



**EQUITABLE GROUP INC.**

**FIRST QUARTER REPORT**  
*Quarter Ended March 31, 2005*

## 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](http://www.equitablegroupinc.com).

## **FELLOW SHAREHOLDERS:**

Equitable Group achieved record results for the three months ended March 31, 2005 – including substantial growth in earnings and a 16.6% return on equity – as we continued to employ our disciplined approach to lending and achieve the efficiency and productivity benefits of our lean business model.

Management's Discussion and Analysis, which follows, contains a more complete analysis, but these are the highlights of the quarter:

- Net earnings grew 48% to \$4.48 million (\$0.38 per share basic and diluted) – a new quarterly record – from \$3.03 million (\$0.29 basic, \$0.28 diluted) in the first quarter of 2004.
- Return on weighted average shareholders' equity was 16.6% compared to 15.1% in the first quarter a year ago.
- Mortgage assets increased 46% to \$1.44 billion from \$981.4 million a year ago.
- Conventional mortgage production increased 57% to \$237 million from \$151 million in the first quarter of 2004.
- Productivity ratio improved to 32.4% (30.6% on a tax equivalent basis) from 34.0% a year ago.
- There were no loan losses in the first quarter of 2005 or in the first quarter of 2004.

Consistent with our policy of paying approximately 25% of trailing earnings in a dividend, the Company declared a dividend of 8 cents per share payable July 5, 2005 to shareholders of record June 16, 2005. Now that Equitable has completed its first fiscal year as a public company, your Board has determined that trailing earnings shall be net earnings of the immediately preceding fiscal year.

As you know, Equitable has established return on equity and earnings growth targets for 2005. During the first quarter, the Company made excellent progress towards the achievement of these objectives. This reflects both the strength of our niche markets and our ability to profitably capitalize on mortgage demand in an efficient, controlled and disciplined way. We're proud of the fact that Equitable has improved its earnings in each quarter since our initial public offering while simultaneously continuing to apply our strict risk management strategies. Sound credit decisions now ensure sound financial performance in the future.

As detailed in our MD&A, at March 31, 2005, the Company's mortgage portfolio was diversified according to our asset weighting strategy. More specifically:

- Single family dwelling mortgages comprised 39.2% of mortgages receivable
- Multi-unit residential mortgages represented 34.2%
- Commercial mortgages accounted for 22.6% with construction loans and CMHC-insured mortgages comprising the balance of the portfolio.

The majority of all mortgages funded were in or around the Greater Toronto Area.

To ensure all growth is well managed, and to drive additional opportunity, we added to our staff complement in the first quarter. The addition of nine staff members was necessary and appropriate given our growth objectives and opportunities. As we've demonstrated over the past year, each additional staff member makes a meaningful contribution to our performance. Even with these additions, Equitable remains a lean organization with an industry leading – and improving – productivity ratio. In fact, the improvement we saw in the first quarter is due to the Company's ability to leverage greater efficiencies from its increased asset base using its business model of strategic outsourcing.

**Looking Forward**

The Company's outlook is positive and unchanged since year-end 2004. We continue to believe the Company will achieve its annual growth objectives for 2005 and benefit from strong mortgage demand and growth in its capital base.

During the first quarter, Equitable completed a \$20 million financing with Canadian Western Bank. The proceeds of the financing were used to increase regulatory capital in the form of \$20 million of Series 5 Subordinated Debentures in its wholly owned subsidiary, The Equitable Trust Company.

As a result of this financing, Equitable Trust's total regulatory capital ratio of 12.4% at March 31, 2005 exceeds the ratio achieved following our initial public offering and positions us for further growth. Importantly, the use of subordinated debt as Tier 2 regulatory capital, while increasing the Company's leverage, allows us to approach full utilization of capital and avoids the dilutive effects to return on equity of issuing additional common shares. Consequently, this will assist us in delivering our return on equity targets.

Subsequent to quarter end, we also announced our intention to gradually increase our geographic scope by entering the Calgary single family dwelling mortgage lending market. The time has come for us to expand geographically and Calgary is the ideal market for Equitable's brand of disciplined lending. It offers solid real estate values and is one of Canada's fastest-growing communities. Calgary is viewed by management as a logical market for Equitable's niche lending because of its sound real estate values and population growth.

In conclusion, we're confident in our opportunities both in the GTA and in Calgary and we look forward to accomplishing our performance objectives in 2005.

**Yours sincerely,**



**Austin Beutel**  
Chairman of the Board



**Geoffrey Bledin**  
President and Chief Executive Officer

May 9, 2005

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

(for the three months ended March 31, 2005)

### **Notice to Readers**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2005 included herein and the audited consolidated financial statements and MD&A for the year ended December 31, 2004 which are available on SEDAR at [www.sedar.com](http://www.sedar.com) or on pages 11 through 55 of the 2004 Annual Report. Except as discussed below, all other factors discussed and referred to in the MD&A for fiscal 2004 remain substantially unchanged. All dollar amounts are in millions of Canadian dollars unless otherwise indicated.

Certain forward-looking statements are made in this Management's 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 periodic reports filed by Equitable Group Inc. ("Equitable" or the "Company") 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**

Equitable established a new record for earnings in the first quarter of 2005 and continued to achieve sequential growth, measured by asset accumulation and earnings, compared to the fourth quarter of 2004. Most important, Equitable has improved upon its fourth quarter 2004 return on equity performance and has prepared for further growth by completing a \$20 million term loan financing with Canadian Western Bank. The proceeds of this financing were used to increase tier 2 regulatory capital at Equitable's sole subsidiary, The Equitable Trust Company ("Equitable Trust"), thus providing the additional regulatory capital which will allow for further increases in interest earning assets. This additional regulatory capital, without share dilution, provides the basis for increased assets which should augment the Company's return on equity in future.

