



EQUITABLE GROUP INC.

ANNUAL REPORT
2004

CORPORATE PROFILE

Equitable Group Inc. provides first mortgage financing through its wholly owned subsidiary, The Equitable Trust Company, on properties located primarily in and around the Greater Toronto Area, a geographic territory that encompasses a population of more than five million. Equitable Trust was founded in 1970 and is now a leader in its primary niches: alternative single family dwelling and multi-unit residential mortgage lending. On a very selective basis, the Company also provides financing for commercial properties. Equitable Trust offers Guaranteed Investment Certificates to its depositors as a nationally licensed deposit-taking institution.

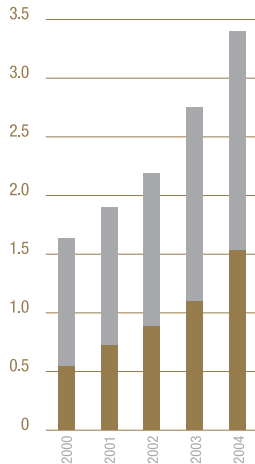
The Company's common stock is listed on The Toronto Stock Exchange, symbol ETC. For more information, visit the Company's web site at **www.equitablegroupinc.com**.

DISCIPLINED GROWTH

Equitable is a profitable growth company with a long-term track record. Over the years, our growth has been driven by strong demand for mortgage financing in our niches. Funding ratios (mortgages funded as a percentage of applications received) have been quite low, allowing Equitable to be selective in choosing mortgages with appropriate credit characteristics. In 2005, we expect this favourable demand-supply relationship to remain intact because of population growth in our target niches, attractive demographic trends and interest rates, and a strong real estate market. Due to the disciplined approach that we have established in our business practices, and these positive dynamics, we believe we can meet our return on equity targets, while sustaining our conservative credit risk profile.

Total On- and Off-Balance Sheet Assets¹

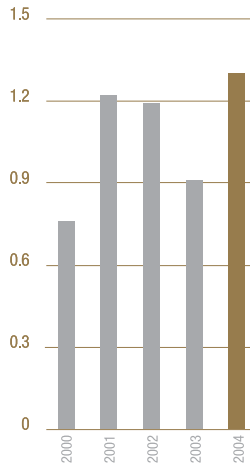
(\$ billions, years ended December 31)



■ Off-balance sheet assets
■ On-balance sheet assets
Balance sheet assets have grown 28.6% compounded annually over the five-year period ended December 31, 2004, while total on- and off-balance sheet assets have grown 19.9%.

Diluted Earnings Per Share (EPS)

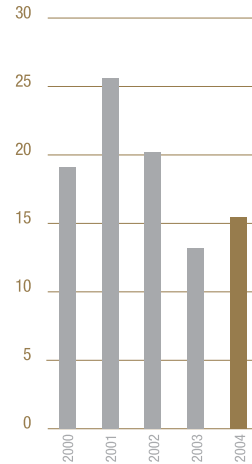
(\$, years ended December 31)



Diluted EPS increased 43% in 2004 over 2003, primarily as a result of 40% growth in assets.

Return On Equity²

(%, years ended December 31)



Return on equity averaged 18.7% over this five-year period, and increased to 15.5% in 2004 from 13.2% in 2003.

¹ Off-balance sheet assets consist of CMHC-insured multi-unit residential mortgages, which are securitized through the CMHC-MBS program.

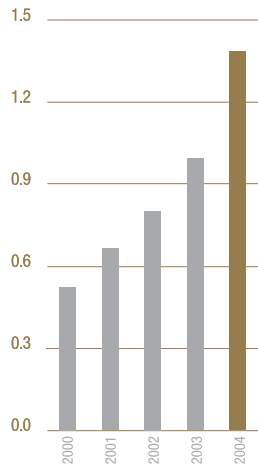
² Return on equity has been calculated on a weighted average basis.

DISCIPLINED OPERATIONS MANAGEMENT AND FUNDING PRACTICES

Equitable's business model is based on strategic outsourcing. Independent deposit agents distribute our Guaranteed Investment Certificates (GICs) nationally, while mortgage brokers originate the majority of our mortgage products. As a result, we operate very efficiently from a single office location in Toronto, with no branches, and enjoy a superior productivity ratio and the ability to add new business at low cost. Internally, we maintain complete control over both lending and funding policies and practices. For example, to ensure we manage interest rate risk and have sufficient resources to honour all obligations, we raise funds only as required and engage in a disciplined process of asset-liability matching. In practice, this means we adjust GIC rates on a daily basis to raise deposits with maturities that match the maturity profile of mortgages funded and other investments acquired.

Customer Deposits

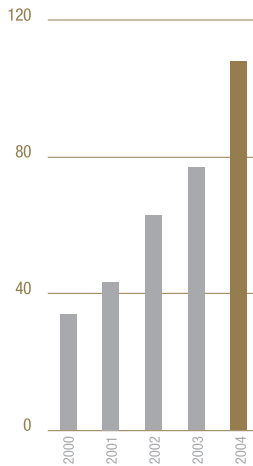
(\$ billions, at December 31)



Equitable is a nationally licensed deposit taking institution with an extensive network of independent deposit agents. Customer deposits increased 40% in 2004.

Shareholders' Equity

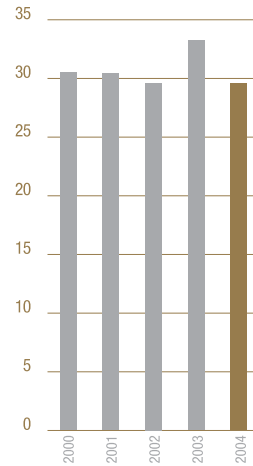
(\$ millions, years ended December 31)



Shareholders' equity increased 33.7% on a compound annual growth rate over the five-year period shown above.

Productivity Ratio

(%, years ended December 31)



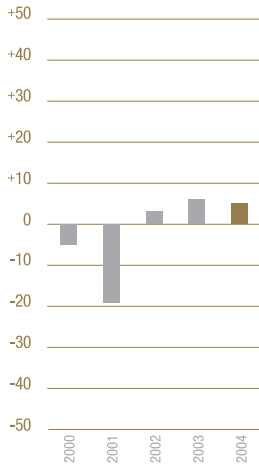
In 2004, for every \$1 of net revenue generated, Equitable spent just 29.6 cents.

DISCIPLINED LENDING

Equitable reviews every mortgage application in detail and does not rely solely on electronic score-carding to ensure sound credit decisions. In fact, our lending practices are well-defined, strictly applied and adjusted on an ongoing basis to match perceived market risk. For example, the conventional mortgage loans we make must meet rigorous loan-to-value requirements and minimum debt service coverage tests. If market conditions were to deteriorate, we would respond accordingly with even more stringent lending parameters. Gross debt service ratio and total debt service ratio are two other metrics used to judge every single family dwelling mortgage application. As a result of these disciplined practices, Equitable experienced no loan losses in 2004 despite 46% growth in our mortgage portfolio – and has an outstanding record of risk management over the past decade.

Realized Loan Losses (-) and Recoveries (+)

(\$ thousands, at December 31)

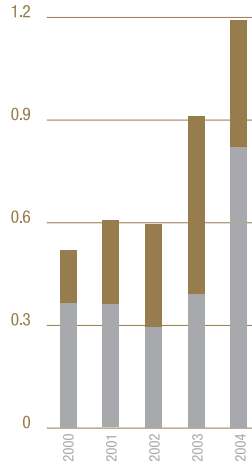


Total net losses over the past five years amounted to \$10,000, or 0.001% of total average loans outstanding.

Note: Realized loan losses are net of recoveries in subsequent years.

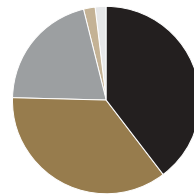
Mortgage Origination

(\$ billions, years ended December 31)



31.1% more mortgages were originated in 2004 than in 2003 as lending capacity increased following our IPO.

2004 Mortgage Portfolio



- Single family dwelling 39.6%
- Multi-unit residential 35.8%
- Commercial 20.7%
- Construction 2.0%
- CMHC-insured (for securitization) 1.9%

We focus on two lending niches, single family dwelling and multi-unit residential, which together accounted for 75.4% of our total mortgage portfolio in 2004.

FELLOW SHAREHOLDERS



Geoffrey Bledin and Austin Beutel

Welcome to the Equitable Group and our first year as a public company.

Our business is to provide mortgage financing on single family dwellings and multi-unit residential properties, and to a limited extent, commercial properties, in and around the Greater Toronto Area. Your Board of Directors and management are substantial investors in the Company and are motivated to enhance shareholder value.

In 2004, our 34th year in business, we once again succeeded in furthering this objective.

Diluted net earnings per share increased 43% to \$1.30 (on net earnings of \$14.98 million), compared to \$0.91 per share in 2003. Return On Equity was 15.5% – in line with our first-year target for ROE. Dividends were introduced coincidental with the release of our second quarter results and, in line with our intention to pay out 25% of trailing earnings, we declared a dividend of \$0.06 per share with respect to our second quarter, \$0.07 for the third and \$0.08 for our fourth quarter.

It is important to note that, while delivering these strong financial results and growing our mortgage portfolio beyond the \$1 billion mark in 2004 for the first time, Equitable had no loan losses. Aggregate loan losses for the five years ended December 31, 2004 amounted to just \$10,000, even though our mortgage portfolio has grown 25.5% compounded annually.

Equitable's 2004 performance met our goals and was particularly satisfactory in the context of our transition to public company status. Specifically, our initial public offering (IPO) was not completed until March 2004 and it wasn't until mid-year that we were able to begin to generate higher earnings from our larger capital base.

FELLOW SHAREHOLDERS (CONTINUED)

Now that this transition is complete, we look forward to employing capital efficiently in 2005 and beyond, for controlled and disciplined growth. We encourage you to read the accompanying statement on our priorities and principles found on page 7.

Looking forward, Equitable is operating in a favourable market environment. Demand for lending in our niches continues to grow, providing us with a substantial available market and attractive opportunities to deploy our capital.

Governance

Your directors are committed to best corporate governance practices in support of value creation and sound strategic and risk management. This is not new. Professional corporate governance has long been part of Equitable's culture. Since our founding in 1970 as Equitable Trust (our wholly owned subsidiary and operating entity), the Company has been subject to the same stringent requirements for disclosure and financial management as all major financial institutions. We report to the Office of the Superintendent of Financial Institutions Canada (OSFI) under the Trust and Loan Companies Act (Canada), and are required to file annual reports on Equitable's financial condition and comply with regulations on capital requirements, lending and investment policies.

