



EQUITABLE GROUP INC.

FIRST QUARTER REPORT

Quarter Ended March 31, 2004

ABOUT EQUITABLE GROUP

Equitable Group Inc. provides residential first mortgage financing, through its wholly-owned subsidiary, The Equitable Trust Company, to purchasers of properties principally located in and around the Greater Toronto Area. Equitable Trust focuses on multi-unit residential and single family dwelling mortgage financing and provides mortgage financing for commercial properties on a very selective basis. The Company offers Guaranteed Investment Certificates as a nationally approved deposit-taking institution. Visit the Company's web site at www.equitablegroupinc.com for more information.

It is with great pride that we are publishing our first report as a publicly traded, Toronto Stock Exchange-listed company following our highly successful IPO that closed March 18, 2004.

We welcome you to Equitable Group Inc. with the news that our Company produced solid financial performance for the three months ended March 31, 2004 – including year-over-year growth in earnings, earnings per share and assets – as we continued to capitalize on robust demand for mortgage financing in our market niches.

The MD&A accompanying this letter contains a thorough performance review, but these are the major highlights of the quarter:

- Net earnings grew 22% to \$3.03 million in the first quarter of 2004 compared to \$2.48 million in the first quarter of 2003.
- Basic earnings per share increased 16% to \$0.29 over the same period of 2003, while diluted earnings per share increased 12% to \$0.28.
- Total assets increased 23% to \$1.2 billion from \$959.0 million a year ago as a result of growth in mortgage originations and the Company's investment portfolio.
- Return on weighted average shareholders' equity in the quarter was 15.1%.
- Reflecting its long-term record of conservative credit risk management, the Company had no loan losses in the first quarter of 2004. Over the past five years, Equitable's aggregate loan losses amounted to 0.01% of its average outstanding mortgage portfolio.

Clearly, Equitable is off to a good start in 2004.

A BUILDING PERIOD

In context, the first quarter was a building period for us. We used the first three months to set a foundation for further growth in earnings and shareholder value by completing our initial public offering (raising net proceeds of \$16 million through the issuance of 1,027,113 common shares) and expanding our mortgage origination and servicing organization. We believe the full effects of our strategic expansion and the benefit of the recent growth in our assets have not yet been fully reflected in our results as much of Equitable's production occurred late in the first quarter. This should provide us with strong momentum as the year progresses.

KEY MESSAGE

We are pleased with the Company's performance in the first quarter, not only because we were able to add to Equitable's long track record of growth in earnings and assets, but because we achieved this growth in a very efficient way. At 29%, our productivity ratio (an efficiency ratio, the lower the better) in the quarter remained ahead of that of our peers.

This performance validates our business model, which is built on strategic outsourcing, and speaks well of the contributions made by our own staff, and our independent mortgage broker and deposit-taking networks.

Most of all, this performance reflects the fact that demand for mortgage financing in our principal niches – multi-unit residential and alternative single family dwellings – continues to be extremely strong. This means a very healthy environment for Equitable to grow rapidly, selectively and with low risk.

As planned, we increased the regulatory capital in Equitable Trust by \$15 million using the proceeds of our IPO. Equitable Trust's total capital ratio as at March 31, 2004 was 12.2%, giving us the ability to fully support continued profitable growth in our asset base.

We look forward to reporting our progress in 2004 and invite you to review our web site for useful background information.

Yours sincerely,



Geoffrey Bledin

President and Chief Executive Officer

May 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(for the three months ended March 31, 2004)

The following discussion should be read in conjunction with the unaudited financial statements and accompanying notes for the three months ended March 31, 2004. Equitable Group went public on March 18, 2004 through an initial public offering. The comparative results for 2003 are those of The Equitable Trust Company, the operating subsidiary of Equitable Group. All amounts are in millions of Canadian dollars unless otherwise indicated.

NOTICE TO READERS

Certain forward looking statements are made in this Management Discussion and Analysis, 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 Group Inc. does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

OVERVIEW

Equitable Group Inc. ("Equitable" or the "Company") provides residential first mortgage financing through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"), on properties located 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 leading lender in its niches: multi-unit residential and alternative single family dwelling mortgage financing.