To manage growth and capitalize on market opportunities in the Greater Toronto Area ("GTA"), the Company added mortgage origination and other staff in the first quarter, bringing the total staff complement to 63 at March 31, 2005 from 47 at March 31, 2004. Even so, the Company achieved a productivity ratio (the lower the better) of 32.4% -- an improvement over the ratio of 34% at March 31, 2004. (Note that the calculation of the Company's productivity ratio has changed -- see net interest margin discussion under the Earnings review for details).

The Company's asset base grew 10.4% during the first quarter of 2005. Dividend payments increased to 8 cents per share in the first quarter from 7 cents per share in the fourth quarter 2004.

On May 9, 2005 the Board of Directors declared a dividend in the amount of \$0.08 per share payable July 5, 2005 to shareholders of record as of close of business June 16, 2005.

### **PERFORMANCE AGAINST OBJECTIVES**

As stated in its 2004 annual report, Equitable has three fundamental annual financial objectives for 2005: 20% growth in assets, 20% growth in earnings per share and Return On Equity (ROE) of greater than 16%.

The financial highlights of the quarter, listed below, show that the Company made good progress against these financial objectives in the first quarter of 2005:

- net earnings were \$4.48 million, the highest in the Company's history and an increase of 48% over first quarter 2004

- earnings per share on a diluted basis increased 36% to \$0.38 in the first quarter of 2005 from \$0.28 during the same period in 2004
- ROE was 16.6% compared to 15.1% in the first quarter of 2004
- mortgage assets increased 46% year-over-year to more than \$1.4 billion at March 31, 2005
- the total regulatory capital ratio of the Company's subsidiary, Equitable Trust, was 12.4% at March 31, 2005 compared to 12.2% at March 31, 2004

Sequentially, ROE for the first quarter of 2005 was 16.6% compared to 16.2% in the fourth quarter of 2004. First quarter 2005 net earnings of \$4.5 million were 4.2% higher than the fourth quarter of 2004 net earnings of \$4.3 million, while earnings per share (diluted) in the first quarter of 2005 increased \$0.02 or 6% over the fourth quarter of 2004. Mortgage assets grew 10% since December 31, 2004.

**Table 1: Selected financial information**

(\$ thousands, except share and per share amounts)

	Three Months Ended		Change From March 31, 2004 %
	March 31, 2005	March 31, 2004	
<b>OPERATIONS</b>			
Net earnings	\$ 4,482	\$ 3,027	48.1%
Earnings per share – basic	0.38	0.29	31.0%
Earnings per share – diluted	0.38	0.28	35.7%
Total revenue	22,578	16,683	35.3%
Net interest income	8,203	5,692	44.1%
Return on weighted average equity – annualized	16.6%	15.1%	N/A
Net interest margin – TEB <sup>(1)</sup> – annualized	2.2%	2.1%	N/A
Return on average assets – annualized	1.1%	1.1%	N/A
Productivity ratio – TEB <sup>(1)</sup>	30.6%	32.2%	N/A
Productivity ratio	32.4%	34.0%	N/A
<b>BALANCE SHEET AND OFF-BALANCE SHEET</b>			
Mortgages receivable	\$ 1,436,685	\$ 981,353	46.4%
Total assets	1,704,017	1,180,610	44.3%
Customer deposits	1,523,435	1,042,826	46.1%
Shareholders' equity	111,553	95,579	16.7%
Mortgage-backed security assets under administration	1,855,292	1,712,817	8.3%
<b>COMMON SHARES</b>			
Number of common shares outstanding at period end	11,742,383	11,391,548	3.1%
Book value per common share	\$ 9.50	\$ 8.39	13.2%
Common share price – close	23.55	23.18	1.6%
Market capitalization	276,533	264,056	4.7%
<b>CREDIT QUALITY</b>			
Realized credit losses	\$ 0	\$ 0	0.0%
Mortgages in arrears 61 days or more as a % of total mortgages	0.15%	0.22%	N/A
Net impaired mortgages as a % of total mortgages	0.18%	0.11%	N/A
Allowance for credit losses as a % of total mortgages	0.46%	0.60%	N/A
Allowance for credit losses as a % of gross impaired mortgages	138.1%	143.3%	N/A

<sup>(1)</sup> For a definition of TEB (tax equivalent basis), please refer to note 1 following Table 2.

## FINANCIAL REVIEW

### EARNINGS

The 48% increase in net earnings achieved in the first quarter of 2005 compared to the same period a year ago (and the 31% increase in diluted EPS) reflected the considerable growth in the Company's asset base together with an improvement in the net interest margin during the first quarter of 2005 compared to the comparable 2004 period.

**Table 2: Net interest income**

(\$ thousands)	Three Months Ended March 31, 2005			Three Months Ended March 31, 2004		
Interest revenues or interest expenses derived from:	Average Balance	Revenue/Expense	Average Rate	Average Balance	Revenue/Expense	Average Rate
Liquidity investments	110,696	753	2.8%	88,370	654	3.0%
Portfolio securities – TEB <sup>(1)</sup>	79,908	1,097	5.6%	58,299	875	6.0%
Mortgage loans	1,363,596	19,617	5.8%	931,192	14,265	6.2%
Total interest earning assets – TEB <sup>(1)</sup>	1,554,200	21,467	5.6%	1,077,861	15,794	5.9%
Total assets – TEB <sup>(1)</sup>	1,623,634	21,467	5.4%	1,141,944	15,794	5.5%
Liabilities and shareholders' equity:						
Customer deposits	1,423,771	12,078	3.4%	999,392	9,377	3.8%
Subordinated debt	28,759	580	8.2%	16,136	353	8.8%
Term loan	9,875	50	6.4% <sup>(2)</sup>	-	-	-
Total interest bearing liabilities	1,462,405	12,708	3.5%	1,015,528	9,730	3.9%
Total liabilities and shareholders' equity	1,623,634	12,708	3.2%	1,141,944	9,730	3.4%
Net interest income – TEB <sup>(1)</sup>		8,759			6,064	
Net interest margin – TEB <sup>(1)</sup>			2.2%			2.1%
Less: Taxable equivalent adjustment		556			372	
Net interest income per financial statements		8,203			5,692	