The discipline required to comply with this reporting regime has helped us immensely in transitioning to public company status. Today, we comply with all of the guidelines of The Toronto Stock Exchange and are committed to institute further measures as governance regulations change.

As a member institution of the Canada Deposit Insurance Corporation (CDIC), we are also required to comply with Standards of Sound Business and Financial Practices. Under these regulations, the Board is mandated to establish the business objectives of the Company, monitor its performance and approve a standards report which is filed with the CDIC.

Good corporate governance, full disclosure, open dialogue and significant share ownership provide a high degree of alignment between Equitable Group and its public shareholders. Collectively, the Board and senior management today own 44% of Equitable Group shares, and we take pride in ownership for the long term.

Board Activities

In making the transition to a public company, certain Board changes were made. We thank George Eisenberg, Al Gellman and Michael Sigel, who retired from the Board last February, for their valuable support, wise counsel and loyalty for close to 15 years.

FELLOW SHAREHOLDERS (CONTINUED)

Two directors were welcomed: Paul Alofs and Rebecca MacDonald, who have provided valuable new perspectives to our deliberations. Regrettably, owing to other business commitments, Ms. MacDonald has opted to withdraw her name as a candidate for re-election at the forthcoming annual meeting. Giselle Branget is the Board's nominee to fill that vacancy.

Conclusion

Equitable's guiding principles and the strategies that underpin them have helped us deliver a multi-year tradition of attractive ROE, and they have proven their worth in good times and bad.

At the moment, we are living in favourable times with respect to interest rates, real estate values and mortgage demand. We hope these good times will continue, yet history has shown that mortgage demand is cyclical. We believe we are structured to meet the challenges of market changes as they occur.

In summary, 2005 promises to be a productive and profitable year for Equitable, and we are primed to make the most of our opportunities in a disciplined way.

On behalf of the Board, we congratulate the members of the Equitable team, and especially Stephen Coffey, our Senior Vice President and Chief Financial Officer, for their tireless efforts during an exciting and fruitful year. They are major contributors to the value created in 2004. We thank our partners for their support, cooperation and resourcefulness. We thank our fellow directors for their diligence and commitment.

We conclude with a simple pledge: we will do our best to create value in everything we do in 2005 and beyond.



Austin Beutel
Chairman of the Board



Geoffrey Bledin
President and Chief Executive Officer

February 21, 2005

EQUITABLE'S PRIORITIES AND PRINCIPLES

Equitable's strategic plan, approved and regularly reviewed by its Board of Directors, contains a detailed analysis of our opportunities and risks as well as specific financial and operating objectives. But it can be fairly well summarized in two words: controlled growth.

We will grow in a consistent, profitable way. Success to us is measured by attractive, sustainable returns on equity over many years. Delivering this performance is what set us apart as a private company and it's what we intend to be known for as a public one. We define 'attractive ROE' as being in the 15% to 20% range. We believe this rate of return is achievable in this environment without taking undue lending risks.

In 2005, our goal is to deliver increased earnings by generating growth in our mortgage portfolio. We intend to do this by following four proven principles.

We will grow by maintaining our niche market focus. In 2005 and for the foreseeable future, Equitable will concentrate on growing in two primary niches: single family dwelling and multi-unit residential mortgages – primarily in the Greater Toronto Area ("GTA"). In 2005, we expect these niches to represent over 75% of our total mortgage production, with the balance primarily in commercial property mortgages, selectively financed. Geographically, the GTA has traditionally represented in excess of 85% of our mortgage portfolio and this will likely be the case again in 2005.

We believe the concentration of our lending activities is appropriate from performance potential and risk management standpoints.

Consider first performance potential. Our niches offer extensive opportunities for growth. The GTA is home to five million people. But it's not just the size of the population that makes the GTA attractive. The GTA is a prime destination for immigration. Entrepreneurs also find it a great location to establish their business. The self-employed and newcomers to Canada are both major consumers of alternative single family dwelling mortgage financing. Most of all, the GTA's population is expected to continue to grow rapidly, creating the right conditions for healthy construction and resale activity...and additional demand for Equitable financing. Naturally, the other stimulus required for growth is reasonable interest rates and, at the time of writing, the Bank of Canada is providing these as well.

From a risk management perspective, the size of our niches provides Equitable with the ability to be selective. In 2004, our mortgage portfolio grew over 45%, even though we funded only one out of every four applications for financing we received. We believe this level of selectivity can be maintained in 2005, even as we strive to meet our growth targets, because of the underlying demand for product in our niches.

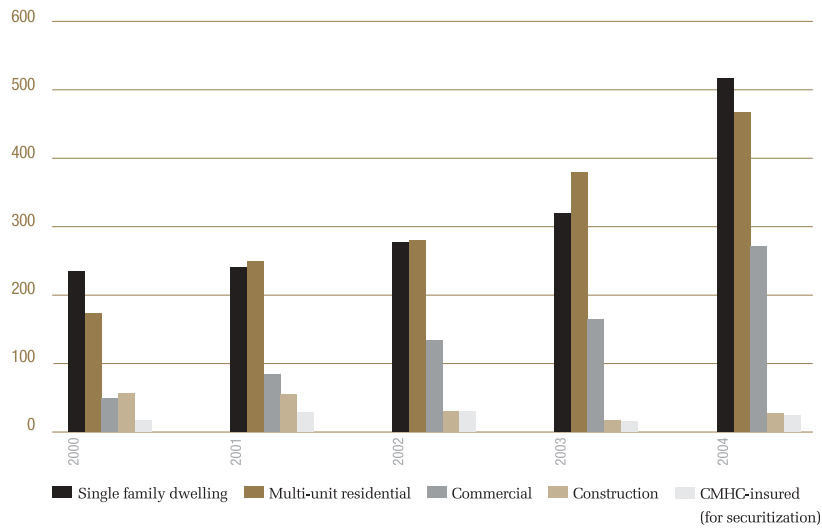
PRIORITIES AND PRINCIPLES (CONTINUED)

Moreover, our focus offers three other risk and operating advantages. Because we have been intimately involved in these niches for many years, we understand the real estate dynamics in each. This knowledge is vital to proper risk management. As well, because most of the properties we finance are within driving distance for our mortgage lending team, we can closely manage and monitor our loans. Finally, by concentrating on defined niches in this focused territory, we can more easily develop brand awareness.

We are presented periodically with opportunities to expand our reach to the same niches in other geographic markets. Geographic expansion is currently being considered, but will be pursued only in conformity with the Company's disciplined approach to lending.

Mortgage Portfolio

(\$ millions, at December 31)



Equitable seeks to achieve a strategic balance in the composition of its mortgage portfolio at all times.

PRIORITIES AND PRINCIPLES (CONTINUED)

We will grow by raising and deploying capital judiciously. As a public company, Equitable has enhanced access to capital, and by maintaining our profitable growth orientation, we can make a compelling case to raise more. However, in light of our commitment to manage risk and enhance shareholder value, we are taking an incremental approach to expand our capital base in 2005. Through a recently initiated Series 5 Subordinated Debenture offering, we intend to raise up to \$40 million in Tier 2 regulatory capital this year. At the time of writing, we have secured \$35 million toward our goal. This capital should allow us to achieve our growth objectives, while meeting regulatory capital requirements through 2005 – without equity dilution.

We will grow at low cost and in a highly productive manner. In 2005, we intend to maintain our distinction as having one of the best productivity ratios in Canadian financial services. We will do this by continuing to employ our lean business model as we grow. To us, lean means operating with a small but highly capable team from one location and outsourcing the bulk of deposit-taking functions to deposit agents and mortgage origination to independent mortgage brokers. This lean approach works. In 2004, with a staff of only 54, we grew our asset base 40%, or \$440 million, and produced a productivity ratio of 29.6%. This means it cost us only 29.6 cents to generate every dollar of net revenue in 2004. Looking to 2005, our existing team, with a few additions, is well-equipped to handle and manage budgeted growth.

We will apply a strict, disciplined approach to growth and risk management. Discipline is more than a word to us, or a theme for this annual report. It's our everyday orientation. It manifests itself in everything from Equitable's strategic plan to the way we evaluate mortgage applications and manage our asset-liability maturities matching. In 2005, we pledge to operate with equally determined discipline in pursuing our performance objectives.

DISCIPLINED SERVICE



Equitable takes great pride in the expertise and productivity of its management group and staff. Each of our senior managers has extensive industry experience, and as shareholders, our management team is committed to the smooth, efficient and disciplined operation of the Company – and its continuing profitable growth. Under the skillful tutelage of this team, Equitable’s total on- and off-balance sheet assets have grown at a compound annual growth rate of 19.9% to \$3.4 billion over the five-year period ended December 31, 2004.

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

For the year ended December 31, 2004

Notice to Readers

The following discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2004. Equitable Group Inc. ("Equitable" or the "Company") was formed January 1, 2004 to serve as the holding company for The Equitable Trust Company ("Equitable Trust"), its wholly owned operating subsidiary. Equitable Group Inc. completed an initial public offering ("IPO") on March 18, 2004 with a treasury offering of 1,027,113 common shares and a secondary offering of 2,072,887 common shares. Accordingly, the comparative results for 2003 are those of Equitable Trust. Unless otherwise indicated, references to Equitable or the Company include Equitable Trust. All dollar amounts are in millions of Canadian dollars unless otherwise indicated.

Forward-Looking Statements

Certain forward-looking statements are made in this Management's Discussion and Analysis and this annual report, including statements regarding possible future business. Investors are cautioned that such forward-looking statements involve risks and uncertainties detailed from time to time in the Company's periodic reports filed with Canadian regulatory authorities. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Equitable does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

Overview

2004 was a year of milestones for Equitable Group Inc. The Company completed its IPO in March raising more than \$16 million (net) through the issuance of 1,027,113 common shares. Alongside this primary offering, a secondary offering distributed an additional 2.1 million shares to the public. In total, through the IPO, the public purchased \$54 million of common shares of the Company. The proceeds from the primary offering were directed to the expansion of ongoing operations, and to support the Company's growth in its primary niches: single family dwelling mortgage lending and multi-unit residential mortgage lending.

