



EQUITABLE GROUP INC.

SECOND QUARTER REPORT

Quarter Ended June 30, 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.

Equitable achieved strong growth in earnings for the three months ended June 30, 2004 – and declared its first dividend payment – while announcing plans to utilize our expanded equity base and mortgage lending resources.

Complete details of this satisfying performance are included in the MD&A that follows, but to summarize, this is what the Company achieved in the second quarter of 2004:

- Net earnings growth of 25% to \$3.7 million.
- Basic earnings per share growth of 10% to \$0.33 and diluted earnings per share growth also of 10% to \$0.32.
- Total asset expansion of 28% to \$1.3 billion at June 30, 2004 – which represents a 21% rate of growth since year end December 31, 2003.
- Return on weighted average shareholders' equity of 15.3%.
- A mortgage production increase of 35% to \$305 million.

As these highlights and a more thorough review of our results illustrate, Equitable delivered an excellent performance in its first full quarter as a public company following our March 2004 IPO.

As expected, mortgage production accelerated and this allowed us to begin to utilize more capital. Notably, we expanded our mortgage portfolio in each of our target lending niches. Single family dwelling mortgages increased by \$117 million or 38% over the second quarter of 2003 and multi-unit residential increased 17% or \$58 million over last year. We also selectively expanded our commercial lending portfolio to take advantage of solid opportunities in that niche.

As a result of growth in each of our lending niches, the Company's mortgage portfolio remained well balanced at June 30, 2004 – 38.9% in single family dwelling, 36.3% in multi-unit residential and 20.1% in commercial with the remaining 4.7% split between CMHC-insured and construction loans.

What's important to note about our growth is that although we've significantly accelerated mortgage production, the credit quality of these new mortgages is solid. We have continued to consistently apply our disciplined lending practices, which have allowed us to keep aggregate loan losses to 0.01% of our average outstanding mortgage portfolio over the past five and a half years. There were no loan losses in the second quarter.

Part of our disciplined approach involves utilizing our capital efficiently and maintaining our low-cost business model. We did both in the quarter. Customer deposits increased 28% to \$1.2 billion in the second quarter from \$939 million a year ago, as we increased deposit liabilities to fund growth in assets, and Equitable's total capital ratio at June 30, 2004 was 11.1%.

FELLOW SHAREHOLDERS

Clearly, our foundation for future growth is in place and by all important financial measures, we are on track with our plans as we enter the second half of 2004.

DIVIDEND DECLARED

As a result of Equitable's progress, the Board was able to introduce quarterly dividend payments, on schedule, as another means of delivering value to our shareholders. The dividend payment of \$0.06 per share will be payable October 1, 2004 to shareholders of record at the close of business September 16, 2004. This dividend declaration is consistent with the Company's policy, stated at the time of our initial public offering, of initiating quarterly dividend payments beginning in the third quarter of 2004, based on a payout ratio of approximately 25% of trailing net earnings.

GROWTH ACCELERATION PLANS

As part of the Company's objective to accelerate growth, Equitable is seeking to raise up to \$40 million in non-dilutive subordinated debt – eligible as tier 2 regulatory capital – over the course of the next three months and has retained a financial advisor to aid in this process. This will provide capital for further asset growth while also extinguishing \$15 million of existing debt.

LOOKING FORWARD

Market conditions remain very favourable for us and expectations for gradual, measured increases in interest rates – expectations which continue to be fuelled by both the Bank of Canada and the US Federal Reserve – will only help our earnings as they are introduced.

Despite Equitable's excellent performance this quarter, we still believe the impact of our recent expansion initiatives have not been fully realized – and as a result, we expect momentum to continue to build as we move through the second half of 2004.

Overall, we are bullish about demand for financing in our niches, which is driven by sustainable factors such as population growth, and we are confident that we can expand investment returns through disciplined utilization of capital. We look forward to keeping you apprised of our progress in the coming months.

Yours sincerely,



Geoffrey Bledin

President and Chief Executive Officer

August 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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(for the period ended June 30, 2004)

The following discussion should be read in conjunction with the unaudited financial statements and accompanying notes for the period ended June 30, 2004. Equitable Group Inc. ("Equitable" or the "Company") completed an initial public offering on March 18, 2004. Accordingly, the comparative results for 2003 are those of The Equitable Trust Company ("Equitable Trust"), the operating subsidiary of Equitable. Unless otherwise indicated, references to Equitable or the Company include Equitable Trust. All amounts are in millions of Canadian dollars unless otherwise indicated.

NOTICE TO READERS

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 Company's periodic reports filed with Canadian regulatory authorities. Many factors could cause actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Equitable does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

OVERVIEW

Equitable provides residential first mortgage financing through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"), on properties located primarily in and around the Greater Toronto Area (the "GTA"), 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.

Equitable seeks to achieve a strategic balance in the composition of its mortgage portfolio in an effort to generate high returns consistent with disciplined risk management. Therefore, the composition of its mortgage portfolio may change modestly from quarter to quarter but will always be more heavily weighted toward multi-unit residential and alternative single family dwelling mortgage financing, with some participation in commercial mortgage lending – not to exceed 25% of the mortgage portfolio as stipulated by the Company's lending policies. Residential construction mortgage lending has been and will remain a small proportion of the Company's mortgage portfolio.