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The composition of the principal outstanding of the Company's mortgage portfolio as at March 31, 2004 remained relatively consistent with prior periods, as shown in the table below:

In \$000s	March 31, 2004		December 31, 2003		March 31, 2003	
	Mortgage principal	% of total	Mortgage principal	% of total	Mortgage principal	% of total
Multi-unit residential	375,474	38.2%	377,842	42.4%	297,449	37.0%
Single family dwelling	360,315	36.7%	317,943	35.7%	295,813	36.8%
Commercial	168,958	17.2%	163,190	18.3%	136,835	17.0%
Construction	29,252	3.0%	15,804	1.8%	30,221	3.8%
CMHC-insured ⁽ⁱ⁾	48,331	4.9%	15,520	1.8%	43,002	5.4%
Total	982,330	100.0%	890,299	100.0%	803,320	100.0%

⁽ⁱ⁾ Canada Mortgage and Housing Corporation ("CMHC")

To fund its asset acquisitions, the Company sells guaranteed investment certificates ("GICs") as a nationally approved deposit-taking institution. At March 31, 2004, it had in excess of \$1.0 billion of customer GIC deposits.

Equitable was formed January 1, 2004 to serve as the holding company for Equitable Trust, its wholly-owned subsidiary. Equitable completed an initial public offering March 18, 2004 with a treasury offering of 1,027,113 common shares and a secondary offering of 2,072,887 common shares. The comparative results for 2003 are those of Equitable Trust.

OBJECTIVES

Equitable seeks to achieve strong growth in earnings per share and an attractive return on equity, while maintaining its low risk profile and strong capital ratios. For the five years ended December 31, 2003, Equitable Trust delivered a compound annual growth rate (CAGR) in total assets of 37%, and an average return on shareholders' equity of 18%. Reflecting its conservative financial posture and the recent injection of \$15 million of tier 1 capital into Equitable Trust following the completion of the Company's initial public offering, Equitable Trust's total capital ratio as at March 31, 2004 was 12.2%, compared to 11.3% as at December 31, 2003 and 11.0% at March 31, 2003.

STRATEGY

The Company applies a number of proven strategies to achieve its objectives, including:

- Maintaining a niche market focus on mortgage financing of multi-unit residential and single family dwelling properties within and around the Greater Toronto Area.
- Emphasizing a strict, disciplined approach to mortgage financing, concentrating on sound risk selection.
- Supporting growth at low cost by:
 - funding a large part of its mortgage financing operations through deposits from the public across Canada in the form of Canada Deposit Insurance Corporation (“CDIC”) insured GICs.
 - outsourcing mortgage origination and deposit-taking functions and growing without branches.
- Developing and nurturing strategic business alliances in the mortgage financing industry.
- Maintaining strong regulatory capital ratios.
- Fostering a strong growth orientation and culture.

EARNINGS REVIEW

Net earnings for the three months ended March 31, 2004 increased by 22% to \$3.03 million from \$2.48 million in the same period in 2003. Earnings per share (basic) increased by 16% to \$0.29 per share in the first quarter of 2004 compared to \$0.25 per share in the same period in 2003, while earnings per share (diluted) grew 12% to \$0.28 from \$0.25 in the same period in 2003.

These increases reflect:

- growth in interest-earning assets compared to the same period in 2003; and,
- a significant decrease in effective tax rates, which stood at 31.5% in the first quarter of 2004 versus 41.2% in the first quarter of 2003.

The increase in interest-earning assets produced an additional \$0.4 million in net interest income in the first quarter of 2004, representing a 9% year-over-year increase. Net interest income for the period was \$4.8 million compared to \$4.4 million during the same period in 2003.

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The decreased tax rates during the period are largely due to the adjustments to the Chief Executive's compensation package that became effective on January 1, 2004 and also due to the Company's decision to increase the size of its securities portfolio comprised primarily of high-quality preferred shares yielding non-taxable dividends.

Return on weighted average equity for the first quarter of 2004 was 15.1% compared to 15.5% during the same period in 2003. The Company is targeting an improvement in ROE through the remainder of 2004 and expects to benefit from higher mortgage production created by its recently expanded mortgage team.

NET INTEREST INCOME

Net interest income includes earnings from assets, such as interest and dividend income from liquidity investments, portfolio securities and mortgage loans, less interest expense paid on liabilities, such as deposits and subordinated debt. Interest revenues increased 13% to \$15.0 million during the quarter ended March 31, 2004, from \$13.2 million during the same period in 2003, despite the impact of declines in the prime rate. Two separate decreases of 25 basis points in prime rate were implemented during the first quarter of 2004, which negatively impacted interest revenues during the period. Interest on GIC deposits was positively impacted by these decreases in the prime rate during the period. Interest on deposits increased 14% to \$9.8 million during the quarter ended March 31, 2004, from \$8.6 million during the same period in 2003, reflecting an increase in customer deposits of 20% on a year-over-year basis. The Company incorporates commissions on deposits raised through agents into its interest paid on deposits and into its calculation of interest rates related to customer deposits.

Net interest margin on a tax equivalent basis was 1.8% for the three months ended March 31, 2004 compared to 2.0% during the same period in 2003. The decrease in net interest margin is a function of a continuing decrease in the bank rate and prime rate during the period.