<sup>(1)</sup> TEB (tax equivalent basis): The Company presents net interest income, margins and certain ratios on a tax equivalent basis which increases tax exempt income by an amount that makes the income comparable to ordinary interest income and is common practice in the banking industry. While presenting net interest income, margins and other ratios on a TEB is a non-GAAP (generally-accepted accounting principles) financial measure, management believes that this presentation allows for an appropriate comparison of tax exempt dividend income from portfolio securities to regular taxable income such as mortgage interest.

<sup>(2)</sup> The average rate for the first three months of 2005 is calculated based on the weighted average outstanding term loan of \$3,183.

The improvement in the Company's net interest margin relates primarily to an increase in higher yielding mortgage assets as a proportion of total assets. At March 31, 2005, mortgages amounted to 84% of total assets while at March 31, 2004 they amounted to 83% of total assets.

Total interest revenues, on a Tax Equivalent Basis (TEB), were \$21.5 million during the first quarter compared to \$15.8 million in the comparable 2004 period, an increase of 36% due to the increase in the Company's interest earning asset base. Mortgage revenues increased \$5.4 million or 38% over the comparable 2004 period while portfolio securities income on a TEB increased \$0.2 million or 25% during the same period.

Interest expense on average customer deposits outstanding decreased to 3.4% from 3.8% in 2004 due to declining interest rates, while overall interest expense on customer deposits grew \$2.7 million or 29% over 2004 due to a 42% increase in average customer deposits outstanding.

The Company has increased the levels of subordinated debt in the first quarter of 2005 over that of 2004 and has obtained new term loan financing in 2005. See the liabilities and capital management sections of this MD&A for more information on subordinated debt and term loan financing.

The Company has changed its method of presenting commissions paid to deposit agents from a component of interest expense to a component of non-interest expenses and has commenced including interest penalties on the early discharge of mortgages in mortgage interest income rather than in other income. This was done in order to achieve better comparability with other financial institutions that present their results on this basis. Certain historical ratios have been adjusted as a result of this change in presentation – interest margins and the Company's productivity ratios have increased as a result of this change. Net interest margins on a tax equivalent basis using the previous calculation method would have been reported as 1.9% for the three months ended March 31, 2005 and 1.8% for the comparable 2004 period. Equitable's reported net interest margins have increased significantly as a result of the revision and even though the Company's reported productivity ratio has increased through the use of this revised presentation method, this ratio continues to be among the best in the Canadian mortgage lending industry.

#### **Other Income**

Other income includes ancillary fees related to the mortgage portfolio, 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 are also included. Other income amounted to \$1.7 million during the first quarter, compared to \$1.3 million in the first quarter of 2004. Interest penalties on the early discharge of mortgages of \$0.355 million for the first three months of 2005 and \$0.437 million for the comparable period in 2004 have been included in mortgage interest income. This revenue was formerly included in other income.

During the first quarter, the Company securitized, through the CMHC MBS program, \$40 million of mortgages compared to \$91 million during the comparable period in 2004. Despite the decline, gains on the sale of mortgages increased to \$0.3 million in the first quarter of 2005 from \$0.2 million in the first quarter of 2004. This was due to much better spreads than usual between the interest rates on the particular mortgages being securitized and rates on the MBS coupons. MBS income related to excess interest, net of servicing fee, amounted to \$0.8 million in the first quarter of 2005 compared to \$0.6 million in the first quarter of 2004 reflecting an increase in total securitized assets.

#### **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, commissions paid to deposit agents and other general administrative expenses. Non-interest expenses totaled \$3.2 million for the first quarter compared to \$2.4 million during the same period in 2004. The increase in 2005 was primarily due to an increase in mortgage origination and servicing staff to support growth and variable expenses related to the growth of the business including capital taxes, deposit agent commissions and insurance. Total staff complement at March 31, 2005, was 63, including 43 staff in the mortgage origination and servicing department. At March 31, 2004 staff totaled 47 including 33 in the mortgage origination and servicing department.

Included in non-interest expenses during the first quarter was a charge for compensation expense in the amount of \$0.1 million related to two grants of stock options in 2004. The offset to this expense was an increase to contributed surplus in the same amount. The stock-based compensation charge for the three months ended March 31, 2004 was \$0.07 million.

The Company's productivity ratio (non-interest expense as a ratio of net interest income and other income before provision for credit losses) was 32.4% in the first quarter of 2005, compared to 34.0%

during the same period in 2004. When net interest income is measured on a tax equivalent basis, these ratios were 30.6% and 32.2% respectively (see the explanation of “tax equivalent basis” in note 1 to Table 2). The improvement is due to the Company’s ability to leverage greater efficiencies from its increased asset base using its business model of strategic outsourcing. As stated earlier in this MD&A, the Company has revised its presentation of net interest income and, consequently, has allocated \$0.744 million of deposit agent commission expense during the first three months of 2005 as a non-interest expense rather than as a component of interest expense. This amount for the first three months of 2004 was \$0.467 million. If calculated under the former method of presenting net interest income, the productivity ratio for the first quarter of 2005 would have been 26.8% as compared to 29.2% in the first quarter of 2004 calculated on the same former basis.