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The composition of the principal outstanding of the Company's mortgage portfolio as at June 30, 2004 reflects management's asset weighting strategy and is shown in the table below together with comparisons for prior periods:

In \$000s	June 30, 2004		December 31, 2003		June 30, 2003	
	Mortgage principal	% of total	Mortgage principal	% of total	Mortgage principal	% of total
Multi-unit residential	395,407	36.3%	377,842	42.4%	337,397	39.3%
Single family dwelling	423,664	38.9%	317,943	35.7%	306,964	35.7%
Commercial	218,578	20.1%	163,190	18.3%	148,396	17.3%
Construction	28,853	2.7%	15,804	1.8%	18,334	2.1%
CMHC-insured ⁽¹⁾	21,455	2.0%	15,520	1.8%	47,619	5.6%
Total	1,087,957	100.0%	890,299	100.0%	858,710	100.0%

⁽¹⁾ Canada Mortgage and Housing Corporation ("CMHC")

The single family dwelling component of the portfolio increased \$117 million or 38% on a year-over-year basis to represent 38.9% of the total outstanding principal at June 30, 2004 compared to 35.7% a year ago. Absolute and relative growth in this portion of the portfolio reflects the Company's initiatives in expanding its single family mortgage origination and servicing team earlier in the year to capitalize on demand in this niche. The commercial component of the Company's mortgage portfolio increased \$70 million to 20.1% of the total portfolio, compared to 17.3% of the portfolio a year ago, as the Company took advantage of growth opportunities in this segment. Of the \$70 million increase in commercial mortgages, \$36 million were "warehoused loans" funded for a third party. Warehoused loans are short-term investments in commercial first mortgages by the Company. These loans will be assigned to a third party and fully repaid within a relatively short time frame. It is expected that these warehoused loans will be largely discharged by the fourth quarter of 2004. The balance of \$34 million of commercial mortgages was funded using Equitable's traditional lending criteria, and include mortgages on properties located primarily in the GTA.

To fund its asset acquisitions, the Company sells guaranteed investment certificates ("GICs") as a nationally approved deposit-taking institution. At June 30, 2004, the Company had \$1.2 billion of customer GIC deposits, up 28% from \$939 million a year earlier.

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 ("IPO") 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.

EARNINGS REVIEW

Net earnings for the three months ended June 30, 2004 increased 25% to \$3.72 million from \$2.98 million in the same period in 2003. Earnings per share (basic) increased 10% to \$ 0.33 per share in the second quarter of 2004 compared to \$0.30 per share in the same period in 2003, while earnings per share (diluted) also grew 10% to \$0.32 from \$0.29 in the same period in 2003. The weighted average number of diluted shares outstanding grew 15% to 11.7 million from 10.2 million on a year-over-year basis due to the completion of the Company's IPO on March 18, 2004.

Higher quarterly earnings reflect:

- Growth in interest-earning assets compared to the same period in 2003.
- A significant decrease in effective tax rates, which stood at 28% in the second quarter of 2004 versus 37% in the second quarter of 2003.

The increase in interest-earning assets produced an additional \$0.64 million in net interest income on a tax equivalent basis in the second quarter, representing a 12% year-over-year increase. Net interest income on a tax equivalent basis for the second quarter was \$6.14 million compared to \$5.50 million in the second quarter a year ago.

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

Return on weighted average equity for the second quarter of 2004 was 15.3% compared to 17.4% during the same period in 2003. Return on equity is less than in the prior period primarily because of the increase in the equity base as a result of the Company's IPO. The Company is targeting an improvement in ROE through the remainder of 2004 and expects to benefit from greater mortgage production created by its recently expanded mortgage team.

For the first six months of 2004, net earnings increased 24% to \$6.74 million from \$5.45 million in 2003, while earnings per share basic increased 13% to \$0.62 from \$0.55. Diluted earnings per share increased 9% to \$0.59 from \$0.54. These increases reflect the same drivers as outlined for the second quarter of 2004, including effective tax rates which were significantly lower, at 30% for the six months ended June 30, 2004, compared to 39% a year ago. Interest-earning assets also produced an additional \$1.30 million in net interest income on a tax equivalent basis in the six months ended June 30, 2004, representing a 13% year-over-year increase. Net interest income on a tax equivalent basis for the first six months of 2004 was \$11.30 million compared to

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\$10.00 million during the same period in 2003. Return on weighted average equity for the first six months of 2004 was 15.2% compared to 16.5% for 2003.

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 on a tax equivalent basis increased 11% to \$16.71 million during the quarter ended June 30, 2004, from \$15.05 million during the same period in 2003. Three separate decreases of 25 basis points in prime rate were implemented during the first six months of 2004. Despite these decreases in interest rates, mortgage revenue increased to \$14.64 million during the quarter from \$13.33 million in 2003, while investments revenue on a tax equivalent basis increased to \$1.71 million from \$0.98 million. These increases were a result of growth in the mortgage portfolio and in the dividend-yielding securities portfolio. Other interest income fell to \$0.35 million from \$0.73 million in 2003. In 2003 the Company received non-recurring interest income of \$0.27 million related to a tax refund.

