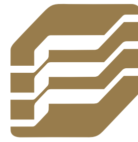
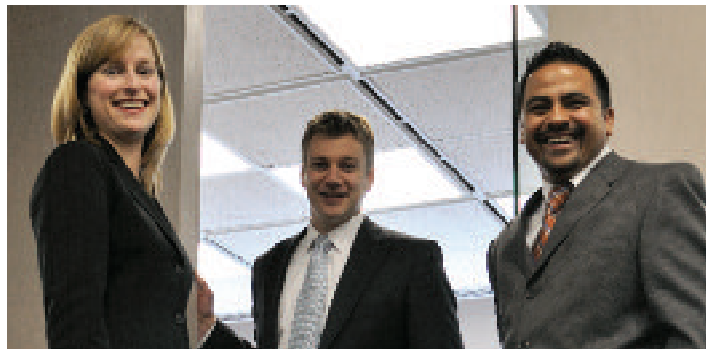
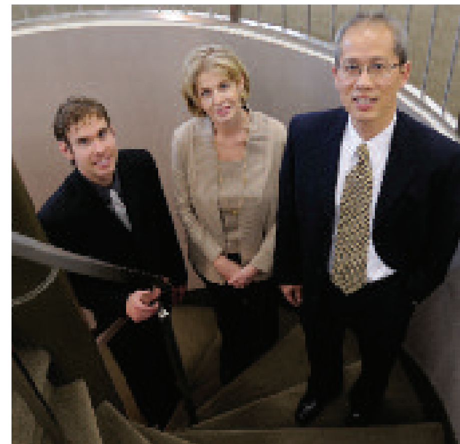


EQUITABLE GROUP INC.

A Team Effort





Annual Report 2007

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Equitable Group Inc. is a niche mortgage lender. Our primary business is first mortgage financing, which we offer through our wholly-owned subsidiary, The Equitable Trust Company.

Founded in 1970, Equitable Trust is a federally incorporated trust company. It serves single-family, small and large commercial borrowers and their mortgage advisors, as well as the investing public as a provider of Guaranteed Investment Certificates.

Through our Deposit Services, Equitable is active in all provinces and territories in Canada. Our mortgage financing solutions are provided in Ontario and Alberta and will expand to other provinces over time.

Equitable Group's shares are traded on The Toronto Stock Exchange under the symbol ETC.

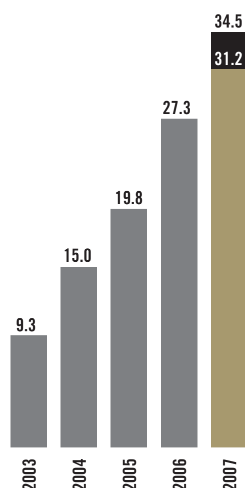
Visit the Company on line at www.equitablegroupinc.com or www.equitabletrust.com.

The Value of Teamwork

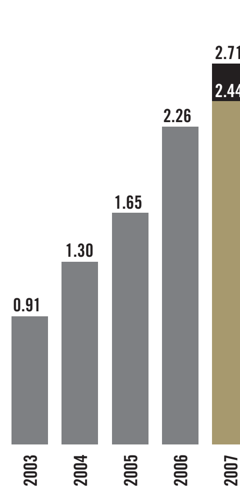
EQUITABLE GROUP IS DEDICATED TO GENERATING OUTSTANDING VALUE FOR OUR SHAREHOLDERS AND GREAT SERVICE FOR OUR CUSTOMERS.

Central to our success in meeting this objective is teamwork. By working together, we are bringing a clear focus to our business – one that we expect will optimize the competitive advantages that have made Equitable a performance leader in our niche lending markets.

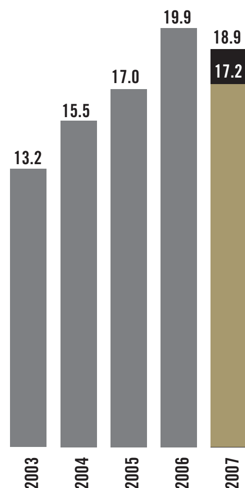
***Net Income** ($ millions)*



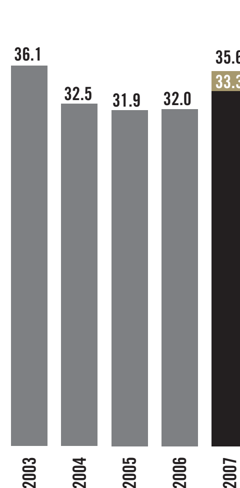
***Earnings Per Share – Diluted** ($)*



***Return on Average Equity** (%)*



Productivity Ratio – TEB (%)*



** For an explanation of Taxable Equivalent Basis (“TEB”), please see Management’s Discussion and Analysis (“MD&A”).*

Adjusted to exclude a non-cash write off, see MD&A.

Austin Beutel
Chairman of the Board

MESSAGE FROM THE CHAIRMAN

The financial services industry faced challenges in 2007. Turmoil in the U.S. housing market led to volatile conditions in the asset-backed commercial paper market worldwide and affected many leading investment banks. In an attempt to address this situation, central banks are providing liquidity and an accommodating monetary policy.

Against this backdrop, your Company delivered the most profitable year in our history – and clearly benefited from our long-term avoidance of the asset-backed commercial paper market.

Net income increased 14% over 2006 to a record $31.2 million ($2.44 per share diluted), leading to return on average equity of 17.2%. Assets grew 30% to $3.4 billion – and are up three fold from the time of our IPO in early 2004. Realized loan losses amounted to just $21-thousand, the same as in 2006. Consistent with our policy, dividends of $0.10 per share were also paid quarterly.

We are pleased with this performance, not only because of the external challenges faced and overcome but because it was achieved during a period of internal change, transition and development.

On March 1, 2007, Andrew Moor succeeded Geoffrey Bledin as President and Chief Executive Officer following Geoffrey's planned retirement. The ensuing months have been very productive. Working together with the Board, Andrew has skilfully established the future direction for our business and with his team, made good progress in strengthening the organizational structure to support ongoing advancement.

The business plan we have for the future is evolutionary in that it builds on our advantages and sets clear corporate objectives to deliver long-term shareholder value. We are confident we have the right plan for our Company. I direct your attention to Andrew's letter, which follows, for further details.

Changes to the Board

In addition to Geoffrey's retirement, Robert Rubinoff has announced he will not seek re-election this year. We wish to sincerely thank Geoffrey and Robert for their leadership and wise counsel over the past 18 years. Following a thorough search, your Board will propose the election of Katherine Rethy and Nicholas Zelenczuk at our shareholders' meeting. Both nominees are experienced executives and their biographies can be found in the Management Information Circular.

Closing

I thank you, our shareholders, customers and partners for your support. I also thank the entire Equitable team, including our Board of Directors, for your loyalty and dedication.

By working together, we will ensure our transition to the future continues to be well managed and profitable.

Yours sincerely,

Austin Beutel
Chairman of the Board
March 28, 2008

FELLOW SHAREHOLDERS:

Andrew Moor
President and Chief Executive Officer

Equitable Group achieved record results in 2007, surpassing previous performance milestones for earnings and assets.

This allowed us to extend our very attractive long-term track record, which features an average five-year return on shareholders' equity of 16.6% and a five-year compound annual growth rate in net income of 23% through to December 31, 2007.

I believe this outstanding progress is the direct result of the hard work of the Equitable team, and testament to the strength of our market positions and the value of our low-cost business model.

Looking forward, our challenge is to build on this foundation of excellence by generating even better investment returns and value for our shareholders over the long term.

We will meet this challenge through a focus on our areas of greatest strength:

- Single-Family Lending Services
- Commercial Mortgage – Broker Services
- Commercial Lending Services where we partner with other mortgage banking organizations

Of the three, we will grow Single-Family the fastest as it offers the best return potential and consumes less regulatory capital than our commercial business.

We plan to expand our Single-Family business into new geographic regions of Canada, starting with Manitoba in 2008, and to offer a broader range of lending products to our customers.

We also intend to build Broker Services beyond its current operations in Ontario. This is a business area with excellent return potential and a long-term track record. Over the last decade, mixed-used, apartment building, commercial and industrial property mortgage fundings have grown steadily and recently surpassed the $1 billion level.

Our commercial business will continue to be important to Equitable as we refocus it on areas that offer the highest risk-adjusted returns. We have a rich array of opportunities in this part of our business.

In advancing all three business lines, we will maintain prudent risk-management policies and practices that have been the hallmark of Equitable for many years – an approach that is likely to be even more important in a less benign credit environment than has been the case in recent years.

Maintaining and building an efficient and prudent capital structure is important to building value for our shareholders and maintaining the integrity and strength of the institution. Our preference for the future is to fund long-term growth primarily from retained earnings and non-dilutive forms of capital.

"We believe that population growth and low interest rates will continue to stimulate strong demand for mortgages in 2008."

I encourage you to read our MD&A for more details on our capital plan and financial objectives for 2008. These objectives were formulated to take into account market conditions but also our commitment to redeploying capital to the highest-performing mortgages areas.

Teamwork & Service

To grow to the next level as a non-branch financial institution, Equitable must continue to build a strong team, focused on excellent service to borrowers, mortgage brokers and deposit brokers.

In this regard, we spent considerable time in 2007 codifying our internal structures and practices and improving our communications internally and with the mortgage market. Our goal is to make it even easier for mortgage brokers to do business with us – to do this we have to continue to focus on the strength of our teamwork, empowering Equitable's people to deliver excellent service, fostering a great work environment for our people and supporting everyone with information technology.

I am very pleased with how our team responded to the challenges and opportunities of 2007 and I would like to personally thank our employees for a job well done.

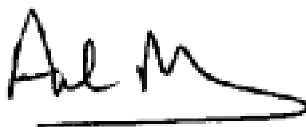
Outlook

We believe that population growth and low interest rates will continue to stimulate strong demand for mortgages in 2008. This is good news, as is the fact that Equitable now faces reduced competition in our mortgage markets – particularly single-family – as other lenders were forced out in 2007 by credit conditions. This may give us an opportunity to increase interest spreads and return on assets.

In closing, we are confident that our plan will build an even stronger and more profitable company over time and allow us to deliver on our goal of generating long-term shareholder value.

I would like to thank you, our shareholders, for your support during this period of market adjustment and new opportunity. We look forward to delivering a level of performance that justifies your confidence.

Yours sincerely,



Andrew Moor
President and Chief Executive Officer
March 28, 2008

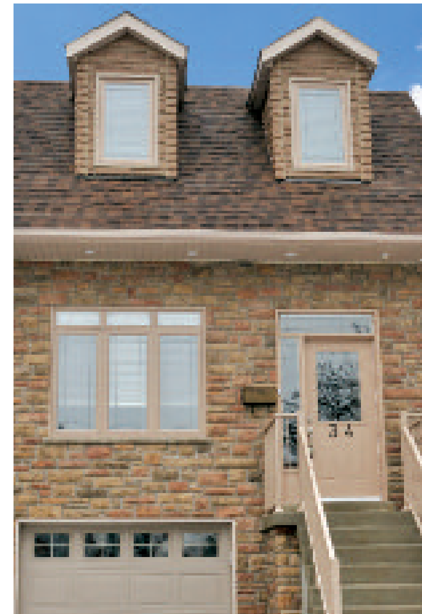
Equitable has increased its emphasis on three lending operations for the future. These operations were chosen on the basis of their investment return potential and competitive strengths.

To learn more about these operations and the customers they serve - along with our Deposit Services operation – turn the page …

Single-Family Lending Services

Faton Odza, *homeowner, shown with Equitable's Caryn Markman, VP, Residential Mortgages.*

When Faton Odza found a house situated in a great location in East York, a well-established Toronto neighborhood, he wanted to move quickly to pursue his dream home. As an entrepreneur who owned an event coordination company, Faton knew it would be a challenge to secure financing from a traditional lender who required more extensive documentation for the self employed. He needed to work with someone who would understand his personal circumstances and needs, and was prepared to respond right away.



Faton Odza's *home in a desirable suburb of Toronto was purchased with financing from Equitable Trust's growing Single-Family Lending Services group.*

He went to a mortgage broker who surveyed the available options and came back to him with a recommendation: Equitable Trust was his best choice on the basis of responsive service and competitive rates. Said Faton: "I would rate the experience of working with our mortgage broker and Equitable Trust extremely high."

Faton says he received excellent service both from his broker and Equitable Trust for his dream home – a two-story, three-bedroom home which precisely met his needs and, equally important, those of his wife Lindita.

Equitable Trust specializes in making the dream of home ownership a reality for borrowers who don't fall within the lending guidelines of the major banks. The Company's products include Variable Mortgage, Fixed Mortgage, Interest-Only and High-Ratio Self Insured Mortgages and the Ultimate One, Two Mortgage. Through its 1+1 Option, Equitable provides borrowers seeking one-year fixed mortgages with the option of discharging with 30 days written notice and payment of a one-month interest penalty.

Equitable will consider applications to finance the purchase of single-family homes, condominiums, lofts, custom-built homes, cottages and more. As an innovative and flexible lender, Equitable believes that credit scores are important, and it needs to apply a balanced approach that is open to the credit realities of the client's past history and their potential for the future.

The Company is prepared to underwrite loans for a wide range of credit profiles without prejudging applications. Equitable Trust lends to self employed people, new immigrants, foreign investors and others who do not meet the traditional credit criteria of the major banks. It provides financing for purchases and refinances including equity deals and large loans.

Equitable Trust has provided thousands of borrowers with financial resources to achieve home ownership by looking between the lines of loan applications to find a workable solution that meets their needs while at the same time protecting the interests of its shareholders.

Commercial Mortgage – Broker Services

Sam Kumar, *Owner of All Most Antiques on Queen Street East in Toronto.*

In the early 1990s, Sam Kumar's prospects were not bright. He found himself out of work after years of employment with a large Canadian corporation. "I had an engineering background and was among those who lost their jobs when the full impact of NAFTA hit the manufacturing sector."

As a result, like many others in similar circumstances, he became an entrepreneur – and a successful one at that. In just a few short years, he parlayed his interest in antiques into a thriving commercial business in Toronto's east end. After starting with a 700 square-foot leased store, he moved just a year later to larger premises to accommodate growth in sales, and then quickly doubled his operation again. With the profitability of his business expanding, he was ready to purchase commercial real estate.

Problem was, his situation did not capture the attention of traditional banks. It did, however, catch the eye of Equitable's Commercial Mortgage – Broker Services' team. The rest they say is history. With Equitable financing, Sam purchased his first property in 2001, completed extensive renovations, and sold it for a profit in 2006.

With the help of a mortgage broker and Equitable, Sam took the proceeds and reinvested them in another property – a three storey 4,000 square-foot mixed-use property that includes a storefront and two residential apartments upstairs. It is fully tenanted and is located in a thriving area. Sam's full-time business, A.M.A. Antiques, at 1154 Queen Street East, is also doing well.

"For self employed people, it's hard to get mortgages, even for the best business ideas," says Sam. "I was able to go ahead because Equitable has the expertise to understand my situation. I will definitely come to Equitable again when I'm ready to make another purchase."

Sam Kumar's story is not unusual. He is among many self employed and new Canadians who are customers of Equitable Trust's Commercial Mortgage – Broker Services team, which specializes in assisting entrepreneurs, business operators and real estate investors meet their financing needs.

Broker Services funds loans on a variety of property types, including mixed-use, apartment buildings, commercial and industrial properties – and has done so successfully for many years.

Broker Services concentrates on mortgages of up to $2.5 million in value, with a typical loan value of approximately $400,000. Many of these loans are considered to be too small for traditional bank lenders, which often take the same approach to funding small storefronts as they would for major big-box retailers.

Equitable's Broker Services team, on the other hand, intensely scrutinizes the demonstrated qualities of the borrower, using a "hybrid analysis" that applies both rigid qualification standards and common sense to the lending decision.

The result is a thorough underwriting process, executed rapidly, that meets the needs of qualified borrowers and the independent mortgage brokers who act on their behalf.

By applying the resources and expertise to serve a niche market that many traditional lenders ignore, Equitable expects to continue building value for its shareholders while providing financial support to entrepreneurs like Sam Kumar who have the vision and the courage to pursue their dreams.

***Sam Kumar** is one of our valued Commercial Mortgage – Broker Services clients and today operates a thriving antiques business in Toronto called A.M.A. Antiques. Sam's business success has allowed him to expand his real estate holdings and his relationship with Equitable.*

Commercial Lending Services

***Bruce Greenberg,** President of Starwood Group Inc., shown with Equitable's Sylvia Carvalho, AVP, Commercial Lending.*

"We wanted to create a masterpiece of design and service excellence in Toronto" that would be ranked "among the great luxury hotels in the world," said Bruce Greenberg, President, Starwood Group Inc.

