



EQUITABLE GROUP INC.

THIRD QUARTER REPORT

Quarter Ended September 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.

FELLOW SHAREHOLDERS

Equitable Group achieved strong growth in earnings, earnings per share, assets and mortgage production for the three months ended September 30, 2004 as we continued to profit from demand for mortgage lending in our niches and our efficient business model.

The MD&A included with this report presents the details, but third quarter highlights include:

- Net earnings growth of 47% to \$3.93 million, up from \$2.67 million in the third quarter of 2003.
- Earnings per share increases, both basic and diluted. Diluted EPS increased 31% to \$0.34 from \$0.26 in the third quarter last year, while basic EPS increased 26% to \$0.34 from \$0.27.
- An almost four fold increase in conventional mortgage production, to \$261 million compared to \$74 million in the same period of 2003.
- Total assets expansion of 37%. At quarter end, total assets had grown to \$1.45 billion from \$1.06 billion at September 30, 2003 – and have increased 31% since year-end 2003.
- Return on weighted average shareholders' equity for the quarter of 15.4%, a rate that can be improved upon over time as we grow and accrue the benefits of our larger mortgage portfolio.
- No loan losses either in the quarter or for the nine months of 2004.

The acceleration we experienced in the third quarter in all key metrics was gratifying. It was fueled by a disciplined approach to mortgage origination and assisted by a 25 basis point increase in the prime rate, which had a positive effect on our interest revenues. What's important about this growth is that it was controlled and managed. We stayed strictly within our traditional lending guidelines, achieved the credit quality we believe is vital, and kept our mortgage portfolio well balanced. Our primary focus on single family dwelling and multi-unit residential mortgages in the Greater Toronto Area is clearly supporting our growth requirements.

Looking deeper at our performance shows that we made gains in both mortgage production and productivity. Conventional mortgage production increased almost four fold in the quarter as we took advantage of good market conditions and the increase earlier this year in our mortgage origination and servicing department. Despite growth in staffing levels, Equitable's productivity ratio (the lower the better) improved to 26.9% from 28.6% a year ago as a result of much higher activity. We strive to achieve a best in class productivity ratio and therefore this performance is very satisfying.

DIVIDEND

The Company's Board of Directors declared a quarterly dividend of \$0.07 per share, payable January 4, 2005 to shareholders of record at the close of business December 16, 2004. This quarterly dividend increase of \$0.01 per share is consistent with the Company's stated intention to pay out approximately 25% of trailing net earnings.

FINANCING STRATEGY

During the third quarter, we re-evaluated our options with respect to the use of debt financing. As a result, we have decided to retain existing subordinated debt (instead of replacing it with new debt) and initiate a new Series 5 subordinated debenture offering in new Tier 2 regulatory capital up to a maximum amount of \$40 million. The terms of the Series 5 will be similar to that of the Series 4 and will be offered, by way of private placement, between now and the end of 2005.

This change in course gives us greater flexibility, minimizes capital taxes, and reflects our desire to manage the pace of future growth and its associated risks. It's a measured and strategic approach that will allow us to anticipate future regulatory capital requirements as we grow.

LOOKING FORWARD

Market conditions remain favourable and as a consequence, we remain bullish about our prospects. Activity in our niches is robust and although the prime rate has risen by another 25 basis points since the end of the third quarter, it's had no discernable impact on demand. This reflects the fact that prime remains near generational lows and the increases to date have been modest. From what we can tell at this juncture, foreseeable future rate increases, as they occur, should also be modest.

Because a substantial portion of our mortgage portfolio is floating rate, increases in prime like the two we've seen this year tend to benefit our earnings – as they occur – due to spread management. This is a temporary benefit but does contribute to our bottom line.

As has been the case for many years, Equitable continues to be highly selective in originating mortgages. This is the advantage of focusing in and around the Greater Toronto Area on alternative single family dwelling and multi-unit residential mortgage niches. There is a large available market for Equitable financing, and the fundamentals underpinning it, including population growth, remain strong and very attractive.

Yours sincerely,



Geoffrey Bledin
President and Chief Executive Officer
November 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(for the period ended September 30, 2004)

The following discussion should be read in conjunction with the unaudited financial statements and accompanying notes for the period ended September 30, 2004. Equitable Group Inc. ("Equitable" or the "Company") was formed January 1, 2004 to serve as the holding company for The Equitable Trust Company ("Equitable Trust"), its wholly-owned operating subsidiary. Equitable Group Inc. completed an initial public offering ("IPO") on March 18, 2004 with a treasury offering of 1,027,113 common shares and a secondary offering of 2,072,887 common shares. Accordingly, the comparative results for 2003 are those of Equitable Trust. Unless otherwise indicated, references to Equitable or the Company include Equitable Trust.

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, 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.