Dividend income has been presented on a tax equivalent basis for the purpose of analyzing revenues and calculating the net interest margin. 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 second quarter of 2004 was \$0.68 million compared to \$0.19 million during the same period in 2003, and \$1.05 million for the six months ended June 30, 2004 compared to \$0.27 million for the comparable period in 2003. These increases reflect substantial growth in the Company's dividend-yielding securities portfolio. This portfolio increased to \$86.0 million as at June 30, 2004 from \$25.0 million as at June 30, 2003.

Interest on GIC deposits increased 10% to \$10.27 million during the quarter ended June 30, 2004, from \$9.32 million during the same period in 2003, reflecting an increase in customer deposits of 28% 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 2.0% for the three months ended June 30, 2004 compared to 2.2% during the same period in 2003. For the six months ended June 30, 2004, net interest margin on a tax equivalent basis was 1.9% compared to 2.1% during the same period in 2003. The decrease in net interest margin is a function of a decrease in the bank rate and prime rate during the period. Management expects this

trend to be reversed in coming months based on indications from the Bank of Canada that interest rates may increase in the near term.

It is noteworthy that, unlike some of its comparators, the Company includes interest penalties on the early discharge of mortgages in other income and not in interest income. As well, 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 and not in non-interest expenses. If interest penalties on the early discharge of mortgages were included in interest income, and if commissions paid to deposit agents was included in non-interest expenses, net interest margin (tax equivalent basis) on this alternative basis for the three months ended June 30, 2004 would be reported as 2.3% compared to 2.5% on the same alternative basis in 2003. Year to date net interest margin (tax equivalent basis) on this alternative basis would be 2.2% in 2004 compared to 2.4% in 2003.

OTHER INCOME

Other Income includes ancillary fees related to the mortgage portfolio, interest penalties on the early discharge of mortgages, 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 in other income. Other income amounted to \$1.96 million during the second quarter of 2004 compared to \$1.59 million in 2003, and totalled \$3.66 million for the six months ended June 30, 2004 compared to \$3.25 million in the same period in 2003.

The Company securitized, through the CMHC MBS program, \$131 million of mortgages during the second quarter of 2004 compared to \$106 million during the second quarter of 2003, and on a year-to-date basis has securitized \$222 million of mortgages in 2004 versus \$269 million in 2003. The reduction in securitization on a year-to-date basis reflects higher than usual securitization activity levels in 2003.

MBS income related to excess interest, net of servicing fee, continued to increase as total securitized assets increased. Over the past 10 years, the Company has securitized more than \$2.5 billion of mortgages through the CMHC MBS program. Excess interest, net of servicing fee, amounted to \$0.67 million during the second quarter of 2004 compared to \$0.57 million during the same period in 2003 and was \$1.28 million during the six months ended June 30, 2004 compared to \$1.08 million during the same period in 2003.

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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 totalled \$2.08 million for the second quarter of 2004 compared to \$1.98 million during the same period in 2003 and were \$3.97 million for the six months ended June 30, 2004 compared to \$3.70 million in 2003. The increase in both periods in 2004 was primarily due to an increase in mortgage origination and servicing staff to support growth. Total staff complement at June 30, 2004 was 50, including 34 staff in the mortgage origination and servicing department. At June 30, 2003 staff totalled 38 including 25 in the mortgage origination and servicing department. Management believes the Company can continue to grow rapidly, profitably and on a disciplined, low-risk basis from its single head office location without resorting to a branch network.

Included in non-interest expenses during the second quarter of 2004 was a charge for compensation expense in the amount of \$0.11 million (\$0.19 million for the six months ended June 30, 2004) related to stock options issued in February 2004. The offset to this expense was an increase to contributed surplus in the same amount. There was no compensation charge related to the issue of stock options in the period ended June 30, 2003.

The Company's productivity ratio (non-interest expense as a ratio of net interest income and other income before provision for credit losses) was 28.0% in the second quarter of 2004, compared to 28.8% during the same period in 2003. This improvement is due to higher revenues related to increased mortgage production resulting from the Company's decision to expand its mortgage origination and servicing team. The productivity ratio for the six-month period ended June 30, 2004 was 28.6%, relatively unchanged from 28.5% during the same period in 2003. Management believes the Company's productivity ratio remains one of the best in the mortgage lending business and management is committed to maintaining this distinction.

CREDIT RISK MANAGEMENT AND PROVISION FOR CREDIT LOSSES

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, while total aggregate loan losses amounted to just 0.01% of its average mortgage portfolio outstanding over the period. Management believes this strong record of credit risk management reflects the Company's highly selective and disciplined approach to mortgage financing. During the six months ended June 30, 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 \$0.18 million during the second quarter for possible future credit losses on existing loans. This compares with a provision of \$0.17 million during the second quarter in 2003. Provisions for possible future credit losses totalled \$0.35 million for the six months ended June 30, 2004 compared to \$0.33 million during the same period in 2003.