Dividend income has been presented on a tax equivalent basis for the purpose of calculating the net interest margin (tax equivalent basis). The tax equivalent basis increases dividend income by an amount that makes the income comparable to ordinary taxable interest income. This gross-up amount for dividend income in the

first quarter of 2004 was \$0.4 million compared to \$0.08 million during the same period in 2003 reflecting substantial growth in the Company's securities portfolio. The securities portfolio increased to \$70.9 million as at March 31, 2004 from \$14.5 million as at March 31, 2003.

OTHER INCOME

Other income includes ancillary fees related to the mortgage portfolio and gains on the securitization of mortgages and excess interest, net of servicing fee earned on mortgages issued through the Company's CMHC Mortgage Backed Securities ("MBS") program. Sundry income, gains on the sale of investments and other non-mortgage related fees, is also included in other income. Other income amounted to \$1.7 million during the first quarter of 2004, the same as in the first quarter of 2003.

The Company securitized, through the CMHC MBS program, \$91.2 million of mortgages during the first quarter of 2004 compared to \$163.1 million during the first quarter of 2003. The reduction in securitization in the first quarter reflects the fact that the Company did not securitize any mortgages during the month of March 2004 in the midst of its initial public offering. As a result, pools issued in April 2004 were larger than normal and the recognition of securitization gains related to the mortgages which would have otherwise been securitized in March was delayed until the second quarter of 2004.

MBS income related to excess interest net of servicing costs continued to increase as total securitized assets increased. Over the past 10 years, the Company has securitized more than \$2.4 billion of mortgages through the CMHC MBS program. Excess interest, net of servicing fee, amounted to \$0.6 million during the first quarter of 2004 compared to \$0.5 million during the same period in 2003.

NON-INTEREST EXPENSES

Non-interest expenses include all of the expenses not related to interest or credit provisions required to operate Equitable's business. The major elements of non-interest expenses consist primarily of salaries, premises and equipment, capital taxes, insurance and other general administrative expenses. Non-interest expenses totaled \$1.9 million for the first quarter of 2004 compared to \$1.7 million during the same period in 2003. This 10.6% increase was primarily due to an increase in mortgage

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(for the three months ended March 31, 2004)

production staff as the Company prepared for greater mortgage production. Total staff complement as at March 31, 2004, was 47, including 33 staff in the mortgage origination and servicing department. As at March 31, 2003 there was a total of 37 staff including 25 in the mortgage origination and servicing department.

Included in non-interest expenses during the first quarter of 2004 is a charge for compensation expense in the amount of \$0.07 million related to stock options issued during the period. The offset to this expense is an increase to contributed surplus in the same amount. There were no compensation charges related to the issue of stock options in the quarter ended March 31, 2003.

The Company's productivity ratio (non-interest expense as a ratio of net interest and other income before provision for credit losses) was 29.2% in the first quarter of 2004, compared to 28.1% during the same period in 2003, due to increased staffing and personnel costs in the mortgage origination and servicing department. The Company expects these increased costs will result in greater mortgage origination activity and increased revenue.

CREDIT RISK MANAGEMENT AND PROVISION FOR CREDIT LOSSES

The Company's strong record of credit risk management reflects its highly selective and disciplined approach to mortgage financing. Over the five years ended December 31, 2003, the Company has not experienced a single loss in either of its multi-unit residential or commercial portfolios. Total aggregate loan losses amounted to just 0.01% of its average mortgage portfolio outstanding over the period.

During the first quarter of 2004, the Company had no credit losses. In order to be prudent in view of the increase in its mortgage portfolio, the Company set aside \$175,000 for possible future credit losses during the first quarter of 2004. This compares with a provision of \$165,000 during the same period in 2003.

Total allowance for credit losses was \$5.9 million or 60 basis points of mortgage principal outstanding as at March 31, 2004 compared to \$5.2 million (65 basis points) as at March 31, 2003.

Mortgages in arrears 30 days or more amounted to \$3.4 million as at March 31, 2004 representing 0.35% of total loans outstanding, compared to \$1.6 million as at March 31, 2003 or 0.20% of loans outstanding.

BALANCE SHEET REVIEW

Total assets as at March 31, 2004 were \$1.2 billion compared to \$959.0 million as at March 31, 2003, representing growth of 23% on a year-over-year basis.

The increase in assets is primarily due to increases in the Company's mortgage and investment portfolio. Mortgage assets increased 22.3% to \$981.4 million from \$802.3 million at March 31, 2003. Much of the increase in the first quarter of 2004 occurred in the last month of the quarter (March) and was a result of strong efforts by the Company's recently enlarged mortgage origination and administration department. Revenues related to this increase in mortgage assets will be felt in future quarters.