Equitable Trust helped to make it happen.

The Hazelton Hotel contains 16 private condominium residences, from floors five to nine, that have been sold at prices ranging from $3.3 million to $12 million.

Equitable Trust had already financed Starwood's SoHo Met Hotel and Condominiums which was a much larger project of 400 condominiums and an 88 key luxury hotel at the corner of Blue Jays Way and Wellington St. in Toronto's Entertainment District. Starwood developed and opened the SoHo Met Hotel in 2003 and today it is the most successful new boutique hotel in Canada.

Following on that success, Equitable had foresight to recognize the value in financing properties like The Hazelton, which combine a luxury hotel and residential condominiums, with retail space and parking. The Hazelton is Toronto's first 5 star hotel.

"When Equitable became involved there were no other 5 star hotels in Toronto, so we were pioneers in that sense," noted Mr. Greenberg. "But we felt Toronto could support a 5 star hotel, and now The Four Seasons, The Ritz Carlton and Shangri-La and Trump are all building 5 star hotels in Toronto."

"Hazelton residents enjoy the benefits of living in an exclusive luxurious condominium in the best location in Toronto, with the services offered by a world-class hotel, such as 24/7 security, excellent fitness and recreation facilities, one of Toronto's finest restaurants and a classic bar.

Hazelton residents are living in a 5 star hotel and share the same concierge and services. If you want a club sandwich at 2 a.m. you just call room service like any other hotel guest. There's always something happening in a hotel and our residents are able to share the excitement," says Mr. Greenberg.

The combination of a luxury hotel and luxury condominiums is popular in other world class developments in New York, Washington, Los Angeles, Boston and many other U.S. cities.

"We have a great relationship," says Mr. Greenberg, "and the support and service have been excellent. Equitable is responsive and understands the real estate business and has the expertise to work effectively in supporting exceptional situations like The Hazelton."

Equitable's Commercial Lending Services group works with a variety of entrepreneurs and corporations to address their specific financing needs. The Company specializes in commercial mortgages (retail, office, industrial, multi-unit residential including CMHC-insured and inventory) from $500,000 to $25 million or more. In partnership with other banking organizations, Equitable will finance projects nationally.

Equitable Trust recognizes that service excellence, speed and flexibility are key to succeeding in its chosen markets. That's why a successful real estate developer like Starwood's Bruce Greenberg says: "We are very pleased with our relationship with Equitable and look forward to working with them on future projects."

The Hazelton Hotel, *the city's first 5 star hotel, now stands proudly in the heart of Toronto's Yorkville District, steps from the finest galleries, museums and luxury shops in the country. Its 62 beautifully designed hotel rooms and 15 elegant suites, ranging from 620 square feet to over 1,800 square feet, now accommodate discriminating visitors from around the world.*

The hotel includes a world-class spa, luxurious pool and a 26-seat private screening room featuring state-of-the-art 35mm projection, high definition DVD and Dolby Digital surround sound. The limestone hotel also houses the elegant "ONE" restaurant, hosted by international renowned Chef Mark McEwen.

Deposit Services

Scott Fryer, *Director, Deposit Services, and members of the Deposit Services team.*

***Equitable's Deposit Services operation** provides a reliable and stable source of funding. In 2007, cashable GICs deposits grew 24% and fixed-term GICs grew 32% over 2006.*

As Director of Deposit Services, Scott Fryer is responsible for bringing in the funds that Equitable Trust lends to its mortgage customers. As a non-branch financial institution, he and his team must compete for depositors' funds by maintaining strong relationships with the Company's network of deposit brokers, investment dealers, financial planners and other intermediaries.

Their business line is Guaranteed Investment Certificates, which must be offered at competitive rates in order to help fund the Company's mortgage business. With the volatility in equity markets in recent years and changing demographics, the demand for low-risk investment products like GICs is growing.

"Our industry has doubled over the last four years," Fryer says, "as the baby boomer generation nears retirement. Many investors approaching the end of their working lives are rebalancing their portfolios from equity to fixed-income instruments, including GICs, to lower their risk profiles. With our products, investors can be assured that they're receiving a competitive rate of return for this type of investment and that their money will be there for their retirement years."

Equitable Trust is licensed to issue GICs in every province and territory in Canada. They are sold by independent deposit brokers, investment dealers, and directly by Equitable Trust.

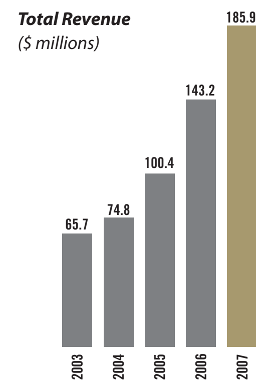
Equitable's Long-Term GICs pay interest monthly, quarterly, semi-annually or annually on a minimum investment of $5,000. Equitable also offers Short-Term GICs for periods of 30 through 364 days for a minimum of $5,000. The company updates its interest rates frequently, to ensure they remain competitive.

"Deposit Services is a core business that services the needs of investors while providing essential funding to support the Company's mortgage business," Fryer says. "By offering competitive rates and delivering superior service to our partners in the financial services industry, we intend to ensure that it remains a major contributor to Equitable's growth and profitability."

Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess results of operations and financial condition for the fiscal year ended December 31, 2007 and compare those results with corresponding prior periods. This MD&A should be read in conjunction with the Consolidated Financial Statements and related notes. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

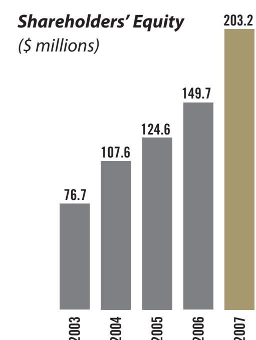
Additional information about the Company, including its 2007 Annual Information Form, is available at www.equitablegroupinc.com and www.sedar.com.

Certain components of other income and non-interest expense have been reclassified in conjunction with the adoption of the new accounting policies for financial instruments. The adoption of the new accounting policies for financial instruments has not been applied retroactively and prior period financial statements have not been restated. Management's discussion and analysis of other income and non-interest expense is based on the prior year's presentation to provide a meaningful comparison.



Business Overview

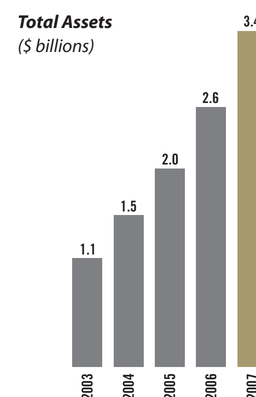
Equitable Group Inc. ("Equitable" or the "Company") is a niche lender providing first mortgage financing through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust was founded in 1970. The primary sources of the Company's revenue are interest income derived from its mortgage financing business and interest and dividend income from investments. In addition, the Company earns income from commitment, renewal and discharge fees on its mortgage portfolio and from the securitization of mortgages and recurring income from a continuing interest in these mortgages within the Canada Mortgage and Housing Corporation ("CMHC") Mortgage Backed Securities ("MBS") program. The Company's approach is to operate without a branch network to achieve low overheads. Its business model is based on outsourcing mortgage origination to independent mortgage brokers and outsourcing deposit origination to independent deposit agents. This business model and the growing nature of the Company's mortgage lending niches have contributed to strong financial results.



Objectives & Initiatives

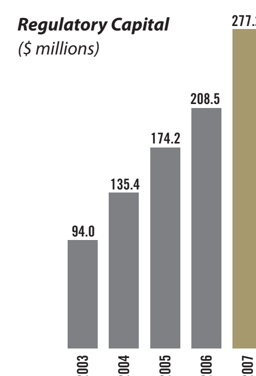
Equitable's diversified mortgage portfolio across both residential and commercial real estate is a core strength of the organization. In order to build the business to deliver long-term shareholder value, the Board and management have defined three key corporate objectives:

- Fund future growth primarily from the retention of earnings and non-dilutive forms of capital;
- Build lending businesses where the Company has the best market position, profit and potential for sustainability; and
- Operate in a manner consistent with continuously-improving processes and operating efficiencies recognizing that, while productivity ratios are important, shareholders are best served by focusing on maximizing return on equity ("ROE") adjusted for risk.



Capital Plan

The Company believes that shareholders' interests are best served if future growth is funded primarily by retained earnings and non-dilutive forms of capital. The Company's long-term business plan has been developed to assume that, absent significant acquisitions, equity will not be issued from treasury except through the exercise of stock options and in unusual circumstances. The implications of this approach are that asset growth will slow in 2008, as compared to prior years, as Equitable builds its regulatory capital through retention of earnings to levels appropriate for the new Basel II regulatory regime (see "Capital Management"). In the years 2009 and beyond, asset growth is expected to accelerate to a rate consistent with growth in capital.



Lending Businesses

Management has identified the following areas of competitive strength in its lending business and will emphasize activities associated with each in the future:

- Single-Family Dwelling ("Single-Family") lending business: Equitable's Single Family operation has a variety of strengths including a large independent broker network, a disciplined approach to credit evaluation and collections and a focus on customer service. These strengths have allowed the Company to excel in an environment where many competitors have been forced to withdraw from the market;
- Commercial Mortgage – Broker Services ("Broker Services"): This line of business funds loans on a variety of property types, including mixed-use, apartment buildings, commercial and industrial sourced from independent mortgage brokers. Broker Services specializes in assisting experienced entrepreneurs, business operators and real estate investors. It has several strengths including broad mortgage broker relationships, and strong underwriting capabilities;
- Niche commercial lending business: This operation works with mortgage banking organizations to invest in commercial mortgages that typically do not meet the criteria of traditional long-term investors but provide low risk and good return characteristics for Equitable. Commercial loans that have particularly attractive qualities include short-term construction loans, single-family warehoused loans and CMHC-insured multi-family loans for securitization.

As a result of this emphasis, the Company expects to grow its Single-Family portfolio faster than its other mortgage assets and expand its Single-Family lending business beyond the provinces of Ontario and Alberta. To support the growth of the Single-Family business, Equitable has recently joined the Canadian Payments Association and has become an Approved Seller under the Canada Mortgage Bonds Program.

Operating Efficiency and ROE

The Company is bringing the same discipline to bear on its ROE requirements as it brings to credit evaluation. Equitable has developed a proprietary methodology to price each loan or investment to evaluate its contribution to return on equity and ensure investment returns meet established requirements. Single-family loans require less regulatory capital than other types of mortgages and, although they require greater costs to process, typically generate a higher return on equity than commercial loans.

Management believes that shareholders are best served by focusing on loans that optimize ROE even at the expense of a slightly increased productivity ratio as a result of higher processing costs. The Company is committed to using automation and improving operating efficiencies to reduce costs where possible.

2007 Highlights

- Equitable had the most profitable year in its history, generating net income of $31.2 million, even after taking into account the impact of a $3.4 million after-tax write-down on a preferred share investment.
- Mortgage assets increased to a record $2.87 billion at year end – 35% higher than the previous year.
- Mortgage originations climbed to a record $2.73 billion – including a record year for single-family originations of $528.6 million (excluding mixed-use properties) – as management focused on building this area of the business.

To address the need for additional capital to support growth, the Company issued $25.0 million of common equity and Equitable Trust issued $22.0 million of subordinated debentures.

Table 1 provides a summary of the performance highlights of the year that should be read in conjunction with the "Financial Results Overview" section that follows.

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND EMPLOYEE AMOUNTS)

	2007	2006	2005	Change from 2006	
OPERATIONS				$	%
Net income	**31,171**	27,338	19,757	3,833	14%
Net income - adjusted[(1)]	**34,549**	27,338	19,757	7,211	26%
Basic earnings per share ("EPS")	**$ 2.47**	$ 2.30	$ 1.68	$ 0.17	7%
Basic earnings per share - adjusted[(1)]	**$ 2.74**	$ 2.30	$ 1.68	$ 0.44	19%
Diluted earnings per share	**$ 2.44**	$ 2.26	$ 1.65	$ 0.18	8%
Diluted earnings per share - adjusted[(1)]	**$ 2.71**	$ 2.26	$ 1.65	$ 0.45	20%
Net interest income[(2)]	**65,445**	51,637	37,906	13,808	27%
Total revenue	**185,933**	143,219	100,432	42,714	30%
Return on equity[(4)]	**17.2%**	19.9%	17.0%		
Return on equity - adjusted[(1) (4)]	**18.9%**	19.9%	17.0%		
Return on average assets	**1.0%**	1.2%	1.1%		
Return on average assets – adjusted[(1)]	**1.1%**	1.2%	1.1%		
Productivity ratio – TEB[(2) (3) (6)]	**35.6%**	32.0%	31.9%		
Productivity ratio – TEB – adjusted[(1) (2) (3) (6)]	**33.3%**	32.0%	31.9%		
Number of employees at year end	**124**	107	82		
BALANCE SHEET AND OFF-BALANCE SHEET					
Total assets	**3,409,626**	2,625,755	2,012,252	783,871	30%
Mortgages receivable	**2,874,241**	2,135,662	1,678,420	738,579	35%
Shareholders' equity	**203,170**	149,736	124,608	53,434	36%
Mortgage-backed security assets under administration	**1,888,250**	1,807,479	1,878,405	80,771	4%
COMMON SHARES					
Number of common shares outstanding at year end	**12,952,710**	11,924,468	11,781,940		9%
Dividends per share	**$ 0.40**	$ 0.40	$ 0.32	$ -	0%
Book value per common share	**$ 15.69**	$ 12.56	$ 10.58	$ 3.13	25%
Common share price – close	**$ 28.75**	$ 31.20	$ 24.60	$ (2.45)	(8%)
Market capitalization	**372,390**	372,043	289,836	347	0%
CREDIT QUALITY					
Realized loan losses – net of recoveries	**21**	21	0		
Mortgages in arrears 90 days or more as a % of total mortgages	**0.30%**	0.05%	0.10%		
Net impaired mortgages as a % of total mortgages[(5)]	**0.30%**	0.05%	0.09%		
Allowance for credit losses as a % of gross impaired mortgages	**103.6%**	707.0%	199.8%		
MORTGAGE PRODUCTION					
Conventional mortgages other than warehoused mortgages	**1,475,578**	965,706	908,238	509,872	53%

(1) *Adjusted for a preferred share write-down in the Company's investment portfolio – see Financial Results Overview and the Non-GAAP Financial Measures section.*
(2) *See explanation of treatment of net mortgage commitment fees and deposit agent commissions at the end of this MD&A.*
(3) *See explanation of Taxable Equivalent Basis ("TEB") at the end of this MD&A.*
(4) *Return on equity is calculated based on the weighted average equity outstanding during the year.*
(5) *Gross mortgage principal of impaired loans less specific allowance.*
(6) *Decreases in this ratio reflect improved efficiencies.*

Global Credit Market Impact on 2007

Global credit markets experienced significant volatility in 2007 as a result of rapidly rising mortgage default rates and a lack of confidence in the U.S. mortgage market, combined with concerns about the complex financing structures used to fund these mortgages. These issues resulted in some widely-publicized challenges for large numbers of financial institutions around the world with many of them experiencing significant credit losses and strains on liquidity. Despite these problems in the United States and elsewhere in the world, the Canadian mortgage market continued to enjoy strong levels of activity and low rates of mortgage default.

Credit market volatility had less impact on Equitable than many other financial institutions, since, among other factors:

- The Company's only securitization activity is executed through a government-sponsored program that continues to operate;
- Equitable does not own any asset-backed commercial paper ("ABCP"); and
- The Guaranteed Investment Certificate ("GIC") market continues to provide good liquidity funding for the Company.

Challenges in credit markets did have some impact on Equitable during 2007 in two key areas:

- A number of larger institutions participated more actively than is typical in the GIC market in order to fund their liquidity needs. This increased the cost of funding the Company's mortgage assets; and
- The general decrease in securitization activity slowed discharge rates for warehoused mortgages, resulting in higher mortgage balances for this part of the portfolio.

The disruption to credit markets during 2007 caused a number of the Company's competitors to withdraw from the alternative mortgage market. Management believes this improved competitive environment will help Equitable's efforts to source mortgage assets with attractive interest margins and good real estate collateral.

Financial Review - Earnings

Net Income

Net income was $31.2 million compared with $27.3 million in 2006. This increase was the result of strong growth in mortgage receivables of $738.6 million or 35% compared to the previous year, offset by a $3.4 million after-tax write-down on one preferred share holding in the investment portfolio at year end. Management determined that an impairment write-down at December 31, 2007 for preferred shares of Quebecor World Inc. was necessary when Quebecor World filed for bankruptcy protection and management believed that a recovery of this investment could not be reasonably assured. The write-down amounted to $0.41 per share on a pre-tax basis, $0.27 per share after-tax.