## BALANCE SHEET

### Mortgages

The Company’s mortgage operations consist exclusively of first charges on real estate located primarily in and around the GTA. 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.

The composition of the principal outstanding of the Company’s mortgage portfolio as at March 31, 2005 reflects management’s mortgage asset weighting strategy and is shown in the following table together with comparisons for prior periods:

**Table 3: Mortgages receivable**

(\$ thousands)	March 31, 2005		December 31, 2004		March 31, 2004	
	\$	% of total	\$	% of total	\$	% of total
Single family dwelling	<b>562,382</b>	<b>39.2%</b>	516,359	39.6%	360,315	36.7%
Multi-unit residential	<b>491,273</b>	<b>34.2%</b>	465,684	35.8%	375,474	38.2%
Commercial	<b>325,114</b>	<b>22.6%</b>	269,557	20.7%	168,958	17.2%
Construction	<b>30,242</b>	<b>2.1%</b>	26,680	2.0%	29,252	3.0%
CMHC-insured	<b>27,153</b>	<b>1.9%</b>	24,063	1.9%	48,331	4.9%
Total mortgage principal	<b>1,436,164</b>	<b>100.0%</b>	1,302,343	100.0%	982,330	100.0%
Net premiums and sundry	<b>1,152</b>		590		749	
Mortgages reported	<b>1,437,316</b>		1,302,933		983,079	
Accrued interest	<b>5,986</b>		5,593		4,187	
Allowances for credit losses	<b>(6,617)</b>		(6,442)		(5,913)	
Total mortgages receivable	<b>1,436,685</b>		1,302,084		981,353	

Mortgage principal increased \$134 million or 10% during 2005 to \$1.4 billion at March 31, 2005 as compared to December 31, 2004 balances, and has increased \$454 million or 46% on a year over year basis. 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-mortgage-backed securities (“MBS”) program. The Company funded \$237 million of conventional mortgages during the first three months of 2005, up 57% from \$151 million funded during the comparable period in 2004. CMHC insured mortgages funded during the first three months of 2005 amounted to \$26 million as compared to \$108 million during 2004. (The reasons for the decrease in the fundings of CMHC insured mortgages are outlined in the assets section on loan securitizations – retained interests following.)

Single family dwelling mortgages represented the largest portion of the portfolio at 39.2%, up \$46 million or 9% from December 31, 2004, and were up \$202 million or 56% from the March 31, 2004 balance. Multi-unit residential mortgages increased \$116 million or 31% compared to a year earlier, while commercial mortgages increased \$156 million to 22.6% of the portfolio. Included in the commercial mortgage portfolio were approximately \$89 million of short-term warehoused mortgages which were discharged in April 2005.

### Mortgage Credit Quality

The Company did not realize any credit losses on mortgages during the three months ended March 31, 2005 or 2004. Mortgages in arrears 61 days or more amounted to 0.15% of total principal outstanding at March 31, 2005, an improvement over 0.22% of total principal outstanding at March 31, 2004, while mortgages identified as impaired amounted to 0.33% of total mortgage principal outstanding at March 31, 2005, compared to 0.42% a year earlier. The provision for credit losses for the first three months of 2005 was \$0.2 million, the same as in the comparable period.

### Assets

Equitable's assets are categorized in five groups as set out in the table below:

**Table 4: Asset Categories**

(\$ thousands)	March 31, 2005		December 31, 2004		March 31, 2004	
	Asset Amount	% of total	Asset Amount	% of total	Asset Amount	% of total
Liquidity investments	122,168	7.2%	99,223	6.4%	67,085	5.7%
Portfolio securities	82,448	4.8%	77,367	5.0%	70,907	6.0%
Mortgage loans	1,436,685	84.3%	1,302,084	84.4%	981,353	83.1%
Loan securitizations – retained interests	53,191	3.1%	55,822	3.6%	53,835	4.6%
Other assets	9,525	0.6%	8,755	0.6%	7,430	0.6%
<b>Total</b>	<b>1,704,017</b>	<b>100.0%</b>	<b>1,543,251</b>	<b>100.0%</b>	<b>1,180,610</b>	<b>100.0%</b>

Total assets as at March 31, 2005 increased \$161 million or 10% from \$1,543 million as at December 31, 2004 and increased \$523 million or 44% from \$1,181 million at March 31, 2004. Liquidity investments include cash and cash equivalents and government bonds and notes and are eligible liquid assets for regulatory purposes. Total liquid resources include liquidity assets and portfolio securities; these comprise 12% of total assets at March 31, 2005, compared to 11% at December 31, 2004 and 12% as at March 31, 2004.

Portfolio securities at March 31, 2005 increased \$5 million or 7% from December 31, 2004 and \$12 million or 16% from March 31, 2004. These increases are 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 have remained relatively consistent throughout the periods under review. Balances as at March 31, 2005 decreased \$3 million or 5% from December 31, 2004 and 1% from March 31, 2004. The Company securitized \$40 million of CMHC-insured multi-unit residential mortgages during the first three months of 2005, down \$51 million or 56% from the 2004 level of \$91 million. These decreases relate to the Company's decision to reduce securitization activity in response to increased competition for prime multi-unit mortgages, which has in turn reduced profit margins in the sector. Total mortgages in the CMHC-MBS program outstanding at March 31, 2005 were \$1.9 billion compared to \$1.7 billion a year earlier.