Conventional mortgage production during the quarter ended March 31, 2004 was \$151 million compared to \$74 million in the first quarter of 2003. Production of CMHC-insured mortgages for securitization in the Company's MBS program was \$108 million compared to \$178 million in the first quarter of 2003.

Included in the mortgage portfolio as at March 31, 2004 were \$43.2 million of CMHC insured mortgages awaiting securitization under the CMHC MBS program, compared to \$10.2 million as at December 31, 2003 and \$35.3 million as at March 31, 2003.

Total assets of the Company as at March 31, 2004 increased by 7.0% from \$1.1 billion at December 31, 2003, while mortgage assets increased \$92.1 million or 10.3% from December 31, 2003.

The Company's investment portfolio increased \$49.5 million or 179% to \$77.1 million at March 31, 2004, compared to \$27.6 million as at March 31, 2003. The Company's investment portfolio increased \$19.2 million or 33.2% from December 31, 2003.

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Cash and cash equivalents decreased to \$60.9 million from \$78.7 million as at March 31, 2003, reflecting the Company's decision to use a portion of its liquid investments to fund growth in mortgages and investments during the period.

The Company's investment in retained interests in CMHC insured loan securitization activities increased to \$53.8 million from \$52.3 million as at December 31, 2003, and from \$45.4 million as at March 31, 2003. These increases reflect the additional securitization activity carried out by the Company during the applicable periods.

Total mortgages securitized through the CMHC MBS program and outstanding as at March 31, 2004 was \$1.7 billion compared to \$1.6 billion as at December 31, 2003 and \$1.4 billion as at March 31, 2003.

Equitable's assets are categorized in the five groups set out in the table below as at March 31, 2004, December 31, 2003 and at March 31, 2003:

In \$000s	March 31, 2004		December 31, 2003		March 31, 2003	
	Asset amount	% of total	Asset amount	% of total	Asset amount	% of total
Net/Liquidity investments	67,085	5.7%	109,653	9.9%	91,909	9.6%
Portfolio securities	70,907	6.0%	45,691	4.2%	14,462	1.5%
Mortgage loans	981,353	83.1%	889,271	80.6%	802,311	83.7%
Loan securitizations – retained interests	53,835	4.6%	52,331	4.7%	45,444	4.7%
Other assets	7,430	0.6%	6,332	0.6%	4,904	0.5%
Total	1,180,610	100.0%	1,103,278	100.0%	959,030	100.0%

GIC deposits were \$1.0 billion as at March 31, 2004, compared to \$991.7 million as at December 31, 2003 and \$871.7 million as at March 31, 2003. Deposits as at March 31, 2004 increased 20% compared to March 31, 2003 and 5.2% since December 31, 2003.

Equitable Trust redeemed \$2.3 million of subordinated debt during the first quarter of 2004, compared to \$2.8 million during the first quarter of 2003. No debt was issued during the first quarters of 2004 or 2003. Subordinated debt represents eligible tier 2 capital for Equitable Trust.

The Company came into existence on January 1, 2004. The comparative figures for 2003 are those of Equitable Trust. The number of shares and the weighted average number of shares of Equitable Trust have been restated for comparison purposes.

The Company issued 1,027,113 common shares by way of an initial public offering during the first quarter of 2004, raising net proceeds of \$16 million after \$1.9 million costs of issue, net of taxes. Equitable Trust issued 383,253 common shares in the first quarter of 2003 for net cash proceeds of \$0.2 million related to the exercise of stock options and to the settlement of accrued Chief Executive Officer compensation in the amount of \$2.7 million.

No dividends were declared or paid during the applicable periods under review. It is the Company's intention to commence dividend payments, based on a formula of 25% of trailing net earnings, in the third quarter ending September 30, 2004, subject to Board approval.

Shareholders' equity increased to \$95.6 million as at March 31, 2004 from \$68.0 million as at March 31, 2003 and \$76.7 million at December 31, 2003, representing an increase of 41% from March 31, 2003 and 25% from December 31, 2003.

MANAGEMENT PRACTICES

Liquidity Risk Management

Liquidity risk relates to the Company's ability to redeem its deposit obligations as they come due or otherwise arise, and to fund asset commitments as scheduled. Mitigating this 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 consist of cash and cash equivalents and debt instruments guaranteed by governments. The Company has consistently maintained appropriate liquid asset levels to meet its requirements. Gross assets eligible for liquidity purposes were \$73.8 million as at March 31, 2004, \$113.6 million as at December 31, 2003 and \$99.8 million as at March 31, 2003.

Interest Rate Risk Management

Interest rate risk involves the Company's sensitivity of earnings to sudden changes in interest rates. The Company's primary method of mitigating this risk is its matching of asset and liability maturities, closely monitoring the 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.

