)
	$ 49,400	**$ 52,701**	**$ (398)**	$ 29,700	$ 31,691	$ (38)

5. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

2005	**Gross amount**	**Allowance for credit losses**			**Net amount**
		Specific	**General**	**Total**	
Residential mortgages	**$ 1,184,434**	**$ 2,087**	**$ 3,634**	**$ 5,721**	**$ 1,178,713**
Other mortgages	**320,496**	**–**	**1,037**	**1,037**	**319,459**
Mortgages held for securitization or for sale	**173,629**	**–**	**409**	**409**	**173,220**
Accrued interest	**7,028**	**–**	**–**	**–**	**7,028**
	$ 1,685,587	**$ 2,087**	**$ 5,080**	**$ 7,167**	**$ 1,678,420**

2004	Gross amount	Allowance for credit losses			Net amount
		Specific	General	Total	
Residential mortgages	$ 1,014,336	$ 2,438	$ 3,109	$ 5,547	$ 1,008,789
Other mortgages	237,861	–	782	782	237,079
Mortgages held for securitization or for sale	50,736	–	113	113	50,623
Accrued interest	5,593	–	–	–	5,593
	$ 1,308,526	$ 2,438	$ 4,004	$ 6,442	$ 1,302,084

Included in mortgages held for securitization or for sale are Canadian Government insured mortgages of $9,664 (2004 – $5,619). These loans held for securitization, together with the related interest rate hedges, are carried at the lower of cost or fair value. Loans held for sale include loans which are to be pooled and discharged subsequent to the balance sheet date at their investment cost. These loans are carried at the lower of cost or fair value. There are no foreclosed assets held for sale at December 31, 2005 and 2004.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at December 31, 2005 aggregated $3,587 (2004 – $4,543) and $1,500 (2004 – $2,105), respectively. As at December 31, 2005, the estimated fair value of mortgages receivable is $1,691,570 (2004 – $1,313,997). The weighted average effective yield of mortgages receivable is 5.98% (2004 – 5.79%) based on the yield to maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Allowance for credit losses:

	2005			2004		
	Specific allowance	**General allowance**	**Total**	Specific allowance	General allowance	Total
Balance, beginning of year	**$ 2,438**	**$ 4,004**	**$ 6,442**	$ 3,037	$ 2,700	$ 5,737
Provision for credit losses	**(351)**	**1,076**	**725**	(604)	1,304	700
Recoveries	**–**	**–**	**–**	5	–	5
Balance, end of year	**$ 2,087**	**$ 5,080**	**$ 7,167**	$ 2,438	$ 4,004	$ 6,442

(c) The following table presents information about the Company's reported and securitized mortgage principal:

2005	**Gross principal amount**	**Principal amount of mortgages 61 or more days past due**
Residential mortgages	**$ 3,157,465**	**$ 6,476**
Other mortgages	**399,499**	**105**
Total mortgages reported and securitized	**3,556,964**	**6,581**
Less mortgages securitized	**1,878,405**	**3,775**
Mortgages reported prior to accrued interest (note 5(a))	**$ 1,678,559**	**$ 2,806**

2004	Gross principal amount	Principal amount of mortgages 61 or more days past due
Residential mortgages	$ 2,886,875	$ 4,507
Other mortgages	274,500	–
Total mortgages reported and securitized	3,161,375	4,507
Less mortgages securitized	1,858,442	2,320
Mortgages reported prior to accrued interest (note 5(a))	$ 1,302,933	$ 2,187

6. Other assets:

		2005		2004
Deferred GIC commissions	**$**	**5,791**	$	3,803
Capital assets		**1,502**		1,370
Other receivables		**1,469**		1,705
Prepaid expenses and other		**977**		629
Accrued interest on non-mortgage assets		**855**		748
Loan to officer (note 14)		**–**		500
	$	**10,594**	$	8,755

7. Customer deposits:

		2005		2004
Cashable GICs, payable on demand	**$**	**348,885**	$	–
GICs with fixed maturity dates		**1,423,066**		1,355,620
Accrued interest		**37,004**		29,028
	$	**1,808,955**	$	1,384,648

The Company issues guaranteed investment certificates ("GICs") to depositors. As at December 31, 2005, the estimated fair value of customer deposits is $1,770,063 (2004 – $1,398,059). The weighted average effective cost of customer deposits is 3.51% (2004 – 3.44%), based on the yield to maturity.