Excluding this write-down, adjusted net income was $34.5 million compared with $27.3 million a year ago. Diluted earnings per share were $2.44, compared with $2.26 in 2006. Adjusted diluted earnings per share were $2.71, an increase of 20%. The increase in per share earnings was partially offset by an increase in the average number of common shares outstanding due to the common equity issue of 769,231 shares in April 2007.

The following table sets out the Company's financial objectives for 2007 and the actual performance against those objectives.

Table 2: Performance against objectives

	2007 Objectives	2007 Performance	2007 Performance-Adjusted[1]
Growth in assets	18-22%	29.9%	29.9%
Increase in net income	18-22%	14.0%	26.4%
Increase in diluted earnings per share	18-22%	8.0%	19.9%
ROE	18-22%	17.2%	18.9%
Productivity ratio – TEB[1]	32-35%	35.6%	33.3%

[1] *See explanation of "TEB" and "Adjusted" at the end of this MD&A.*

Net Interest Income

Net interest income is the main driver of profitability for the Company. It is measured on a Taxable Equivalent Basis ("TEB") (see explanation of TEB in the "Non-GAAP Financial Measures" section) so that income from equity securities may be compared on a pre-tax basis to ordinary interest income.

Table 3 illustrates the Company's net interest margin in 2007 compared to 2006 on a TEB.

Table 3: Net interest income

($ THOUSANDS)

	2007			2006		
	Average balance	**Revenue/ Expense**	**Average rate**	Average balance	Revenue/ Expense	Average rate
Interest revenues or interest expenses derived from:						
Assets:						
Liquidity investments	**289,227**	**14,467**	**5.0%**	210,150	8,925	4.2%
Equity securities – TEB[(1) (3)]	**161,226**	**12,968**	**7.2%**	139,252	8,719	6.7%
Mortgage loans	**2,492,610**	**161,768**	**6.5%**	1,898,443	121,406	6.4%
Total interest earning assets – TEB[(1)]	**2,943,063**	**189,203**	**6.4%**	2,247,845	139,050	6.2%
Total assets – TEB[(1)]	**3,017,691**	**189,203**	**6.3%**	2,319,004	139,050	6.0%
Liabilities and shareholders' equity:						
Customer deposits	**2,684,242**	**112,017**	**4.2%**	2,054,209	79,537	3.9%
Bank term loans[(3)]	**39,673**	**2,952**	**6.8%**	27,250	2,072	6.8%
Subordinated debentures[(3)]	**28,610**	**2,367**	**7.4%**	28,472	2,041	7.5%
Total interest bearing liabilities	**2,752,525**	**117,336**	**4.3%**	2,109,931	83,650	4.0%
Total liabilities and shareholders' equity	**3,017,691**	**117,336**	**3.9%**	2,319,004	83,650	3.6%
Net interest income – TEB[(1) (2)]		**71,867**			55,400	
Net interest margin – TEB[(1) (2)]			**2.4%**			2.4%
Less: Taxable equivalent adjustment[(1)]		**(6,422)**			(3,763)	
Add: Net mortgage commitment fees[(2)]		**2,863**			-	
Less: Deposit agent commissions[(2)]		**(6,729)**			-	
Net interest income per financial statements		**61,579**			51,637	

(1) See explanation of TEB at the end of this MD&A.
(2) See explanation of treatment of net mortgage commitment fees and deposit agent commissions at the end of this MD&A.
(3) Average rate is calculated based on the weighted average balances outstanding during the year for bank term loans and subordinated debentures. Average rate for equity securities is calculated based on the average of the month end balances outstanding during the year. For equity securities, prior year's calculation is presented using the current year's presentation.

Total interest revenues increased $50.2 million or 36% to $189.2 million in 2007 compared to prior year growth of $41.2 million. This increase was primarily due to growth across all mortgage segments. Total mortgage interest revenues increased $40.4 million or 33% in 2007 over the prior year.

The average Prime Rate of Interest ("Prime Rate") in 2007, based on the rate in effect at each month-end, was 6.10% compared to 5.81% in 2006. The Company's net interest margin remained consistent at 2.4% in 2007.

Generally, interest on the Company's floating rate mortgages is immediately affected by any change in the Prime Rate while the effect on liabilities is delayed. The Company's cashable GICs are the only liabilities that might be immediately affected by an increase in interest rates through early redemption and reinvestment by GIC holders. Therefore, an increase in the Prime Rate usually leads to temporary improvements in net interest margins while a decrease has the opposite effect. In 2007, the Company experienced a Prime Rate increase in the second quarter and a decrease in the fourth quarter.

The interest rate on average customer deposits outstanding increased to 4.2% in 2007 from 3.9% in 2006. Also during 2007, overall interest expense on customer deposits grew $32.5 million or 41% over 2006 due to the increase in rates along with a 31% increase in average customer deposits outstanding.

Changes in the credit markets had an impact on net interest margins in 2007. Consumer demand for GIC products increased throughout the latter half of the year as investors sought safety by depositing funds in regulated financial institutions. At the same time, the Company experienced greater than normal competition in the GIC market from other financial institutions seeking to raise GIC funds to improve liquidity. The spread between the pricing of GICs and the Prime Rate, the benchmark against which the Company prices floating rate loans, was compressed commencing in the second quarter of the year. Management responded by raising rates on new mortgages, but this had only a marginal impact on net interest margins during the period.

Interest income from the Company's liquidity investments increased $5.5 million or 62% from 2006 due to higher-yielding investments along with a larger debt securities portfolio throughout the year.

The TEB adjustment of $6.4 million in 2007 was 71% higher than in 2006 due to increased dividends received from the Company's larger average equity securities portfolio throughout 2007 and because of the impact of the redemption of certain preferred shares. Premiums or discounts on preferred shares with defined maturity or re-pricing dates (retractable, wind-up shares, fixed/floating securities) within the equity securities portfolio are amortized against the dividend income from these securities.

During 2007, the Company entered into $185.0 million of interest rate swaps in order to hedge interest rates on term GICs used to fund floating rate mortgages. The GICs to which these swaps relate were designated as "held-for-trading" financial instruments and carried at fair value. Any change in their value is included in interest expense and all transaction costs related to raising these GICs are expensed at the time of designation.

In conjunction with the adoption of the new accounting policies for financial instruments effective January 1, 2007, deposit agent commissions are accounted for as a component of interest expense and net mortgage commitment fees as a component of mortgage interest income. This change from prior years' financial statement presentation has not been applied retroactively; however, certain elements of the MD&A have been presented in a manner so that certain current ratios such as net interest margins–TEB and productivity ratios–TEB remained consistent with past MD&A presentation.

Other Income

Other income includes ancillary fees related to the mortgage portfolio, gains on the securitization of mortgages and excess interest spread, net of servicing fees earned on mortgages issued through the Company's CMHC-MBS program. Sundry income, gains or losses on investments and other non-mortgage related fees are also included in other income. Other income amounted to $0.3 million for 2007, compared to $7.9 million a year ago. The decrease is primarily related to the write-down of the preferred share holding in the investment portfolio of $5.2 million (described under the "Net Income" section) and the reclassification of $2.9 million of net mortgage commitment fees as a component of mortgage interest income. After adjusting for the investment portfolio write-down and net mortgage commitment fees, other income was up 5% from the prior year. Commencing in 2007, in conjunction with the adoption of the new accounting policies for financial instruments, net mortgage commitment fees are accounted for as a component of mortgage interest income. This change from prior periods' presentation has not been applied retroactively; however, commentary on other income, including mortgage commitment fees in this MD&A, has been presented in a way to provide a meaningful comparison with prior periods. For more information, see the "Non-GAAP Financial Measures" section at the end of this MD&A.

The components of securitization income are excess interest spread, net of servicing fee and gain on sale of mortgages. Total income from loan securitizations increased $0.3 million or 8% to $4.2 million in 2007. Gross margins on the securitization of CMHC-insured mortgages increased to 36 basis points in 2007 from 26 basis points in 2006. The Company securitized $359.5 million of mortgages during 2007 compared to $273.7 million during 2006.

Excess interest spread, net of servicing fee, decreased $0.3 million or 9% in 2007 over 2006. This decrease reflected a lower average securitized principal balance outstanding during 2007 compared to 2006 and lower interest penalties received on early discharge of certain securitized mortgages.

Net pre-tax loss on investments was $5.2 million in 2007 as a result of the aforementioned write-down of a preferred share investment. This compares to net gain on investments of $0.7 million in 2006.

Table 4: Other income

($ THOUSANDS)

	2007	2006	Change from 2006	
			$	%
Loan securitizations – excess interest spread net of servicing fee	**2,907**	3,182	(275)	(9%)
Loan securitizations – gain on sale of mortgages	**1,277**	708	569	80%
Total income from loan securitizations	**4,184**	3,890	294	8%
Mortgage commitment income and other fees[(1)]	**1,275**	3,373	(2,098)	(62%)
Net gain (loss) on investments	**(5,170)**	669	(5,839)	(873%)
Total	**289**	7,932	(7,643)	(96%)

(1) *See explanation of treatment of net mortgage commitment fees at the end of this MD&A.*

Non-Interest Expenses

The major elements of non-interest expenses consist primarily of salaries and benefits, premises and equipment expenses, capital taxes, insurance, and other general and administrative expenses. Non-interest expense excludes the provision for credit losses. In prior periods, deposit agent commissions were included in non-interest expenses. In conjunction with the 2007 adoption of the new accounting policies for financial instruments, deposit agent commissions are accounted for as a component of interest expense. This change from prior periods' presentation has not been applied retroactively; however, to provide a meaningful comparison with prior periods, commentary on non-interest expenses in this MD&A is presented including deposit agent commissions. For more information, see the "Non-GAAP Financial Measures" section at the end of this MD&A.

Non-interest expenses and deposit agent commissions totalled $26.7 million compared to $20.3 million in 2006. This increase primarily reflected higher deposit agent commissions due to growth in GIC liabilities and $0.5 million of deposit agent commissions expensed in 2007 for certain term GICs designated as "held-for-trading" compared to no such charge in the prior year. Overall deposit agent commission rates were comparable to the prior year. In addition, higher compensation expense was experienced due to increased employment levels to support business growth, as well as higher office and equipment costs to accommodate growth in staff. Included in non-interest expenses during 2007 was a charge for stock-based compensation expense in the amount of $0.8 million related to grants of options compared to a $0.4 million charge for 2006. The offset to this expense was an increase to contributed surplus in the same amount.

The Company's adjusted productivity ratio-TEB increased to 33.3% in 2007 compared to the 32.0% in 2006. This ratio, although slightly increased from the prior year, continued to reflect the benefits of the Company's low-cost business model based on outsourcing.

Table 5: Non-interest expenses and productivity ratio

($ THOUSANDS)

	2007	2006	Change from 2006	
			$	%
Compensation and benefits	**11,340**	9,022	2,318	26%
GIC deposit agent commissions[(1)]	**-**	4,669	(4,669)	(100%)
Capital taxes, licenses, regulatory fees and insurance	**2,680**	2,299	381	17%
Premises and equipment	**2,031**	1,573	458	29%
Marketing, travel and communications	**927**	874	53	6%
Mortgage servicing	**993**	768	225	29%
Legal, audit and related services	**541**	453	88	19%
Other	**1,456**	621	835	134%
Total	**19,968**	20,279	(311)	(2%)
Productivity ratio–TEB – adjusted[(1) (2) (3)]	**33.3%**	32.0%		

(1) *See explanation of treatment of deposit agent commissions at the end of this MD&A.*
(2) *See explanation of TEB at the end of this MD&A.*
(3) *Adjusted for a preferred share write-down in the Company's investment portfolio – see Financial Results Overview and the Non-GAAP Financial Measures section.*

Income Taxes

The Company's effective tax rate in 2007 was 24.0% compared to 28.8% in 2006. Tax-exempt dividend income from the securities portfolio continued to assist in lowering the Company's effective tax rate. The Company recorded a one-time tax benefit of $0.8 million related to the tax treatment accorded to a preferred share redemption. The net increase in future income tax expense of $6.6 million from the prior year was primarily due to future taxes payable relating to loan securitizations. The effective tax rate was less than the statutory tax rate of 35.9% primarily due to the tax-exempt income earned in the equity securities portfolio.

Income taxes are allocated between current and future taxes. Future taxes result from timing differences between the Company's financial statement earnings and earnings for tax purposes. The future taxes are established at the rates expected to be in effect at the date of the reversal of the timing differences.

Financial Review - Balance Sheet

Mortgages

All of the Company's mortgages are first charges on real estate. Table 6 provides details on the composition of the mortgage portfolio.

Table 6: Mortgages receivable

($ THOUSANDS)

	2007	**% of total**	2006	% of total	2005	% of total
Single-family dwelling including mixed-use property[(1)]	**1,026,693**[(1)]	**36%**	741,732[(1)]	35%	628,240	37%
Multi-unit residential	**660,071**	**23%**	570,312	27%	500,666	30%
Commercial	**652,783**	**23%**	431,017	20%	292,200	17%
Conventional mortgages held for sale	**272,370**	**9%**	268,396	13%	163,743	10%
Construction	**77,395**	**3%**	87,043	4%	61,836	4%
CMHC-insured	**178,971**	**6%**	33,617	1%	30,452	2%
Total mortgage principal	**2,868,283**	**100%**	2,132,117	100%	1,677,137	100%
Deferred net mortgage commitment fees[(2)], net premiums and sundry	**368**		1,423		1,422	
Mortgages reported	**2,868,651**		2,133,540		1,678,559	
Accrued interest	**14,515**		10,168		7,028	
Allowances for credit losses	**(8,925)**		(8,046)		(7,167)	
Total mortgages receivable	**2,874,241**		2,135,662		1,678,420	

[(1)] *A mixed-use property is a building that includes both residential and commercial space. Mortgage principal outstanding for mixed-use properties was $287.6 million at December 31, 2007 and $192.4 million at December 31, 2006.*

[(2)] *See explanation of treatment of net mortgage commitment fees at the end of this MD&A.*

Mortgage lending activity increased across all business segments in 2007. A significant area of growth was in single-family dwellings. Excluding growth in mixed-use properties, single-family mortgage principal increased $189.8 million or 35% compared to a year ago. This increase is consistent with the Company's corporate strategy to enhance Equitable's single-family business.

Mortgages on mixed-use properties increased by $95.2 million or 49% from December 31, 2006. These mortgages on mixed-use properties are originated by Broker Services.

Multi-unit residential mortgages increased by $89.8 million or 16% from December 31, 2006. In this segment the Company provides mortgages on properties including apartment buildings and retirement residences. Commercial mortgages increased $221.8 million or 51% from December 31, 2006.

Conventional mortgages held for sale ("warehoused mortgages") increased 1% from 2006. This portfolio was comprised of 60% residential and 40% commercial mortgages originated by third-party lenders who require financing prior to pooling and eventually selling the mortgages to investors. These mortgages usually stay on the books of the Company for periods of up to six months and are therefore referred to as warehoused mortgages. Historically, the Company has derived several advantages from participating in this market niche. For example, a broker commission is not paid on origination, the loans are floating rate and therefore easily matched with short-term GICs and the loan yields are usually attractive. Recent tightening of credit markets has slowed the number of loans financed in this manner as ultimate securitization of the loans has become limited. At year end, approximately $166.6 million of warehoused mortgages were outstanding that were intended for Commercial Mortgage Backed Securities conduits. These loans are not anticipated to move off the balance sheet in time frames previously experienced.

Construction mortgages decreased $9.6 million or 11% compared to the prior year and comprised 3% of the portfolio. CMHC-insured mortgages comprised 6% of the portfolio compared to 1% a year ago while the principal balance outstanding increased $145.4 million over the preceding year to $179.0 million. Subsequent to year end, $159.1 million of CMHC-insured mortgages were securitized, however at narrower spreads than normally realized. Floating rate mortgages within the portfolio increased 36% to $1.50 billion at December 31, 2007 from $1.10 billion a year ago and represented 52% of the portfolio.

The majority of the Company's mortgages are sourced each year by a network of independent mortgage brokers and other mortgage originators. An arrangement exists with First National Financial LP ("FNFLP"), one of Canada's leading mortgage banking organizations, to source and administer the mortgages in the Company's CMHC-MBS program and conventional mortgage product, including a component of conventional mortgages held for sale. FNFLP originated approximately $1.06 billion or 37% of the Company's outstanding on-balance sheet mortgage principal at December 31, 2007. This is consistent with the 36% of the outstanding principal reported a year earlier. The Company's conventional mortgages held for sale and CMHC-insured mortgages are located across Canada. CMHC-insured mortgages are funded almost exclusively for securitization through the CMHC-MBS program. When these loans are securitized, the Company records a gain on sale and retains the rights and obligations with respect to servicing the mortgages. In contrast, when the Company discharges the conventional mortgages held for sale, no gain or loss is recorded and the Company has no rights or obligations with respect to the mortgages after they have been discharged.