The Company achieved several important financial milestones. New records were established for total assets, earnings and earnings per share – the latter realized during a year in which the Company's IPO was a significantly dilutive event. The Company also initiated dividend payments to shareholders. Consistent with the Company's tradition of maintaining disciplined lending practices, no loan losses were incurred in 2004 or in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview (continued):

The financial highlights of the year, listed below, show that the Company made good progress against the financial objectives contained in its IPO prospectus. These objectives included a 15%–20% gain in net earnings, a 20% return on fully utilized capital and commencement of dividend payments in the third quarter based on a payout ratio of approximately 25% of trailing net earnings. Furthermore, the Company's:

- net earnings were \$14.98 million, the highest in the Company's history and an increase of 61% over 2003;
- earnings per share on a fully diluted basis increased 43% to \$1.30;
- Return On Equity ("ROE") was 15.5% with partially utilized capital;
- mortgage assets increased 46% to just over \$1.3 billion at December 31, 2004;
- declared dividend payments were 6 cents and 7 cents per share in the third and fourth quarters, respectively, in keeping with the Company's intended payout ratio; and
- productivity ratio (the lower the better) was 29.6% compared to 33.2% in 2003 – reflecting the Company's business model, which is based on outsourcing mortgage origination and deposit taking to independent brokers and agents.

Full capital utilization was not achieved during 2004 because of the timing of the IPO in March. However, the Company is in the process of leveraging its capital through the issuance of additional subordinated debt, which is considered regulatory capital, in order to increase utilization in 2005.

Asset accumulation, however, measured by the increase in mortgage assets, was consistent with management's approach to utilize the capital raised through the Company's IPO. During 2004 the Company expanded its asset base and staff complement to create and manage growth. The Company's business model, which uses independent mortgage brokers and deposit agents to source mortgages and guaranteed investment certificates ("GICs"), met Company targets for asset increases and cost control. Assets grew 40% over 2003 levels while the Company's key cost measure, the productivity ratio, improved. Management believes the Company has one of the best productivity ratios in Canadian financial services.

Looking forward, the Company's annual financial targets for 2005 include asset growth of 20%, earnings per share growth of 20% and ROE in excess of 16%. Management currently believes prospects for 2005 provide the foundation to support the achievement of these targets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 1: Selected financial information

(\$ thousands, except share and per share amounts)	2004	2003	2002	Change from 2003	
				\$	%
Net earnings	14,978	9,297	11,226	5,681	61.1%
Earnings per share – basic	\$ 1.33	\$ 0.93	\$ 1.20	\$ 0.40	43.0%
Earnings per share – diluted	\$ 1.30	\$ 0.91	\$ 1.19	\$ 0.39	42.9%
Return on weighted average equity	15.5%	13.2%	20.2%	n/a	n/a
Total revenue	74,732	65,662	57,914	9,070	13.8%
Total assets	1,543,251	1,103,278	888,527	439,973	39.9%
Number of common shares outstanding at year end ¹	11,680,750	10,364,435	9,673,663	1,316,315	12.7%
Book value per common share	\$ 9.21	\$ 7.40	\$ 6.47	\$ 1.81	24.5%
Common share price – close	\$ 22.85	n/a	n/a	n/a	n/a
Shareholder return since IPO, annualized ²	41.0%	n/a	n/a	n/a	n/a

Notes:

¹ The number of common shares outstanding at year end, prior to 2004, has been restated to conform to current presentation. See note 12 of the consolidated financial statements.

² Shareholder return since IPO is calculated based on the IPO price of \$17.50 per share on March 18, 2004, the \$0.06 dividend per share paid and reinvested on October 1, 2004 and the closing share price on December 31, 2004, all annualized.

In reviewing 2004 results, management believes it is important to recognize that certain non-recurring charges (see section following Table 4 and “Income Taxes”) in the areas of executive compensation and taxation consisting of a charge for the termination of the former employment contract of the Chief Executive Officer (“C.E.O.”) in the amount of \$1.13 million and a tax charge relating to the non-deductibility of certain of the C.E.O.’s compensation in the amount of \$709 thousand occurred in the fourth quarter of 2003. The former contract was terminated and replaced with an employment contract better suited to the Company’s status as a public company. These one-time charges make certain comparisons less meaningful because they detracted from 2003’s performance.

Capital Formation

Capital formation is vital to the Company’s success. The Company’s wholly owned subsidiary, and only asset, Equitable Trust, is required to meet certain capital requirements as a federally regulated financial institution. Accessing capital markets through the IPO allowed the Company to expand its asset base and represented the next logical step in its development as a significant Canadian financial institution.

At year end, the Company met all capital requirements and the primary measure, total capital ratio, was 11.6% compared to 11.3% at year end 2003. This improvement was due to additional regulatory capital raised during the IPO and the Series 5 Subordinated Debenture offering late in 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Earnings

Net earnings were \$14.98 million in 2004, the highest in the Company's history and an increase of 61% over 2003. Earnings per share on a fully diluted basis increased 43% to \$1.30, also a new record. Higher earnings reflected the considerable growth in the asset base of the Company together with efficiency in operations, disciplined management of loan growth and proactive management of taxation.

Table 2: Net interest income

(\$ thousands)	Average balance	Revenue/Expense	2004 Average rate	Average balance	Revenue/Expense	2003 Average rate
Interest revenues or interest expenses derived from:						
Assets:						
Liquidity investments	104,438	2,332	2.2%	96,844	3,750	3.9%
Portfolio securities – TEB	61,529	5,096	8.3%	29,052	2,124	7.3%
Mortgage loans	1,090,854	62,850	5.8%	814,034	53,494	6.6%
Total interest-earning assets – TEB	1,256,821	70,278	5.6%	939,930	59,368	6.3%
Total assets – TEB	1,323,264	70,278	5.3%	995,902	59,368	6.0%
Liabilities and shareholders' equity:						
Customer deposits	1,162,451	43,971	3.8%	876,008	37,847	4.3%
Subordinated debt	23,224	1,325	8.1%*	12,979	1,048	8.1%
Total interest-bearing liabilities	1,185,675	45,296	3.8%	888,987	38,895	4.4%
Total liabilities and shareholders' equity	1,323,264	45,296	3.4%	995,902	38,895	3.9%
Net interest income – TEB		24,982			20,473	
Net interest margin – TEB			1.9%			2.1%
Less: Taxable equivalent adjustment		2,313			763	
Net interest income per financial statements		22,669			19,710	

* In order to provide more accurate disclosure, the average rate is calculated based on the weighted average outstanding subordinated debt during 2004 of \$16,299.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net interest income and margins vary as a result of changes in interest rates, asset growth and the re-pricing profile of assets and liabilities. While presenting net interest income and margins on a tax equivalent basis ("TEB") is a non-GAAP (generally accepted accounting principles) financial measure, management believes that this presentation allows for an appropriate comparison of dividend income from portfolio securities to regular taxable income such as mortgage interest. The tax equivalent basis increases tax-exempt income by an amount that makes the income comparable to ordinary interest income and is common practice in the banking industry.

Total interest revenues on a TEB increased \$10.9 million or 18% to \$70.3 million in 2004 compared to \$59.4 million in 2003. This increase was due to growth in mortgages and portfolio securities. Mortgage revenues increased \$9.4 million or 18% in 2004 over 2003 while portfolio securities income on a TEB increased \$3.0 million or 140% during the same period.

Decreases in interest rates during the early portion of 2004 and the delayed effect of mortgage growth on interest revenues were the causes of mortgage revenues increasing at a slower rate than the overall growth of the mortgage portfolio in 2004. The average prime rate in 2004, based on the rate in effect at each month end, was 4.04% compared to 4.67% in 2003.

Premiums or discounts on preferred shares with defined maturity or re-pricing dates (retractable, wind-up shares, fixed/floater securities) within the securities portfolio are amortized against the dividend income from these securities. The TEB adjustment is based on the gross dividend amount, not including any "deemed" dividends included in the return of par value on the redemption of preferred shares. These "deemed" dividends are included in the computation of gain or loss on the sale or redemption of securities. The TEB adjustment in 2004 of \$2.3 million was 203% greater than that of 2003 due to the increase in the securities portfolio.

Interest income from the Company's liquidity investments decreased \$1.4 million or 38% from 2003 due to lower interest rates in 2004 compared to 2003 and a shorter-term profile of the assets held as liquidity investments.

Interest expense on average customer deposits outstanding decreased to 3.8% in 2004 from 4.3% in 2003 due to declining interest rates, while overall interest expense on customer deposits grew \$6.1 million or 16% over 2003 due to a 33% increase in average customer deposits outstanding.

Net interest margin on a TEB of 1.9% in 2004 declined from 2.1% in 2003 as a result of a number of prime rate decreases in early 2004. The Company's mortgage portfolio contains a significant proportion of variable rate mortgages. Interest rates on these mortgages fluctuate in accordance with the prime rate, whereas the matching liability has a minimum term of 30 days before re-pricing.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Earnings (continued):

Unlike some of its peers, the Company includes interest penalties on the early discharge of mortgages in “mortgage commitment income and other fees” and not in interest income. Moreover, it includes commissions paid to deposit agents in “customer deposit interest expense” rather than in non-interest expenses. If the Company was to change its presentation to reflect this alternate method of accounting for interest penalties and deposit agent commissions, net interest margin (TEB) on this alternative basis would be reported as 2.2% in 2004 compared to 2.4% in 2003.

Table 3: Other income

(\$ thousands)	2004	2003	Change from 2003	
			\$	%
Loan securitizations – excess interest net of servicing fee	2,628	2,223	405	18.2%
Loan securitizations – gains on sale of mortgages	748	1,482	(734)	(49.5)%
Total loan securitizations	3,376	3,705	(329)	(8.9)%
Mortgage commitment income and other fees	3,693	3,098	595	19.2%
Net gain (loss) on sale or redemption of investments	(302)	254	(556)	(218.9)%
Total	6,767	7,057	(290)	(4.1)%

Total income from loan securitizations decreased \$0.3 million or 9% to \$3.4 million in 2004 from \$3.7 million in 2003. The components of this income are excess interest, net of servicing fee, and gains on the sale of mortgages. Excess interest, net of servicing fee, increased \$0.4 million or 18% in 2004 over 2003 due to the increase in the administered mortgage-backed securities (“MBS”) portfolio. The decrease in gains on sale was due to lower securitization activity in 2004, during which \$362 million of loans insured by the Canada Mortgage and Housing Corporation (“CMHC”) were securitized compared to \$531 million in 2003. As well, tighter spreads were experienced in 2004 securitizations compared to 2003.

Mortgage commitment income and other fees consist of mortgage related fees, such as commitment fees and renewal fees, penalty interest on the early discharge of mortgages and other non-mortgage related fees. These fees increased \$0.6 million or 19% on a year-over-year basis due to higher mortgage originations in 2004 than in 2003.