8. Income taxes:

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

	2005	2004
Canadian statutory income tax rate	**36.1%**	36.1%
Increase (decrease) resulting from:		
Tax-exempt income	**(7.1%)**	(11.4%)
Non-deductible expenses	**0.5%**	1.1%
Other	**–**	(0.6%)
Effective income tax rate	**29.5%**	25.2%

The net future income tax liability is comprised of:

	2005	2004
Future income tax assets:		
Allowance for credit losses	**$ 1,910**	$ 1,535
Share issue expenses	**647**	869
Deferred mortgage fees	**558**	393
Other	**415**	47
	3,530	2,844
Future income tax liabilities:		
Deferred GIC commissions	**2,092**	1,114
Loan securitizations – retained interests	**7,976**	9,770
	10,068	10,884
Net future income tax liability	**$ 6,538**	$ 8,040

9. Other liabilities:

	2005	2004
Securitized mortgage servicing liability	**$ 6,460**	$ 6,180
Mortgagor realty taxes	**5,266**	4,595
Income taxes payable	**4,666**	975
Accounts payable and accrued liabilities	**4,315**	2,111
	$ 20,707	$ 13,861

10. Bank term loan:

On March 17, 2005, the Company received a five-year bank term loan in the amount of $19,750. The proceeds of this term loan were used to purchase $19,750 of Series 5 Subordinated Debentures of the Company's subsidiary, Equitable Trust. The terms of the bank loan are as follows:

(a) the balance of the loan, together with all accrued and unpaid interest, is due and payable in full on March 17, 2010;

(b) the loan is repayable in full at the option of the Company at any time during its term;

(c) interest is payable at a fixed rate of 6.37%; and

(d) as collateral for the term loan, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Equitable Trust and an assignment of $19,750 of the Series 5 Subordinated Debentures issued by Equitable Trust.

As at December 31, 2005, the estimated fair value of the bank term loan is $19,721.

11. Subordinated debt:

The Company has issued debentures which are subordinated to the deposits and other liabilities of the Company and which are repayable at any time without penalty. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest is paid quarterly.

Debenture series	**Interest rate**	**Issue date**	**Maturity date**	**Outstanding, December 31, 2004**	**Issued during the year**	**Redeemed during the year**	**Outstanding, December 31, 2005**
Series 3	**8.48%–8.82%**	**2002**	**January 2012**	**$ 3,530**	**$ –**	**$ 3,530**	**$ –**
Series 4	**7.54%–8.15%**	**2003**	**January 2013**	**11,444**	**–**	**–**	**11,444**
Series 5	**7.31%–7.58%**	**2004/05**	**January 2015**	**14,175**	**6,075**	**–**	**20,250**
				$ 29,149	**$ 6,075**	**$ 3,530**	**$ 31,694**

Debenture series	Interest rate	Issue date	Maturity date	Outstanding, December 31, 2003	Issued during the year	Redeemed during the year	Outstanding, December 31, 2004
Series 2	8.50%	2001	April 2011	$ 894	$ –	$ 894	$ –
Series 3	8.48%–8.82%	2002	January 2012	4,960	–	1,430	3,530
Series 4	7.54%–8.15%	2003	January 2013	11,444	–	–	11,444
Series 5	7.58%	2004	January 2015	–	14,175	–	14,175
				$ 17,298	$ 14,175	$ 2,324	$ 29,149

As at December 31, 2005, the estimated fair value of subordinated debt is $33,074 (2004 – $30,570).

12. Shareholders' equity:

(a) Capital stock:

Authorized:

Unlimited number of preferred shares

Unlimited number of common shares

Issued:

Common shares:

	2005		2004	
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**11,680,750**	**$ 54,815**	10,364,435	$ 37,483
Issued during the year	**101,190**	**666**	1,316,315	17,320
Transfer from contributed surplus relating to the exercise of stock options	**–**	**29**	–	12
Balance, end of year	**11,781,940**	**$ 55,510**	11,680,750	$ 54,815

Effective January 1, 2004, all of the direct and indirect shareholders of Equitable Trust approved a series of transactions whereby all such shareholders became the shareholders of the Company. Equitable Trust became a wholly owned subsidiary of the Company. As a result of this series of transactions, the Company assumed a $300 deficit of a prior shareholder as a distribution of equity on the formation of the Company. The Company issued 10,364,435 common shares representing 4.741 times the number of common shares issued by Equitable Trust. Each of the previous direct and indirect shareholders of Equitable Trust received common shares of the Company in the same proportions as their prior direct or indirect holding in Equitable Trust. As there was no substantial change in the ultimate ownership interests in Equitable Trust, the Company has carried forward the basis of measurement of the assets and liabilities as reflected in Equitable Trust's financial statements.

The number of shares and the weighted average number of shares of Equitable Trust and the stock options related thereto have been restated on a retroactive basis to reflect the transaction described above.