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

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(for the period ended September 30, 2004)

\$ in 000s	September 30, 2004		December 31, 2003		September 30, 2003	
	Mortgage principal	% of total	Mortgage principal	% of total	Mortgage principal	% of total
Single family dwelling	480,498	40.0%	317,943	35.7%	314,923	36.6%
Multi-unit residential	429,861	35.8%	377,842	42.4%	349,720	40.7%
Commercial	225,218	18.7%	163,190	18.3%	150,837	17.5%
Construction	20,237	1.7%	15,804	1.8%	14,920	1.7%
CMHC-insured ⁽¹⁾	45,514	3.8%	15,520	1.8%	29,888	3.5%
Total	1,201,328	100.0%	890,299	100.0%	860,288	100.0%

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

The mortgage portfolio has grown 40% to \$1.2 billion as at September 30, 2004 from \$860 million a year ago, reflecting the Company's initiatives to deploy the capital raised in its IPO. All segments of the portfolio have grown. The single family dwelling component of the portfolio increased \$166 million or 53% on a year-over-year basis to represent 40.0% of the total outstanding principal at September 30, 2004 compared to 36.6% a year ago. This growth reflects the Company's expansion of its single family mortgage origination and servicing team earlier in the year to capitalize on demand. Multi-unit residential increased \$80 million or 23% compared to a year earlier, while commercial increased \$74 million to 18.7% of the total portfolio, compared to 17.5% of the portfolio a year ago.

To fund its asset acquisitions, the Company sells guaranteed investment certificates ("GICs") as a nationally licensed deposit-taking institution. At September 30, 2004, the Company had \$1.3 billion of customer GIC deposits, up 37% from \$957 million a year earlier.

EARNINGS REVIEW

Net earnings for the three months ended September 30, 2004 increased 47% to \$3.93 million from \$2.67 million in the same period in 2003. Earnings per share (basic) increased 26% to \$0.34 per share in the third quarter of 2004 compared to \$0.27 per share in the same period in 2003, while earnings per share (diluted) grew 31% to \$0.34 from \$0.26 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 largely due to the completion of the Company's IPO on March 18, 2004.

Higher quarterly earnings reflected:

- Growth in interest-earning assets compared to the same period in 2003.
- A 25 basis point increase in the prime rate during the third quarter of 2004 which had a positive effect on interest revenues relating to the Company's floating rate mortgages as compared to two separate 25 basis point decreases during the third quarter of 2003.
- A significant decrease in effective tax rates, which stood at 29% in the third quarter of 2004 versus 40% in the third quarter of 2003.

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(for the period ended September 30, 2004)

The increase in interest-earning assets in 2004 and the decrease in the prime rate in 2003 combined to produce an additional \$1.56 million in net interest income on a tax equivalent basis in the third quarter of 2004, representing a 32% year-over-year increase. Net interest income on a tax equivalent basis for the third quarter was \$6.50 million compared to \$4.94 million in the third quarter a year ago.

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

Return on weighted average equity for the third quarter of 2004 was 15.4% compared to 14.9% during the same period in 2003. The increase in return on equity in 2004 is primarily due to the increase in net interest income on a tax equivalent basis as a result of the drivers outlined above. The Company is targeting an improvement in ROE as it benefits from the larger mortgage portfolio base created by its recently expanded mortgage team and a modestly higher prime rate.

For the first nine months of 2004, net earnings increased 31% to \$10.68 million from \$8.13 million in 2003, while earnings per share (basic) increased 17% to \$0.96 from \$0.82. Diluted earnings per share increased 16% to \$0.93 from \$0.80. The increases in the first nine months of 2004 reflect the same factors discussed for the third quarter 2004, including effective tax rates – which were significantly lower, at 29% for the nine months ended September 30, 2004, compared to 39% a year ago. Interest-earning assets produced an additional \$2.87 million in net interest income on a tax equivalent basis in the nine months ended September 30, 2004, representing a 19% year-over-year increase. Net interest income on a tax equivalent basis for the first nine months of 2004 was \$17.80 million compared to \$14.93 million during the same period in 2003. Return on weighted average equity for the first nine months of 2004 was 15.3% compared to 15.9% for 2003. The decrease in return on average equity on a year to date basis relates to the Company's increased equity base as a result of its IPO.

NET INTEREST INCOME

Net interest income includes earnings from assets (including interest and dividend income from liquidity investments, portfolio securities and mortgage loans) less interest expense paid on liabilities, such as deposits and subordinated debt.

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(for the period ended September 30, 2004)

On a tax equivalent basis ("TEB"), the following table shows the sources of net interest income and illustrates the Company's net interest margin:

S in 000s	Three months ended September 30, 2004		Three months ended September 30, 2003		Nine months ended September 30, 2004		Nine months ended September 30, 2003	
	Revenue/ Expense	Average rate	Revenue/ Expense	Average rate	Revenue/ Expense	Average rate	Revenue/ Expense	Average rate
Interest revenues or interest expenses derived from:								
Liquidity investments	600	2.4%	985	3.6%	1,727	2.2%	2,895	3.9%
Portfolio securities – TEB	1,457	6.8%	546	7.4%	3,916	8.1%	1,312	7.7%
Mortgage loans	16,279	5.7%	13,602	6.3%	44,749	5.7%	39,286	6.6%
Total interest earning assets – TEB	18,336	5.5%	15,133	6.1%	50,392	5.6%	43,493	6.3%
Total assets – TEB	18,336	5.2%	15,133	5.7%	50,392	5.3%	43,493	6.0%
Customer deposits	11,528	3.7%	9,890	4.2%	31,632	3.7%	27,843	4.3%
Subordinated debt	307	8.1%	304	8.3%	963	8.0%	719	8.3%
Total interest bearing liabilities	11,835	3.8%	10,194	4.3%	32,595	3.8%	28,562	4.4%
Total liabilities and shareholders' equity	11,835	3.3%	10,194	3.8%	32,595	3.4%	28,562	4.0%
Net interest income – TEB	6,501		4,939		17,797		14,931	
Net interest margin – TEB		1.9%		1.9%		1.9%		2.0%

On a tax equivalent basis, interest revenues increased 21% to \$18.34 million during the quarter ended September 30, 2004, from \$15.13 million during the same period in 2003. Mortgage revenue increased to \$16.28 million from \$13.60 million in 2003 while portfolio securities revenue on a tax equivalent basis increased to \$1.46 million from \$0.55 million. These increases were a result of growth in the mortgage portfolio and an increase in the dividend-yielding securities portfolio. Liquidity investments revenue fell to \$0.60 million from \$0.99 million in the same quarter last year as a result of decreases in the prime rate and a decrease in the liquidity investment portfolio (comprised of cash and cash equivalents and Government bonds and notes) to \$104 million as at September 30, 2004 from \$112 million in the prior year.

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 third quarter of 2004 was \$0.66 million compared to \$0.20 million during the same period in 2003 and \$1.71 million for the nine months ended September 30, 2004 compared to \$0.46 million for the comparable period in 2003. These increases reflect a \$50.4 million increase in the Company's dividend-yielding securities portfolio, which stood at \$83.2 million as at September 30, 2004 compared to \$32.8 million at September 30, 2003.

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Interest on GIC deposits increased 17% to \$11.53 million during the quarter ended September 30, 2004, from \$9.89 million during the same period in 2003, reflecting an increase in customer deposits of 37% on a year-over-year basis combined with lower interest rates.

Net interest margin on a tax equivalent basis was 1.9% for the three months ended September 30, 2004 consistent with 1.9% during the same period in 2003. For the nine months ended September 30, 2004, net interest margin on a tax equivalent basis was 1.9% compared to 2.0% during the same period in 2003 as a result of spread compression from three separate 25 basis point prime rate decreases during the first four months of 2004 compared to two separate 25 basis point prime rate increases during the period January 2003 to June 2003.

It is noteworthy that, unlike some of its peers, 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 in interest expense on customer deposits and factors these commissions into its calculation of interest rates related to 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 were included in non-interest expenses, net interest margin (tax equivalent basis) on this alternative basis for the three months ended September 30, 2004 would be reported as 2.2% compared to 2.2% 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 amounted to \$1.93 million during the third quarter of 2004, compared to \$1.68 million in 2003 and totaled \$5.58 million for the nine months ended September 30, 2004 compared to \$4.94 million in the same period in 2003. The increase in other income is due primarily to an increase in mortgage origination activity in 2004 as compared to 2003. 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.

Through the CMHC-MBS program, the Company securitized \$54 million of mortgages during the third quarter of 2004 compared to \$142 million during the third quarter of 2003 and, on a year to date basis, securitized \$276 million of mortgages versus \$411 million in the first nine months of 2003. The reduction in securitization on a year to date basis reflects higher than usual securitization activity levels in 2003 and a tightening in spreads on CMHC multi-unit residential business which has, in part, led to the Company choosing to decrease the levels of its securitization activity. Consequently, gains on sale of mortgages

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have decreased to \$0.57 million for the nine months ended September 30, 2004 from \$1.08 million during the same period in 2003. The amount of total CMHC-MBS outstanding has, however, continued to increase to \$1.8 billion as at September 30, 2004 compared to \$1.6 billion as at September 30, 2003 resulting in an increase in excess interest, net of servicing fee, of \$0.35 million to \$2.03 million for the nine months ended September 30, 2004 compared to \$1.68 million during the same period in 2003.

NON-INTEREST EXPENSES

Non-interest expenses include all of the expenses not related to interest or credit provisions required to operate Equitable's business. The major elements of non-interest expenses consist primarily of salaries, premises and equipment, capital taxes, insurance and other general administrative expenses. Non-interest expenses totaled \$2.09 million for the third quarter of 2004 compared to \$1.84 million during the same period in 2003 and were \$6.06 million for the nine months ended September 30, 2004 compared to \$5.53 million in the comparable period of 2003. The increase in both 2004 periods was primarily due to an increase in mortgage origination and servicing staff to support growth. Total staff complement at September 30, 2004, was 56, including 39 staff in the mortgage origination and servicing department. At September 30, 2003 staff totaled 38 including 25 in the mortgage origination and servicing department. The Company has expanded its office space, purchased equipment and made leasehold improvements to accommodate the increase in staffing levels. 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.