Net loss on sale or redemption of investments was \$0.3 million in 2004 compared to a gain of \$0.3 million in 2003. In 2004, the Company wrote down the carrying value of 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. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 4: Non-interest expenses and productivity ratio

(\$ thousands)	2004	2003	Change from 2003	
			\$	%
Compensation and employee benefits	4,765	5,832	(1,067)	(18.3)%
Capital taxes, licenses, regulatory fees and insurance	1,382	1,194	188	15.7%
Premises and equipment	802	641	161	25.1%
Servicing	580	395	185	46.8%
Marketing, travel and communications	474	264	210	79.5%
Professional services	252	183	69	37.7%
Other	455	380	75	19.7%
Total	8,710	8,889	(179)	(2.0)%
Productivity ratio	29.6%	33.2%		

Total non-interest expenses decreased \$0.2 million or 2% to \$8.7 million in 2004 from \$8.9 million in 2003. The Company expanded its mortgage origination and servicing team in 2004 by 38% (an increase of 10 full-time staff) and augmented its support staff and physical infrastructure to manage growth in its operations and asset base.

The most significant non-interest expense was compensation and employee benefits, including directors' fees and stock-based compensation expense. The total number of employees at the Company's one office location as at December 31, 2004 was 54 compared to 40 a year earlier. In 2003 there were certain non-recurring expenses, such as compensation to the C.E.O. to terminate his former employment contract in the amount of \$1.1 million. Total C.E.O. compensation in 2004 was \$0.8 million compared to \$2.3 million in 2003, excluding the contract termination charges. Included in employee salaries and benefits in 2004 was \$0.42 million of expense related to the granting of stock options to directors and employees during the year compared to \$0.02 million in 2003.

Other non-interest expenses have increased in accordance with the expanded operations of the Company during 2004. Non-interest expenses excluding employee compensation and benefits totalled \$3.9 million in 2004, an increase of \$0.89 million or 29% over \$3.1 million in 2003.

The Company's productivity ratio was 29.6% in 2004, an improvement over the 33.2% achieved in 2003. This ratio is a non-GAAP financial measure derived by dividing non-interest expenses by the sum of net interest income and other income, which are presented in the financial statements in accordance with GAAP.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Income Taxes

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 set up at the rates expected to be in effect at the date of the reversal of the timing differences.

The Company's effective tax rate in 2004 was 25.2% compared to 46% in 2003. The 2004 provision was significantly lower because of the additional tax-exempt income earned by the Company as a result of its increased securities portfolio and the \$0.8 million tax benefit relating to the redemption of a tax-preferred security. The tax provision in 2003 was charged with \$0.7 million relating to the non-deductibility of the C.E.O.'s 2003 bonus. As well, there was no tax shield in 2003 resulting from the contract termination amount outlined above.

BALANCE SHEET**Mortgages**

The Company's mortgage operations consist exclusively of first charges on real estate. Conventional or uninsured mortgages are located primarily in and around the Greater Toronto Area ("GTA"). Management has focused its lending activities in the GTA for strategic reasons, including the fact that it is Canada's largest real estate and lending market, is growing because of immigration, and contains a large number of self-employed workers who are prime users of alternative lending sources. Conversely, CMHC-insured mortgages, the vast majority of which are securitized, are located across Canada.

The Company's mortgage portfolio consists of both residential and non-residential mortgages with the non-residential portion limited to a maximum 25% of the portfolio. Residential mortgages are strategically weighted between single family dwelling and multi-unit residential mortgages. Single family dwelling and multi-unit residential mortgages comprise the vast majority of all mortgages in the portfolio.

Management strategically focuses on these niche areas for a variety of reasons. In the single family dwelling niche, management has found that the market is vast and demand is high due to ongoing population growth in the GTA and self-employment trends, underpinned by attractive interest rates. As a result, the Company has the ability to be highly selective in its lending activities. In multi-unit niches, management values the fact that multiple tenants effectively service the mortgage, which provides predictability to cash flows. In addition, these properties are professionally managed, and the buildings tend to retain their value through economic cycles.

The composition of the principal outstanding of the Company's mortgage portfolio as at December 31, 2004 reflects management's mortgage asset weighting strategy and is shown in the table below together with comparisons for prior periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 5: Mortgages receivable

(\$ thousands)	2004	% of total	2003	% of total	2002	% of total
Single family dwelling	516,359	39.6%	317,943	35.7%	276,859	37.0%
Multi-unit residential	465,684	35.8%	377,842	42.4%	278,613	37.3%
Commercial	269,557	20.7%	163,190	18.3%	133,443	17.9%
Construction	26,680	2.0%	15,804	1.8%	29,394	3.9%
CMHC-insured	24,063	1.9%	15,520	1.8%	29,139	3.9%
Total mortgage principal	1,302,343	100.0%	890,299	100.0%	747,449	100.0%
Net premiums and sundry	590		654		424	
Mortgages reported	1,302,933		890,953		747,873	
Accrued interest	5,593		4,055		3,586	
Allowances for credit losses	(6,442)		(5,737)		(5,021)	
Total mortgages receivable	1,302,084		889,271		746,438	

Mortgage principal increased \$412 million or 46% during 2004 to \$1.3 billion at year end. Mortgage production is classified into two major sub-categories, conventional (uninsured) mortgage production and CMHC-insured production destined for securitization under the Company's CMHC-MBS program. The Company funded \$820 million of conventional mortgages during 2004, up 109% from \$392 million funded in 2003. CMHC-insured mortgages funded during 2004 amounted to \$371 million as compared to \$517 million in 2003. Combined conventional and insured mortgage production in 2004 was 31% greater than in 2003.

Single family dwelling mortgages represented the largest portion of the portfolio at 39.6%, up \$198 million or 62% from December 31, 2003, reflecting the Company's efforts in expanding its single family mortgage origination and servicing team earlier in the year. Multi-unit residential mortgages increased \$88 million or 23% compared to a year earlier, while commercial mortgages increased \$106 million to 20.7% of the portfolio. Included in the mortgage portfolio were approximately \$39 million of short-term warehoused mortgages which are expected to be discharged within the first four or five months of 2005.

The Company utilizes mortgage brokers to originate the vast majority of its mortgages and has an exclusive arrangement with First National Financial Corporation ("FNFC"), one of Canada's leading mortgage financing specialists, to source and administer the mortgages in the Company's CMHC-MBS program and to source conventional product. FNFC originated approximately \$491 million or 38% of the Company's outstanding reported principal as at December 31, 2004 compared to approximately 41% of the outstanding principal a year earlier.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Mortgage Credit Quality

The Company did not realize any credit losses on mortgages during 2004 or 2003. Mortgages in arrears 61 days or more amounted to 0.17% of total principal outstanding at December 31, 2004, as compared to 0.21% of total principal outstanding at December 31, 2003, while mortgages identified as impaired amounted to 0.35% of total mortgage principal outstanding as at December 31, 2004, as compared to 0.46% a year earlier. The provision for credit losses in 2004 of \$0.7 million was 6% greater than that in 2003, reflecting growth in the portfolio and management prudence.

Table 6: Mortgage credit quality

(\$ thousands)	2004	2003	2002	Change from 2003	
				\$	%
Credit quality measures:					
Gross impaired mortgage principal	4,543	4,115	7,997	428	10.4%
Allowance for credit losses	6,442	5,737	5,021	705	12.3%
Allowance for credit losses as a % of gross impaired mortgages	141.8%	139.4%	62.8%		
Mortgage principal in arrears over 61 days	2,187	1,832	1,872	355	19.4%
Mortgage principal in arrears over 61 days as a % of total mortgage principal	0.17%	0.21%	0.25%		
Continuity of allowance for credit losses:					
Balance beginning of year	5,737	5,021	4,358		
Provision charged to statement of earnings	700	660	660		
Realized losses deducted from allowance	–	–	–		
Recovery of prior year losses added to allowance	5	56	3		
Balance end of year	6,442	5,737	5,021		

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 are investments which are not eligible as liquidity for regulatory purposes and include preferred and common shares. These shares have been utilized as security for a credit facility of \$20 million with the Company's bank for short-term liquidity purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 7: Liquid resources

(\$ thousands)	2004	2003	2002	Change from 2003	
				\$	%
Deposits with regulated financial institutions	39,942	43,493	3,147	(3,551)	(8.2)%
Government guaranteed debt instruments	59,281	66,160	80,888	(6,879)	(10.4)%
Liquid assets for regulatory purposes	99,223	109,653	84,035	(10,430)	(9.5)%
Portfolio securities	77,367	45,691	12,412	31,676	69.3%
Total liquid assets	176,590	155,344	96,447	21,246	13.7%
Total liquid assets for regulatory purposes as a percentage of total assets	6.4%	9.9%	9.5%		
Total liquid assets as a percentage of total assets	11.4%	14.1%	10.9%		

It is Company policy to maintain a minimum of 6% of its total assets in the form of liquid assets eligible as liquidity for regulatory purposes. At December 31, 2004 these assets amounted to \$99 million or 6.4% of total assets compared to \$110 million or 9.9% of total assets at December 31, 2003. Depending on its interest rate viewpoint, management will shift its weighting strategy from cash and cash equivalents (those investments with a term to maturity at purchase of less than three months) to longer-term investments and vice versa. Cash and cash equivalents decreased \$57 million to \$40 million at December 31, 2004 from \$97 million at December 31, 2003 and longer-term government bonds, treasury bills and notes increased \$47 million or 385% to \$59 million from \$12 million during the same period.

Portfolio securities increased \$32 million or 69% to \$77 million at December 31, 2004 from \$45 million a year earlier. This increase related to the Company's strategy of earning additional tax-exempt income in an effort to manage its effective tax rate.

Loan Securitizations – Retained Interests

Loan securitizations – retained interests increased \$3.5 million or 7% to \$56 million at December 31, 2004 from \$52 million at December 31, 2003. This asset 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 5 of the Company's Consolidated Financial Statements for the year ended December 31, 2004 (the "Consolidated Financial Statements") and the Critical Accounting Estimates, Financial Instruments and Off-Balance Sheet Arrangements sections of this Management's Discussion and Analysis.

The Company securitized \$362 million of CMHC-insured multi-unit residential mortgages during 2004, down \$169 million or 32% from the 2003 level of \$531 million. The reduction was due to the fact that securitization profitability decreased in 2004 compared to 2003,

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Loan Securitizations – Retained Interests (continued):

prompting the Company to decrease this activity in 2004. Moreover, the comparison is somewhat skewed since securitization activity in 2003 was uncharacteristically high. Nevertheless, total mortgages in the CMHC-MBS program outstanding at December 31, 2004 were \$1.9 billion compared to \$1.7 billion a year earlier.

Deposits

The Company's deposits are utilized to fund the bulk of the Company's asset acquisitions and consist of 30-day to five-year term GICs, sourced primarily through a national distribution network of independent deposit agents. The Company is licensed in all jurisdictions in Canada to accept deposits.