The Company completed its initial public offering on March 18, 2004. As a result, 1,027,113 common shares of the Company were issued to the public for gross cash proceeds of $17,975 before issue expenses.

During 2005, 101,190 (2004 – 289,202) shares were issued as a result of the exercise of employee stock options for cash consideration of $666 (2004 – $1,269) and $29 (2004 – $12) was transferred from contributed surplus to common shares as a result of these exercises.

The weighted average number of shares outstanding used to calculate basic and diluted earnings per share is as follows:

	2005	2004
Basic	**11,747,564**	11,269,999
Relating to stock options	**198,901**	289,251
Diluted	**11,946,465**	11,559,250

(b) Capital requirements and dividend restrictions:

The Company's subsidiary, Equitable Trust, is subject to minimum capital requirements as prescribed by OSFI under the Trust and Loan Companies Act (Canada). In addition, OSFI must be notified of any dividend declaration and there are restrictions as to the amount of dividends which can be paid out in any fiscal year.

(c) Stock-based compensation plans:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five years and vest over a four or five-year period. Up to 1,139,154 common shares of the Company may be reserved for issue under the plan. The outstanding options expire on various dates to November 2010. A summary of the Company's stock option activity and related information for the years ended December 31, 2005 and 2004 is as follows:

12. Shareholders' equity (continued):

	2005			2004		
	Number of stock options		**Weighted average exercise price**	Number of stock options		Weighted average exercise price
Outstanding, beginning of year	**809,729**	**$**	**15.86**	431,431	$	5.10
Granted	**135,000**[1]		**24.13**	680,000		17.84
Exercised	**(101,190)**		**6.57**	(289,202)		4.39
Forfeited/cancelled	**(75,000)**		**20.67**	(12,500)		17.50
Outstanding, end of year	**768,539**		**18.07**	809,729		15.86
Exercisable, end of year	**126,611**	**$**	**17.28**	42,669	$	6.98

[1] *Of this amount, 19,777 options are subject to shareholders' approval.*

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2005:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 5.94	23,705	1.2	–
$ 9.07	21,334	2.9	7,111
$ 17.50	558,500	3.1	108,500
$ 20.40	55,000	3.9	11,000
$ 24.25	25,000	4.4	–
$ 24.10	85,000	4.9	–

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $397 (2004 – $415) 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 year is estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 3.9% (2004 – 3.2%); (ii) expected option life of 4.0 years (2004 – 4.0 years); (iii) expected volatility of 19.0% (2004 – 14.2%); and (iv) expected dividends of 2.2% (2004 – 2.1%). The weighted average fair value of each option granted was $2.92 (2004 – $1.75).

13. Commitments and contingencies:

(a) Annual payments due under a non-cancellable operating lease for the three-year period commencing January 1, 2006 for office premises are $300 plus tenant's share of realty taxes and operating costs. These additional costs are estimated to be $375 in 2006.

(b) The Company has commitments to fund a total of $307,970 (2004 – $202,248) of mortgages in the ordinary course of business at year end.

(c) The Company is subject to various claims and litigation arising from time to time in the ordinary course of business. Management has determined that the aggregate liability, if any, that may result from various outstanding legal proceedings would not be material and no provisions have been recorded in these Consolidated Financial Statements.

14. Related party transactions:

Certain of the Company's employees and directors have purchased GIC deposits and/or subordinated debt from the Company. These purchases were made in the ordinary course of business at terms comparable to those offered to unrelated parties. As at December 31, 2005 employees and directors have purchased $53,179 (2004 – $17,299) of GIC deposits and $7,604 (2004 – $7,738) of subordinated debt.

An officer of the Company had a personal loan from the Company bearing interest at 4%, which was repayable at $100 annually. The loan was repaid in 2005 and there is no balance outstanding as at December 31, 2005 (2004 – $500) (note 6).

15. Future accounting changes:

The Canadian Institute of Chartered Accountants has issued three new accounting standards, Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income, which will be in effect for the Company for its 2007 fiscal year. The impact of these new standards on the Company's financial statements is not yet determinable as it will be dependent on the Company's outstanding positions and their fair values at the time of implementation.