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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 Company policy not to allow an annual maturities gap on all maturities commencing with 13 months in excess of 5% of total assets. The Company has consistently met this requirement and, as a result of this and other interest rate risk mitigation techniques, has consistently been able to demonstrate that an interest rate shock consisting of an immediate and sustained 100 basis point change in interest rates will affect earnings before tax by less than 10% for the following 12-month period.

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 it 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 CHMC-MBS program. Hedging protects the Company from losses due to changes in interest rates during the relevant period. The hedge is initiated on the date that the mortgage is priced and committed to and terminated on the date that the pool is sold. Changes in interest rates affect the price at which the mortgage pool is sold and inversely affects the value of the hedge. All costs related to hedging activities are matched to mortgages and are accounted for when the mortgage is securitized under the CMHC MBS program.

Credit Risk Management

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

In accordance with 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 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.

Capital Management

The Company maintains a capital management policy for its operating subsidiary, Equitable Trust, which governs the quality and the quantity of capital held. The objective of the policy is to ensure that applicable regulatory capital requirements are met while providing sufficient returns to investors. Equitable Trust's capital requirements are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions ("OSFI"). OSFI regulations require that total tier 1 capital be maintained at a minimum level of 7% of total risk weighted assets and that tier 2 capital does not exceed 50% of tier 1 capital at any time. Equitable Trust actively monitors its capital ratios and ensures they are within regulatory requirements at all times. At March 31, 2004, the Company's tier one capital ratio was 10.6% and its tier 2 capital ratio was 1.6%.

Contractual Obligations

The material contractual obligations of the Company as at March 31, 2004 are outlined in the table below.

	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
GIC principal and interest	\$1,109,455,000	\$ 610,965,000	\$ 275,398,000	\$ 223,092,000	\$ —
Subordinated debt principal and interest	25,316,000	1,217,000	2,433,000	2,433,000	19,233,000
Operating lease ⁽¹⁾	931,000	172,000	405,000	354,000	—
Mortgage funding commitments	72,770,000	72,770,000	—	—	—
Total contractual obligations	\$1,208,472,000	\$ 685,124,000	\$ 278,236,000	\$ 225,879,000	\$ 19,233,000

⁽¹⁾ 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.

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.

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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 March 31, 2004 was \$500,000.

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. The policies and methodology used to determine these estimates and the significance of the accounting estimate to the Company's financial condition have been outlined in this MD&A and in the interim financial statements for the three months ended March 31, 2004. As well, additional information regarding these accounting estimates is provided in the audited financial statements for the year ended December 31, 2003 of The Equitable Trust Company available on the Company's website at www.equitablegroupinc.com.

OUTLOOK

Management believes that the Company's favourable performance in 2003 and in the first quarter of 2004 reflects the conditions within the real estate market in and around the Greater Toronto Area, which is considered one of the premier markets in Canada for residential mortgage financing. The outlook for this market remains strong at the date hereof, with demand for mortgage financing driven by a number of factors including population growth and low interest rates. There is no assurance that these favourable factors will continue.

In order to take advantage of anticipated growth in its niches and its geographic territory, the Company has recently expanded its mortgage origination operation. This is expected to sustain and expand growth in mortgage production.

Despite its strong growth orientation, management intends to continue to follow its disciplined approach to mortgage financing, which has resulted in a 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 also committed to growing 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.

THE COMPARATIVE FIGURES FOR THE PERIOD ENDED MARCH 31, 2003
HAVE NOT BEEN REVIEWED BY THE COMPANY'S AUDITORS.

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2004 – UNAUDITED

With comparative figures as at December 31, 2003 (Audited) and March 31, 2003

	March 31, 2004	December 31, 2003	March 31, 2003
ASSETS			
Cash and cash equivalents	\$ 60,854,000	\$ 97,425,000	\$ 78,724,000
Investments (note 2)	77,138,000	57,919,000	27,647,000
Loan securitizations			
– retained interests (note 3)	53,835,000	52,331,000	45,444,000
Mortgages receivable (note 4)	981,353,000	889,271,000	802,311,000
Other assets (note 5)	7,430,000	6,332,000	4,904,000
	\$ 1,180,610,000	\$ 1,103,278,000	\$ 959,030,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Customer deposits	\$ 1,042,826,000	\$ 991,730,000	\$ 871,717,000
Future income taxes payable	7,508,000	7,798,000	6,227,000
Other liabilities (note 6)	19,723,000	9,795,000	7,275,000
Subordinated debt	14,974,000	17,298,000	5,854,000
	1,085,031,000	1,026,621,000	891,073,000
Shareholders' equity (note 7):			
Capital stock	53,604,000	37,483,000	34,417,000
Contributed surplus	630,000	556,000	535,000
Retained earnings	41,345,000	38,618,000	33,005,000
	95,579,000	76,657,000	67,957,000
	\$ 1,180,610,000	\$ 1,103,278,000	\$ 959,030,000