Deposit principal outstanding increased \$386 million or 40% to \$1.36 billion at December 31, 2004 from \$969 million at December 31, 2003.

Table 8: Deposits

(\$ thousands)	2004	2003	2002	Change from 2003	
				\$	%
Deposits	1,355,620	969,282	782,733	386,338	39.9%
Accrued interest on deposits	29,028	22,448	17,790	6,580	29.3%
Total	1,384,648	991,730	800,523	392,918	39.6%

Subordinated Debt

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. \$2.3 million of subordinated debt was redeemed in 2004 compared to \$2.8 million in 2003. It is expected that \$3.5 million of subordinated debt will be redeemed in 2005.

Table 9: Subordinated debentures

(\$ thousands)	Interest rate	2004	2003	2002	Change from 2003	
					\$	%
Series 2	8.50%	–	894	3,700	(894)	(100.0)%
Series 3	8.48%–8.82%	3,530	4,960	4,960	(1,430)	(28.8)%
Series 4	7.54%–8.15%	11,444	11,444	–	–	–
Series 5	7.58%	14,175	–	–	14,175	–
Total		29,149	17,298	8,660	11,851	68.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In late 2004, Equitable Trust was authorized to issue up to \$40 million of Series 5 Subordinated Debentures, which may be issued at any time during the period ending December 31, 2005. As at December 31, 2004, \$14 million of Series 5 Subordinated Debentures had been issued. Subsequent to year end, the Company entered into negotiations with a Canadian Chartered Bank for term loan financing in the amount of \$20 million. When this financing is completed, the proceeds will be used by Equitable Trust to issue \$20 million of Series 5 Subordinated Debentures to the Company. This would bring total Series 5 Subordinated Debentures issued to more than \$35 million at the time of writing. The Company is confident that the remaining authorized amount will be issued by the end of 2005.

Other Assets and Liabilities

Other assets increased \$2.4 million or 38% to \$8.8 million as at December 31, 2004 from \$6.3 million a year earlier. The largest component of these assets is 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 during 2004.

Capital assets consist of office equipment and leasehold improvements. During 2004 the Company completed the establishment of its disaster recovery site, which is housed off-site and replicates the Company's information systems in the case of a disaster resulting in the inability to use the system housed at head office. As well, the Company expanded its head office leased premises and purchased equipment for its increased level of staff. These capital expenditures during 2004 totalled \$1 million. The Company intends to continue to incur capital expenditures to support its infrastructure but at a lesser rate than in 2004.

Table 10: Other assets and liabilities

(\$ thousands)	2004	2003	2002	Change from 2003	
				\$	%
Other assets					
Deferred GIC commissions	3,803	2,627	2,142	1,176	44.8%
Capital assets	1,370	571	487	799	139.9%
Other receivables and prepaids	3,582	3,134	1,262	448	14.3%
Total	8,755	6,332	3,891	2,423	38.3%
Other liabilities					
	2004	2003	2002	Change from 2003	
				\$	%
Future income taxes payable	8,040	7,798	5,957	242	3.1%
Securitized mortgage servicing liability	6,180	5,114	3,064	1,066	20.8%
Mortgagor realty taxes	4,595	3,456	3,192	1,139	33.0%
Accounts payable	2,111	1,110	3,673	1,001	90.2%
Income taxes payable	975	115	872	860	747.8%
Total	21,901	17,593	16,758	4,308	24.5%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other Assets and Liabilities (continued):

Future income taxes payable result from differences between the measurement of assets and liabilities for financial statement purposes as opposed to tax purposes and relate primarily to the Company's securitization activities and its general allowance for credit losses. 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.

Shareholders' Equity

Total shareholders' equity increased \$31 million or 40% to \$107.6 million at December 31, 2004 from \$76.7 million as at December 31, 2003. The Company issued 1,027,113 common shares by way of its IPO in March 2004 and added net proceeds of \$16 million to common share capital as a result. An additional \$1.3 million was added to common share capital from the exercise of employee stock options. In 2003, \$5.7 million was added to common share capital relating to the compensation arrangements of the C.E.O. and \$0.2 million was added from the exercise of employee stock options. As of the date hereof, the Company had 11,680,750 common shares issued and outstanding, up 1.3 million or 13% from 10,364,435 common shares issued and outstanding as at December 31, 2003.

Commencing with the release of second quarter 2004 financial results, the Company declared dividends approximating 25% of trailing net earnings. In 2004, dividends of \$0.06 and \$0.07 per share were paid relating to the second and third quarter results and totalled \$1.5 million. A dividend in the amount of \$0.08 per share was declared on February 21, 2005 and is payable on April 5, 2005 to shareholders of record as of close of business March 16, 2005. In 2003, dividends paid amounted to \$1.2 million.

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 may be reserved for option purposes. The Company uses this stock option plan to motivate and reward its valued workforce. During 2004, a total of 680,000 options were granted to directors and employees. In 2003, 35,557 options were granted. Total options outstanding at December 31, 2004 amounted to 6.9% of issued shares compared to 4.2% a year earlier. Stock-based compensation expense has been added to contributed surplus.

Table 11: Shareholders' equity

(\$ thousands)	2004	2003	2002	Change from 2003	
				\$	%
Shareholders' equity:					
Common shares	54,815	37,483	31,521	17,332	46.2%
Contributed surplus	959	556	535	403	72.5%
Retained earnings	51,779	38,618	30,530	13,161	34.1%
Total shareholders' equity	107,553	76,657	62,586	30,896	40.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 not less than 10% of total risk weighted assets in order for a company to be considered "well capitalized," that tier 1 capital be not less than 7% of total risk weighted assets, that tier 2 capital not be in excess of 50% of tier 1 capital and that total assets to capital not be in excess of 17.5 times. As shown in the table, Equitable Trust met these standards.

Table 12: Capital measures (relating solely to Equitable Trust)

(\$ thousands)	2004	2003	2002
Tier 1 capital	106,210	76,657	62,586
Tier 2 capital	29,149	17,298	8,660
Total risk weighted assets	1,168,328	827,991	636,446
Tier 1 capital as a % of total risk weighted assets	9.1%	9.3%	9.8%
Tier 2 capital as a % of total risk weighted assets	2.5%	2.1%	1.4%
Total capital as a % of total risk weighted assets	11.6%	11.3%	11.2%
Authorized asset to capital multiple	17.5x	17.5x	17.5x
Utilized asset-to-capital multiple	11.4x	11.7x	12.5x

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 the OSFI. As is indicated in the table above, Equitable Trust had an 11.6% total capital ratio at December 31, 2004 compared to 11.3% as at December 31, 2003. The increase is due to the additional regulatory capital raised in the IPO and the Series 5 Subordinated Debentures issued near the close of 2004. The Company's utilized asset-to-capital multiple at December 31, 2004 was 11.4 times, significantly less than the maximum authorized of 17.5 times.

Fourth Quarter Analysis

The Company recorded a profit of \$4.3 million in the fourth quarter, its most profitable quarter to date.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fourth Quarter Analysis (continued):**Table 13: Earnings statement – fourth quarter 2004 and 2003**

(\$ thousands, except share and per share amounts)	Three months ended	
	Dec. 31, 2004	Dec. 31, 2003
Interest income:		
Mortgages	18,101	14,208
Investments	870	654
Other	308	715
	19,279	15,577
Interest expense:		
Customer deposits	12,339	10,004
Subordinated debt	362	329
	12,701	10,333
Interest income, net	6,578	5,244
Provision for credit losses	175	165
Net interest income after provision for credit losses	6,403	5,079
Other income:		
Mortgage commitment income and other fees	852	993
Net gain (loss) on sale or redemption of investments	(442)	181
Loan securitizations – retained interests	774	946
	1,184	2,120
Net interest income and other income	7,587	7,199
Non-interest expenses	2,650	3,356
Earnings before income taxes	4,937	3,843
Income taxes:		
Current	891	1,478
Future (Reduction)	(255)	1,197
	636	2,675
Net earnings	4,301	1,168
Earnings per share:		
Basic	\$ 0.37	\$ 0.12
Diluted	\$ 0.36	\$ 0.11
Weighted average number of shares outstanding:		
Basic	11,664,627	10,060,258
Diluted	11,817,435	10,247,437

Net earnings for the three months ended December 31, 2004 increased 268% to \$4.30 million from \$1.17 million in the same period in 2003. Earnings per share (basic) increased 208% to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

\$0.37 per share in the fourth quarter compared to \$0.12 per share in the same period in 2003, while earnings per share (diluted) grew 227% to \$0.36 from \$0.11 in the same period in 2003. The Company incurred certain non-recurring charges in the fourth quarter of 2003 including a charge for the termination of the C.E.O.'s former employment contract in the amount of \$1.13 million and a tax charge relating to the non-deductibility of certain of the C.E.O.'s compensation in the amount of \$709 thousand. These charges significantly reduced that quarter's earnings. As a result, the comparison of fourth quarter 2004 earnings to fourth quarter 2003 earnings showed dramatic improvement. Excluding these non-recurring charges, fourth quarter 2003 earnings would have been \$3.01 million, in which case, using this amount as a comparative, fourth quarter 2004 earnings increased 43% and earnings per share (basic) were up 23%.

Higher quarterly earnings reflected:

- a 7% growth in interest-earning assets for the quarter as compared to 4% growth during the same period in 2003;
- a 25 basis point increase in the prime rate during the fourth quarter of 2004 which had a positive effect on interest revenues relating to the Company's floating rate mortgages;
- a \$549 thousand write-down of a preferred share position in the Company's securities portfolio;
- a recorded loss on redemption of a preferred share position in the Company's securities portfolio of \$210 thousand which, because of its tax-preferred status, resulted in a \$799 thousand tax benefit;
- non-recurring charges in the fourth quarter of 2003 as outlined above; and
- a significant decrease in effective tax rates, which stood at 13% in the fourth quarter of 2004 versus 70% in the fourth quarter of 2003.

The increase in interest-earning assets in 2004 contributed to an increase of \$1.64 million in net interest income on a TEB in the fourth quarter of 2004 compared to the same period in 2003, representing a 30% year-over-year increase.

Lower tax rates during the period were due to the tax benefit resulting from the redemption of a preferred share position, adjustments made to the C.E.O.'s compensation package that went into effect on January 1, 2004 and the Company's decision to increase the size of its securities portfolio comprised primarily of high-quality preferred shares yielding non-taxable dividends. The Company recorded an additional tax charge of \$709 thousand in the fourth quarter of 2003 which, combined with the extra taxes related to C.E.O. compensation adjustments, produced a tax rate well in excess of the statutory rate for that quarter.