The Company's productivity ratio (non-interest expense as a ratio of net interest income and other income before provision for credit losses) was 26.9% in the third quarter of 2004, compared to 28.6% during the same period in 2003. This improvement is due to lower CEO compensation costs and 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 nine month period ended September 30, 2004 was 28.0%, an improvement 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.

Included in non-interest expenses during the third quarter of 2004 was a charge for compensation expense in the amount of \$0.11 million (\$0.30 million for the nine months ended September 30, 2004) related to stock options issued in February 2004. The offset to this expense is an increase to contributed surplus in the same amount. There was no compensation charge related to the issuance of stock options in the period ended September 30, 2003.

CREDIT RISK MANAGEMENT AND PROVISION FOR CREDIT LOSSES

During the nine months ended September 30, 2004, the Company had no credit losses.

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Moreover, during the five years ended December 31, 2003, the Company did not experience 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.

In order to be prudent in view of the increase in its mortgage portfolio, the Company set aside \$0.18 million during the third quarter for possible future credit losses on existing loans. This compares with a provision of \$0.17 million during the third quarter in 2003. Provisions for possible future credit losses totaled \$0.53 million for the nine months ended September 30, 2004 compared to \$0.50 million during the same period in 2003.

Total allowance for credit losses was \$6.27 million or 52 basis points of mortgage principal outstanding as at September 30, 2004 compared to \$5.57 million (65 basis points) as at September 30, 2003. As a percentage of risk-weighted mortgages, total allowance for credit losses was 69 basis points as at September 30, 2004 compared to 83 basis points as at September 30, 2003.

Mortgages in arrears 30 days or more amounted to \$1.10 million as at September 30, 2004 representing 0.09% of total loans outstanding, compared to \$6.36 million in arrears over 30 days as at September 30, 2003 (0.74% of total loans outstanding). There were no mortgages in arrears over 90 days at September 30, 2004, a significant improvement over the same period in 2003 when mortgages in arrears over 90 days were \$2.49 million (0.29% of loans outstanding). At September 30, 2004 gross loans on which specific reserves have been allocated amounted to \$4.0 million compared to \$7.0 million at September 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.

BALANCE SHEET REVIEW

Total assets as at September 30, 2004 were \$1.45 billion compared to \$1.06 billion as at September 30, 2003, representing growth of 37% on a year-over-year basis.

The increase in assets was primarily due to increases in the Company's mortgage and investment portfolios. Mortgage assets increased 40% to \$1.20 billion from \$859 million at September 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 September 30, 2004 was \$261 million compared to \$74 million in the third quarter of 2003.

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For the first nine months, conventional mortgage production amounted to \$597 million in 2004 compared to \$264 million in 2003. Production of CMHC-insured mortgages for securitization in the Company's MBS program was \$78 million in the third quarter of 2004 compared to \$124 million in the same period in 2003. On a year to date basis, production of CMHC-insured mortgages for securitization purposes amounted to \$306 million in 2004 compared to \$412 million in 2003. The reason for the reduction in both periods is described under Other Income.

Total assets as at September 30, 2004 increased \$346 million or 31% from \$1.10 billion at December 31, 2003, while mortgage assets increased \$311 million or 35% from December 31, 2003. Investments increased \$88 million or 196% to \$133 million at September 30, 2004, compared to \$45 million as at September 30, 2003. Investments increased \$75 million or 130% from December 31, 2003. The increase in investments is due to the previously mentioned increase in the Company's securities portfolio to \$83 million at September 30, 2004 from \$46 million as at December 31, 2003 and from \$33 million a year earlier and to an increase in the Company's holdings of Government bonds and notes with a term to maturity at purchase of greater than three months. The Company differentiates investments from cash and cash equivalents by the length of term to maturity at purchase. Cash and cash equivalents include investments in highly liquid short-term investments whose term to maturity at purchase is less than three months. Government bonds and notes are held for liquidity purposes. Government bonds and notes included in investments were \$50 million at September 30, 2004 compared to \$12 million at December 31, 2003 and September 30, 2003.

Cash and cash equivalents decreased to \$54 million as at September 30, 2004 from \$100 million a year earlier and were down from the December 31, 2003 balance of \$97 million. These decreases were as a result of the Company choosing to invest a greater portion of its assets held for liquidity purposes in terms of greater than three months at date of purchase. Liquidity investments include cash and cash equivalents and investments in Government bonds and notes. Liquidity investments will fluctuate based upon mortgage funding activity. It is current Company policy to maintain a minimum of 6% of total assets in liquidity investments on a continuous basis. At September 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 \$55 million from \$52 million as at December 31, 2003, and from \$51 million as at September 30, 2003 but was down from \$56 million as at June 30, 2004 reflecting lower than historical securitization activities during the third quarter of 2004.

Total mortgages securitized through the CMHC-MBS program and outstanding as at September 30, 2004 were \$1.8 billion compared to \$1.7 billion as at December 31, 2003 and \$1.6 billion as at September 30, 2003.