At year end, approximately 70% of the Company's mortgages receivable were secured by properties located in Ontario, compared to 83% a year ago. This change was due to a combination of the increase in large commercial lending outside Ontario, the increase in warehoused mortgages on properties located outside Ontario and the continued expansion of the Company's single-family operations in Alberta. The Company's single-family dwelling mortgage presence in Alberta grew strongly with $149.3 million in total mortgages outstanding at year end, compared to $58.5 million at December 31, 2006.

Mortgage principal increased $736.2 million or 35% during 2007 to $2.87 billion at year-end. Mortgage production is classified into three major sub-categories: conventional (uninsured) mortgages other than warehoused mortgages, warehoused mortgages and CMHC-insured mortgages. The Company funded $1.48 billion of non-warehoused conventional mortgages during 2007, up 53% from $965.7 million in 2006. In response to changes in the credit markets, warehoused mortgage production in 2007 decreased $87.8 million to $824.7 million as Equitable stopped making further commitments with a number of customers in August 2007. CMHC-insured mortgages funded during 2007 amounted to $428.0 million compared to $278.4 million in 2006.

Table 7: Mortgage production ($ THOUSANDS)

	2007 Mortgage Principal Funded	**% of total**	2006 Mortgage Principal Funded	% of total	2005 Mortgage Principal Funded	% of total	Change from 2006	
							$	%
Conventional mortgages other than warehoused mortgages	**1,475,578**	**54%**	965,706[1]	45%	908,238	64%	509,872	53%
Warehoused mortgages	**824,656**	**30%**	912,468[1]	42%	247,363	17%	(87,812)	(10%)
CMHC-insured mortgages	**428,003**	**16%**	278,362	13%	276,357	19%	149,641	54%
Total	**2,728,237**	**100%**	2,156,536	100%	1,431,958	100%	571,701	27%

(1) *Amounts have been adjusted by $19.6 million to correct a misclassification in the prior year. Warehoused mortgage production was understated and conventional mortgages other than warehoused was overstated by $19.6 million in 2006.*

Table 8: Warehoused mortgage program

($ THOUSANDS)

	2007	2006
Principal balance, beginning of period	**268,396**	163,743
Production	**824,656**	912,468
Repayments and discharges	**(820,682)**	(807,815)
Principal balance, end of period	**272,370**	268,396
Net change in principal balance	**3,974**	104,653

Mortgage Credit Quality

The Company realized $21 thousand in net credit losses in 2007. The Company's provision for credit losses in 2007 remained consistent with last year at $0.9 million. Mortgages in arrears 90 days or more amounted to 0.30% of total principal outstanding at year end compared to 0.05% a year earlier. All arrears over 90 days related to mortgages on single-family dwellings. Management believes that significant equity is available in these properties and only nominal losses, if any, will materialize. Further, management is satisfied that, despite the increase in arrears, corporate underwriting practices continue to be conservative and that adequate collateral is available to support the mortgages.

Table 9: Mortgage credit quality

($ THOUSANDS)

	2007	2006	2005	Change from 2006	
				$	%
Credit quality measures:					
Gross impaired mortgage principal	**8,617**	1,138	3,587	7,479	657%
Allowance for credit losses	**8,925**	8,046	7,167	879	11%
Allowance for credit losses as a % of gross impaired mortgages	**103.6%**	707.0%	199.8%		
Allowance for credit losses as a % of total mortgage principal	**0.31%**	0.38%	0.43%		
Mortgage principal in arrears over 90 days	**8,617**	1,138	1,603	7,479	657%
Mortgage principal in arrears over 90 days as a % of total mortgage principal	**0.30%**	0.05%	0.10%		
Continuity of allowance for credit losses:					
Balance, beginning of year	**8,046**	7,167	6,442		
Realized losses deducted from allowance	**(50)**	(21)	-		
Recovery of losses added to allowance	**29**	-	-		
Provision charged to statement of income	**900**	900	725		
Balance, end of year	**8,925**	8,046	7,167		

Cash, Cash Equivalents, Investments and Liquidity Practices

Liquidity for regulatory purposes at Equitable Trust includes cash, short-term investments, government guaranteed bonds, treasury bills and notes. Non-regulatory liquidity is comprised of preferred shares which are held as security for a credit facility of $35.0 million with the Company's bank.

At December 31, 2007 liquid assets eligible for regulatory purposes increased $52.5 million or 20% to $313.0 million. Liquid assets eligible for regulatory purposes represented 9% of total assets compared to 10% a year ago. This decline is attributable to the Company's regulatory liquidity requirements growing at a slower pace than total assets. Mortgage commitments were $290.2 million at year end up 4% from $279.3 million a year ago.

Cash and cash equivalents decreased $86.9 million to $20.9 million (including $5.0 million which is restricted relating to the Company's interest rate swap transactions) at December 31, 2007 from $107.8 million a year ago. Longer-term government bonds and notes decreased $87.7

million or 57% to $64.9 million from $152.6 million during the same period. The Company purchased $232.1 million of Government of Canada Treasury Bills under a reverse repurchase agreement prior to year end which were resold in early 2008. Equity securities decreased $10.9 million or 7% to $155.8 million at year end from $166.7 million a year earlier.

Table 10: Liquid resources

($ THOUSANDS)

	2007	2006	2005	Change from 2006	
				$	%
Deposits with regulated financial institutions	**15,927**[1]	21,688	46,039	(5,761)	(27%)
Government guaranteed debt instruments	**297,035**[2]	238,802	113,771	58,233	24%
Liquid assets for regulatory purposes	**312,962**	260,490	159,810	52,472	20%
Equity securities	**155,782**	166,669	111,833	(10,887)	(7%)
Total liquid assets	**468,744**	427,159	271,643	41,585	10%
Total liquid assets for regulatory purposes as a % of total assets	**9%**	10%	8%		
Total liquid assets as a % of total assets	**14%**	16%	13%		

(1) *Excludes $5.0 million of restricted cash held as collateral by a third party for the Company's interest rate swap transactions.*
(2) *Includes $232.1 million of investments purchased under a reverse repurchase agreement in 2007.*

Loan Securitizations – Retained Interests

The Company periodically securitizes mortgage loans primarily to diversify funding sources and enhance liquidity positions. The Company securitizes CMHC-insured mortgage loans through the creation of Mortgage Backed Securities ("MBS"). Equitable continues to service the underlying mortgages that were securitized. Refer to Note 1 to the Consolidated Financial Statements for the accounting policy on loan securitizations. Total mortgages in the CMHC-MBS program increased to $1.89 billion at year end from $1.81 billion the prior year.

Loan securitizations – retained interests amounted to $51.2 million at December 31, 2007, an increase of $2.9 million or 6% from 2006. Loan securitizations – retained interests represent the discounted future earnings to be received relating to the insured mortgages securitized through the CMHC-MBS program. It is presented gross of the estimated future servicing liability included in other liabilities. For further information, see Note 5 to the Consolidated Financial Statements and the Critical Accounting Estimates, Financial Instruments and Off-balance Sheet Arrangements sections of this MD&A.

Deposits

The Company funds mortgages receivable by issuing GICs. These provide a reliable and stable source of funding that can be properly matched against mortgage maturities.

Total deposit principal outstanding increased $703.8 million or 30% to $3.04 billion at year end from $2.34 billion the prior year. Accrued interest increased 36% over the December 31, 2006 balance, reflecting higher interest rates and higher GIC balances.

Issuances of cashable GICs continued to grow strongly in 2007, with principal balances up $139.7 million or 24% from 2006. At year end, cashable GICs represented 23% of total deposits outstanding versus 24% in 2006. The Company's cashable GIC is a one-year product, cashable at any time upon demand. Other GIC products consist of 30-day to five-year fixed term GICs. The Company is licensed in all jurisdictions in Canada to accept deposits.

Commencing in 2007, in conjunction with the adoption of the new accounting policies for financial instruments, deferred deposit agent commissions are included as a component of customer deposits. Formerly, these were presented as a component of other assets.

Table 11: Deposits

($ THOUSANDS)

	2007	2006	2005	Change from 2006	
				$	%
Cashable GIC deposits	**710,194**	570,455	348,885	139,739	24%
Fixed-term GIC deposits	**2,330,040**	1,766,011	1,423,066	564,029	32%
Accrued interest on deposits	**72,507**	53,289	37,004	19,218	36%
Deferred deposit agent commissions	**(8,217)**	-	-	(8,217)	n/a
Total	**3,104,524**	2,389,755	1,808,955	714,769	30%

Subordinated Debentures and Bank Term Loans

Subordinated debentures are subordinated to the rights of Equitable Trust's depositors and other creditors. Such debentures form an integral part of regulatory capital.

Subordinated debentures are issued for a period of 10 years. Subject to regulatory approval, debentures are redeemed each year in an amount equal to 20% of Equitable Trust prior year's net income. The Company may elect to redeem additional subordinated debentures with the approval of the Office of the Superintendent of Financial Institutions Canada ("OSFI").

During 2007, Equitable Trust issued $22.0 million of Series 7 subordinated debentures; $9.5 million directly to third parties and $12.5 million purchased by the Company as the parent of Equitable Trust using proceeds from a five-year bank term loan in the same amount. The Company is in compliance with all of the covenants required by its bank lender.

Table 12: Subordinated debentures and bank term loans

($ THOUSANDS)

	Interest Rate	2007	2006	2005	Change from 2006	
					$	%
Subordinated debentures						
Series 4	7.54% - 8.15%	**-**	-	11,444	-	-
Series 5	7.31% - 7.58%	**17,519**	20,250	20,250	(2,731)	(13%)
Series 6	7.27%	**5,000**	5,000	-	-	-
Series 7	7.10%	**9,450**	-	-	9,450	n/a
Total subordinated debentures		**31,969**	25,250	31,694	6,719	27%
Bank term loans						
	6.37%	**17,095**	19,750	19,750	(2,655)	(13%)
	6.82%	**15,000**	15,000	-	-	-
	6.41%	**12,500**	-	-	12,500	n/a
Total bank term loans		**44,595**	34,750	19,750	9,845	28%
Total subordinated debentures and bank term loans		**76,564**	60,000	51,444	16,564	28%

Other Assets, Future Income Taxes and Other Liabilities

Other assets decreased $4.2 million or 29% to $10.4 million from $14.7 million a year earlier. Other assets include income taxes recoverable, capital assets consisting of leasehold improvements, office furniture and computer equipment and sundry receivables and prepaid expenses. The decrease in other assets was primarily due to the reclassification of deferred deposit agent commissions and deferred finders' fees. In the current year, deferred deposit agent commissions are included in customer deposits, and deferred finders' fees are included in mortgages receivable. In 2006, $6.3 million of deferred agent commissions and $1.9 million of deferred finders' fees were included in other assets. Accrued interest and dividends on investments decreased $1.5 million over that of the prior year. The overall decrease in other assets is primarily offset by income taxes recoverable of $3.4 million. In 2006, the Company recorded income taxes payable of $3.6 million.

Table 13: Other assets, future income taxes and other liabilities

($ THOUSANDS)

	2007	2006	2005	Change from 2006	
				$	%
Other assets					
Other receivables and prepaids	**3,586**	6,112	3,301	(2,526)	(41%)
Income taxes recoverable	**3,382**	-	-	3,382	n/a
Capital assets	**2,857**	2,263	1,502	594	26%
Derivative financial instruments – interest rate swaps	**539**	-	-	539	n/a
Mortgage commitments	**63**	-	-	63	n/a
Deferred deposit agent commissions	**-**	6,288	5,791	(6,288)	(100%)
Total	**10,427**	14,663	10,594	(4,236)	(29%)

($ THOUSANDS)

	2007	2006	2005	Change from 2006	
				$	%
Future income taxes and other liabilities					
Future income taxes	**7,945**	4,700	6,538	3,245	69%
Mortgagor realty taxes	**6,616**	5,089	5,266	1,527	30%
Securitized mortgage servicing liability	**5,953**	6,044	6,460	(91)	(2%)
Accounts payable and accrued liabilities	**2,858**	6,860	4,315	(4,002)	(58%)
Derivative financial instruments – securitization activities	**1,996**	-	-	1,996	n/a
Income taxes payable	**-**	3,571	4,666	(3,571)	(100%)
Total	**25,368**	26,264	27,245	(896)	(3%)

Future income taxes payable result from differences between the measurement of assets and liabilities for financial statement purposes as opposed to tax purposes. A large portion of future taxes relates to the Company's securitization activities net of its general allowance for credit losses. Future income taxes increased primarily as a result of the increase in future tax payable related to loan securitizations. Securitized mortgage servicing liability relates to the Company's estimate of future costs of FNFLP servicing the mortgages in the CMHC-MBS portfolio.

Shareholders' Equity

Total shareholders' equity increased $53.4 million or 36% to $203.2 million from $149.7 million a year earlier. This increase in shareholders' equity reflected earnings, net of dividends and the issuance of new equity during the year. In 2007, the Company issued 1,028,242 common shares that contributed $28.6 million to common share capital. In 2007, the majority of this new equity was issued through a public offering — priced at $32.50 per share — in April 2007 that raised $25.0 million. The balance of new equity in 2007 came from the exercise of employee stock options. In 2006, the Company issued 142,528 common shares – exclusively through the exercise of employee stock options – that contributed $2.1 million to common share capital.

The Company paid an annual dividend of $0.40 per share in 2007 which management expects to be maintained throughout 2008.

Table 14: Shareholders' equity ($ THOUSANDS)

	2007	2006	2005	Change from 2006	
				$	%
Shareholders' equity:					
Common shares	**87,062**	57,849	55,510	29,213	50%
Contributed surplus	**1,778**	1,539	1,327	239	16%
Retained earnings	**116,325**	90,348	67,771	25,977	29%
Accumulated other comprehensive loss	**(1,995)**	-	-	(1,995)	n/a
Total shareholders' equity	**203,170**	149,736	124,608	53,434	36%
Dividends paid	**5,081**	4,761	3,765	320	7%
Dividends per share	**$ 0.40**	$ 0.40	$ 0.32	-	0%

Capital Management

The Company maintains a capital management policy to govern both the quality and quantity of capital utilized by Equitable Trust in its regulated operations to support its business plans.

Equitable Trust's key capital benchmarks under the Basel I regulatory requirements prevailing at year end were as follows:

- Total regulatory capital should exceed 10% of total risk-weighted assets.
- Tier 1 capital must be no less than 7% of total risk-weighted assets.
- Tier 2B capital must not exceed 50% of Tier 1 capital.
- The Company's ratio of total assets to capital must not exceed 17.5 times.

As shown in Table 15, Equitable Trust met these regulatory requirements at year end.

Table 15: Capital measures (relating solely to Equitable Trust) ($ THOUSANDS)

	2007	2006	Change from 2006
Tier 1 Capital:			
Capital stock	**87,621**	57,834	29,787
Contributed surplus	**1,363**	1,124	239
Retained earnings	**114,645**	89,508	25,137
Accumulated other comprehensive loss[1]	**(2,982)**	-	(2,982)
Total	**200,647**	148,466	52,181
Tier 2 Capital:			
Subordinated debentures (Tier B)[2]	**76,564**	60,000	16,564
Total	**76,564**	60,000	16,564
Total regulatory capital	**277,211**	208,466	68,745
Total risk-weighted assets	**2,423,118**	1,967,779	455,339
Regulatory capital to risk-weighted assets			
Tier 1 Capital	**8.3%**	7.5%	0.8%
Tier 2 Capital	**3.1%**	3.1%	0.0%
Total regulatory capital as a % of total risk-weighted assets	**11.4%**	10.6%	0.8%
Authorized asset to capital multiple	**17.5**	17.5	-
Utilized asset to capital multiple [3]	**12.9**	12.6	0.3

(1) *Effective January 1, 2007, shareholders' equity includes accumulated other comprehensive loss, which is described in Note 2 of the Company's audited Consolidated Financial Statements. Accumulated other comprehensive loss related to unrealized losses on available-for-sale equity securities reduces Tier 1 Capital.*

(2) *Tier 2B capital may be included in Tier 2 Capital to a maximum of 50% of net Tier 1 Capital.*

(3) *Total assets plus off-balance sheet instruments such as sale and repurchase agreements divided by regulatory capital.*

Equitable Trust is currently in the process of transitioning from the Basel I to the Basel II regulatory risk management and reporting environment. Effective January 1, 2008, the Company will report its capital ratio based on Basel II requirements ("BCAR ratio"). Under Basel II, certain asset classes attract different risk weightings than under Basel I and additional capital is required to support operational risk.