Return on weighted average equity for the fourth quarter of 2004 was 16.2% compared to 15.4% in the third quarter of 2004 and was a vast improvement over ROE of 6.3% in the fourth quarter of 2003. ROE in the fourth quarter of 2003 was significantly depressed due to the non-recurring charges discussed previously.

Sequentially, fourth quarter 2004 net earnings were 9.3% higher than third quarter of 2004 net earnings, while earnings per share (basic) in the fourth quarter of 2004 increased \$0.03 or 9% over the third quarter of 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summary of Quarterly Results

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

Table 14: Summary of quarterly results

(\$ thousands, except per share amounts)				2004				2003
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Conventional mortgage production	223,000	261,000	201,000	151,000	128,000	74,000	116,000	74,000
Insured mortgage production	65,000	78,000	104,000	108,000	106,000	124,000	110,000	178,000
Net interest income (TEB)	7,186	6,501	6,137	5,160	5,543	4,939	5,497	4,494
Less TEB adjustment	608	655	680	372	299	196	192	76
Net interest income per financial statements	6,578	5,846	5,457	4,788	5,244	4,743	5,305	4,418
Other income	1,184	1,927	1,958	1,698	2,120	1,684	1,586	1,667
Net interest margin (TEB)	1.91%	1.86%	1.96%	1.82%	2.03%	1.87%	2.21%	1.97%
Total revenues (TEB)	21,071	20,263	18,664	17,049	17,996	16,817	16,635	14,977
Total revenues	20,463	19,608	17,984	16,677	17,697	16,621	16,443	14,901
Net earnings	4,301	3,934	3,716	3,027	1,168	2,674	2,980	2,475
ROE	16.2%	15.4%	15.3%	15.1%	6.3%	14.9%	17.4%	15.5%
Return on average assets	1.1%	1.1%	1.2%	1.1%	0.4%	1.0%	1.2%	1.1%
EPS – basic	\$ 0.37	\$ 0.34	\$ 0.33	\$ 0.29	\$ 0.12	\$ 0.27	\$ 0.30	\$ 0.25
EPS – diluted	\$ 0.36	\$ 0.34	\$ 0.32	\$ 0.28	\$ 0.11	\$ 0.26	\$ 0.29	\$ 0.25
Productivity ratio	34.1%	26.9%	28.0%	29.2%	45.6%	28.6%	28.8%	28.1%

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 the securities portfolio. This growth has led to continually higher net interest income (TEB) in all quarters except those during which the effects of a prime rate decrease were significant enough to lead to a sequential quarterly decline in net interest income. The increase in common share capital as a result of the Company's IPO has led to a decrease in ROE when comparing the first and second quarters of 2004 to those in 2003. However, as this additional capital has been utilized through growth in the asset base, ROE increased throughout 2004 and reached 16.2% by the fourth quarter

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

of 2004. Key to the Company's growth is its conventional mortgage production which, although seasonal to a certain extent (reduced activity in December and January), has demonstrated continued growth on a year-over-year quarterly basis.

Risks and Uncertainties

The Company faces a number of risks. Management believes the three most significant are liquidity risk, interest rate risk and credit risk.

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.

Interest rate risk involves the Company's sensitivity of earnings to sudden changes in interest rates.

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.

For other risks relating to the Company, please refer to the Company's Initial Annual Information Form for the fiscal year ended December 31, 2004 under the headings "Regulatory Matters – Risk Management" and "Risks of the Business." It can be found on the Internet at www.equitablegroupinc.com.

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 them 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 Compensation Committee and a Conduct Review Committee.

Liquidity Risk Management

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 \$99 million as at December 31, 2004 and \$110 million at December 31, 2003. Total liquid resources were \$177 million at December 31, 2004 and \$155 million as at December 31, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Interest Rate Risk Management

The Company's primary method of mitigating interest rate risk is matching asset and liability maturities, 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 maturity profile by adjusting GIC interest rates on a daily basis to raise GICs with the appropriate maturities to match the maturity 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. As the following table illustrates, the total maturity gap for any category was within management's 5% policy requirement as at December 31, 2004.

Table 15: Asset liability maturities

As at December 31, 2004

(\$ thousands)	1 year	2 years	3 years	4 years	5 years	Over 5 years	Non-rate sensitive	Total
Assets								
Deposits with regulated financial institutions	39,942	–	–	–	–	–	–	39,942
Securities – equities	24,355	10,988	10,844	15,425	6,195	9,043	517	77,367
Securities – other	47,349	7,077	–	4,855	–	–	–	59,281
Mortgages – residential	577,211	129,895	97,488	112,745	106,551	–	4,543	1,028,433
Mortgages – non-residential	174,445	42,435	18,076	8,938	30,606	–	–	274,500
Other assets	12,309	11,208	9,138	6,139	4,704	12,324	14,348	70,170
Allowance for impairment	–	–	–	–	–	–	(6,442)	(6,442)
Total assets	875,611	201,603	135,546	148,102	148,056	21,367	12,966	1,543,251
Liabilities								
Deposits	823,392	157,768	111,952	111,304	151,204	–	–	1,355,620
Other liabilities	–	–	–	–	–	–	50,929	50,929
Debentures and subordinated debt	–	–	–	–	–	29,149	–	29,149
Equity	–	–	–	–	–	–	107,553	107,553
Total liabilities and equity	823,392	157,768	111,952	111,304	151,204	29,149	158,482	1,543,251
Excess assets over liabilities	52,219	43,835	23,594	36,798	(3,148)	(7,782)	(145,516)	–
% of total assets	3.4%	2.8%	1.5%	2.4%	(0.2)%	(0.5)%	(9.4)%	–

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Company has also adopted 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

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 CDIC Standards of 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.

Equitable Trust's Investment Committee meets on a quarterly basis to review: the status of the Company's securities portfolio; the transactions during the past quarter; the portfolio characteristics such as term, credit rating, type of security and investment lending; and to ensure compliance under the OSFI regulations and CDIC standards. In addition, loans in excess of an established threshold are reviewed and approved in advance by the Investment Committee. 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 78% of the securities portfolio at December 31, 2004, compared to 71% a year earlier.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Accounting Policies Including Initial Adoption

A summary of the Company's significant accounting policies is presented in Note 2 of the Consolidated Financial Statements. The Company had no changes in accounting policies nor did it adopt any new policies during 2004. The following recently enacted accounting policies by the Canadian Institute of Chartered Accountants ("CICA") have been followed by the Company on a consistent basis throughout the current and prior years and 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 Generally Accepted Accounting Principles
- CICA Accounting Standard on Stock-Based Compensation
- CICA Accounting Guideline on Hedging Relationships

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 2 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 \$4 million as at December 31, 2004 represents 0.31% 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 \$0.13 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 5 of the Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 could choose either to service the mortgages itself or appoint a replacement sub-servicer. The Company has recorded a liability of \$6.2 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 5 of the Consolidated Financial Statements.

Contractual Obligations

The material contractual obligations of the Company at December 31, 2004 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	1,464,139	861,172	310,909	292,058	–
Subordinated debt principal and interest ¹	49,355	2,294	4,589	4,589	37,883
Operating lease ²	1,129	229	600	300	–
Mortgage funding commitments	202,248	202,248	–	–	–
Total contractual obligations	1,716,871	1,065,943	316,098	296,947	37,883

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Contractual Obligations (continued):

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 terms comparable to those offered to unrelated parties.

An officer of the Company has a personal loan from the Company, bearing interest at 4%, which is repayable at \$100,000 annually. The balance outstanding as at December 31, 2004 was \$500,000.

Outlook

Management believes that demand for residential mortgage financing remains strong in the markets in which it operates. Mortgage demand in and around the GTA continues to be driven by a number of factors including population growth and low interest rates. While there is no assurance that these favourable factors will continue, the Company's single family dwelling and multi-unit residential mortgage lending niches have historically been stable and attractive to lenders.

At December 31, 2004, the prime rate was 4.25%. The consensus among economists appears to suggest measured and modest future rate increases can be expected. Because a substantial portion of the Company's mortgage portfolio is floating rate, such increases would benefit the Company's earnings as they occur due to spread management. With respect to demand for mortgages, management believes the kind of modest, incremental increases in interest rates that were seen in 2004 will not significantly affect mortgage growth patterns or borrower ability to service debt. Higher rates may, however, act to curtail over-exuberance in the market and control rising real estate values.

Management intends to continue to follow its disciplined approach to mortgage financing, which has resulted in a track record of conservative credit risk management. For that reason, the Company does not intend to substantially alter its mortgage portfolio composition in the near term or vary, materially, from its strict credit management policies.

The Company is committed to controlled growth while maintaining its highly successful, non-branch business model, which is based on strategic outsourcing of mortgage originations to independent mortgage brokers and of deposit-gathering to independent deposit agents.

February 21, 2005

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 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 or without management present, to discuss their audit and matters relating to financial reporting, internal controls and audit procedures.



Geoffrey Bledin, CA
President and Chief Executive Officer

February 7, 2005



Stephen Coffey, CA
Senior Vice President and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Equitable Group Inc. as at December 31, 2004 and 2003 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada

February 7, 2005

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)
December 31, 2004 and 2003

	2004	2003
Assets		
Cash and cash equivalents (note 3)	\$ 39,942	\$ 97,425
Investments (note 4)	136,648	57,919
Loan securitizations – retained interests (note 5)	55,822	52,331
Mortgages receivable (note 6)	1,302,084	889,271
Other assets (note 7)	8,755	6,332
	\$ 1,543,251	\$ 1,103,278
Liabilities and Shareholders' Equity		
Liabilities:		
Customer deposits (note 8)	\$ 1,384,648	\$ 991,730
Future income taxes (note 9)	8,040	7,798
Other liabilities (note 10)	13,861	9,795
Subordinated debt (note 11)	29,149	17,298
	1,435,698	1,026,621
Shareholders' equity (note 12):		
Capital stock	54,815	37,483
Contributed surplus	959	556
Retained earnings	51,779	38,618
	107,553	76,657
Commitments and contingencies (note 13)		
	\$ 1,543,251	\$ 1,103,278