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

\$ in 000s	September 30, 2004		December 31, 2003		September 30, 2003	
	Asset amount	% of total	Asset amount	% of total	Asset amount	% of total
Liquidity investments	103,763	7.2%	109,653	9.9%	112,307	10.6%
Portfolio securities	83,157	5.7%	45,691	4.2%	32,845	3.1%
Mortgage loans	1,200,208	82.8%	889,271	80.6%	858,897	81.0%
Loan securitizations – retained interests	55,215	3.8%	52,331	4.7%	51,100	4.8%
Other assets	7,404	0.5%	6,332	0.6%	4,892	0.5%
Total	1,449,747	100.0%	1,103,278	100.0%	1,060,041	100.0%

GIC deposits were \$1.3 billion as at September 30, 2004, compared to \$992 million as at December 31, 2003 and \$957 million as at September 30, 2003. Deposits as at September 30, 2004 increased 37% compared to September 30, 2003 and 32% since December 31, 2003.

Equitable Trust did not issue or redeem any subordinated debt during the third quarters of 2004 or 2003. For the nine months ended September 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 third quarter of 2004, the Company received cash proceeds of \$0.98 million related to the exercise of 234,933 employee stock options. In the second quarter of 2004, 34,223 employee stock options were exercised. The exercise of these stock options has reduced the variation in basic and diluted earnings per share commencing with the third quarter of 2004. 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 as settlement of accrued Chief Executive Officer compensation in the amount of \$2.7 million and for net cash proceeds of \$0.2 million related to the exercise of employee stock options. No shares were issued in the second or third quarter of 2003.

On November 8, the Board of Directors declared a dividend in the amount of \$0.07 per share payable January 4, 2005 to shareholders of record as of close of business December 16, 2004. With respect to the second quarter of 2004, the Company's Board of Directors 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. Dividends are declared at the discretion

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of the Board of Directors based on their assessment of the Company's financial position and outlook.

Shareholders' equity increased to \$104 million as at September 30, 2004 from \$72 million as at September 30, 2003 and \$77 million at December 31, 2003, representing an increase of 43% from September 30, 2003 and 35% from December 31, 2003. An aggregate of 11,660,704 common shares of the Company were issued and outstanding as at November 8, 2004.

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 \$104 million as at September 30, 2004, \$110 million as at December 31, 2003 and \$112 million as at September 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 September 30, 2004 would be negatively affected by \$0.2 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(for the period ended September 30, 2004)

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 affect 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 11.0% as at September 30, 2004 consisting of a tier one capital ratio of 9.6% and a tier 2 capital ratio of 1.4%, at December 31, 2003 total capital ratio was 11.3% and at September 30, 2003 it was 11.4%.

During the third quarter, the Company reevaluated its options with respect to raising subordinated debt. In the MD&A dated August 10, 2004, the Company indicated it would raise subordinated debt within three months of that date, which would be used to redeem all existing debt and increase its tier 2 regulatory capital. Due to market conditions, Equitable has chosen instead to retain the existing debt and initiate a Series 5 subordinated debenture offering up to a maximum amount of \$40 million. These debentures will be sold

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(for the period ended September 30, 2004)

on a private placement basis to support managed growth and future regulatory capital requirements. The Company intends to issue the Series 5 debentures at any time in a series of tranches throughout the period ending December 31, 2005. The Series 5 debentures will have essentially the same features as Equitable's Series 4 subordinated debentures.

OUTLOOK

Management's outlook has not changed materially since the Company's management's discussion and analysis for the three months ended June 30, 2004. Mortgage demand in and around the Greater Toronto Area remains strong as at the date hereof and 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 mortgage lending niches in which the Company operates have historically been stable and attractive to lenders.

At September 30, 2004, the prime rate was 4.00% and has subsequently risen to 4.25%. The consensus among economists appears to suggest measured and modest future rate increases can be expected. Because a substantial portion of the Company's mortgage portfolio is floating rate, such increases would benefit the Company's earnings as they occur due to spread management. With respect to demand for mortgages, management believes the kind of modest, incremental increases in interest rates that have been seen this year will not significantly affect mortgage growth patterns or borrower ability to service debt. A dramatic increase in rates may, however, curtail demand and affect real estate values.

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

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

November 9, 2004

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 SEPTEMBER 30, 2004 – UNAUDITED

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

	Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2003
ASSETS			
Cash and cash equivalents	\$ 53,745,000	\$ 97,425,000	\$ 100,093,000
Investments (note 2)	133,175,000	57,919,000	45,059,000
Loan securitizations – retained interests (note 3)	55,215,000	52,331,000	51,100,000
Mortgages receivable (note 4)	1,200,208,000	889,271,000	858,897,000
Other assets (note 5)	7,404,000	6,332,000	4,892,000
	\$ 1,449,747,000	\$ 1,103,278,000	\$ 1,060,041,000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Customer deposits	\$ 1,312,268,000	\$ 991,730,000	\$ 957,491,000
Future income taxes payable	8,494,000	7,798,000	6,427,000
Other liabilities (note 6)	10,176,000	9,795,000	9,253,000
Subordinated debt	14,974,000	17,298,000	14,468,000
	1,345,912,000	1,026,621,000	987,639,000
Shareholders' equity (note 8):			
Capital stock	54,688,000	37,483,000	34,417,000
Contributed surplus	852,000	556,000	535,000
Retained earnings	48,295,000	38,618,000	37,450,000
	103,835,000	76,657,000	72,402,000
	\$ 1,449,747,000	\$ 1,103,278,000	\$ 1,060,041,000