**Liabilities**

Customer deposits are utilized to fund the bulk of the Company's asset acquisitions and consist of GICs, sourced primarily through a national distribution network of independent deposit agents. The Company is licensed in all jurisdictions in Canada to accept deposits. During the first quarter of 2005, Equitable introduced a cashable GIC for issuance through its distribution channels. Unlike the Company's fixed term GICs, cashable GICs are payable on demand. Customer deposits at March 31, 2005 increased \$139 million or 10% from December 31, 2004 and \$481 million or 46% from March 31, 2004.

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. Future taxes as at March 31, 2005 have decreased marginally from December 31, 2004 due to decreased securitization activities.

In late 2004, Equitable Trust was authorized to issue – at any time during the period ending December 31, 2005 – up to \$40 million of Series 5 Subordinated Debentures. In order to expedite the issue of this subordinated debt, the Company obtained term loan financing of \$20 million from Canadian Western Bank ("CWB"). CWB purchased \$0.25 million of Series 5 Subordinated Debentures directly from Equitable Trust and the balance of the proceeds from this financing was used by the Company to purchase Series 5 Subordinated Debentures from Equitable Trust. At March 31, 2005, a total of \$48 million of subordinated debt had been issued by Equitable Trust, \$19.75 million of which was eliminated upon consolidation and replaced by the \$19.75 million term loan in the consolidated statements. The Company redeemed \$3.5 million of Series 3 Subordinated Debentures during the first quarter of 2005 compared to the redemption of \$2.3 million of Series 2 and 3 Subordinated Debentures in the first quarter of 2004.

**Other Assets and Liabilities**

Other assets at March 31, 2005 increased \$0.8 million or 9% from December 31, 2004 and \$2 million or 28% from a year earlier. The largest component of these assets was deferred GIC 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 customer deposits during the period.

Other liabilities include the future servicing liability of securitized mortgages, realty taxes collected from borrowers, accounts payable, income taxes payable and, on occasion, drawings under the Company's bank line of credit facility.

**Shareholders' Equity**

Total shareholders' equity increased \$4 million or 4% to \$112 million at March 31, 2005 from \$108 million at December 31, 2004. The year-over-year increase was \$16 million or 17%. As a result of the exercise of employee stock options during the first quarter of 2005, 61,633 common shares were issued and \$0.371 million was added to common share capital. During the first quarter of 2004 the Company issued 1,027,113 common shares by way of its IPO and added net proceeds of \$16 million to common share capital as a result. At March 31, 2005, the Company had 11,742,383 common shares issued and outstanding, up 350,835 or 3% from 11,391,548 common shares issued and outstanding at March 31, 2004. A dividend in the amount of \$0.08 per share was declared on February 21, 2005 and recorded in the first quarter of 2005. No dividends were paid in the first quarter of 2004 as the Company did not initiate its dividend payments until the third quarter of 2004.

**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. As well, the Company requires sufficient regulatory capital to meet the needs of its asset growth targets. As a result of the issue of Series 5 Subordinated Debentures, Equitable Trust has surpassed by 0.2% the total regulatory capital ratio of 12.2% achieved immediately following the Company's IPO in 2004 and

the Company has positioned itself for future growth. The use of subordinated debt as Tier 2 regulatory capital, while increasing the Company's leverage, allows Equitable to approach full utilization of capital and avoids the dilutive effects to return on equity of issuing additional common shares.

The following table is a summary of Equitable Trust's regulatory capital position:

**Table 5: Capital measures (relating solely to Equitable Trust):**

	<b>March 31, 2005</b>	December 31, 2004	March 31, 2004
Tier 1 capital	<b>110,469</b>	106,210	94,757
Tier 2 capital	<b>48,119</b>	29,149	14,974
Total capital	<b>158,588</b>	135,359	109,731
Total risk weighted assets	<b>1,280,631</b>	1,168,328	898,422
Total capital as a % of total risk weighted assets	<b>12.4%</b>	11.6%	12.2%
Authorized asset to capital multiple	<b>17.5x</b>	17.5x	17.5x
Utilized asset to capital multiple	<b>10.7x</b>	11.4x	10.8x

## **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.

### **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 \$122 million at March 31, 2005 compared to \$99 million at December 31, 2004 and \$67 million at March 31, 2004. Total liquid resources were \$205 million at March 31, 2005 compared to \$177 million as at December 31, 2004 and \$138 million at March 31, 2004.

### **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 well, the Company closely monitors the effects of any interest rate changes on net interest income for the following twelve month period and on the net present value of the future cash flows of all of its assets and liabilities. An immediate and

sustained 1% decrease in interest rates as of March 31, 2005, would negatively impact net interest income for the following 12-month period by \$2.7 million before adjusting for income taxes.

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 attributable 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. Investment policies are reviewed regularly by Equitable Trust's Investment Committee to ensure that the type, credit quality, duration and concentration of investments in marketable securities are appropriate, prudent and consistent with the risk profile targets adopted by the Company. P-2 and better rated securities comprised 76% of the securities portfolio at March 31, 2005, compared to 70% a year earlier.

### **OUTLOOK**

Management believes that demand for residential mortgage financing remains strong in the markets in which it operates. Mortgage demand in and around the Greater Toronto Area 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 March 31, 2005, the prime rate was 4.25%, unchanged from December 31, 2004. 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 in the short term. With respect to demand for mortgages, management believes the kind of modest, incremental increases in interest rates that may be expected in 2005 will not significantly affect mortgage growth patterns or borrower ability to service debt. Higher rates may, however, act to curtail activity 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, however, prepared to consider expansion to other geographic areas of Canada provided the same disciplined approach to mortgage financing that works in the GTA may be extended to the new geographic area. In this light, the Company has decided to extend its single family dwelling mortgage origination activities to Calgary this year. Although the Company does not expect Calgary to represent a large part of its portfolio in the near future, Calgary is viewed by management as a logical market for Equitable's niche lending because of its sound real estate values and population growth.