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, 2004 and 2003

	2004	2003
Interest income:		
Mortgages	\$ 62,850	\$ 53,494
Investments	3,338	2,142
Other	1,777	2,969
	67,965	58,605
Interest expense:		
Customer deposits	43,971	37,847
Subordinated debt	1,325	1,048
	45,296	38,895
Interest income, net	22,669	19,710
Provision for credit losses (note 6)	700	660
Net interest income after provision for credit losses	21,969	19,050
Other income:		
Mortgage commitment income and other fees	3,693	3,098
Net gain (loss) on sale or redemption of investments	(302)	254
Loan securitizations – retained interests (note 5)	3,376	3,705
	6,767	7,057
Net interest income and other income	28,736	26,107
Non-interest expenses	8,710	8,889
Earnings before income taxes	20,026	17,218
Income taxes (note 9):		
Current	3,937	6,080
Future	1,111	1,841
	5,048	7,921
Net earnings	\$ 14,978	\$ 9,297
Earnings per share (note 12):		
Basic	\$ 1.33	\$ 0.93
Diluted	1.30	0.91

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of dollars)
Years ended December 31, 2004 and 2003

	2004	2003
Common shares:		
Balance, beginning of year	\$ 37,483	\$ 31,521
Common shares issued (note 12):		
Proceeds from exercise of employee stock options	1,269	218
Transfer from contributed surplus relating to the exercise of stock options	12	-
Compensation settlement	-	5,744
Gross proceeds of initial public offering	17,975	-
Issue expenses, net of tax recovery of \$1,088	(1,924)	-
Balance, end of year	54,815	37,483
Retained earnings:		
Balance, beginning of year	38,618	30,530
Distribution of equity on formation of Company (note 12)	(300)	-
	38,318	30,530
Net earnings	14,978	9,297
Dividends	(1,517)	(1,209)
Balance, end of year	51,779	38,618
Contributed surplus:		
Balance, beginning of year	556	535
Stock-based compensation (note 12)	415	21
Transfer to common shares relating to the exercise of stock options	(12)	-
Balance, end of year	959	556
Total shareholders' equity	\$ 107,553	\$ 76,657

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)
Years ended December 31, 2004 and 2003

	2004	2003
<hr/>		
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 14,978	\$ 9,297
Non-cash items:		
Loan securitizations – gains on sale of mortgages	(748)	(1,482)
Amortization	247	212
Provision for credit losses	700	660
Net loss (gain) on sale or redemption of investments	302	(254)
Future income taxes	1,111	1,841
Stock-based compensation	415	21
Amortization of premiums (discounts) on investments	1,728	(53)
	<hr/> 18,733	<hr/> 10,242
Changes in operating assets and liabilities:		
Other assets	(1,624)	(2,357)
Other liabilities	3,985	2,689
	<hr/> 21,094	<hr/> 10,574
Financing activities:		
Increase in customer deposits	392,918	191,207
Issuance of subordinated debt, net	11,851	8,638
Dividends paid on common shares	(1,517)	(1,209)
Common shares issued	16,232	218
	<hr/> 419,484	<hr/> 198,854
Investing activities:		
Purchase of investments	(142,727)	(47,471)
Proceeds on sale or redemption of investments	61,968	27,850
Increase in mortgages receivable	(1,211,448)	(921,204)
Mortgage principal repayments	430,052	240,009
Proceeds from loan securitizations	355,806	522,119
Loan securitizations – retained interests	9,334	8,534
Purchase of capital assets	(1,046)	(296)
	<hr/> (498,061)	<hr/> (170,459)
Increase (decrease) in cash and cash equivalents	(57,483)	38,969
Cash and cash equivalents, beginning of year	97,425	58,456
Cash and cash equivalents, end of year	<hr/> \$ 39,942	<hr/> \$ 97,425
Supplemental cash flow information:		
Interest paid	\$ 36,351	\$ 32,578
Income taxes paid	3,179	8,149
	<hr/> \$ 39,942	<hr/> \$ 97,425

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of dollars, except per share amounts)
Years ended December 31, 2004 and 2003

1. Basis of presentation:

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, The Equitable Trust Company. As there was no change in the ultimate ownership interest in the company, the Company applied the continuity of interests method of accounting which carries forward the basis of measurement of the assets and liabilities from the subsidiary's financial statements. The comparative figures for December 31, 2003 are therefore those of The Equitable Trust Company.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following paragraphs describe the Company's significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the assets, liabilities and results of operations of the Company and its wholly owned subsidiary, The Equitable Trust Company, after the elimination of intercompany transactions and balances.

(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 writedown of investments, are recorded in the statement of earnings. Interest income earned, amortization of premiums and discounts and dividends received 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. 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 would 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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 as a component of loan securitizations – retained interests, included in other income 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 The Equitable Trust Company. 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 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.

A second stock-based compensation plan, which was terminated at the end of 2003, allowed for payment in cash or by the issue of common shares as settlement for services rendered by an officer of the Company at the option of the officer. Under this plan, if so elected, the number of shares to be issued was determined based on 1.25 times the book value of the shares as at the end of the year.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Significant accounting policies (continued):**(i) Income taxes:**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

(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 value 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 value of the deposits, retained interests in loan securitizations 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Cash and cash equivalents:

	2004	2003
Deposits with regulated financial institutions	\$ 39,942	\$ 43,493
Short-term investments	–	53,932
	\$ 39,942	\$ 97,425

The weighted average effective yield of cash and cash equivalents is approximately 2.41% (2003 – 2.70%).

4. Investments:

	Carrying value	2004 Fair value	Carrying value	2003 Fair value
Preferred shares	\$ 76,849	\$ 77,097	\$ 45,038	\$ 45,689
Government bonds, treasury bills and notes	59,281	59,435	12,228	12,928
Common shares	518	361	653	494
	\$ 136,648	\$ 136,893	\$ 57,919	\$ 59,111

The maturity profile of these investments is disclosed in note 15. The weighted average effective yield for government bonds, treasury bills and notes is 2.65% (2003 – 4.45%) based on yield to maturity, and for preferred shares is 3.60% (2003 – 5.39%).

During 2003, the Company established a bank line of credit facility. Under this facility, the Company may borrow up to \$20 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, 2004 (2003 – nil).

5. 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, 2004, outstanding securitized mortgages totalled \$1,858,442 (2003 – \$1,653,972).

During 2004, the Company securitized Canadian Government guaranteed residential mortgage loans and received net cash proceeds of \$355,806 (2003 – \$522,119). The Company retained the rights to future excess interest on the residential mortgages valued at \$14,955 (2003 – \$21,056) and received net cash flows on interests retained of \$11,962 (2003 – \$10,757). 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 \$6,180 (2003 – \$5,114) which is included in other liabilities (note 10). The amount of servicing liability amortized during the year was \$1,028 (2003 – \$803).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Loan securitizations – retained interests (continued):

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

	2004	2003
Gain on sale of mortgages	\$ 748	\$ 1,482
Excess interest net of servicing fee	2,628	2,223
	\$ 3,376	\$ 3,705

The valuation of the future excess interest spread includes an excess spread of 0.86% (2003 – 0.86%), and the key assumptions of a prepayment rate of 20.0% (2003 – 15.9%) for single family residential loans, 0% (2003 – 0%) for multi-family residential loans and a discount rate of 5.28% (2003 – 5.54%). There are no expected credit losses, as the mortgages are government guaranteed. The following table presents key economic assumptions and the sensitivity of the fair value of retained interests to two adverse changes in key assumptions as at December 31. The following sensitivity analysis is hypothetical and should be used with caution.

	Single family residential loans	Multi-family residential loans
Carrying value of retained interests	\$ 374	\$ 55,448
Discount rate	6.10%	5.27%
Impact of a 10% adverse change	\$ (4)	\$ (830)
Impact of a 20% adverse change	\$ (7)	\$ (1,626)
Prepayment rate	20.0%	–
Impact of a 10% adverse change	\$ (67)	–
Impact of a 20% adverse change	\$ (123)	–

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

	Excess interest spread	Servicing liability
2005	\$ 12,309	\$ 1,205
2006	11,208	1,196
2007	9,138	1,029
2008	6,139	823
2009	4,704	541
Thereafter	12,324	1,386
	\$ 55,822	\$ 6,180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, 2004 and 2003 relating to forward contracts on Government of Canada bonds, where the counterparties are chartered banks, are as follows:

Bond term (years)	Notional amount	Market value	2004	Notional amount	Market value	2003
			Unrealized gain (loss)			Unrealized gain (loss)
1 to 5	\$ 10,600	\$ 11,464	\$ 3	\$ 16,600	\$ 17,883	\$ (17)
5 to 10	19,100	20,227	(41)	26,800	28,194	(258)
	\$ 29,700	\$ 31,691	\$ (38)	\$ 43,400	\$ 46,077	\$ (275)

6. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

2004	Gross amount	Allowance for credit losses			Net amount
		Specific	General	Total	
Residential mortgages	\$ 1,028,433	\$ 2,438	\$ 3,130	\$ 5,568	\$ 1,022,865
Other mortgages	274,500	–	874	874	273,626
Accrued interest	5,593	–	–	–	5,593
	\$ 1,308,526	\$ 2,438	\$ 4,004	\$ 6,442	\$ 1,302,084

2003	Gross amount	Allowance for credit losses			Net amount
		Specific	General	Total	
Residential mortgages	\$ 727,652	\$ 3,037	\$ 2,222	\$ 5,259	\$ 722,393
Other mortgages	163,301	–	478	478	162,823
Accrued interest	4,055	–	–	–	4,055
	\$ 895,008	\$ 3,037	\$ 2,700	\$ 5,737	\$ 889,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Mortgages receivable (continued):

Included in gross residential mortgages are Canadian Government insured mortgages of \$24,063 as at December 31, 2004 (2003 – \$15,520), of which \$5,619 (2003 – \$10,214) are held for securitization. These loans held for securitization, together with the related interest rate hedges, are carried at the lower of cost or fair value. There are no foreclosed assets held for sale at December 31, 2004 and 2003.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at December 31, 2004 aggregated \$4,543 (2003 – \$4,115) and \$2,105 (2003 – \$1,078), respectively. As at December 31, 2004, the estimated fair value of mortgages receivable is \$1,313,997 (2003 – \$900,395). The weighted average effective yield of mortgages receivable is 5.79% (2003 – 6.27%) based on the yield to maturity.