As part of the transition to Basel II, Equitable Trust developed and implemented an Internal Capital Adequacy Assessment Process ("ICAAP") in 2007. The ICAAP identified risks in the business and determined prudent capital levels to maintain based on those risks. As a result of this ICAAP, it is the Company's intention to build its regulatory capital base to a BCAR ratio of 13% during 2008, calculated by including general reserves as part of regulatory capital. Equitable Trust's BCAR ratio calculated under this basis would have been 11.0% at December 31, 2007 had this new regulatory regime been in effect.

Outlook

Looking at market conditions, rising demand for mortgages – stimulated by population growth and low interest rates – is expected to support Equitable's continued strong profitability. Reduced competition in Equitable's mortgage markets is likely to give the Company an opportunity to increase interest spreads and return on assets. While management expects consumer credit quality to remain solid in a historical context, it anticipates an increase in delinquency rates as a result of tightening credit conditions.

During 2008, Equitable plans to slow its rapid asset growth of recent years while it builds its capital ratio. During the year, the Company will focus on originating mortgage assets that generate higher returns on capital while maintaining a relatively low tolerance for credit risk.

The Company's objectives have been framed in the context of the current conditions in the credit markets and assume that no additional subordinated debt is raised during the year. If additional subordinated debt is raised or the Company securitizes single-family mortgages under the Canada Mortgage Bonds Program, this would facilitate faster growth in earnings and assets.

Table 16: 2008 objectives

	2008 Objectives
Return on equity[(1)]	16-18%
Percentage increase in net income over that of the prior year [(2)]	16-20%
Total capital ratio (including general reserves)	13%
Productivity ratio - TEB [(3)]	27-30%

(1) Return on equity is calculated based on the weighted average equity outstanding during the year.
(2) This objective is referenced with respect to net income. The target percentage increase compared to adjusted net income would be 4.6% to 8.3%.
(3) The calculation for productivity ratio – TEB does not include deposit agent commissions as a component of non-interest expense. These commissions are included as a component of net interest income. The 2007 adjusted productivity ratio – TEB presented on this basis would be 27.2%.

Fourth Quarter Review

Overview

- Net income was $6.9 million, down 11% from the fourth quarter of 2006. Adjusted net income (excluding the preferred share write-down in the quarter) was $10.3 million, up 33% from a year ago. On this adjusted basis, the fourth quarter was the most profitable quarter on record.
- Diluted earnings per share were $0.53 compared to $0.64 in the same period a year ago, down 17% from prior year. Adjusted diluted earnings per share were $0.79 compared to $0.64 from a year ago, up 23% from prior year.
- Return on equity was 13.7% compared to 21.0% in the fourth quarter of 2006. Return on equity, adjusted for the preferred share write-down, was 20.3%.
- Single-family production, excluding mixed-used properties, was $147.8 million compared to $112.8 million in the fourth quarter of 2006.
- During the quarter, Equitable funded $81.5 million through Broker Services, compared to $57.5 million in the fourth quarter of 2006.
- The Company deliberately slowed the pace of asset expansion in order to allow its capital ratio to increase through the retention of earnings.
- Book value per share was $15.69 compared to $12.56 at December 31, 2006.

Table 17: Income Statement – Fourth Quarter 2007 and 2006

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three months ended			
	December 31, 2007	December 31, 2006	Change from 2006	
			$	%
Interest income:				
Mortgages[1]	**47,329**	33,801	13,528	40%
Investments	**2,357**	2,533	(176)	(7%)
Other	**3,233**	1,886	1,347	71%
	52,919	38,220	14,699	38%
Interest expense:				
Customer deposits	**32,338**	22,915	9,423	41%
Deposit agent commissions[1]	**1,882**	-	1,882	n/a
Bank term loans	**754**	594	160	27%
Subordinated debentures	**592**	474	118	25%
	35,566	23,983	11,583	48%
Net interest income	**17,353**	14,237	3,116	22%
Provision for credit losses	**225**	225	-	0%
Net interest income after provision for credit losses	**17,128**	14,012	3,116	22%
Other income:				
Mortgage commitment[1] income and other fees	**353**	959	(606)	(63%)
Net gain (loss) on investments	**(5,169)**	666	(5,835)	(876%)
Loan securitizations - retained interests	**878**	974	(96)	(10%)
	(3,938)	2,599	(6,537)	(252%)
Net interest income and other income	**13,190**	16,611	(3,421)	(21%)
Non-interest expenses:				
Compensation and benefits	**3,135**	2,160	975	45%
Other	**2,239**	2,002	237	12%
Deposit agent commissions	**-**	1,330	(1,330)	(100%)
	5,374	5,492	(118)	(2%)
Income before income taxes	**7,816**	11,119	(3,303)	(30%)
Income taxes (recovery):				
Current	**803**	4,439	(3,636)	(82%)
Future	**102**	(1,072)	1,174	(110%)
	905	3,367	(2,462)	(73%)
Net income	**6,911**	7,752	(841)	(11%)
Earnings per share:				
Basic	**$ 0.53**	$ 0.65	$ (0.12)	(18%)
Basic – Adjusted[2]	**$ 0.79**	$ 0.65	$ 0.14	22%
Diluted	**$ 0.53**	$ 0.64	$ (0.11)	(17%)
Diluted - Adjusted[2]	**$ 0.79**	$ 0.64	$ 0.15	23%
Weighted average number of shares outstanding:				
Basic	**12,943,749**	11,911,900	1,031,849	
Diluted	**13,039,976**	12,120,576	919,400	

(1) See explanation of treatment of net mortgage commitment fees and deposit agent commissions at the end of this MD&A.
(2) Adjusted for a preferred share write-down in the Company's investment portfolio – see Financial Results Overview and the Non-GAAP Financial Measures section.

During the fourth quarter, the balance of average interest-earning assets was $3.29 billion, up 35% from $2.45 billion from the same period a year ago. Mortgage interest income (excluding net mortgage commitment income of $0.9 million) increased 38% to $46.5 million compared to $33.8 million a year earlier due to the increase in the mortgage portfolio and higher interest rates. Investment income decreased 7% from the same quarter a year ago due to a decline in the balance of the Company's equity investment securities. Net interest income (excluding net mortgage commitment income and deposit agent commission) increased $4.1 million or 29% from the same quarter a year ago due to expansion in the Company's asset base during the previous three quarters. This growth was partially offset during the fourth quarter by compressed spreads on the Company's floating rate mortgages resulting from a Prime Rate decrease, combined with narrower spreads between the Prime Rate and short-term deposit rates. The Company experienced no loan losses during the fourth quarter of 2007 or 2006.

Other income (including net mortgage commitment income of $0.9 million) decreased $5.7 million or 219% during the quarter compared to the same period a year ago primarily due to the write-down of a preferred share investment.

Non-interest expenses (including deposit agent commission expense) increased 32% in the fourth quarter compared to the same quarter of 2006 primarily due to higher deposit agent commissions and compensation costs. Deposit commissions increased due to growth in GIC liabilities and $0.2 million of deposit agent commissions expensed in the quarter for certain term GICs designated as "held-for-trading" compared to no such charge in the same period a year ago.

During the fourth quarter, the Company recorded a one-time tax benefit of $0.8 million relating to the tax treatment accorded to the redemption of preferred shares. The effective tax rate in the fourth quarter of 2007 was 11.6%, compared to 30.3% a year earlier.

Summary of Quarterly Results

Key performance highlights of the past eight quarters are presented in Table 18.

Table 18: Summary of Quarterly Results

($ THOUSANDS, EXCEPT BALANCE SHEET AND OFF-BALANCE SHEET ITEMS AND PER SHARE AMOUNTS)

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
OPERATIONS								
Net income	**6,911**	**8,788**	**7,480**	**7,992**	7,752	7,144	6,609	5,833
Net income - adjusted[1]	**10,289**	**8,788**	**7,480**	**7,992**	7,752	7,144	6,609	5,833
Basic EPS	**$ 0.53**	**$ 0.68**	**$ 0.59**	**$ 0.67**	$ 0.65	$ 0.60	$ 0.56	$ 0.49
Basic EPS – adjusted[1]	**$ 0.79**	**$ 0.68**	**$ 0.59**	**$ 0.67**	$ 0.65	$ 0.60	$ 0.56	$ 0.49
Diluted EPS	**$ 0.53**	**$ 0.67**	**$ 0.59**	**$ 0.66**	$ 0.64	$ 0.59	$ 0.55	$ 0.49
Diluted EPS – adjusted[1]	**$ 0.79**	**$ 0.67**	**$ 0.59**	**$ 0.66**	$ 0.64	$ 0.59	$ 0.55	$ 0.49
Net interest income[2]	**18,384**	**16,846**	**15,338**	**14,877**	14,237	13,455	12,586	11,359
Net interest margin – TEB[2] [3]	**2.4%**	**2.3%**	**2.3%**	**2.4%**	2.4%	2.5%	2.5%	2.4%
Total revenues	**48,981**	**49,556**	**44,728**	**42,668**	40,819	37,572	34,008	30,820
Return on equity	**13.7%**	**18.2%**	**17.0%**	**21.1%**	21.0%	20.3%	19.8%	18.6%
Return on equity – adjusted[1]	**20.3%**	**18.2%**	**17.0%**	**21.1%**	21.0%	20.3%	19.8%	18.6%
Return on average assets – annualized	**0.8%**	**1.1%**	**1.0%**	**1.2%**	1.2%	1.2%	1.2%	1.1%
Return on average assets – annualized – adjusted[1]	**1.2%**	**1.1%**	**1.0%**	**1.2%**	1.2%	1.2%	1.2%	1.1%
Productivity ratio – TEB[2] [3]	**40.9%**	**34.2%**	**35.4%**	**32.1%**	30.6%	32.7%	33.1%	32.0%
Productivity ratio – TEB – adjusted[1] [2] [3]	**31.7%**	**34.2%**	**35.4%**	**32.1%**	30.6%	32.7%	33.1%	32.0%
BALANCE SHEET AND OFF-BALANCE SHEET ($ millions)								
Total assets at quarter end	**3,410**	**3,333**	**2,901**	**2,866**	2,626	2,414	2,244	2,113
Mortgages receivable at quarter end	**2,874**	**2,699**	**2,313**	**2,299**	2,136	1,982	1,832	1,770
Shareholders' equity at quarter end	**203**	**198**	**186**	**158**	150	143	137	131
Mortgage-backed security assets under administration at quarter end	**1,888**	**1,849**	**1,785**	**1,816**	1,807	1,863	1,914	1,928
MORTGAGE PRODUCTION								
Conventional mortgages other than warehoused mortgages	**347,711**	**450,264**	**406,625**	**270,978**	334,518	196,708	159,355[4]	275,125
Warehoused mortgages	**63,449**	**216,699**	**249,643**	**294,865**	276,934	249,279	186,398[4]	199,857
CMHC-insured mortgages	**171,582**	**112,410**	**45,652**	**98,359**	49,897	43,711	69,884	114,870
Total	**582,742**	**779,373**	**701,920**	**664,202**	661,349	489,698	415,637	589,852

(1) *Adjusted for a preferred share write-down in the Company's investment portfolio – see Financial Results Overview and the Non- GAAP Financial Measures section.*
(2) *See explanation of treatment of net mortgage commitment fees and deposit agent commissions at the end of this MD&A.*
(3) *For explanation of TEB see the end of this MD&A.*
(4) *Amounts have been adjusted by $19.6 million to correct a misclassification in the prior year. Warehoused mortgage production was understated and conventional mortgages other than warehoused was overstated by $19.6 million in 2006.*

Table 18 shows the effects of the Company's growing asset base and increased capital, as well as variations in the Prime Rate. Throughout the eight quarters summarized, the Company continued to increase its asset base primarily through mortgage growth and, to a lesser extent, through growth in its equity securities portfolio. This growth led to higher net interest income. As a result of the steady increases in earnings, adjusted ROE has remained strong on a quarterly basis.

Changes in Accounting Policies Including Initial Adoption

A summary of the Company's significant accounting policies is presented in Note 1 to the Consolidated Financial Statements. Effective January 1, 2007, the Company adopted new accounting policies issued by the CICA: Financial Instruments – Recognition and Measurement, Hedges, Comprehensive Income and Financial Instruments – Disclosure and Presentation. A new section of shareholders' equity – accumulated other comprehensive income – has been created by virtue of the adoption of these new standards. Please refer to Note 2 of the Consolidated Financial Statements for details on these accounting changes.

Critical Accounting Estimates

The Company's critical accounting estimates are primarily in the areas of credit risk, allowance for credit losses and loan securitizations – retained interests. The policies and methodology used to determine these estimates and the significance of these accounting estimates to the Company's financial condition have been outlined in this MD&A and in Note 1 to the Consolidated Financial Statements.

The allowance for credit losses reflects management's best estimate of probable losses in the mortgage portfolio as at the balance sheet date. In order to assess the likelihood of a loss, management takes into consideration a broad range of information, including economic factors, developments affecting particular property types and geographic areas, the age of a mortgage and specific issues with respect to individual borrowers. Changes in any of these factors may cause future assessment of credit risk to be significantly different from current assessments and could affect the level of allowance for credit losses being maintained by the Company. The Company's general allowance for credit losses of $8.8 million as at December 31, 2007 represented 0.3% of total mortgage principal outstanding.

The Company uses estimates in valuing retained interests in loan securitizations. This valuation and changes thereto affect the gain on sale of mortgages in a securitization and could affect the measurement of excess interest spread, net of servicing fee. Management uses its best estimates in determining the value of retained interests on each securitization, taking into account current interest rates, the terms of the mortgages being sold, the propensity for prepayment and the cost of the future mortgage servicing. On a quarterly basis, management reassesses its estimates to ensure that these estimates are still valid under the current economic environment. Management uses historical data to support any amendments to its estimation methodology and the carrying value of loan securitizations – retained interests. A sensitivity analysis of two adverse changes in the estimate used to value the Company's retained interests in loan securitizations is presented in Note 5 to the Consolidated Financial Statements.

Off-balance Sheet Arrangements

The Company is responsible for servicing the mortgages securitized through the CMHC-MBS program, including the collection of principal and interest, payments to MBS investors, and the management and collection of mortgages in arrears. Under a contract expiring December 2009, the Company has entered into a servicing agreement with FNFLP as the sub-servicer of the securitized mortgage portfolio. Should FNFLP be unable or unwilling to act as sub-servicer, the Company can choose to service the mortgages itself or to appoint a replacement sub-servicer. The Company has recorded a liability of $6.0 million in other liabilities for the future servicing of mortgages in the CMHC-MBS program which have been securitized subsequent to June 2001. The servicing liability for mortgages securitized prior to that time has been netted against the asset loan securitizations – retained interests.

Derivative Financial Instruments

The Company uses Government of Canada Bond forward contracts to hedge interest rate risk on CMHC-insured multi-unit residential mortgages and mortgage commitments targeted for securitization. The risk is that interest rates rise between the rate commitment date and the sale date, leading to a reduced value of the mortgage upon securitization. The hedge acts to significantly reduce the likelihood that the proceeds on the sale of the mortgage (comprised of the fair value of the mortgage and the fair value of bond forward) will vary from the fair value of the mortgage at the date of rate commitment as a result of interest rate movements. The Company also uses interest rate swaps to manage market interest rate exposure on term GICs used to fund floating rate mortgages. For more information on hedges and forward bond contracts see Note 6 to the Consolidated Financial Statements.

Contractual Obligations

The material contractual obligations of the Company at December 31, 2007 are outlined in Table 19.

Table 19: Contractual obligations ($ THOUSANDS)

		Payments due by period			
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
GIC principal and interest	3,282,467	2,227,732	514,916	539,819	-
Subordinated debentures principal and interest[1]	50,120	2,348	4,697	4,697	38,378
Bank term loans principal and interest	53,748	2,921	22,059	28,768	-
Operating leases[2]	3,608	467	934	890	1,317
Total contractual obligations	3,389,943	2,233,468	542,606	574,174	39,695

(1) *Obligations do not include any pre-maturity redemptions relating to prior year's earnings as prior regulatory approval is required.*
(2) *Represents minimum lease payments for premises rental.*

In addition to these contractual obligations, the Company is responsible to CMHC for ongoing mortgage servicing on mortgages securitized through the CMHC-MBS program. This obligation is discussed in "Off-Balance Sheet Arrangements."