Total allowance for credit losses was \$6.09 million or 56 basis points of mortgage principal outstanding as at June 30, 2004 compared to \$5.40 million (63 basis points) as at June 30, 2003. As a percentage of risk-weighted mortgages, total allowance for credit losses was 72 basis points as at June 30, 2004 compared to 83 basis points as at June 30, 2003.

Mortgages in arrears 30 days or more amounted to \$1.24 million as at June 30, 2004 representing 0.11% of total loans outstanding, compared to \$1.49 million in arrears over 30 days as at June 30, 2003 (0.17% of total loans outstanding). Mortgages in arrears over 90 days at June 30, 2004 totalled \$0.36 million (0.03% of total loans outstanding), also a significant improvement over the same period in 2003 when mortgages in arrears over 90 days were \$0.62 million (0.07% of loans outstanding). At June 30, 2004 gross loans on which specific reserves have been allocated amounted to \$6.0 million compared to \$5.3 million as at June 30, 2003. The Company does not wait for a loan to go into arrears over 90 days before examining it for the purposes of evaluating impairment. In certain instances, a loan may be identified by the Company, using its conservative standards – as being impaired due to reasons other than non-payment of the loan. Such reasons might include delays in a construction project or legal issues ancillary to a loan. Such identification occurred in both reporting periods of 2004 and 2003.

BALANCE SHEET REVIEW

Total assets as at June 30, 2004 were \$1.33 billion compared to \$1.04 billion as at June 30, 2003, representing growth of 28% on a year-over-year basis.

The increase in assets is primarily due to increases in the Company's mortgage and investment portfolios. Mortgage assets increased 27% to \$1.09 billion from \$857 million at June 30, 2003. The increase in mortgages was a result of efforts made by the Company's recently enlarged mortgage origination and servicing department to deploy additional capital to meet growth objectives.

Conventional mortgage production (i.e. not CMHC-insured) during the quarter ended June 30, 2004 was \$201 million compared to \$116 million in the second quarter of 2003. For the first six months, conventional mortgage production amounted to \$336 million

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in 2004 compared to \$190 million in 2003. Production of CMHC-insured mortgages for securitization in the Company's MBS program was \$104 million in the second quarter of 2004 compared to \$110 million in the same period in 2003. On a year-to-date basis, production of CMHC-insured mortgages for securitization purposes amounted to \$228 million in 2004 compared to \$288 million in 2003.

Total assets as at June 30, 2004 increased \$231 million or 21% from \$1.10 billion at December 31, 2003, while mortgage assets increased \$198 million or 22% from December 31, 2003.

The Company's investment portfolio increased \$48 million or 126% to \$86 million at June 30, 2004, compared to \$38 million as at June 30, 2003. The Company's investment portfolio increased \$28 million or 49% from December 31, 2003.

Cash and cash equivalents increased marginally to \$96 million from \$91 million as at June 30, 2003 but were down slightly from the December 31, 2003 balance of \$97 million. Cash and cash equivalents are held for liquidity purposes and will fluctuate based upon mortgage funding activity. It is current Company policy to maintain in excess of 6% of total assets in liquidity investments on a continuous basis. At June 30, 2004, such holdings amounted to 7.2% of total assets.

The Company's investment in retained interests in CMHC-insured loan securitization activities increased to \$56 million from \$52 million as at December 31, 2003, and from \$48 million as at June 30, 2003. These increases reflect additional securitization activity carried out by the Company during the applicable periods.

Total mortgages securitized through the CMHC MBS program and outstanding as at June 30, 2004 were \$1.8 billion compared to \$1.7 billion as at December 31, 2003 and \$1.5 billion as at June 30, 2003.

Equitable's assets are categorized in five groups as set out in the table below as at June 30, 2004, December 31, 2003 and at June 30, 2003:

In \$000s	June 30, 2004		December 31, 2003		June 30, 2003	
	Asset amount	% of total	Asset amount	% of total	Asset amount	% of total
Liquidity investments	96,183	7.2%	109,653	9.9%	103,601	10.0%
Portfolio securities	86,019	6.5%	45,691	4.2%	25,838	2.5%
Mortgage loans	1,086,979	81.5%	889,271	80.6%	857,013	82.4%
Loan securitizations – retained interests	56,003	4.2%	52,331	4.7%	48,438	4.7%
Other assets	8,664	0.6%	6,332	0.6%	4,634	0.4%
Total	1,333,848	100.0%	1,103,278	100.0%	1,039,524	100.0%

GIC deposits were \$1.2 billion as at June 30, 2004, compared to \$992 million as at December 31, 2003 and \$939 million as at June 30, 2003. Deposits as at June 30, 2004 increased 28% compared to June 30, 2003 and 21% since December 31, 2003.