The Company is committed to controlled growth in all of its niches and the maintenance of its successful business model.

May 9, 2005

The interim unaudited consolidated financial statements and notes have not been reviewed by the Company's auditors but have been reviewed and approved by the Company's Audit Committee and Board of Directors.

### CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2005 - UNAUDITED

With comparative figures as at December 31, 2004 and March 31, 2004

(In thousands of dollars)

	March 31, 2005	December 31, 2004	March 31, 2004
<b>Assets</b>			
Cash and cash equivalents	\$46,335	\$39,942	\$60,854
Investments (note 2)	158,281	136,648	77,138
Loan securitizations - retained interests (note 3)	53,191	55,822	53,835
Mortgages receivable (note 4)	1,436,685	1,302,084	981,353
Other assets (note 5)	9,525	8,755	7,430
	<u>\$1,704,017</u>	<u>\$1,543,251</u>	<u>\$1,180,610</u>
<b>Liabilities and Shareholders' Equity</b>			
Liabilities:			
Customer deposits (note 6)	\$1,523,435	\$1,384,648	\$1,042,826
Future income taxes payable	7,911	8,040	7,508
Other liabilities (note 7)	12,999	13,861	19,723
Term loan (note 9)	19,750	-	-
Subordinated debt	28,369	29,149	14,974
	<u>1,592,464</u>	<u>1,435,698</u>	<u>1,085,031</u>
Shareholders' equity (note 10):			
Capital stock	55,186	54,815	53,604
Contributed surplus	1,045	959	630
Retained earnings	55,322	51,779	41,345
	<u>111,553</u>	<u>107,553</u>	<u>95,579</u>
	<u>\$1,704,017</u>	<u>\$1,543,251</u>	<u>\$1,180,610</u>

See accompanying notes to interim unaudited consolidated financial statements.

**CONSOLIDATED STATEMENT OF EARNINGS**  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2005 - UNAUDITED  
*With comparative figures for the three month period ended March 31, 2004*  
(In thousands of dollars, except per share amounts)

	March 31, 2005	March 31, 2004
Interest income:		
Mortgages	\$19,617	\$14,265
Investments	934	591
Other	360	566
	20,911	15,422
Interest expense:		
Customer deposits	12,078	9,377
Subordinated debt	580	353
Term loan	50	-
	12,708	9,730
Interest income, net	8,203	5,692
Provision for credit losses (note 4)	175	175
Net interest income after provision for credit losses	8,028	5,517
Other income:		
Mortgage commitment income and other fees	497	392
Net gain on sale or redemption of investments	99	57
Loan securitizations - retained interests (note 3)	1,071	812
	1,667	1,261
Net interest income and other income	9,695	6,778
Non-interest expenses	3,193	2,361
Earnings before income taxes	6,502	4,417
Income taxes (note 8):		
Current	2,149	842
Future (reduction)	(129)	548
	2,020	1,390
Net earnings	\$4,482	\$3,027
Earnings per share (note 10):		
Basic	\$0.38	\$0.29
Diluted	\$0.38	\$0.28
Weighted average number of shares outstanding (note 10):		
Basic	11,699,925	10,511,166
Diluted	11,901,865	10,940,201

See accompanying notes to interim unaudited consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2005 - UNAUDITED

*With comparative figures for the three month period ended March 31, 2004*

(In thousands of dollars)

	March 31, 2005	March 31, 2004
Common shares:		
Balance, beginning of period	\$54,815	\$37,483
Common shares issued (note 10):		
Proceeds from exercise of employee stock options	356	-
Transfer from contributed surplus relating to the exercise of stock options	15	-
Gross proceeds of initial public offering		17,975
Issue expenses, net of tax recovery of \$1,048	-	(1,854)
Balance, end of period	55,186	53,604
Retained earnings:		
Balance, beginning of period	51,779	38,618
Distribution of equity on formation of Company (note 10)	-	(300)
	51,779	38,318
Net earnings	4,482	3,027
Dividends	(939)	-
Balance, end of period	55,322	41,345
Contributed surplus:		
Balance, beginning of period	959	556
Stock-based compensation (note 10)	101	74
Transfer to common shares relating to the exercise of stock options	(15)	-
Balance, end of period	1,045	630
Total shareholders' equity	\$111,553	\$95,579

See accompanying notes to interim unaudited consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2005 - UNAUDITED

*With comparative figures for the three month period ended March 31, 2004*

(In thousands of dollars)

	March 31, 2005	March 31, 2004
Cash provided by (used in):		
Operating activities:		
Net earnings	\$4,482	\$3,027
Non-cash items:		
Loan securitizations – gains on sale of mortgages	(299)	(203)
Amortization	81	48
Provision for credit losses	175	175
Net gain on sale or redemption of investments	(99)	(57)
Future income taxes	(129)	548
Stock-based compensation	101	74
Amortization of premiums on investments	818	179
	5,130	3,791
Changes in operating assets and liabilities:		
Other assets	(813)	(1,153)
Other liabilities	(989)	9,953
	3,328	12,591
Financing activities:		
Increase in customer deposits	138,787	51,096
Issuance (redemption) of subordinated debt, net	(780)	(2,324)
Issuance of term loan	19,750	-
Dividends paid on common shares	(939)	-
Common shares issued	356	15,073
	157,174	63,845
Investing activities:		
Purchase of investments	(36,598)	(25,786)
Proceeds on sale or redemption of investments	14,246	6,445
Increase in mortgages receivable	(256,620)	(261,224)
Mortgage principal repayments	80,612	75,279
Proceeds from loan securitizations	39,822	90,688
Loan securitizations - retained interests	4,467	1,699
Purchase of capital assets	(38)	(108)
	(154,109)	(113,007)
Increase (decrease) in cash and cash equivalents	6,393	(36,571)
Cash and cash equivalents, beginning of period	39,942	97,425
Cash and cash equivalents, end of period	\$46,335	\$60,854
Comprised of:		
Deposits at banks	51,622	67,590
Short term investments	497	-
Cheques and other items in transit	(5,784)	(6,736)
	\$46,335	\$60,854
Supplemental cash flow information:		
Interest paid	\$10,223	\$9,073
Income taxes paid	2,152	1,216

See accompanying notes to interim unaudited consolidated financial statements.

## NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIOD ENDED MARCH 31, 2005

(In thousands of dollars, except per share amounts)

### 1. Basis of preparation:

These interim unaudited consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements for the year ended December 31, 2004 as set out on pages 41 to 55 of the 2004 Annual Report. These interim unaudited consolidated 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 consolidated financial statements for the year ended December 31, 2004.

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.

Certain comparative figures have been reclassified to conform with the current period's presentation.

### 2. Investments:

	March 31, 2005		December 31, 2004		March 31, 2004	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$81,930	\$81,714	\$76,849	\$77,097	\$70,254	\$71,173
Government bonds, treasury bills and notes	75,833	75,951	59,281	59,435	6,231	6,977
Common shares	518	365	518	361	653	480
	<u>\$158,281</u>	<u>\$158,030</u>	<u>\$136,648</u>	<u>\$136,893</u>	<u>\$77,138</u>	<u>\$78,630</u>

The Company has 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 March 31, 2005 (December 31, 2004 – \$Nil, March 31, 2004 – \$9,775).

### 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, 2005, outstanding securitized mortgages totaled \$1,855,292 (December 31, 2004 – \$1,858,442, March 31, 2004 – \$1,712,817) of which \$1,828,341 (December 31, 2004 – \$1,828,875, March 31, 2004 – \$1,663,554) relate to multi-unit residential properties and \$26,951 (December 31, 2004 – \$29,567, March 31, 2004 – \$49,263) relate to single family dwellings.

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**3. Loan securitizations – retained interests (continued):**

During the period, the Company securitized Canadian government guaranteed residential mortgage loans and received net cash proceeds of \$39,822 (March 31, 2004 – \$90,688). The Company retained the rights to future excess interest on the residential mortgages valued at \$2,170 (March 31, 2004 – \$3,823) and received net cash flows on interests retained of \$5,239 (March 31, 2004 – \$2,308). 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 \$461 (March 31, 2004 – \$413) relating to loans securitized during the period.

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

	March 31, 2005	March 31, 2004
Gain on sale of mortgages	\$299	\$203
Excess interest net of servicing fee	772	609
	\$1,071	\$812

The valuation of the future excess interest spread includes an excess spread of 0.85% (December 31, 2004 – 0.86%, March 31, 2004 – 0.86%), and the key assumptions of a prepayment rate of 20.0% (December 31, 2004 – 20.0%, March 31, 2004 – 16.5%) for single family residential loans, 0% (December 31, 2004 – 0%, March 31, 2004 – 0%) for multi-family residential loans and a discount rate of 5.25% (December 31, 2004 – 5.28%, March 31, 2004 – 5.49%). There are no expected credit losses, as the mortgages are government guaranteed.

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 March 31, 2005, December 31, 2004 and March 31, 2004 relating to forward contracts on Government of Canada bonds, where the counterparties for which are chartered banks, are as follows:

Bond term (years)	March 31, 2005		December 31, 2004		March 31, 2004	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
1 to 5	\$15,100	\$16,430	\$10,600	\$11,464	\$31,900	\$33,309
5 to 10	14,100	14,880	19,100	20,227	33,500	36,446
	\$29,200	\$31,310	\$29,700	\$31,691	\$65,400	\$69,755

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**4. Mortgages receivable:**

(a) Mortgages receivable and impaired mortgages:

March 31, 2005	Allowance for credit losses				Net amount
	Gross amount	Specific	General	Total	
Residential mortgages	\$1,107,824	\$2,180	\$3,366	\$5,546	\$1,102,278
Other mortgages	329,492	-	1,071	1,071	328,421
Accrued interest	5,986	-	-	-	5,986
	<b>\$1,443,302</b>	<b>\$2,180</b>	<b>\$4,437</b>	<b>\$6,617</b>	<b>\$1,436,685</b>

December 31, 2004	Allowance for credit losses				Net amount
	Gross 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
	<b>\$1,308,526</b>	<b>\$2,438</b>	<b>\$4,004</b>	<b>6,442</b>	<b>\$1,302,084</b>

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

Included in gross residential mortgages are Canadian Government insured mortgages of \$27,153 as at March 31, 2005 (December 31, 2004 - \$24,063, March 31, 2004 - \$48,331), of which \$9,485 (December 31, 2004 - \$5,619, March 31, 2004 - \$43,239) 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, 2005, December 31, 2004 and March 31, 2004.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at March 31, 2005 aggregated \$4,792 (December 31, 2004 - \$4,543, March 31, 2004 - \$4,126) and \$2,612 (December 31, 2004 - \$2,105, March 31, 2004 - \$1,103), respectively.