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2004 – UNAUDITED

With comparative figures for the three-month and nine-month periods ended September 30, 2003

	Three months ended		Nine months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Interest income:				
Mortgages	\$ 16,279,000	\$ 13,602,000	\$ 44,749,000	\$ 39,286,000
Investments	1,055,000	611,000	2,802,000	2,009,000
Other	347,000	724,000	1,135,000	1,733,000
	17,681,000	14,937,000	48,686,000	43,028,000
Interest expense:				
Customer deposits	11,528,000	9,890,000	31,632,000	27,843,000
Subordinated debt	307,000	304,000	963,000	719,000
	11,835,000	10,194,000	32,595,000	28,562,000
Interest income, net	5,846,000	4,743,000	16,091,000	14,466,000
Provision for credit losses (note 4)	175,000	165,000	525,000	495,000
Net interest income after provision for credit losses	5,671,000	4,578,000	15,566,000	13,971,000
Other income:				
Mortgage commitment income and other fees	1,040,000	729,000	2,841,000	2,105,000
Net gain on sale of investments	54,000	4,000	140,000	73,000
Loan securitizations – retained interests (note 3)	833,000	951,000	2,602,000	2,759,000
	1,927,000	1,684,000	5,583,000	4,937,000
Net interest income and other income	7,598,000	6,262,000	21,149,000	18,908,000
Non-interest expenses	2,088,000	1,838,000	6,060,000	5,533,000
Earnings before income taxes	5,510,000	4,424,000	15,089,000	13,375,000
Income taxes (note 7):				
Current	1,843,000	1,466,000	3,046,000	4,602,000
Future (reduction)	(267,000)	284,000	1,366,000	644,000
	1,576,000	1,750,000	4,412,000	5,246,000
Net earnings	\$ 3,934,000	\$ 2,674,000	\$ 10,677,000	\$ 8,129,000
Earnings per share (note 8):				
Basic	\$ 0.34	\$ 0.27	\$ 0.96	\$ 0.82
Diluted	\$ 0.34	\$ 0.26	\$ 0.93	\$ 0.80
Weighted average number of shares outstanding (note 8):				
Basic	11,502,380	10,056,916	11,137,496	9,970,908
Diluted	11,730,897	10,240,416	11,472,560	10,153,636

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2004 – UNAUDITED

With comparative figures for the three-month and nine-month periods ended September 30, 2003

	Three months ended		Nine months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Common shares:				
Balance, beginning of period	\$ 53,706,000	\$ 34,417,000	\$ 37,483,000	\$ 31,521,000
Common shares issued (note 8):				
Proceeds from exercise of employee stock options	982,000	—	1,154,000	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	—	—	(1,924,000)	—
Balance, end of period	54,688,000	34,417,000	54,688,000	34,417,000
Retained earnings:				
Balance, beginning of period	45,061,000	34,776,000	38,318,000	30,530,000
Net earnings	3,934,000	2,674,000	10,677,000	8,129,000
Dividends	(700,000)	—	(700,000)	(1,209,000)
Balance, end of period	48,295,000	37,450,000	48,295,000	37,450,000
Contributed surplus:				
Balance, beginning of period	741,000	535,000	556,000	535,000
Stock-based compensation (note 8)	111,000	—	296,000	—
Balance, end of period	852,000	535,000	852,000	535,000
Total shareholders' equity	\$103,835,000	\$ 72,402,000	\$103,835,000	\$ 72,402,000

See accompanying notes to interim unaudited consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2004 – UNAUDITED

With comparative figures for the three-month and nine-month periods ended September 30, 2003