Equitable Trust did not redeem any subordinated debt during the second quarters of 2004 or 2003. No subordinated debt was issued during the second quarter of 2004 whereas \$9 million of debt was issued during the second quarter of 2003. For the six months ended June 30, 2004, net subordinated debt redemptions amounted to \$2 million compared to net issuances of \$6 million in 2003. Subordinated debt represents eligible tier 2 capital for Equitable Trust. The Company intends to issue further subordinated debt to support future growth – see “Capital Management” below for further details.

As the Company came into existence 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.

In the second quarter of 2004, the Company received cash proceeds of \$0.2 million related to the exercise of employee stock options. The Company issued 1,027,113 common shares in connection with its IPO during the first quarter of 2004, raising net proceeds of \$16 million after \$2 million costs of issue, net of taxes. Equitable Trust issued 383,254 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 shares were issued in the second quarter of 2003.

No dividends were declared or paid during the second quarter. The Company’s Board of Directors has declared a quarterly dividend payable October 1, 2004 to shareholders of record as of close of business September 16, 2004 in the amount of \$0.06 per share. The quarterly dividend amount was calculated based upon 25% of trailing net earnings. Dividends are declared at the discretion of the Board of Directors based on their assessment of the Company’s financial position and outlook.

Shareholders’ equity increased to \$100 million as at June 30, 2004 from \$70 million as at June 30, 2003 and \$77 million at December 31, 2003, representing an increase of 43% from June 30, 2003 and 30% from December 31, 2003. An aggregate of 11,425,771 common shares of the Company were issued and outstanding as at August 10, 2004.

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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. Assets eligible for liquidity purposes were \$96 million as at June 30, 2004, \$110 million as at December 31, 2003 and \$104 million as at June 30, 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.

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 to actively manage asset liability maturity matching on a monthly and cumulative annual basis using various measurement methodologies under stringently prescribed Company Board of Directors-approved tolerances. One methodology measures the impact of a specified change in interest rates on the present value of the Company's net assets. Under the scenario of an immediate and sustained 100 basis point decrease in rates, the Company's present value of net assets as at June 30, 2004 would be negatively affected by \$0.6 million on a pre-tax basis.

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 CMHC MBS program. Hedging protects the Company from losses due to changes in interest rates during the relevant period. The hedge is initiated on the date that the mortgage is priced and committed to and terminated on the date that the pool is sold. Changes in interest rates affect the price at which the

mortgage pool is sold and inversely affects the value of the hedge. All costs related to hedging activities are matched to mortgages and are accounted for when the mortgage is securitized under the CMHC MBS program.

Credit Risk Management

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

In accordance with 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 Canada ("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 above minimum regulatory requirements at all times. Equitable Trust's total capital ratio was 11.1% as at June 30, 2004 consisting of a tier 1 capital ratio of 9.6% and a tier 2 capital ratio of 1.5%; at December 31, 2003 total capital ratio was 11.3% and at June 30, 2003 it was 11.5%. The Company has retained a financial advisor in connection with a proposed issuance of up to \$40 million of non-dilutive subordinated debt which shall be eligible as tier 2 regulatory capital. The Company plans to redeem its existing subordinated debt using a portion of the proceeds of such new subordinated debt issue which, at current interest rates, is expected to bear interest at lower rates than on the Company's existing subordinated debt. The balance of such proceeds will be used to provide capital for further asset growth.

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OUTLOOK

Management's outlook has not changed materially since the Company's management's discussion and analysis for the three months ended March 31, 2004.

The outlook for the Company's markets remains strong at the date hereof, with demand for mortgage financing in and around the GTA continuing 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 mortgage lending niches in which the Company operates have historically been stable and attractive to lenders. At June 30, 2004, the prime rate was 3.75% and the consensus among economists appears to suggest measured and modest future rate increases. Such rises would benefit the Company's earnings as they occur due to spread management and, in management's opinion, to the extent that such rises occur in a measured and modest manner, will not significantly affect mortgage growth patterns or borrower ability to service debt.

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 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 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.

August 10, 2004

The interim unaudited consolidated financial statements 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 JUNE 30, 2004 – UNAUDITED

With comparative figures as at December 31, 2003 and June 30, 2003

	June 30, 2004	December 31, 2003	June 30, 2003
ASSETS			
Cash and cash equivalents	\$ 96,183,000	\$ 97,425,000	\$ 91,402,000
Investments (note 2)	86,019,000	57,919,000	38,037,000
Loan securitizations			
– retained interests (note 3)	56,003,000	52,331,000	48,438,000
Mortgages receivable (note 4)	1,086,979,000	889,271,000	857,013,000
Other assets (note 5)	8,664,000	6,332,000	4,634,000
	\$ 1,333,848,000	\$ 1,103,278,000	\$ 1,039,524,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Customer deposits	\$ 1,199,341,000	\$ 991,730,000	\$ 939,163,000
Future income taxes payable	8,561,000	7,798,000	6,317,000
Other liabilities (note 6)	11,464,000	9,795,000	9,848,000
Subordinated debt	14,974,000	17,298,000	14,468,000
	1,234,340,000	1,026,621,000	969,796,000
Shareholders' equity (note 8):			
Capital stock	53,706,000	37,483,000	34,417,000
Contributed surplus	741,000	556,000	535,000
Retained earnings	45,061,000	38,618,000	34,776,000
	99,508,000	76,657,000	69,728,000
	\$ 1,333,848,000	\$ 1,103,278,000	\$ 1,039,524,000