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**4. Mortgages receivable (continued):**

(b) Allowance for credit losses:

	March 31, 2005		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$2,438	\$4,004	\$6,442
Provision for credit losses	(258)	433	175
<b>Balance, end of period</b>	<b>\$2,180</b>	<b>\$4,437</b>	<b>\$6,617</b>

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

**5. Other assets:**

	March 31, 2005	December 31, 2004	March 31, 2004
Deferred GIC commissions	\$4,070	\$3,803	\$2,807
Other receivables	1,764	1,705	1,823
Capital assets	1,327	1,370	631
Prepaid expenses and deferred charges	1,029	629	483
Accrued interest on non-mortgage assets	935	748	717
Loan to officer	400	500	500
Income taxes recoverable	-	-	469
	<b>\$9,525</b>	<b>\$8,755</b>	<b>\$7,430</b>

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**6. Customer deposits:**

	March 31, 2005	December 31, 2004	March 31, 2004
Cashable GICs, payable on demand	\$40,471	\$ -	\$ -
GICs with fixed maturity date	1,451,450	1,355,620	1,019,728
Accrued interest	31,514	29,028	23,098
	\$1,523,435	\$1,384,648	\$1,042,826

**7. Other liabilities:**

	March 31, 2005	December 31, 2004	March 31, 2004
Securitized mortgage servicing liability	\$6,175	\$6,180	\$5,277
Accounts payable and accrued liabilities	2,972	2,111	2,276
Mortgagor realty taxes	2,880	4,595	2,395
Income taxes payable	972	975	-
Drawings under bank line of credit facility	-	-	9,775
	\$12,999	\$13,861	\$19,723

**8. Income taxes:**

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

	March 31, 2005	March 31, 2004
Canadian statutory income tax rate	36.1%	36.1%
Increase (decrease) resulting from:		
Tax exempt income	(5.5%)	(5.3%)
Non-deductible expenses	0.5%	0.7%
Effective income tax rate	31.1%	31.5%

## NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. Term loan:

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

- i) the balance of the loan, together with all accrued and unpaid interest, is due and payable in full on March 17, 2010
- ii) the loan is repayable in full at the option of the Company at any time during its term
- iii) interest is payable at 6.37%
- iv) as collateral for the term loan, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Equitable Trust and an assignment of \$19,750 of the Series 5 Subordinated Debentures issued by Equitable Trust.

### 10. Shareholders' equity:

#### (a) Capital stock:

##### Authorized:

Unlimited number of common shares  
Unlimited number of preferred shares

##### Issued:

Common shares:

	March 31, 2005		March 31, 2004	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	11,680,750	\$54,815	10,364,435	\$37,483
Issued during the period	61,633	371	1,027,113	16,121
Balance, end of period	11,742,383	\$55,186	11,391,548	\$53,604

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. As a result of this series of transactions, the Company assumed a \$300 deficit of a prior shareholder. The Company issued 10,364,435 common shares representing 4.741 times the number of common shares issued by the Operating Company.

**NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**10. Shareholders' equity (continued):**

(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. The maximum number of common shares available for issuance under the plan is fixed at 1,139,154 representing approximately 9.7% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to November 2009. A summary of the Company's stock option activity and related information for the periods ended March 31, 2005 and March 31, 2004 is as follows:

	March 31, 2005		March 31, 2004	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of period	809,729	\$15.86	431,431	\$5.10
Granted	-	-	600,000	17.50
Exercised	(61,633)	5.77	-	-
<b>Outstanding, end of period</b>	<b>748,096</b>	<b>\$16.69</b>	<b>1,031,431</b>	<b>\$12.31</b>
Exercisable, end of period	131,723	\$16.59	303,424	\$4.59

Under the fair value method of accounting for stock options, the Company has recorded compensation expense in the amount of \$101 (March 31, 2004 – \$74) related to two grants of options in 2004 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 ended December 31, 2004 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%; (ii) expected option life of 4.0 years; (iii) expected volatility of 19.0% and 13.5%; and (iv) expected dividends of 2.5% and 2.0%. The weighted average fair value of each option granted was \$2.49 and \$1.66.

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors

**Paul Alofs**<sup>(1)(5)</sup>

*President and Chief Executive Officer,  
Princess Margaret Hospital Foundation*

**Austin Beutel**<sup>(3)(4)</sup>

*Chairman of the Board, Equitable Group Inc. and  
The Equitable Trust Company  
President and Chairman, Oakwest Corporation Limited  
(an investment holding company)*

**Eric Beutel**<sup>(2)(5)</sup>

*Vice-President, Oakwest Corporation Limited  
(an investment holding company)*

**Geoffrey Bledin**<sup>(2)</sup>

*President and Chief Executive Officer, Equitable Trust*

**Joseph Dickstein**<sup>(1)(4)(5)</sup>

*Vice-Chairman and Director, PPI Financial Group  
(a financial services company)*

**Eric Kirzner**<sup>(1)(3)(4)(5)</sup>

*Professor of Finance, Rotman School of Management,  
University of Toronto*

**Rebecca MacDonald**<sup>(3)(4)</sup>

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

**Lionel Robins**<sup>(2)(3)</sup>

*President PFDL Investments Limited  
(an investment holding company)*

**Robert Rubinoff**<sup>(2)(3)(4)</sup>

*President and Director, Inglewood Holdings Inc.  
(an investment holding company)*

**Michael Shulman**<sup>(1)(5)</sup>

*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.

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### Corporate Office

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Toronto, ON, Canada, M4V 3A1

### Web Site Address

[www.equitablegroupinc.com](http://www.equitablegroupinc.com)

### Transfer Agent and Registrar

Computershare Trust  
Company of Canada  
100 University Avenue, 11th Floor  
Toronto, Ontario, M5J 2Y1  
1-800-564-6253

### Investor Relations Contact

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[investor@equitablegroupinc.com](mailto:investor@equitablegroupinc.com)

### Stock Listing

TSX: ETC

[WWW.EQUITABLEGROUPINC.COM](http://WWW.EQUITABLEGROUPINC.COM)