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004 – UNAUDITED

With comparative figures for the three month period ended March 31, 2003

	March 31, 2004	March 31, 2003
Interest income:		
Mortgages	\$ 13,828,000	\$ 12,350,000
Investments	714,000	604,000
Other	437,000	280,000
	14,979,000	13,234,000
Interest expense:		
Customer deposits	9,838,000	8,633,000
Subordinated debt	353,000	183,000
	10,191,000	8,816,000
Interest income, net	4,788,000	4,418,000
Provision for credit losses (note 4)	175,000	165,000
Net interest income after provision for credit losses	4,613,000	4,253,000
Other income:		
Mortgage commitment income and fees	829,000	700,000
Net gain on sale of investments	57,000	24,000
Loan securitizations – retained interests (note 3)	812,000	943,000
	1,698,000	1,667,000
Net interest income and other income	6,311,000	5,920,000
Non-interest expenses	1,894,000	1,712,000
Earnings before income taxes	4,417,000	4,208,000
Income taxes:		
Current	842,000	1,463,000
Future	548,000	270,000
	1,390,000	1,733,000
Net earnings	\$ 3,027,000	\$ 2,475,000
Earnings per share (note 7):		
Basic	\$ 0.29	\$ 0.25
Fully diluted	\$ 0.28	\$ 0.25
Weighted average number of shares outstanding (note 7):		
Basic	10,511,166	9,796,024
Fully diluted	10,630,403	9,842,528

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004 – UNAUDITED

With comparative figures for the three month period ended March 31, 2003

	March 31, 2004	March 31, 2003
Common shares:		
Balance, beginning of period	\$ 37,483,000	\$ 31,521,000
Common shares issued (note 7)		
Gross proceeds or compensation settlement	17,975,000	2,896,000
Issue expenses, net of tax recovery of \$1,048,000 in 2004	(1,854,000)	—
Balance, end of period	53,604,000	34,417,000
Retained earnings:		
Balance, beginning of period	38,318,000	30,530,000
Net earnings	3,027,000	2,475,000
Balance, end of period	41,345,000	33,005,000
Contributed surplus:		
Balance, beginning of period	556,000	535,000
Stock-based compensation (note 7)	74,000	—
Balance, end of period	630,000	535,000
Total shareholders' equity	\$ 95,579,000	\$ 67,957,000

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004 – UNAUDITED

With comparative figures for the three month period ended March 31, 2003

	March 31, 2004	March 31, 2003
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 3,027,000	\$ 2,475,000
Non-cash items:		
Loan securitizations – retained interests	(203,000)	(434,000)
Amortization	48,000	48,000
Provision for credit losses	175,000	165,000
Net gain on sale of investments	(57,000)	(24,000)
Future income taxes	548,000	270,000
Stock-based compensation	74,000	—
Amortization of discount on investments	179,000	8,000
	3,791,000	2,508,000
Changes in operating assets and liabilities:		
Other assets	(1,153,000)	(1,933,000)
Other liabilities	9,953,000	24,000
	12,591,000	599,000
Financing activities:		
Increase in customer deposits	51,096,000	71,194,000
Redemption of subordinated debt	(2,324,000)	(2,806,000)
Issuance of capital stock	15,073,000	218,000
	63,845,000	68,606,000
Investing activities:		
Purchase of investments	(25,786,000)	(2,037,000)
Proceeds on sale/redemption of investments	6,445,000	12,397,000
Increase in mortgages receivable	(261,224,000)	(253,412,000)
Mortgage principal repayments	75,279,000	32,243,000
Proceeds from loan securitizations	90,688,000	161,048,000
Loan securitizations – retained interests	1,699,000	824,000
Purchase of capital assets	(108,000)	—
	(113,007,000)	(48,937,000)
Increase (decrease) in cash and cash equivalents	(36,571,000)	20,268,000
Cash and cash equivalents, beginning of period	97,425,000	58,456,000
Cash and cash equivalents, end of period	\$ 60,854,000	\$ 78,724,000
Comprised of:		
Deposits at banks	67,590,000	12,016,000
Short term investments	—	74,621,000
Cheques and other items in transit	(6,736,000)	(7,913,000)
	\$ 60,854,000	\$ 78,724,000
Supplemental cash flow information:		
Interest paid	\$ 9,073,000	\$ 6,866,000
Income taxes paid	1,216,000	1,614,000

See accompanying notes to interim unaudited consolidated financial statements.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended March 31, 2004

1. BASIS OF PREPARATION:

These interim unaudited consolidated financial statements should be read in conjunction with the financial statements of The Equitable Trust Company for the year ended December 31, 2003 as set out on pages F-3 to F-16 of Equitable Group Inc.'s prospectus dated March 10, 2004. These interim unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and methods of computation as were used in the preparation of the financial statements of The Equitable Trust Company for the year ended December 31, 2003. As explained in Note 7, the Company was formed on January 1, 2004 and therefore the comparative figures for December 31, 2003 and March 31, 2003 are those of The Equitable Trust Company.