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2004 – UNAUDITED

With comparative figures for the three-month and six-month periods ended June 30, 2003

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Interest income:				
Mortgages	\$ 14,642,000	\$ 13,334,000	\$ 28,470,000	\$ 25,684,000
Investments	1,033,000	794,000	1,747,000	1,398,000
Other	351,000	729,000	788,000	1,009,000
	16,026,000	14,857,000	31,005,000	28,091,000
Interest expense:				
Customer deposits	10,266,000	9,320,000	20,104,000	17,953,000
Subordinated debt	303,000	232,000	656,000	415,000
	10,569,000	9,552,000	20,760,000	18,368,000
Interest income, net	5,457,000	5,305,000	10,245,000	9,723,000
Provision for credit losses (note 4)	175,000	165,000	350,000	330,000
Net interest income after provision for credit losses	5,282,000	5,140,000	9,895,000	9,393,000
Other income:				
Mortgage commitment income and fees	972,000	676,000	1,801,000	1,376,000
Net gain on sale of investments	29,000	45,000	86,000	69,000
Loan securitizations – retained interests (note 3)	957,000	865,000	1,769,000	1,808,000
	1,958,000	1,586,000	3,656,000	3,253,000
Net interest income and other income	7,240,000	6,726,000	13,551,000	12,646,000
Non-interest expenses	2,078,000	1,983,000	3,972,000	3,695,000
Earnings before income taxes	5,162,000	4,743,000	9,579,000	8,951,000
Income taxes (note 7):				
Current	361,000	1,673,000	1,203,000	3,136,000
Future	1,085,000	90,000	1,633,000	360,000
	1,446,000	1,763,000	2,836,000	3,496,000
Net earnings	\$ 3,716,000	\$ 2,980,000	\$ 6,743,000	\$ 5,455,000
Earnings per share (note 8):				
Basic	\$ 0.33	\$ 0.30	\$ 0.62	\$ 0.55
Diluted	\$ 0.32	\$ 0.29	\$ 0.59	\$ 0.54
Weighted average number of shares outstanding (note 8):				
Basic	11,394,933	10,056,916	10,953,050	9,927,191
Diluted	11,743,743	10,233,561	11,341,973	10,109,526

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2004 – UNAUDITED

With comparative figures for the three-month and six-month periods ended June 30, 2003

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Common shares:				
Balance, beginning of period	\$ 53,604,000	\$ 34,417,000	\$ 37,483,000	\$ 31,521,000
Common shares issued (note 8):				
Proceeds from exercise of employee stock options	172,000	—	172,000	218,000
Compensation settlement	—	—	—	2,678,000
Gross proceeds of initial public offering	—	—	17,975,000	—
Issue expenses, net of tax recovery of \$1,088,000 in 2004	(70,000)	—	(1,924,000)	—
Balance, end of period	53,706,000	34,417,000	53,706,000	34,417,000
Retained earnings:				
Balance, beginning of period	41,345,000	33,005,000	38,318,000	30,530,000
Net earnings	3,716,000	2,980,000	6,743,000	5,455,000
Dividends	—	(1,209,000)	—	(1,209,000)
Balance, end of period	45,061,000	34,776,000	45,061,000	34,776,000
Contributed surplus:				
Balance, beginning of period	630,000	535,000	556,000	535,000
Stock-based compensation (note 8)	111,000	—	185,000	—
Balance, end of period	741,000	535,000	741,000	535,000
Total shareholders' equity	\$ 99,508,000	\$ 69,728,000	\$ 99,508,000	\$ 69,728,000

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2004 – UNAUDITED

With comparative figures for the three-month and six-month periods ended June 30, 2003