	Three months ended		Nine months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 3,934,000	\$ 2,674,000	\$ 10,677,000	\$ 8,129,000
Non-cash items:				
Loan securitizations – retained interests	(87,000)	(359,000)	(574,000)	(1,084,000)
Amortization	66,000	57,000	166,000	153,000
Provision for credit losses	175,000	165,000	525,000	495,000
Net gain on sale of investments	(54,000)	(4,000)	(140,000)	(73,000)
Future income taxes	(267,000)	284,000	1,366,000	644,000
Stock-based compensation	111,000	—	296,000	—
Amortization of premiums or (discounts) on investments	480,000	(22,000)	994,000	(35,000)
	4,358,000	2,795,000	13,310,000	8,229,000
Changes in operating assets and liabilities:				
Other assets	1,851,000	(186,000)	(474,000)	(927,000)
Other liabilities	(1,285,000)	(769,000)	499,000	956,000
	4,924,000	1,840,000	13,335,000	8,258,000
Financing activities:				
Increase in customer deposits	112,927,000	18,328,000	320,538,000	156,968,000
Issuance (redemption) of subordinated debt	—	—	(2,324,000)	5,808,000
Dividends paid on common shares	(700,000)	—	(700,000)	(1,209,000)
Issuance of capital stock	982,000	—	16,117,000	218,000
	113,209,000	18,328,000	333,631,000	161,785,000
Investing activities:				
Purchase of investments	(54,727,000)	(7,098,000)	(107,746,000)	(23,270,000)
Proceeds on sale/redemption of investments	7,145,000	102,000	31,636,000	16,310,000
Increase in mortgages receivable	(340,392,000)	(198,209,000)	(904,530,000)	(681,138,000)
Mortgage principal repayments	172,109,000	53,749,000	313,470,000	151,622,000
Proceeds from loan securitizations	53,404,000	138,070,000	270,929,000	403,484,000
Loan securitizations – retained interests	2,350,000	2,038,000	6,359,000	4,813,000
Purchase of capital assets	(460,000)	(129,000)	(764,000)	(227,000)
	(160,571,000)	(11,477,000)	(390,646,000)	(128,406,000)
Increase (decrease) in cash and cash equivalents	(42,438,000)	8,691,000	(43,680,000)	41,637,000
Cash and cash equivalents, beginning of period	96,183,000	91,402,000	97,425,000	58,456,000
Cash and cash equivalents, end of period	\$ 53,745,000	\$ 100,093,000	\$ 53,745,000	\$ 100,093,000
Comprised of:				
Deposits at banks	57,253,000	59,281,000	57,253,000	59,281,000
Short term investments	—	46,946,000	—	46,946,000
Cheques and other items in transit	(3,508,000)	(6,134,000)	(3,508,000)	(6,134,000)
	\$ 53,745,000	\$ 100,093,000	\$ 53,745,000	\$ 100,093,000
Supplemental cash flow information:				
Interest paid	8,017,000	7,955,000	27,295,000	23,762,000
Income taxes paid	—	1,725,000	2,827,000	4,225,000

See accompanying notes to interim unaudited consolidated financial statements.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended September 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 8, the Company was formed on January 1, 2004 and therefore comparative figures for December 31, 2003 and September 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:

	September 30, 2004		December 31, 2003		September 30, 2003	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Preferred shares	\$ 82,639,000	\$ 81,773,000	\$ 45,038,000	\$ 45,689,000	\$ 31,563,000	\$ 32,179,000
Government bonds and notes	50,018,000	49,983,000	12,228,000	12,928,000	12,214,000	12,886,000
Common shares	518,000	341,000	653,000	494,000	893,000	681,000
Corporate debt	—	—	—	—	389,000	431,000
	\$ 133,175,000	\$ 132,097,000	\$ 57,919,000	\$ 59,111,000	\$ 45,059,000	\$ 46,177,000

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 September 30, 2004 or September 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 September 30, 2004, outstanding securitized mortgages totaled \$1,827,604,000 (December 31, 2003 – \$1,653,972,000, September 30, 2003 – \$1,596,287,000) of which \$1,795,040,000 are multi-unit residential loans (December 31, 2003 – \$1,595,827,000, September 30, 2003 – \$1,523,605,000) and \$32,564,000 are single family residential loans (December 31, 2003 – \$58,145,000, September 30, 2003 – \$72,682,000).

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended September 30, 2004

During the period, the Company securitized Canadian government guaranteed residential mortgage loans and received net cash proceeds of \$270,929,000 (September 30, 2003 – \$403,484,000). The Company retained the rights to future excess interest on the residential mortgages valued at \$11,505,000 (September 30, 2003 – \$16,864,000) and received net cash flows on interests retained of \$8,387,000 (September 30, 2003 – \$6,488,000). 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 \$5,961,000 (December 31, 2003 – \$5,114,000, September 30, 2003 – \$4,648,000) which is included in other liabilities.

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

	September 30, 2004	September 30, 2003
Gain on sale of mortgages	\$ 574,000	\$ 1,084,000
Excess interest net of servicing fee	2,028,000	1,675,000
	\$ 2,602,000	\$ 2,759,000

The key assumptions used to value the future excess interest spread include an excess spread of 0.87% (December 31, 2003 – 0.86%, September 30, 2003 – 0.87%), a prepayment rate of 19.7% (December 31, 2003 – 15.9%, September 30, 2003 – 14.4%) for single family residential loans, 0% (December 31, 2003 – 0%, September 30, 2003 – 0%) for multi-family residential loans and a discount rate of 5.38% (December 31, 2003 – 5.54%, September 30, 2003 – 5.61%). 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 September 30, 2004, December 31, 2003 and September 30, 2003 relating to forward contracts on Government of Canada bonds, the counterparties for which are chartered banks, are as follows:

Bond term (years)	September 30, 2004		December 31, 2003		September 30, 2003	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
1 to 5	\$ 20,300,000	\$ 21,809,000	\$ 16,600,000	\$ 17,883,000	\$ 29,000,000	\$ 32,425,000
5 to 10	18,700,000	19,836,000	26,800,000	28,194,000	10,000,000	10,740,000
	\$ 39,000,000	\$ 41,645,000	\$ 43,400,000	\$ 46,077,000	\$ 39,000,000	\$ 43,165,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended September 30, 2004

4. MORTGAGES RECEIVABLE:

(a) Mortgages receivable and impaired mortgages:

September 30, 2004	Gross amount	Allowance for credit losses			Net amount
		Specific	General	Total	
Residential mortgages	\$ 976,768,000	\$ 2,679,000	\$ 2,889,000	\$ 5,568,000	\$ 971,200,000
Other mortgages	224,877,000	—	698,000	698,000	224,179,000
Accrued interest	4,829,000	—	—	—	4,829,000
	\$1,206,474,000	\$ 2,679,000	\$ 3,587,000	\$ 6,266,000	\$1,200,208,000

December 31, 2003	Gross amount	Allowance for credit losses			Net amount
		Specific	General	Total	
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

September 30, 2003	Gross amount	Allowance for credit losses			Net amount
		Specific	General	Total	
Residential mortgages	\$ 709,639,000	\$ 2,990,000	\$ 2,137,000	\$ 5,127,000	\$ 704,512,000
Other mortgages	150,851,000	—	443,000	443,000	150,408,000
Accrued interest	3,977,000	—	—	—	3,977,000
	\$ 864,467,000	\$ 2,990,000	\$ 2,580,000	\$ 5,570,000	\$ 858,897,000

Included in gross residential mortgages are Canadian Government insured mortgages of \$45,514,000 as at September 30, 2004 (December 31, 2003 – \$15,520,000, September 30, 2003 – \$29,888,000), of which \$27,603,000 (December 31, 2003 – \$10,214,000, September 30, 2003 – \$23,001,000) 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 September 30, 2004, December 31, 2003 and September 30, 2003.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at September 30, 2004 aggregated \$4,000,000 (December 31, 2003 – \$4,115,000, September 30, 2003 – \$7,008,000) and \$1,321,000 (December 31, 2003 – \$1,078,000, September 30, 2003 – \$4,018,000), respectively.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended September 30, 2004

(b) Allowance for credit losses:

	September 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	(362,000)	887,000	525,000
Recoveries	4,000	—	4,000
Balance, end of period	\$ 2,679,000	\$ 3,587,000	\$ 6,266,000

	September 30, 2003		
	Specific allowance	General allowance	Total
Balance, beginning of period	\$ 2,661,000	\$ 2,360,000	\$ 5,021,000
Provision for credit losses	275,000	220,000	495,000
Recoveries	54,000	—	54,000
Balance, end of period	\$ 2,990,000	\$ 2,580,000	\$ 5,570,000

5. OTHER ASSETS:

	Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2003
Accrued interest on non-mortgage assets	\$ 199,000	\$ 779,000	\$ 634,000
Capital assets	1,168,000	571,000	561,000
Deferred GIC commissions	3,593,000	2,627,000	2,645,000
Loan to officer	500,000	600,000	—
Other receivables	1,283,000	1,231,000	560,000
Prepaid expenses and other	661,000	524,000	492,000
Total	\$ 7,404,000	\$ 6,332,000	\$ 4,892,000

6. OTHER LIABILITIES:

	Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2003
Securitized mortgage servicing liability	\$ 5,961,000	\$ 5,114,000	\$ 4,648,000
Mortgagor realty taxes	2,133,000	3,456,000	1,508,000
Accounts payable and accrued liabilities	2,012,000	1,110,000	2,742,000
Income taxes payable	70,000	115,000	355,000
Total	\$ 10,176,000	\$ 9,795,000	\$ 9,253,000

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nine-month period ended September 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:

	Sept. 30, 2004	Sept. 30, 2003
Canadian statutory income tax rate	36.2%	36.7%
Increase (decrease) resulting from:		
Dividends	(7.2%)	(3.2%)
Non-deductible expenses	0.2%	5.7%
Effective income tax rate	29.2%	39.2%

8. SHAREHOLDERS' EQUITY:

(a) Capital stock:

Authorized:

 Unlimited number of common shares

 Unlimited number of preferred shares

Issued:

 Common shares:

	September 30, 2004		September 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	1,296,269	17,205,000	383,254	2,896,000
Balance, end of period	11,660,704	\$ 54,688,000	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

Nine-month period ended September 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 September 30, 2004 and September 30, 2003 is as follows:

	September 30, 2004		September 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	(269,156)	4.29	(52,151)	4.16
Forfeited/cancelled	(12,500)	17.50	—	—
Outstanding, end of period	749,775	15.11	395,874	4.74
Exercisable, end of period	55,603	\$ 6.28	220,457	\$ 4.46

Under the fair value method of accounting for stock options, the Company has recorded compensation expense in the amount of \$296,000 (September 30, 2003 – \$Nil) related to 600,000 (September 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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