16. 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 repricing date, as at December 31, 2005:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Floating rate	0–3 months	4–12 months	1–5 years	Greater than 5 years	Non-interest sensitive	Total
Assets:							
Cash and cash equivalents	$ 46,039	$ 31,175	$ –	$ –	$ –	$ –	$ 77,214
Effective interest rate	3.19%	3.22%					3.20%
Investments	–	31,432	84,534	69,427	7,917	1,119	194,429
Effective interest rate		3.69%	3.39%	3.75%	3.65%		3.56%
Loan securitizations – retained interests	–	2,893	8,569	28,796	11,337	–	51,595
Effective interest rate		5.26%	5.20%	5.19%	5.43%		5.25%
Mortgages receivable	808,153	61,829	209,198	595,787	–	3,453	1,678,420
Effective interest rate	5.59%	6.11%	6.15%	6.46%			5.97%
Other assets	–	–	–	–	–	10,594	10,594
Total assets	$ 854,192	$ 127,329	$ 302,301	$ 694,010	$ 19,254	$ 15,166	$ 2,012,252
Liabilities:							
Customer deposits	$ 348,885	$ 492,178	$ 274,806	$ 656,082	$ –	$ 37,004	$ 1,808,955
Effective interest rate	2.89%	3.06%	3.77%	4.07%			3.44%
Other	–	–	–	–	–	27,245	27,245
Bank term loan	–	–	–	19,750	–	–	19,750
Effective interest rate				6.37%			6.37%
Subordinated debt	–	–	–	–	31,694	–	31,694
Effective interest rate					7.68%		7.68%
Shareholders' equity	–	–	–	–	–	124,608	124,608
Total liabilities and shareholders' equity	348,885	492,178	274,806	675,832	31,694	188,857	2,012,252
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 505,307	$ (364,849)	$ 27,495	$ 18,178	$ (12,440)	$(173,691)	$ –
Total assets – 2004	$ 646,854	$ 66,435	$ 208,199	$ 587,430	$ 21,366	$ 12,967	$ 1,543,251
Total liabilities and shareholders' equity – 2004	–	456,746	366,646	532,228	29,149	158,482	1,543,251
Excess (deficiency) of assets over liabilities and shareholders' equity – 2004	$ 646,854	$ (390,311)	$ (158,447)	$ 55,202	$ (7,783)	$(145,515)	$ –

(a) Accrued interest is excluded in calculating interest sensitive assets and liabilities.

(b) Potential prepayments of fixed rate loans have not been estimated. Cashable GICs are included with floating rate liabilities as these are cashable by the depositor upon demand. Any prepayments of subordinated debt, contractual or otherwise, have not been estimated as these would require pre-approval by OSFI.

An immediate and sustained 1% decrease in interest rates as at December 31, 2005 would negatively impact net interest income for the following 12-month period by $1,659 (2004 – $2,017) before adjusting for income taxes.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Paul Alofs[1][5]
President and Chief Executive Officer,
Princess Margaret Hospital Foundation

Austin Beutel[3][4]
Chairman of the Board, Equitable Group Inc. and
The Equitable Trust Company
Chairman, Oakwest Corporation Limited (an
investment holding company)

Eric Beutel[2][5]
Vice-President, Oakwest Corporation Limited
(an investment holding company)

Geoffrey Bledin[2]
President and Chief Executive Officer,
Equitable Group Inc. and
The Equitable Trust Company

Giselle Branget[1][4]
Corporate Director

Joseph Dickstein[1][4][5]
Vice-Chairman and Director, PPI Financial Group
(a financial services company)

Eric Kirzner[1][3][4][5]
Professor of Finance, Rotman School of Management,
University of Toronto

Lionel Robins[2][3]
President, PFDL Investments Limited
(an investment holding company)

Robert Rubinoff[2][3][4]
President and Director, Inglewood Holdings Inc.
(an investment holding company)

Michael Shulman[1][5]
President, The Birchwood Group Inc.
(an investment holding company)

Notes:
1. Member of the Audit Committee of Equitable Trust and Equitable Group. 2. Member of the Investment Committee of Equitable Trust. 3. Member of the Human Resources and Compensation Committee of Equitable Trust. 4. Member of the Corporate Governance Committee of Equitable Trust and Equitable Group. 5. Member of the Conduct Review Committee of Equitable Trust.

Executive Officers: Equitable Group Inc.

Geoffrey Bledin
President and Chief Executive Officer

Stephen Coffey
Senior Vice-President and Chief Financial Officer

Timothy Storus
Vice-President, General Counsel,
Chief Compliance Officer and Secretary

Executive Officers: The Equitable Trust Company

Geoffrey Bledin
President and Chief Executive Officer

Stephen Coffey
Senior Vice-President and Chief Financial Officer

John Harry
Vice-President, Credit and Risk Management

Kimberly Kukulowicz
Vice-President, Mortgage Services

Tamara Malozewski
Vice-President, Finance

Robert McMillan
Vice-President, Deposit Services

Timothy Storus
Vice-President, General Counsel,
Chief Compliance Officer and Secretary

Nicholas Strube
Treasurer

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Tuesday, May 23, 2006 10 a.m. eastern
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