These interim unaudited consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

2. INVESTMENTS:

	March 31, 2004		December 31, 2003		March 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$ 70,254,000	\$ 71,173,000	\$ 45,038,000	\$ 45,689,000	\$ 13,486,000	\$ 13,190,000
Government bonds and notes	6,231,000	6,977,000	12,228,000	12,928,000	13,185,000	13,689,000
Common shares	653,000	480,000	653,000	494,000	473,000	432,000
Corporate debt	—	—	—	—	503,000	512,000
	\$ 77,138,000	\$ 78,630,000	\$ 57,919,000	\$ 59,111,000	\$ 27,647,000	\$ 27,823,000

3. 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 March 31, 2004, outstanding securitized mortgages totaled \$1,712,817,000 (December 31, 2003 – \$1,653,972,000, March 31, 2003 – \$1,429,481,000).

During the quarter, the Company securitized Canadian Government guaranteed residential mortgage loans and received net cash proceeds of \$90,688,000 (March 31, 2003 – \$161,048,000). The Company retained the rights to future excess interest on the residential mortgages valued at \$3,823,000 (March 31, 2003 – \$5,505,000) and received net cash flows on interests retained of \$3,109,000 (March 31, 2003 – \$2,274,000). 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

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended March 31, 2004

of \$5,277,000 (December 31, 2003 – \$5,114,000, March 31, 2003 – \$3,589,000) which is included in other liabilities.

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

	March 31, 2004	March 31, 2003
Gain on sale of mortgages	\$ 203,000	\$ 434,000
Excess interest net of servicing fee	609,000	509,000
	\$ 812,000	\$ 943,000

The key assumptions used to value the future excess interest spread include an excess spread of 0.86% (December 31, 2003 – 0.86%, March 31, 2003 – 0.86%), a prepayment rate of 16.5% (December 31, 2003 – 15.9%, March 31, 2003 – 11.7%) for single family residential loans, 0% (December 31, 2003 – 0%, March 31, 2003 – 0%) for multi-family residential loans and a discount rate of 5.49% (December 31, 2003 – 5.54%, March 31, 2003 – 5.81%). There are no expected credit losses, as the mortgages are government guaranteed.

4. MORTGAGES RECEIVABLE:

(a) Mortgages receivable and impaired mortgages:

March 31, 2004	Allowance for credit losses				
	Gross amount	Specific	General	Total	Net amount
Residential mortgages	\$ 814,026,000	\$ 3,023,000	\$ 2,407,000	\$ 5,430,000	\$ 808,596,000
Other mortgages	169,053,000	—	483,000	483,000	168,570,000
Accrued interest	4,187,000	—	—	—	4,187,000
	\$ 987,266,000	\$ 3,023,000	\$ 2,890,000	\$ 5,913,000	\$ 981,353,000

December 31, 2003	Allowance for credit losses				
	Gross amount	Specific	General	Total	Net amount
Residential mortgages	\$ 727,652,000	\$ 3,037,000	\$ 2,222,000	\$ 5,259,000	\$ 722,393,000
Other mortgages	163,301,000	—	478,000	478,000	162,823,000
Accrued interest	4,055,000	—	—	—	4,055,000
	\$ 895,008,000	\$ 3,037,000	\$ 2,700,000	\$ 5,737,000	\$ 889,271,000

March 31, 2003	Allowance for credit losses				
	Gross amount	Specific	General	Total	Net amount
Residential mortgages	\$ 666,799,000	\$ 2,792,000	\$ 1,959,000	\$ 4,751,000	\$ 662,048,000
Other mortgages	136,818,000	—	436,000	436,000	136,382,000
Accrued interest	3,881,000	—	—	—	3,881,000
	\$ 807,498,000	\$ 2,792,000	\$ 2,395,000	\$ 5,187,000	\$ 802,311,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended March 31, 2004

Included in gross residential mortgages are Canadian Government insured mortgages of \$48,331,000 as at March 31, 2004 (December 31, 2003 – \$15,520,000, March 31, 2003 – \$43,047,000), of which \$43,239,000 (December 31, 2003 – \$10,214,000, March 31, 2003 – \$35,354,000) 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 March 31, 2004, December 31, 2003 and March 31, 2003.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at March 31, 2004 aggregated \$4,126,000 (December 31, 2003 – \$4,115,000, March 31, 2003 – \$8,419,000) and \$1,103,000 (December 31, 2003 – \$1,078,000, March 31, 2003 – \$5,627,000), respectively.