Related Party Transactions

Certain of the Company's directors and officers have purchased GICs and subordinated debentures from the Company in the ordinary course of business, at market terms and conditions. Note 17 to the Consolidated Financial Statements provides details on these transactions.

Risk Management

Overview

The Company, like other financial institutions, is exposed to several factors that could adversely affect its business, financial condition or operating results and which may also influence an investor to buy, sell or hold shares in the Company. Many of these risk factors are beyond the Company's direct control.

Senior management is responsible for identifying risks and developing an appropriate risk management framework. The Board of Directors and the Committees of the Board play an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company cautions that the discussion of risks set out below is not exhaustive.

Credit Risk

Equitable Trust's main area of investment is providing first mortgage loans on real estate. All mortgages are individually evaluated by underwriters using internal and external credit risk assessment tools and are assigned a risk rating, in accordance with the level of credit risk attributed to each loan. The underwriting approach places a strong emphasis on security evaluation and judgmental analysis of the risks in the transaction rather than being formulaic in structure. As a result, Equitable Trust can underwrite mortgages on favourable terms to borrowers who have good equity and debt service ratios in situations where conventional lenders would typically decline borrowers.

On a regular basis, management establishes credit limits for exposure to certain counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage portfolio. Key subsets of credit risk that are closely monitored and measured are credit concentration risk and the risk associated with economically-sensitive assets.

The Company also invests in preferred share securities to generate returns that meet an acceptable hurdle threshold from a return on equity perspective. These securities represent a potential source of liquidity to the Company. However, such investments expose the Company to credit risk if the issuer of the preferred shares cannot make dividend payments, or in the worst case scenario, if the issuer becomes insolvent.

Securities rated P-2 and higher comprised 80% of the preferred share equity securities portfolio at December 31, 2007, compared to 89% a year earlier.

Interest Rate Risk Management

The Company's primary method of managing interest-rate risk is matching asset and liability maturity/re-pricing profiles, closely monitoring interest rates and acting upon any mismatch in a timely fashion to ensure that any sudden or prolonged change in interest rates does not significantly affect the Company's net interest income.

The Company uses simulated interest rate change sensitivity modeling to estimate the effects of various interest rate change scenarios on net interest income for the twelve months following the measurement date and on the economic value of shareholders' equity. Certain assumptions, such as pre-maturity redemptions of GICs and early payouts of mortgages, based upon actual experience, are built into the economic value model for simulation purposes. The probabilities of cashable GIC redemptions are also modeled.

Management's sensitivity modeling indicates that in the event of an immediate and sustained 1% interest rate increase, net interest income would increase $3.4 million before any tax effect for the 12-month period following December 31, 2007. If interest rates were to decrease by 1% and if cashable GICs were to stay on the books until maturity, net interest income before any tax effect for the following 12 month period would decrease by $6.4 million.

The Company hedges the interest rate risk for all mortgages that are 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 Company's earnings are affected by changes in interest rates. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change.

Liquidity Risk Management

Managing liquidity risk requires management to keep sufficient liquid assets on hand at all times to meet mortgage funding needs, investment purchase commitments and to fund GIC redemptions and maturities. Eligible liquid assets for regulatory purposes consist of cash and cash equivalents and debt instruments guaranteed by governments. Assets eligible for regulatory liquidity purposes were $313.0 million as at December 31, 2007 and $260.5 million at December 31, 2006. The increase on a year-over-year basis is prompted by liquidity requirements related to the potential redemption of deposit obligations.

It is the Company's policy to maintain, at all times, regulatory liquid assets at levels equivalent to, or greater than 20% of GICs maturing in the next 100 days (including all cashable GICs). At December 31, 2007, these maturities amounted to $1.58 billion compared to $1.33 billion as at December 31, 2006 and the corresponding liquidity ratios were 29.7% and 32.1%. Liquidity is calculated by the sum of cash, cash equivalents, investments purchased under reverse repurchase agreements and other investments divided by total maturities. As part of liquidity contingency planning, the Company has a line of credit with its bank in the amount of $35.0 million, which is secured by shares in the equity securities portfolio.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or as a result of external events. Operational risk includes legal and regulatory risk. The Company maintains a control environment to manage these risks, recognizing that operational risks may arise in the normal course of business.

Changes to laws and regulations, including changes in their interpretation or application, could affect the Company, limiting the products or services it may provide and increasing the ability of competitors to compete with Equitable's products or services. Failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact earnings and damage the Company's reputation. Management undertakes reasonable and prudent measures designed to achieve compliance with governing laws and regulations including Equitable's legislative compliance management framework.

Control/Management Risk

Control/management risk is the possibility that the Company will experience control or management deficiencies due to limitations typically found in smaller institutions that may have insufficient resources and capacities to establish appropriate governance systems and controls.

Equitable's operations depend on the abilities, experience and efforts of management and other key employees. Should any of these persons be unable or unwilling to continue in their employment, this could potentially have a material adverse effect on the business, financial condition and results of the operations of the Company.

Strategic Risk

The Company manages strategic risk through a comprehensive annual strategic planning process, which includes establishing Board approved business growth strategies and quantifiable performance targets for each business unit over the forthcoming three-year period. Management of this risk includes regular monitoring of actual versus forecasted performance and reporting to senior management and to the Board of Directors.

Business Risk

The residential and commercial first mortgage business is highly competitive and Equitable Trust's products compete with those offered by other trust companies, banks, insurance companies, and other financial institutions in the jurisdictions in which it operates, especially in Ontario and Alberta. Many of these companies are strongly capitalized and hold a larger percentage share of the Canadian residential and commercial mortgage business. There is always a risk that there will be new entrants in the market with more efficient systems and operations that could impact the Company's market share in its mortgage lending and deposit-taking activities.

The Company's business model does not use retail branches to originate GICs or mortgages. Through its deposit-taking activities, Equitable Trust is reliant on members of the Investment Dealers Association and the Federation of Canadian Independent Deposit Brokers to raise funds. Mortgage originations depend on a network of independent mortgage brokers, mortgage brokerages and other mortgage banking organizations. Under adverse circumstances, it might be difficult to attract new deposits from agents or mortgage business from brokers to sustain current operating requirements. The potential failure to sustain or increase current levels of deposits or mortgage originations from these sources could negatively affect the financial condition and operating results of the Company. A single mortgage broker, FNFLP, originated 37% of the Company's outstanding on-balance sheet mortgages as at December 31, 2007. Management believes it has a strong relationship with FNFLP; however, should this situation change, the Company would need to find alternative sources for mortgage originations. If the Company was to lose a major mortgage broker or deposit agent, it would need to replace the product supplied by that broker or agent, either from existing or new brokers or retail agents, in order to meet corporate targets.

Reputational Risk

Reputational risk is the possibility that current and potential customers, counterparties, analysts, shareholders/investors, regulators and/or others will have an adverse perception of the Company – irrespective of whether this opinion is based on facts or merely public perception. This can result in potential losses to the Company arising from short-falls in revenues as well as from increased funding costs. The Company has established a number of policies and procedures to manage this risk.

Responsibilities of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and the accompanying Consolidated Financial Statements. Equitable has in place appropriate information systems and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying Consolidated Financial Statements.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is accumulated and communicated to senior management, including the President and Chief Executive Officer on a timely basis, to enable appropriate decisions to be made regarding public disclosure. Management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) as of December 31, 2007. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has evaluated the design of the Company's internal control over financial reporting as of December 31, 2007 to provide reasonable assurance regarding the reliability of financial reporting. This evaluation was conducted in accordance with the framework established by the Committee of Sponsoring Organizations of the Treadway Commission for Smaller Businesses, a recognized control model, and the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of December 31, 2007.

Changes in Internal Control over Financial Reporting

Equitable appointed a new Chief Financial Officer on December 5, 2007 who subsequently resigned from the Company on February 12, 2008. There were no other changes in the Company's internal control over financial reporting that occurred during the fourth quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Non-Generally Accepted Accounting Principles Financial Measures

The presentation of financial information on a Taxable Equivalent Basis ("TEB") is a common practice in the banking and trust company industries and does not have a standardized meaning within GAAP. Therefore, TEB calculations may not be comparable to similar measures presented by other companies. On a selective basis, the Company uses TEB in the discussion of revenues, interest margins and productivity ratios in this MD&A. The TEB methodology grosses up tax exempt income, such as dividends from equity securities, by an amount which makes this income comparable on a pre-tax basis to regular taxable income such as mortgage interest. In 2007, the grossed-up amount was $6.4 million and in 2006 it was $3.8 million.

In conjunction with the adoption of the new accounting policies for financial instruments, commencing in 2007 deferred deposit agent commissions are accounted for as a component of customer deposits and the amortization or current expense of these deferred charges as a component of interest expense in its financial statements. Formerly, deferred deposit agent commissions were reported in other assets and amortization of these commissions was presented as a non-interest expense. Deferred net mortgage commitment fees, comprised of deferred finders' fees and deferred mortgage commitment fees, are accounted for as a component of mortgages receivable on the balance sheet with the amortization of these fees reported as a component of mortgage interest income. In prior years, deferred finders' fees and deferred mortgage commitment fees were reported as a component of other assets and other liabilities on the balance sheet, respectively, with the related amortization reported as other income. In order to make comparisons of current results for net interest income, net interest margins and productivity ratios meaningful, this MD&A presents deposit agent commissions and net mortgage commitment fees on the same basis as that presented in the prior year.

The Company also utilizes non-GAAP financial measures referred to as "adjusted" results to assess the overall corporate performance of the Company. To arrive at "adjusted" results, the Company removes items of note, net of income taxes, from reported results. The items of note relate to items which management does not believe are indicative of underlying business performance. The Company believes that adjusted results provide the reader with a better understanding of how management views the Company's performance. In 2007, the single "item of note" removed from the reported results was the impairment write-down of the Quebecor World Inc. preferred shares, as more fully described under the section titled "Net Income". "Adjusted" and related terms used in this MD&A are not defined terms under GAAP and, therefore, may not be comparable to similar terms used by other issuers.

Forward-looking Statements

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements, or developments in the Company's business or the industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking information includes all disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. Often, but not always, forward-looking statements can be identified by the use of words or phrases such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates" or "forecasts". Other phrases or words may include "intends", "anticipates", or "does not anticipate", "believes", or state that certain actions, events or results "may", "could", "would", "might", or "will" be taken, occur or be achieved. Forward-looking statements relate to, among other things, realizing the value of the Company's assets, capitalizing on increasing market demand for mortgage products, executing the strategic plan, success in introducing new loan products, growing in new geographic territories and the demand for deposit products. The risks and uncertainties that may affect forward-looking statements include, among others, risks involved in fluctuating interest rates and general economic conditions, legislative and regulatory developments, the nature of our customers, competition and other risks detailed from time to time in filings with Canadian provincial securities regulators, including the Equitable Group Inc. Annual Report and Annual Information Form dated March 3, 2008. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions. Management does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change. The "Outlook" sections in this MD&A are forward-looking, as previously defined and actual outcomes are uncertain. When reviewing these "Outlook" sections specifically and the MD&A generally, readers are advised to consider the risks regarding forward-looking statements.

February 26, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Equitable Group Inc. (the "Company") are prepared by management, which is responsible for the integrity and fairness of the information presented. The information provided herein, in the opinion of management, has been prepared, within reasonable limits of materiality, using appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles as well as the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") as these apply to its subsidiary, The Equitable Trust Company ("Equitable Trust"). The consolidated financial statements reflect amounts which must, of necessity, be based on informed judgments and estimates of the expected effects of current events and transactions.

Management maintains a system of internal control to meet its responsibility for the integrity of the financial statements. Management also administers a program of ethical business conduct, which includes quality standards in hiring and training employees, written policies and a written corporate code of conduct.

The Board of Directors of the Company (the "Board") oversees management's responsibilities for the financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the financial statements with management and internal and external auditors before recommending their approval to the Board.

The Company's subsidiary, Equitable Trust, is federally regulated under the Trust and Loan Companies Act (Canada) by OSFI. On a regular basis, OSFI conducts an examination to assess the operations of Equitable Trust and its compliance with statutory requirements and sound business practices.

KPMG LLP has been appointed as external auditors by the shareholders to examine the financial statements of the Company in accordance with Canadian generally accepted auditing standards. The external auditors have unrestricted access to and periodically meet with the Audit Committee, with and without management present, to discuss their audits and related matters.

Andrew Moor
President and Chief Executive Officer

Tamara Malozewski
Vice President, Finance

February 26, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Equitable Group Inc. as at December 31, 2007 and 2006 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 26, 2008

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS)

As at December 31	2007	2006
Assets		
Cash and cash equivalents *(note 3)*	**$ 20,927**	$ 107,842
Investments purchased under reverse repurchase agreements *(note 4)*	**232,120**	–
Investments *(note 4)*	**220,697**	319,317
Loan securitizations - retained interests *(note 5)*	**51,214**	48,271
Mortgages receivable *(note 7)*	**2,874,241**	2,135,662
Other assets *(note 8)*	**10,427**	14,663
	$ 3,409,626	$ 2,625,755
Liabilities and Shareholders' Equity		
Liabilities:		
Customer deposits *(note 9)*	**$ 3,104,524**	$ 2,389,755
Future income taxes *(note 10)*	**7,945**	4,700
Other liabilities *(note 11)*	**17,423**	21,564
Bank term loans *(note 12)*	**44,595**	34,750
Subordinated debentures *(note 13)*	**31,969**	25,250
	3,206,456	2,476,019
Shareholders' equity *(notes 14 and 15)*:		
Capital stock	**87,062**	57,849
Contributed surplus	**1,778**	1,539
Retained earnings	**116,325**	90,348
Accumulated other comprehensive loss *(note 19)*	**(1,995)**	–
	203,170	149,736
Commitments and contingencies *(note 16)*		
	$ 3,409,626	$ 2,625,755

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Austin Beutel
Director

Andrew Moor
Director

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	2007	2006
Interest income:		
Mortgages *(note 2)*	$ 164,631	$ 121,406
Investments	12,180	8,249
Other	8,833	5,632
	185,644	135,287
Interest expense:		
Customer deposits	112,017	79,537
Deposit agent commissions *(note 2)*	6,729	–
Bank term loans	2,952	2,072
Subordinated debentures	2,367	2,041
	124,065	83,650
Net interest income	61,579	51,637
Provision for credit losses *(note 7)*	900	900
Net interest income after provision for credit losses	60,679	50,737
Other income:		
Mortgage commitment income and other fees *(note 2)*	1,275	3,373
Net gain (loss) on investments *(note 4)*	(5,170)	669
Loan securitizations - retained interests *(note 5)*	4,184	3,890
	289	7,932
Net interest income and other income	60,968	58,669
Non-interest expenses:		
Compensation and benefits	11,340	9,022
Other	8,628	6,588
Deposit agent commissions *(note 2)*	–	4,669
	19,968	20,279
Income before income taxes	41,000	38,390
Income taxes (recovery) *(note 10)*:		
Current	5,063	12,890
Future	4,766	(1,838)
	9,829	11,052
Net income	$ 31,171	$ 27,338
Earnings per share *(note 14)*:		
Basic	$ 2.47	$ 2.30
Diluted	2.44	2.26

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS OF DOLLARS)

Years ended December 31	2007	2006
Capital stock:		
Balance, beginning of year	$ 57,849	$ 55,510
Common shares issued *(note 14)*:		
Gross proceeds of equity issue	25,000	–
Issue expenses, net of tax recovery of $497	(953)	–
Proceeds from exercise of employee stock options	4,587	2,138
Transfer from contributed surplus relating to the exercise of stock options	579	201
Balance, end of year	87,062	57,849
Contributed surplus:		
Balance, beginning of year	1,539	1,327
Stock-based compensation *(note 15)*	818	413
Transfer to common shares relating to the exercise of stock options	(579)	(201)
Balance, end of year	1,778	1,539
Retained earnings:		
Balance, beginning of year	90,348	67,771
Transition adjustment - financial instruments *(note 2)*	(113)	–
Net income	31,171	27,338
Dividends	(5,081)	(4,761)
Balance, end of year	116,325	90,348
Accumulated other comprehensive loss:		
Balance, beginning of year	–	–
Transition adjustment - financial instruments *(note 2)*	302	–
Other comprehensive loss *(note 19)*	(2,297)	–
Balance, end of year	(1,995)	–
Total retained earnings and accumulated other comprehensive loss	114,330	90,348
Total shareholders' equity	$ 203,170	$ 149,736

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS OF DOLLARS)

Years ended December 31	2007	2006
Net income	$ 31,171	$ 27,338
Other comprehensive loss:		
Available-for-sale assets, change in unrealized gains (losses) *(note 19)*	(3,660)	–
Reclassification to income for realization of available-for-sale assets fair value changes *(note 19)*	1,363	–
Other comprehensive loss	(2,297)	–
Comprehensive income	$ 28,874	$ 27,338

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF DOLLARS)

Years ended December 31	2007	2006
Cash provided by (used in):		
Operating activities:		
Net income	$ **31,171**	$ 27,338
Non-cash items:		
Financial instruments - fair value adjustments and reclassifications	**(604)**	–
Loan securitizations - gains on sale of mortgages	**(1,277)**	(708)
Amortization of capital assets	**694**	513
Provision for credit losses	**900**	900
Net loss (gain) on investments	**5,170**	(669)
Future income taxes	**4,766**	(1,838)
Stock-based compensation	**818**	413
Amortization of premiums on investments, net	**3,864**	3,111
	45,502	29,060
Changes in operating assets and liabilities:		
Other assets	**5,432**	(3,308)
Other liabilities	**(6,985)**	(1,368)
	43,949	24,384
Financing activities:		
Increase in customer deposits	**714,989**	580,800
Issuance of bank term loan	**12,500**	15,000
Repayment of bank term loan	**(2,655)**	–
Issuance of subordinated debentures	**9,450**	5,000
Redemption of subordinated debentures	**(2,731)**	(11,444)
Restricted cash on interest rate swap	**(5,000)**	–
Dividends paid on common shares	**(5,081)**	(4,761)
Issuance of common shares	**28,137**	2,138
	749,609	586,733
Investing activities:		
Purchase of investments	**(126,919)**	(224,565)
Proceeds on sale or redemption of investments	**211,849**	97,235
Purchase of investments purchased under reverse repurchase agreements	**(232,120)**	–
Increase in mortgages receivable	**(2,735,737)**	(2,158,998)
Mortgage principal repayments	**1,716,441**	1,424,726
Proceeds from loan securitizations	**269,209**	267,756
Loan securitizations - retained interests	**13,092**	14,631
Purchase of capital assets	**(1,288)**	(1,274)
	(885,473)	(580,489)
Increase (decrease) in cash and cash equivalents	**(91,915)**	30,628
Cash and cash equivalents, beginning of year	**107,842**	77,214
Cash and cash equivalents, end of year	$ **15,927**	$ 107,842
Supplemental cash flow information:		
Interest paid	$ **99,196**	$ 67,172
Income taxes paid	**13,530**	13,985

See accompanying notes to consolidated financial statements.