	Three months ended		Six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 3,716,000	\$ 2,980,000	\$ 6,743,000	\$ 5,455,000
Non-cash items:				
Loan securitizations – retained interests	(284,000)	(291,000)	(487,000)	(725,000)
Amortization	52,000	48,000	100,000	96,000
Provision for credit losses	175,000	165,000	350,000	330,000
Net gain on sale of investments	(29,000)	(45,000)	(86,000)	(69,000)
Future income taxes	1,085,000	90,000	1,633,000	360,000
Stock-based compensation	111,000	—	185,000	—
Amortization of premiums or (discounts) on investments	335,000	(21,000)	514,000	(13,000)
	5,161,000	2,926,000	8,952,000	5,434,000
Changes in operating assets and liabilities:				
Other assets	(1,172,000)	1,192,000	(2,325,000)	(741,000)
Other liabilities	(8,169,000)	1,701,000	1,784,000	1,725,000
	(4,180,000)	5,819,000	8,411,000	6,418,000
Financing activities:				
Increase in customer deposits	156,515,000	67,446,000	207,611,000	138,640,000
Issuance (redemption) of subordinated debt	—	8,614,000	(2,324,000)	5,808,000
Dividends paid on common shares	—	(1,209,000)	—	(1,209,000)
Issuance of capital stock	62,000	—	15,135,000	218,000
	156,577,000	74,851,000	220,422,000	143,457,000
Investing activities:				
Purchase of investments	(27,233,000)	(14,135,000)	(53,019,000)	(16,172,000)
Proceeds on sale/redemption of investments	18,046,000	3,811,000	24,491,000	16,208,000
Increase in mortgages receivable	(302,914,000)	(229,517,000)	(564,138,000)	(482,929,000)
Mortgage principal repayments	66,082,000	65,630,000	141,361,000	97,873,000
Proceeds from loan securitizations	126,837,000	104,366,000	217,525,000	265,414,000
Loan securitizations – retained interests	2,310,000	1,951,000	4,009,000	2,775,000
Purchase of capital assets	(196,000)	(98,000)	(304,000)	(98,000)
	(117,068,000)	(67,992,000)	(230,075,000)	(116,929,000)
Increase (decrease) in cash and cash equivalents	35,329,000	12,678,000	(1,242,000)	32,946,000
Cash and cash equivalents, beginning of period	60,854,000	78,724,000	97,425,000	58,456,000
Cash and cash equivalents, end of period	\$ 96,183,000	\$ 91,402,000	\$ 96,183,000	\$ 91,402,000
Comprised of:				
Deposits at banks	43,407,000	27,312,000	43,407,000	27,312,000
Short term investments	59,905,000	69,260,000	59,905,000	69,260,000
Cheques and other items in transit	(7,129,000)	(5,170,000)	(7,129,000)	(5,170,000)
	\$ 96,183,000	\$ 91,402,000	\$ 96,183,000	\$ 91,402,000
Supplemental cash flow information:				
Interest paid	10,205,000	8,941,000	19,279,000	15,807,000
Income taxes paid	1,611,000	886,000	2,827,000	2,500,000

See accompanying notes to interim unaudited consolidated financial statements.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six-month period ended June 30, 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 comparative figures for December 31, 2003 and June 30, 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:

	June 30, 2004		December 31, 2003		June 30, 2003	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$ 85,501,000	\$ 84,983,000	\$ 45,038,000	\$ 45,689,000	\$ 24,465,000	\$ 24,785,000
Government bonds and notes	—	—	12,228,000	12,928,000	12,199,000	12,805,000
Common shares	518,000	281,000	653,000	494,000	991,000	843,000
Corporate debt	—	—	—	—	382,000	384,000
	\$ 86,019,000	\$ 85,264,000	\$ 57,919,000	\$ 59,111,000	\$ 38,037,000	\$ 38,817,000

The Company has a bank line of credit facility. Under this facility the Company may borrow up to \$10 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 June 30, 2004 or June 30, 2003.

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 June 30, 2004, outstanding securitized mortgages totalled \$1,803,398,000 (December 31, 2003 - \$1,653,972,000, June 30, 2003 - \$1,488,441,000).

During the period, the Company securitized Canadian government guaranteed residential mortgage loans and received net cash proceeds of \$217,525,000 (June 30, 2003 - \$265,414,000). The Company retained the rights to future excess interest on the

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six-month period ended June 30, 2004

residential mortgages valued at \$9,550,000 (June 30, 2003 – \$11,230,000) and received net cash flows on interests retained of \$5,291,000 (June 30, 2003 – \$3,858,000). 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 of \$5,968,000 (December 31, 2003 – \$5,114,000, June 30, 2003 – \$4,092,000) which is included in other liabilities.

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

	June 30, 2004	June 30, 2003
Gain on sale of mortgages	\$ 487,000	\$ 725,000
Excess interest net of servicing fee	1,282,000	1,083,000
	\$ 1,769,000	\$ 1,808,000

The key assumptions used to value the future excess interest spread include an excess spread of 0.86% (December 31, 2003 – 0.86%, June 30, 2003 – 0.88%), a prepayment rate of 18.7% (December 31, 2003 – 15.9%, June 30, 2003 – 11.7%) for single family residential loans, 0% (December 31, 2003 – 0%, June 30, 2003 – 0%) for multi-family residential loans and a discount rate of 5.39% (December 31, 2003 – 5.54%, June 30, 2003 – 5.73%). 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 June 30, 2004, December 31, 2003 and June 30, 2003 relating to forward contracts on Government of Canada bonds, the counterparties for which are chartered banks, are as follows:

Bond term (years)	June 30, 2004		December 31, 2003		June 30, 2003	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
1 to 5	\$ 27,000,000	\$ 27,937,000	\$ 16,600,000	\$ 17,883,000	\$ 49,300,000	\$ 52,271,000
5 to 10	12,100,000	12,506,000	26,800,000	28,194,000	40,500,000	42,351,000
	\$ 39,100,000	\$ 40,443,000	\$ 43,400,000	\$ 46,077,000	\$ 89,800,000	\$ 94,622,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six-month period ended June 30, 2004

4. MORTGAGES RECEIVABLE:

(a) Mortgages receivable and impaired mortgages:

June 30, 2004	Allowance for credit losses				
	Gross amount	Specific	General	Total	Net amount
Residential mortgages	\$ 870,157,000	\$ 2,790,000	\$ 2,626,000	\$ 5,416,000	\$ 864,741,000
Other mortgages	218,573,000	—	674,000	674,000	217,899,000
Accrued interest	4,339,000	—	—	—	4,339,000
	\$1,093,069,000	\$ 2,790,000	\$ 3,300,000	\$ 6,090,000	\$1,086,979,000

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

June 30, 2003	Allowance for credit losses				
	Gross amount	Specific	General	Total	Net amount
Residential mortgages	\$ 710,071,000	\$ 2,873,000	\$ 2,089,000	\$ 4,962,000	\$ 705,109,000
Other mortgages	148,415,000	—	441,000	441,000	147,974,000
Accrued interest	3,930,000	—	—	—	3,930,000
	\$ 862,416,000	\$ 2,873,000	\$ 2,530,000	\$ 5,403,000	\$ 857,013,000

Included in gross residential mortgages are Canadian Government insured mortgages of \$21,455,000 as at June 30, 2004 (December 31, 2003 – \$15,520,000, June 30, 2003 – \$47,620,000), of which \$15,725,000 (December 31, 2003 – \$10,214,000, June 30, 2003 – \$40,105,000) 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 June 30, 2004, December 31, 2003 and June 30, 2003.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at June 30, 2004 aggregated \$5,977,000 (December 31, 2003 – \$4,115,000, June 30, 2003 – \$5,269,000) and \$3,187,000 (December 31, 2003 – \$1,078,000, June 30, 2003 – \$2,396,000), respectively.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six-month period ended June 30, 2004

(b) Allowance for credit losses:

	June 30, 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	(250,000)	600,000	350,000
Recoveries	3,000	—	3,000
Balance, end of period	\$ 2,790,000	\$ 3,300,000	\$ 6,090,000

	June 30, 2003		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$ 2,661,000	\$ 2,360,000	\$ 5,021,000
Provision for credit losses	160,000	170,000	330,000
Recoveries	52,000	—	52,000
Balance, end of period	\$ 2,873,000	\$ 2,530,000	\$ 5,403,000

5. OTHER ASSETS:

	June 30, 2004	December 31, 2003	June 30, 2003
Accrued interest on non-mortgage assets	\$ 60,000	\$ 779,000	\$ 692,000
Capital assets	774,000	571,000	489,000
Deferred GIC commissions	3,436,000	2,627,000	2,489,000
Loan to officer	500,000	600,000	—
Other receivables	1,574,000	1,231,000	480,000
Prepaid expenses and other	593,000	524,000	484,000
Income taxes recoverable	1,727,000	—	—
	\$ 8,664,000	\$ 6,332,000	\$ 4,634,000

6. OTHER LIABILITIES:

	June 30, 2004	December 31, 2003	June 30, 2003
Securitized mortgage servicing liability	\$ 5,968,000	\$ 5,114,000	\$ 4,092,000
Mortgagor realty taxes	3,448,000	3,456,000	3,322,000
Accounts payable and accrued liabilities	2,048,000	1,110,000	2,128,000
Income taxes payable	—	115,000	306,000
	\$ 11,464,000	\$ 9,795,000	\$ 9,848,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six-month period ended June 30, 2004

7. 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:

	June 30, 2004	June 30, 2003
Canadian statutory income tax rate	36.2%	36.7%
Increase (decrease) resulting from:		
Dividends	(7.0%)	(3.4%)
Non-deductible expenses	0.4%	5.8%
Effective income tax rate	29.6%	39.1%

8. SHAREHOLDERS' EQUITY:

(a) Capital stock:

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

Common shares:

	June 30, 2004		June 30, 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	1,061,336	16,223,000	383,254	2,896,000
Balance, end of period	11,425,771	\$ 53,706,000	10,056,917	\$ 34,417,000

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.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six-month period ended June 30, 2004

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.

(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 June 30, 2004 and June 30, 2003 is as follows:

	June 30, 2004		June 30, 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	448,025	\$ 4.67
Granted	600,000	17.50	—	—
Exercised	(34,223)	5.03	(52,151)	4.16
Forfeited/cancelled	(12,500)	17.50	—	—
Outstanding, end of period	984,708	12.50	395,874	4.74
Exercisable, end of period	269,201	\$ 4.53	199,122	\$ 4.39

Under the fair value method of accounting for stock options, the Company has recorded compensation expense in the amount of \$185,000 (June 30, 2003 – Nil) related to 600,000 (June 30, 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%; (iv) expected dividends of 2.0%; and (v) an exercise price of \$17.50. 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⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾

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

Rebecca MacDonald⁽³⁾⁽⁴⁾

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

Lionel Robins⁽²⁾⁽³⁾

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

Robert Rubinoff⁽²⁾⁽³⁾⁽⁴⁾

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

Michael Shulman⁽¹⁾⁽⁵⁾

*President, The Birchwood Group Inc.
(an investment holding company)*

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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