(b) Allowance for credit losses:

	March 31, 2004		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$ 3,037,000	\$ 2,700,000	\$ 5,737,000
Provision for (recovery of) credit losses	(15,000)	190,000	175,000
Recoveries	1,000	—	1,000
Balance, end of period	\$ 3,023,000	\$ 2,890,000	\$ 5,913,000

	December 31, 2003		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$ 2,990,000	\$ 2,580,000	\$ 5,570,000
Provision for credit losses	45,000	120,000	165,000
Recoveries	2,000	—	2,000
Balance, end of period	\$ 3,037,000	\$ 2,700,000	\$ 5,737,000

	March 31, 2003		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$ 2,661,000	\$ 2,360,000	\$ 5,021,000
Provision for credit losses	130,000	35,000	165,000
Recoveries	1,000	—	1,000
Balance, end of period	\$ 2,792,000	\$ 2,395,000	\$ 5,187,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended March 31, 2004

5. OTHER ASSETS:

	March 31, 2004	December 31, 2003	March 31, 2003
Accrued interest on non-mortgage assets	\$ 717,000	\$ 779,000	\$ 652,000
Capital assets	631,000	571,000	439,000
Deferred GIC commissions	2,807,000	2,627,000	2,294,000
Loan to officer	500,000	600,000	—
Other receivables	1,823,000	1,231,000	410,000
Prepaid expenses and other	483,000	524,000	414,000
Income taxes recoverable	469,000	—	695,000
	\$ 7,430,000	\$ 6,332,000	\$ 4,904,000

6. OTHER LIABILITIES:

	March 31, 2004	December 31, 2003	March 31, 2003
Securitized mortgage servicing liability	\$ 5,277,000	\$ 5,114,000	\$ 3,589,000
Mortgagor realty taxes	2,395,000	3,456,000	2,185,000
Accounts payable and accrued liabilities	2,276,000	1,110,000	1,501,000
Drawings under bank line of credit facility	9,775,000	—	—
Income taxes payable	—	115,000	—
	\$ 19,723,000	\$ 9,795,000	\$ 7,275,000

Included in other liabilities is drawings under a bank line of credit facility of \$9,775,000 (December 31, 2003 – \$Nil, March 31, 2003 – \$Nil). The Company may borrow up to \$10 million for short-term liquidity purposes under this facility. The facility is secured by the Company's investments in common and preferred shares.

7. SHAREHOLDERS' EQUITY:

(a) Capital stock:

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

Common shares:

	March 31, 2004		March 31, 2003	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	10,364,435	\$ 37,483,000	9,673,663	\$ 31,521,000
Issued during the period	1,027,113	16,121,000	383,254	2,896,000
Balance, end of period	11,391,548	\$ 53,604,000	10,056,917	\$ 34,417,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended March 31, 2004

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 shareholders of the Company. The Operating Company became a wholly owned subsidiary 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 holdings 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 filed a prospectus dated March 10, 2004 to qualify the initial public offering of 1,027,113 common shares of the Company to the public. As at March 31, 2004, the number of issued and outstanding common shares of the Company amounted to 11,391,548 common shares.

(b) Stock-based compensation plans:

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-year 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 February 2009. A summary of the Company’s stock option activity and related information for the periods ended March 31, 2004, December 31, 2003 and March 31, 2003 is as follows:

	March 31, 2004		March 31, 2003	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	431,431	\$ 5.10	395,874	\$ 4.46
Granted	600,000	17.50	—	—
Exercised	—	—	—	—
Forfeited/cancelled	—	—	—	—
Outstanding, end of period	1,031,431	\$ 12.31	395,874	\$ 4.46
Exercisable, end of period	303,424	\$ 4.59	199,122	\$ 4.39

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three month period ended March 31, 2004

Under the fair value method of accounting for stock options, the Company has recorded compensation expense in the amount of \$74,000 (March 31, 2003 – \$Nil) related to 600,000 (March 31, 2003 – Nil) options issued during the period under the Company's stock option plan. This amount has been credited to contributed surplus. The fair value of options granted during the period is estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 3.13%; (ii) expected option life of 4.04 years; (iii) expected volatility of 13.5%; and (iv) expected dividends of 2.0%. The weighted average fair value of each option granted was \$1.66.

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⁽⁴⁾⁽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)*

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.

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

Nicholas Strube

Treasurer

Corporate Office

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Stock Listing

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