Equitable Group Inc. (the "Company") was formed on January 1, 2004 as the parent company of its wholly owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust is federally regulated under the Trust and Loan Companies Act (Canada) by the Office of the Superintendent of Financial Institutions Canada ("OSFI").

The Company operates principally in one industry segment as a deposit-taking institution investing in mortgages.

1. Significant accounting policies:

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

(a) Basis of presentation:

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

(b) Cash and cash equivalents:

Cash and cash equivalents consist of deposits with regulated financial institutions and highly liquid short-term investments, including government guaranteed investments and other money market instruments, whose term to maturity at date of purchase is less than three months. Interest earned on cash and cash equivalents is included in interest income -other in the statements of income. These short-term investments are carried at cost plus accrued interest which approximates fair value.

(c) Investments purchased under reverse repurchase agreements:

Investments purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by the Company effected with a simultaneous agreement to sell them back at a specified price on a specified future date, which is generally short term. The investment is held on the consolidated balance sheet and is recorded at its carrying value which approximates its fair value due to the short-term nature of the transaction. The interest income related to these investments is recorded on an accrual basis and is included in interest income - other.

(d) Investments:

Investments, including loan securitizations - retained interests, have been designated as available-for-sale, are accounted for at settlement date and reported on the consolidated balance sheet at fair value with unrealized gains and losses reported in other comprehensive income, net of income taxes. In the prior year, investments were stated at cost, adjusted for amortization of premiums and discounts to maturity on the consolidated balance sheets.

Investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. If an impairment in value is other than temporary, any write-down to net realizable value is reported in the statements of income. Gains and losses realized on the sale, redemption or write-down of investments are recorded in other income in the statements of income. Interest income earned, amortization of premiums and discounts and dividends are included in interest income - investments in the statements of income. The fair values of investments are generally based on quoted market prices.

(e) Mortgages receivable and revenue recognition:

Mortgages receivable, other than mortgages held for securitization, are recorded at cost plus accrued interest, less an allowance for credit losses. Mortgages held for securitization are carried at fair value. Fees relating to loan origination are amortized to income over the term of the mortgages to which they relate, and are included in mortgage interest income in the statements of income.

Interest on mortgages receivable is recorded on the accrual basis. The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the collectibility, either in whole or in part, of principal or interest. Mortgages where payment is contractually past due 90 days are automatically placed on a non-accrual basis, unless management is reasonably assured as to the recoverability of principal and interest. Thereafter, interest income is recognized on a cash basis, but only after prior write-offs and provisions for losses have been recovered, provided there is no further doubt as to the collectibility of principal.

1. Significant accounting policies (continued):

When an impaired mortgage is identified, the carrying amount of the mortgage is reduced to its net realizable amount, measured on the basis of expected future cash flows, and discounted at the loan's effective interest rate. This impairment is reflected in the statements of income in the years in which the impairment is recognized. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the mortgage are credited to the allowance for credit losses on the consolidated balance sheets.

(f) Allowance for credit losses:

The allowance for credit losses consists of both specific and general allowances. Specific allowances relate to individual mortgages that, in the opinion of management, are necessary to reflect the estimated net realizable value of the particular mortgage as described in (e) above. General allowances are based on management's assessment of probable, unidentified losses in the portfolio at the consolidated balance sheet dates that have not been specifically identified as impaired. The allowance is determined based on management's identification and evaluation of problem accounts and includes an assessment of statistical and qualitative analyses of the performance of the portfolio taking into account such factors as economic conditions, security and mortgage type, concentration risks and geographical exposure.

(g) Loan securitizations:

For each securitization transaction, where the Company retains the servicing rights, an asset is recognized as loan securitizations - retained interests on the consolidated balance sheets. Loan securitizations - retained interests are classified as available-for-sale securities and are carried at fair value with changes in fair value reported in other comprehensive income, net of income taxes. When loan receivables are sold in a securitization transaction under terms that transfer control to third parties, the transaction is recognized as a sale and the related loan assets are removed from the consolidated balance sheets. In the securitization transaction, certain interests are retained including the right to receive the future excess interest spread and the mortgage servicing obligation. For securitizations entered into after July 1, 2001, the servicing liability is reported as a component of other liabilities. For securitizations entered into prior to this date, the servicing liability and the future excess interest spread are reported on a net basis. A gain or loss on the sale of the loan receivables is recognized immediately in the statements of income. The amount of the gain or loss recognized depends in part on the previous carrying amount of the loan receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, the Company uses estimates based on the present value of future expected cash flows determined using management's best estimates of key assumptions including prepayment rates and discount rates commensurate with the risks involved.

(h) Derivative financial instruments:

The Company uses derivatives primarily to manage exposure to interest rate risks. The most frequently used derivative products are interest rate swaps and forward contracts. The derivatives are recorded on the consolidated balance sheet at fair value. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Forward contracts are used to hedge interest rate exposure on mortgages held for securitization and commitments for mortgages to be securitized. These derivative instruments are reported on the consolidated balance sheet as held-for-trading financial instruments and are carried at fair value (note 2).

(i) Stock-based compensation plan:

The Company operates a stock option plan for directors and eligible employees of Equitable Trust. Under this plan, options are periodically awarded to participants to purchase common shares at prices equal to the closing market price of the shares on the date prior to the date the options were granted. Prior to the initial public offering of the Company's shares on March 18, 2004, certain options were granted to purchase common shares at prices equal to the fair value of the shares as determined under the plan. The Company uses the fair value-based method of accounting for stock options and recognizes compensation expense based on the fair value of the options on the date of the grant which is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period of the options granted as compensation expense and contributed surplus. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded for the options in contributed surplus is credited to capital stock. Compensation expense related to the stock-based compensation plan is included in the consolidated statements of income.

1. Significant accounting policies (continued):

(j) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities represent the amount of tax applicable to temporary differences between the carrying amounts of the assets and liabilities and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the years that include the date of enactment or substantive enactment.

(k) Capital assets:

Capital assets are carried at cost less accumulated amortization. Amortization is provided on a reducing-balance method over the estimated useful life of the assets as follows:

Furniture, fixtures and office equipment	20%
Computer hardware and software	30%

Leasehold improvements are amortized on a straight-line basis over the remaining term of the lease.

(l) Fair values of financial instruments:

The estimated fair value of mortgages receivable is determined using a discounted cash flow calculation and the market interest rates currently charged for mortgages receivable with similar terms and credit risks. Similarly, the estimated fair values of the customer deposits, loan securitizations - retained interests, bank term loan and subordinated debentures are determined by discounting contractual cash flows, using market interest rates currently offered for similar terms.

The fair values of cash and cash equivalents and certain other assets (note 8) and other liabilities (note 11) are assumed to approximate their carrying values due to their short-term nature.

(m) Earnings per share:

Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share calculations is determined using the treasury stock method. Under this method, stock options which exercise price is less than the average market price of the Company's common shares are assumed to be exercised and the proceeds are used to repurchase common shares at the average market price for the year. The incremental number of common shares issued under stock options and repurchased from proceeds is included in the calculation of diluted earnings per share.

(n) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the years. Certain estimates, including the allowance for credit losses, the fair value of financial instruments, accounting for securitizations and income taxes require management to make subjective or complex judgements. Accordingly, actual results could differ from those estimates.

2. Changes in accounting policy:

Effective January 1, 2007, the Company adopted new accounting standards issued by The Canadian Institute of Chartered Accountants (the "CICA"): Comprehensive Income, Financial Instruments - Recognition and Measurement, Hedges and Financial Instruments - Disclosure and Presentation. As a result of adopting these standards, a new category, accumulated other comprehensive income (loss), has been added to shareholders' equity on the consolidated balance sheet and certain unrealized gains and losses are reported in accumulated other comprehensive income (loss) until realization.

As a result of adopting these new accounting standards, certain financial assets and liabilities are measured at fair value with the remainder recorded at amortized cost. Under the new standards, adjustments to the previously recorded amounts have been made either to retained earnings or to accumulated other comprehensive income (loss) as at January 1, 2007. The Company has adopted these new accounting standards retrospectively without restatement to prior period consolidated financial statements.

Significant aspects of the Company's implementation of these new standards include:

(a) Investments in preferred shares, government bonds, treasury bills and notes and loan securitizations - retained interests have been designated as available-for-sale and are recorded on the consolidated balance sheet at fair value with unrealized gains and losses being recognized in other comprehensive income, net of income taxes.

(b) Government guaranteed mortgages held for securitization and commitments to fund government guaranteed mortgages for securitization are designated as held-for-trading and have been recorded on the consolidated balance sheet at fair value, with changes in fair value included in loan securitizations - retained interests in the consolidated statement of income.

(c) Cash and cash equivalents, mortgages, with the exception of government guaranteed mortgages held for securitization, customer deposits, with the exception of those designated as held-for-trading, bank term loans and subordinated debentures are recorded on the consolidated balance sheet at amortized cost using the effective interest method.

(d) Guaranteed investment certificates designated as held-for-trading have been recorded on the consolidated balance sheet at fair value, with changes in fair value included in interest expense in the consolidated statement of income.

(e) Derivative financial instruments are recorded on the consolidated balance sheet at fair value, with changes in fair value included in loan securitizations - retained interests for derivatives relating to securitization activities and in interest expense for derivatives relating to interest rate swaps.

(f) Deferred deposit agent commissions are accounted for as a component of customer deposits with the amortization of these commissions, with the exception of commissions relating to customer deposits designated as held-for-trading, which are expensed as incurred, being calculated on an effective yield basis as a component of interest expense. In prior years, deferred deposit agent commissions were reported as a component of other assets, with amortization being reported as a non-interest expense.

(g) Deferred net mortgage commitment fees, comprised of deferred finders fees and deferred mortgage commitment fees, are accounted for as a component of mortgages receivable on the consolidated balance sheet with the amortization of these fees, being calculated on an effective yield basis, reported as a component of mortgage interest income. In prior years, deferred finders fees and deferred mortgage commitment fees were reported as a component of other assets and other liabilities on the consolidated balance sheet, respectively, with the related amortization reported as other income.

For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices used for financial liabilities. For those financial instruments measured at fair value where an active market is not available, fair value estimates are determined using valuation methods which refer to observable market data and include discounted cash flow analysis and other commonly used valuation techniques.

2. Changes in accounting policy (continued):

Transition adjustments - financial instruments recorded at January 1, 2007 relate to:

	Gross	Income taxes	Net
Retained earnings - increase (decrease):			
Fair value adjustment of government guaranteed mortgages held for securitization	$ (5)	$ (2)	$ (3)
Fair value of government guaranteed mortgage commitments for securitization	284	103	181
Fair value of derivatives	(456)	(165)	(291)
	$ (177)	$ (64)	$ (113)
Accumulated other comprehensive income (loss):			
Available-for-sale investments, unrealized gains	$ 850	$ 307	$ 543
Available-for-sale loan securitizations - retained interests, unrealized losses	(378)	(137)	(241)
	$ 472	$ 170	$ 302

3. Cash and cash equivalents:

	2007	2006
Deposits with regulated financial institutions	**$ 20,927**	$ 21,688
Short-term investments	**–**	86,154
	$ 20,927	$ 107,842

Cash and cash equivalents include $5,000 of restricted cash held as collateral by a third party for the Company's interest rate swap transactions.

The weighted average effective yield of cash and cash equivalents is approximately 4.19% (2006 - 4.12%).

4. Investments:

The analysis of investments at carrying value, by type and maturity, is as follows:

	Maturities				**2007**	2006
	Within 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 years	**Total carrying value**[1]	Total carrying value
Debt securities issued or guaranteed by:						
Canada	$ 26,064	$ –	$ –	$ –	**$ 26,064**	$ 31,567
Provinces	38,851	–	–	–	**38,851**	121,081
Equity securities:						
Preferred shares	16,909	9,055	60,262	69,556[2]	**155,782**	166,669
	$ 81,824	$ 9,055	$ 60,262	$ 69,556	**$220,697**	$319,317

(1) *As discussed in note 2 at December 31, 2007, investments are reported on the consolidated balance sheet at fair value. In the prior year, investments were reported at cost, adjusted for amortization of premiums and discounts to maturity.*

(2) *Includes investments with no specific maturity.*

4. Investments (continued):

The analysis of investments at fair value is as follows:

				2007				2006
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Estimated fair value**	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Debt securities issued or guaranteed by:								
Canada	**$ 26,089**	**$ –**	**$ (25)**	**$ 26,064**	$ 31,567	$ 23	$ (29)	$ 31,561
Provinces	**38,832**	**22**	**(3)**	**38,851**	121,081	274	(79)	121,276
Equity securities:								
Preferred shares	**160,435**	**506**	**(5,159)**	**155,782**	166,669	2,215	(841)	168,043
	$ 225,356	**$ 528**	**$ (5,187)**	**$ 220,697**	$ 319,317	$ 2,512	$ (949)	$ 320,880

The weighted average effective yield for debt securities is 4.28% (2006 - 4.15%) based on yield to maturity, and for preferred shares is 4.16% (2006 - 4.05%).

The Company has a credit facility in place with a major Canadian chartered bank. Under this facility, the Company may borrow up to $35,000 for short-term liquidity purposes. The facility is secured by the Company's investments in equity securities. There was no outstanding balance as at December 31, 2007 (2006 - nil).

The Company wrote down its available-for-sale preferred share positions at December 31, 2007 by $5,175 (2006 - nil) in the consolidated statements of income, of which $1,873 (2006 - nil) represents the reclassification of realized loss from the consolidated statement of comprehensive income.

The Company purchased investments under reverse repurchase agreements in the amount of $232,120 (2006 - nil). Investments purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by the Company effected with a simultaneous agreement to sell the assets back at a specified price on a specified future date, which is generally short-term.

The weighted average effective yield for investments purchased under reverse repurchase agreements is 4.09% (2006 - nil).

5. Loan securitizations - retained interests:

(a) Retained interests:

The Company securitizes Government of Canada guaranteed residential mortgage loans through the creation of mortgage-backed securities and removes the mortgages from the consolidated balance sheets. As at December 31, 2007, outstanding securitized mortgages totalled $1,888,250 (2006 - $1,807,479).