(b) Allowance for credit losses:

	Specific allowance	General allowance	2004 Total	Specific allowance	General allowance	2003 Total
Balance, beginning of year	\$ 3,037	\$ 2,700	\$ 5,737	\$ 2,661	\$ 2,360	\$ 5,021
Provision for credit losses	(604)	1,304	700	320	340	660
Recoveries	5	–	5	56	–	56
Balance, end of year	\$ 2,438	\$ 4,004	\$ 6,442	\$ 3,037	\$ 2,700	\$ 5,737

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

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 6 (a))	\$ 1,302,933	\$ 2,187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2003	Gross principal amount	Principal amount of mortgages 61 or more days past due
Residential mortgages	\$ 2,381,624	\$ 3,099
Other mortgages	163,301	–
Total mortgages reported and securitized	2,544,925	3,099
Less mortgages securitized	(1,653,972)	(1,267)
Mortgages reported prior to accrued interest (note 6 (a))	\$ 890,953	\$ 1,832

7. Other assets:

	2004	2003
Deferred GIC commissions	\$ 3,803	\$ 2,627
Other receivables	1,705	1,231
Capital assets	1,370	571
Accrued interest on non-mortgage assets	748	779
Prepaid expenses and other	629	524
Loan to officer (note 14)	500	600
	\$ 8,755	\$ 6,332

8. Customer deposits:

	2004	2003
Principal	\$ 1,355,620	\$ 969,282
Accrued interest	29,028	22,448
	\$ 1,384,648	\$ 991,730

The Company issues guaranteed investment certificates (“GICs”) to depositors. As at December 31, 2004, the estimated fair value of customer deposits is \$1,398,059 (2003 – \$1,003,223). The weighted average effective cost of customer deposits is 3.44% (2003 – 3.87%), based on the yield to maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. 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:

	2004	2003
Canadian statutory income tax rate	36.1%	36.6%
Increase (decrease) resulting from:		
Tax-exempt income	(11.4)%	(3.6)%
Non-deductible expenses	1.1%	12.3%
Future tax rate increases	–	4.1%
Other	(0.6)%	(3.4)%
Effective income tax rate	25.2%	46.0%

The net future income tax liability is comprised of:

	2004	2003
Future income tax assets:		
Allowance for credit losses	\$ 1,535	\$ 1,085
Share issue expenses	869	–
Deferred mortgage fees	393	218
Other	47	210
	2,844	1,513
Future income tax liabilities:		
Deferred GIC commissions	1,114	949
Loan securitizations – retained interests	9,770	8,362
	10,884	9,311
Net future income tax liability	\$ 8,040	\$ 7,798

10. Other liabilities:

	2004	2003
Securitized mortgage servicing liability	\$ 6,180	\$ 5,114
Mortgagor realty taxes	4,595	3,456
Accounts payable and accrued liabilities	2,111	1,110
Income taxes payable	975	115
	\$ 13,861	\$ 9,795

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Subordinated debt:

The Company has issued debentures which are subordinated to the deposits and other liabilities of the Company. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest is paid quarterly.

2004 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

2003 Debenture series	Interest rate	Issue date	Maturity date	Outstanding, December 31, 2002	Issued during the year	Redeemed during the year	Outstanding, December 31, 2003
Series 2	8.50%	2001	April 2011	\$ 3,700	\$ -	\$ 2,806	\$ 894
Series 3	8.48%–8.82%	2002	January 2012	4,960	-	-	4,960
Series 4	7.54%–8.15%	2003	January 2013	-	11,444	-	11,444
				\$ 8,660	\$ 11,444	\$ 2,806	\$ 17,298

As at December 31, 2004, the estimated fair value of subordinated debt is \$30,570 (2003 – \$18,189).

12. Shareholders' equity:

(a) Capital stock:

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

Common shares:

	2004		2003	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	10,364,435	\$ 37,483	9,673,663	\$ 31,521
Issued during the year	1,316,315	17,332	690,772	5,962
Balance, end of year	11,680,750	\$ 54,815	10,364,435	\$ 37,483

Effective January 1, 2004, all of the direct and indirect shareholders of The Equitable Trust Company ("Operating Company") approved a series of transactions whereby all such shareholders became the shareholders of the Company. The Operating Company became a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Shareholders' equity (continued):

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 the Operating Company. Each of the previous direct and indirect shareholders of the Operating Company received common shares of the Company in the same proportions as their prior direct or indirect holding in the Operating Company. As there was no substantial change in the ultimate ownership interests in the Operating Company, the Company has carried forward the basis of measurement of the assets and liabilities as reflected in the Operating Company's financial statements.

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

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

During 2004, 289,202 (2003 – 52,151) shares were issued as a result of the exercise of employee stock options for cash consideration of \$1,269 (2003 – \$218). During 2003, 638,622 shares were issued to an officer as settlement of a bonus payable in the amount of \$5,744. The weighted average number of shares outstanding used to calculate basic and diluted earnings per share is as follows:

	2004	2003
Basic	11,269,999	9,993,429
Relating to stock options	289,251	183,850
Diluted	11,559,250	10,177,279

(b) Capital requirements and dividend restrictions:

The Equitable Trust Company 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:**(i) Stock option plan:**

Under the Company's stock option plan, options on common shares are periodically granted to eligible employees and directors for terms of five years and vesting over a four or five year period. Up to 10% of the issued and outstanding common shares of the Company may be reserved for issue under the plan. The outstanding options expire on various dates to November 2009. A summary of the Company's stock option activity and related information for the years ended December 31, 2004 and 2003 is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Number of stock options	2004 Weighted average exercise price	Number of stock options	2003 Weighted average exercise price
Outstanding, beginning of year	431,431	\$ 5.10	448,025	\$ 4.67
Granted	680,000	17.84	35,557	9.07
Exercised	(289,202)	4.39	(52,151)	4.16
Forfeited/cancelled	(12,500)	17.50	—	—
Outstanding, end of year	809,729	15.86	431,431	5.10
Exercisable, end of year	42,669	\$ 6.98	227,568	\$ 4.61

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2004:

Exercise price	Options outstanding		Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	
\$ 4.82	9,482	1.2	—	
\$ 5.18	21,334	1.6	—	
\$ 5.94	75,856	2.2	28,446	
\$ 9.07	35,557	3.9	14,223	
\$ 17.50	587,500	4.1	—	
\$ 20.40	80,000	4.9	—	

Under the fair value method of accounting for stock options, the Company has recorded compensation expense in the amount of \$415 (2003 – \$21) related to two grants of options under the stock option plan. This amount has been credited to contributed surplus. The fair value of the two sets 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 3.7% and 3.1% (2003 – 3.9%); (ii) expected option life of 4.0 years (2003 – 3.5 years); (iii) expected volatility of 19.0% and 13.5% (2003 – 7.3%); and (iv) expected dividends of 2.5% and 2.0% (2003 – 1.8%). The weighted average fair value of each option granted was \$2.49 and \$1.66 (2003 – \$0.59).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Shareholders' equity (continued):

(ii) Other stock-based compensation plan:

In years prior to 2004, the chief executive officer of the Company could elect to have all or a portion of his annual bonus satisfied by the issuance of common shares at the officer's option. In 2002 and prior years, the election to receive shares was made after the end of the year in which the services were rendered and share capital was credited at that time for the carrying value of the accrued compensation for the services rendered. A total of 638,622 shares were issued in 2003 relating to the officer's services during 2002 and 2003 and as compensation for the early termination of this plan which had been due to expire in 2004.

13. Commitments and contingencies:

(a) Annual payments due under a non-cancellable operating lease for the five-year period commencing January 1, 2005 for office premises are \$229 plus tenant's share of realty taxes and operating costs. These additional costs are estimated to be \$345 in 2005.

(b) The Company has commitments to fund a total of \$202,248 (2003 – \$74,965) 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 GICs 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.

An officer of the Company has a personal loan from the Company bearing interest at 4%, which is repayable at \$100 annually. The balance outstanding as at December 31, 2004 was \$500 (2003 – \$600) (note 7).

15. Interest rate sensitivity:

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or re-pricing date, as at December 31, 2004:

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	\$ 39,942	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,942
Effective interest rate	2.41%						
Investments	-	24,455	47,249	55,384	9,042	518	136,648
Effective interest rate		3.03%	2.30%	3.90%	4.11%		
Loan securitizations – retained interests	-	3,281	9,028	31,189	12,324	-	55,822
Effective interest rate		5.28%	5.27%	5.21%	5.51%		
Mortgages receivable	606,912	38,699	151,922	500,857	-	3,694	1,302,084
Effective interest rate	4.89%	6.07%	6.44%	6.69%	-		
Other assets	-	-	-	-	-	8,755	8,755
Total assets	\$ 646,854	\$ 66,435	\$ 208,199	\$ 587,430	\$ 21,366	\$ 12,967	\$ 1,543,251
Liabilities:							
Customer deposits	\$ -	\$ 456,746	\$ 366,646	\$ 532,228	\$ -	\$ 29,028	\$ 1,384,648
Effective interest rate		2.45%	3.31%	4.39%			
Other	-	-	-	-	-	21,901	21,901
Subordinated debt	-	-	-	-	29,149	-	29,149
Effective interest rate					7.87%		
Equity	-	-	-	-	-	107,553	107,553
Total liabilities and shareholders' equity	-	456,746	366,646	532,228	29,149	158,482	1,543,251
Excess (deficiency) of assets over liabilities and shareholders' equity	\$ 646,854	\$(390,311)	\$(158,447)	\$ 55,202	\$ (7,783)	\$(145,515)	\$ -
Total assets – 2003	\$ 332,478	\$ 152,993	\$ 110,890	\$ 482,168	\$ 15,335	\$ 9,414	\$ 1,103,278
Total liabilities and shareholders' equity – 2003	-	320,111	228,091	421,080	17,298	116,698	1,103,278
Excess (deficiency) of assets over liabilities and shareholders' equity – 2003	\$ 332,478	\$(167,118)	\$(117,201)	\$ 61,088	\$ (1,963)	\$(107,284)	\$ -

An immediate and sustained 1% decrease in interest rates as of December 31, 2004, would negatively impact net interest income for the following 12-month period by \$2,017 (2003 – \$1,423) 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
President and 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 Trust

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*

Rebecca MacDonald⁽³⁾⁽⁴⁾

*Chair and Chief Executive Officer,
Energy Savings Income Fund*

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)*

Executive Officers: Equitable Group Inc.

Geoffrey Bledin

President and Chief Executive Officer

Stephen Coffey

*Senior Vice-President, Chief Financial Officer
and Secretary*

Executive Officers:

The Equitable Trust Company

Geoffrey Bledin

President and Chief Executive Officer

Stephen Coffey

*Senior Vice-President, Chief Financial Officer
and Secretary*

John Harry

Vice-President, Credit and Risk Management

Kimberly Kukulowicz

Vice-President, Mortgage Services

Robert McMillan

Vice-President, Deposit Services

Tamara Malozewski

Vice-President, Finance

David Ryde

Controller

Nicholas Strube

Treasurer

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 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.

Corporate Office

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Investor Relations Contact

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Stock Listing

TSX: ETC

Annual Meeting of Shareholders

Monday, May 16, 2005 10 a.m. eastern
TSX Conference Centre
130 King Street West
Toronto, Ontario

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