During 2007, the Company securitized Government of Canada guaranteed residential mortgage loans and received cash proceeds net of accrued interest and other cash disposition of $269,209 (2006 - $267,756). The Company retained the rights to future excess interest on the mortgages valued at $15,174 (2006 - $10,385) and received net cash flows on interests retained of $15,999 (2006 - $17,813). The Company retained the responsibility for servicing the mortgages and holds 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 $5,953 (2006 - $6,044) which is included in other liabilities (note 11). The amount of servicing liability amortized during the year was $1,421 (2006 - $1,436).

Retained interests are accounted for at settlement date. The fair value of the retained interests is determined with internal valuation models using market data inputs, where possible, by discounting the expected future cash flows at like term Government of Canada bond interest rates plus a spread.

A net unrealized gain of $1,545 is included in the carrying value on the consolidated balance sheet as required by the changes in accounting policy described in note 2, relating to loan securitizations - retained interests.

5. Loan securitizations - retained interests (continued):

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

	2007	2006
Gain on sale of mortgages	$ 1,277	$ 708
Excess interest spread, net of servicing fee	2,907	3,182
	$ 4,184	$ 3,890

The valuation of the future excess interest spread includes an excess spread of 0.69% (2006 - 0.79%), and the key assumption of a discount rate of 4.31% (2006 - 4.97%). There are no expected credit losses as the mortgages are government guaranteed. Multi-family residential mortgages have no prepayment rate estimates, as under the terms of the multi-family residential mortgages, prepayment penalties are sufficient to ensure that the Company will receive all of its investment upon the early discharge of any mortgage. Single-family residential mortgages have been valued with an estimated annual prepayment rate of 15.0%.

The following table presents the sensitivity of the fair value of retained interests to two adverse changes in the key assumption relating to the discount rate as at December 31, 2007. The following sensitivity analysis is hypothetical and therefore should be used with caution.

	Residential loans
Carrying value of retained interests	$ 51,214
Discount rate	4.31%
Impact on fair value of a 10% adverse change	$ (545)
Impact on fair value of a 20% adverse change	$ (1,090)

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

	Excess interest spread	Servicing liability
2008	$ 11,710	$ 1,321
2009	9,542	1,089
2010	7,920	939
2011	6,812	821
2012	4,894	590
Thereafter	10,336	1,193
	$ 51,214	$ 5,953

(b) Mortgage commitments:

Mortgage commitments for government guaranteed mortgages to be securitized are designated as held-for-trading and are carried at fair value. Fair value is determined by reference to the bid side of a like term Government of Canada bond plus a spread between the bond yield and the mortgage rate. Changes in fair value reflect changes in interest rates that have occurred since commitment to the mortgage interest rate. The year end fair value of mortgage commitments of $63 is included in other assets (note 8).

6. Derivative financial instruments:

(a) Hedge instruments:

The Company's securitization activities are subject to interest rate risk, which represents the potential for changes in the value of assets and liabilities due to fluctuations in interest rates. The Company enters into hedging transactions to manage interest rate exposures on mortgages held for securitization and commitments for mortgages to be securitized, typically for periods of up to 90 days.

Hedge instruments outstanding at December 31, 2007 and 2006 relating to forward contracts on Government of Canada bonds, where the counterparties are chartered banks, are as follows:

			2007			2006
Bond term (years)	**Notional amount**	**Fair value**	**Unrealized loss[(1)]**	Notional amount	Fair value	Unrealized loss
1 - 5	**$ 94,300**	**$ 96,685**	**$ 863**	$ 14,400	$ 14,289	$ 55
5 - 10	**74,500**	**74,589**	**1,133**	21,800	22,444	393
	$ 168,800	**$ 171,274**	**$ 1,996**	$ 36,200	$ 36,733	$ 448

(1) The hedge instruments are fair value hedges and are held-for-trading and carried at fair value with changes in fair value included in other income - loan securitizations - retained interests. The fair values of the hedge instruments are determined by reference to the ask side of the related Government of Canada bonds at the reporting date. The year end fair value of hedges is included in other liabilities (note 11).

(b) Interest rate swaps:

The Company enters into interest rate swaps to manage interest rate exposures on term guaranteed investment certificates ("GICs") used to fund floating rate mortgages. The credit risk is limited to the amount of any adverse change in interest rates applied on the notional contract amount should the counterparty default. Approved counterparties are limited to Schedule A Banks and their subsidiaries.

		2007		2006
Swap term (years)	**Notional amount**	**Fair value**	Notional amount	Fair value
1 - 5	**$ 185,000**	**$ 539**	$ –	$ –

The fair value of these interest rate swap agreements is included in other assets (note 8) and the change in fair value is included in interest expense.

(c) Embedded derivatives:

The Company's equity securities contain embedded derivatives which are required to be bifurcated from the underlying investment and valued separately. These bifurcated derivatives do not currently have significant value and, therefore, are not reported separately.

7. Mortgages receivable:

(a) Mortgages receivable and impaired mortgages:

2007	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$ 1,737,437	$ 150	$ 6,074	$ 6,224	$ 1,731,213
Other mortgages	693,372	–	2,020	2,020	691,352
Mortgages held for securitization or for sale	437,842	–	681	681	437,161
Accrued interest	14,515	–	–	–	14,515
	$ 2,883,166	$ 150	$ 8,775	$ 8,925	$ 2,874,241

2006	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$ 1,373,842	$ 160	$ 5,168	$ 5,328	$ 1,368,514
Other mortgages	472,635	–	2,047	2,047	470,588
Mortgages held for securitization or for sale	287,063	–	671	671	286,392
Accrued interest	10,168	–	–	–	10,168
	$ 2,143,708	$ 160	$ 7,886	$ 8,046	$ 2,135,662

Included in mortgages held for securitization or for sale are Government of Canada insured mortgages of $165,527 (2006 - $18,551). Subsequent to December 31, 2007, $159,118 of mortgages held for securitization was securitized. These Government of Canada guaranteed mortgages held for securitization have been designated as held-for-trading and are carried at fair value determined by reference to the bid side of a like term Government of Canada bond plus a spread between the bond yield and the mortgage rate. Changes in fair value reflect changes in interest rates that have occurred since commitment to the mortgage interest rate. The year end fair value adjustment of Government of Canada guaranteed mortgages held for securitization is $1,814. Mortgages held for sale include mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet date at their investment cost. These mortgages are carried at fair value. There are no foreclosed assets held for sale at December 31, 2007 and 2006. All mortgages are secured by real estate property in Canada.

The principal outstanding and net carrying amount of mortgages receivable classified as impaired as at December 31, 2007 aggregated $8,617 (2006 - $1,138) and $8,467 (2006 - $978), respectively. As at December 31, 2007, the estimated fair value of mortgages receivable is $2,855,700 (2006 - $2,137,143). The weighted average effective yield of mortgages receivable is 6.67% (2006 - 6.56%) based on the yield to maturity.

Concentration of credit exposure may arise when a group of counterparties have similar economic characteristics or are located in the same geographical region. The ability of these counterparties to meet contractual obligations may be affected by changing economic or other conditions. The Company's mortgage portfolio consists of $1,999,362 (2006 - $1,768,919) of mortgages secured by properties located in the Province of Ontario and $495,195 (2006 - $178,804) of mortgages secured by properties located in the Province of Alberta.

7. Mortgages receivable (continued):

(b) Allowance for credit losses:

			2007			2006
	Specific allowance	General allowance	Total	Specific allowance	General allowance	Total
Balance, beginning of year	$ 160	$ 7,886	$ 8,046	$ 2,087	$ 5,080	$ 7,167
Write-offs	(50)	–	(50)	(21)	–	(21)
Recoveries	29	–	29	–	–	–
Provision for credit losses	11	889	900	(1,906)	2,806	900
Balance, end of year	$ 150	$ 8,775	$ 8,925	$ 160	$ 7,886	$ 8,046

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

2007	Gross principal amount	Principal amount of mortgages 90 or more days past due
Residential mortgages	$ 3,625,687	$ 11,491
Other mortgages	693,372	–
Mortgages held for securitization or for sale	437,842	–
Total mortgages reported and securitized	4,756,901	11,491
Less mortgages securitized	1,888,250	2,874
Mortgages reported prior to accrued interest (note 7(a))	$ 2,868,651	$ 8,617

2006	Gross principal amount	Principal amount of mortgages 90 or more days past due
Residential mortgages	$ 3,181,321	$ 5,828
Other mortgages	472,635	–
Mortgages held for securitization or for sale	287,063	–
Total mortgages reported and securitized	3,941,019	5,828
Less mortgages securitized	1,807,479	4,690
Mortgages reported prior to accrued interest *(note 7(a))*	$ 2,133,540	$ 1,138

8. Other assets:

	2007	2006
Income taxes recoverable	$ 3,382	$ –
Capital assets	2,857	2,263
Prepaid expenses and other	1,614	2,467
Receivable relating to securitization activities	1,123	1,310
Accrued interest and dividends on non-mortgage assets	849	2,335
Derivative financial instruments - interest rate swaps *(note 6)*	539	–
Mortgage commitments *(note 5)*	63	–
Deferred deposit agent commissions *(note 2)*	–	6,288
	$ 10,427	$ 14,663

9. Customer deposits:

	2007	2006
Cashable GICs, payable on demand	$ 710,194	$ 570,455
GICs with fixed maturity dates	2,330,040	1,766,011
Accrued interest	72,507	53,289
Deferred deposit agent commissions *(note 2)*	(8,217)	–
	$ 3,104,524	$ 2,389,755

The Company issues GICs to depositors. As at December 31, 2007, the estimated fair value of customer deposits is $3,041,273 (2006 - $2,336,869). The weighted average effective yield to maturity of customer deposits is 4.27% (2006 - 4.02%).

Included in GICs with fixed maturity dates are $185,000 of GICs designated as held-for-trading. These GICs are carried at fair market value determined by reference to market interest rates of like term GICs as at the reporting date. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued. The period end fair value adjustment of these GICs is $220 and is included in interest expense.

The following table outlines the maturity profile of customer deposits:

	Maturities				2007	2006
	Payable on demand	Within 1 year	1 to 3 years	3 to 5 years	Total	Total
GICs	$ 710,194	$ 1,418,602	$ 440,593	$ 470,845	$3,040,234	$ 2,336,466

10. Income taxes:

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

	2007	2006
Canadian statutory income tax rate	35.9 %	36.1 %
Increase (decrease) resulting from:		
Tax-exempt income	(10.0)%	(7.1)%
Non-deductible expenses	0.2 %	0.4 %
Future tax rate decreases	(2.1)%	(0.6)%
Effective income tax rate	24.0 %	28.8 %

The net future income tax liability is comprised of:

	2007	2006
Future income tax assets:		
Allowance for credit losses	$ 2,488	$ 2,608
Share issue expenses	578	425
Deferred mortgage fees	485	608
Available-for-sale financial instruments	1,117	–
Other	–	466
	4,668	4,107
Future income tax liabilities:		
Deferred GIC commissions	2,659	2,141
Loan securitizations - retained interests	8,368	6,666
Other	1,586	–
	12,613	8,807
Net future income tax liability	$ 7,945	$ 4,700

11. Other liabilities:

	2007	2006
Mortgagor realty taxes	$ 6,616	$ 5,089
Securitized mortgage servicing liability	5,953	6,044
Accounts payable and accrued liabilities	2,858	6,860
Derivative financial instruments - securitization activities *(note 6)*	1,996	–
Income taxes payable	–	3,571
	$ 17,423	$ 21,564

12. Bank term loans:

The Company has non-revolving term loans totalling $44,595. Each loan is for a fixed term of five years with the balance of the loan, together with all accrued and unpaid interest, due on the fifth anniversary of the loan. The proceeds of the loans were used to purchase $19,750 of Series 5, $15,000 of Series 6 and $12,500 of Series 7 of subordinated debentures of the Company's subsidiary, Equitable Trust. The loans are repayable in full at the option of the Company at any time during their term. As collateral for the loans, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Equitable Trust and an assignment of the subordinated debentures purchased from Equitable Trust using the proceeds of the loans. Interest is paid monthly.

Interest rate	Date loan received	Maturity date	**Outstanding, December 31, 2006**	**Received during the year**	**Repaid during the year**	**Outstanding, December 31, 2007**
6.37%	March 2005	March 2010	**$ 19,750**	**$ –**	**$ 2,655**	**$ 17,095**
6.82%	April 2006	April 2011	**15,000**	**–**	**–**	**15,000**
6.41%	March 2007	March 2012	**–**	**12,500**	**–**	**12,500**
			$ 34,750	**$ 12,500**	**$ 2,655**	**$ 44,595**

Interest rate	Date loan received	Maturity date	Outstanding, December 31, 2005	Received during the year	Repaid during the year	Outstanding, December 31, 2006
6.37%	March 2005	March 2010	$ 19,750	$ –	$ –	$ 19,750
6.82%	April 2006	April 2011	–	15,000	–	15,000
			$ 19,750	$ 15,000	$ –	$ 34,750

As at December 31, 2007, the estimated fair value of the bank term loans is $44,771 (2006 -$34,792).

13. Subordinated debentures:

The Company has issued debentures which are unsecured obligations and are subordinated in right of payment to the claims of depositors and other liabilities of the Company. All subordinated debentures are redeemable at our option. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest is paid quarterly.

Debenture[1]	Interest rate	Issue date	Maturity date	**2007**	2006
Series 5	7.31% - 7.58%	2004/05	January 2015	**$ 17,519**	$ 20,250
Series 6	7.27%	2006	January 2016	**5,000**	5,000
Series 7	7.10%	2007	January 2017	**9,450**	–
				$ 31,969	$ 25,250

(1) The redemption of any series of subordinated debentures commences only after the redemption of all outstanding preceding series. The redemption amount is equal to 20% of Equitable Trust's previous year's net income.

As at December 31, 2007, the estimated fair value of subordinated debentures is $33,253 (2006 - $25,836).

14. Shareholders' equity:

(a) Capital stock:

Authorized:
Unlimited preferred shares
Unlimited common shares

Issued:	2007		2006	
	Number of shares	**Amount**	Number of shares	Amount
Common shares:				
Balance, beginning of year	**11,924,468**	**$ 57,849**	11,781,940	$ 55,510
Issued	**1,028,242**	**28,634**	142,528	2,138
Transfer from contributed surplus relating to the exercise of stock options	**–**	**579**	–	201
Balance, end of year	**12,952,710**	**$ 87,062**	11,924,468	$ 57,849

The Company completed an equity issue on April 30, 2007. As a result of this issue, 769,231 common shares were issued to the public for cash proceeds of $25,000 before issue expenses. Issue expenses of $953 related to the issue have been capitalized net of income taxes recovered of $497.

During 2007, 259,011 (2006 - 142,528) shares were issued as a result of the exercise of employee stock options for cash consideration of $4,587 (2006 - $2,138) and $579 (2006 - $201) was transferred from contributed surplus to common shares as a result of these exercises.

The weighted average number of shares outstanding used to calculate basic and diluted earnings per share is as follows:

	2007	2006
Basic	**12,606,208**	11,878,724
Relating to stock options	**158,345**	197,521
Diluted	**12,764,553**	12,076,245

Options to purchase 180,000 common shares (2006 - nil) were excluded from the computation of diluted earnings per share as the exercise price exceeded the average market price of common shares for the year.

(b) Dividend restrictions:

The Company's subsidiary, Equitable Trust, is subject to minimum capital requirements as prescribed by OSFI under the Trust and Loan Companies Act (Canada). In addition, OSFI must be notified of any dividend declaration, and prescribes restrictions as to the amount of dividends which can be paid out in any fiscal year.

15. Stock-based compensation plan:

Under the Company's stock option plan, options on common shares are periodically granted to eligible participants for terms of five years and vest over a four or five-year period. The maximum number of common shares available for issuance under the plan is 10% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to December 2012. A summary of the Company's stock option activity and related information for the years ended December 31, 2007 and 2006 is as follows:

	2007		2006	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**749,011**	**$ 20.54**	768,539	$ 18.07
Granted	**272,500**	**32.20**	140,000	28.75
Exercised	**(259,011)**	**17.71**	(142,528)	15.00
Forfeited/cancelled	**(70,000)**	**21.06**	(17,000)	22.58
Outstanding, end of year	**692,500**	**26.14**	749,011	20.54
Exercisable, end of year	**145,000**	**$ 20.79**	157,400	$ 18.49

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2007:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 17.50	200,000	1.1	85,000
$ 20.40	28,000	1.9	12,000
$ 24.10	57,000	2.9	21,000
$ 28.75	135,000	3.9	27,000
$ 34.49	150,000	4.2	–
$ 31.75	30,000	4.6	–
$ 28.50	30,000	4.9	–
$ 28.63	30,000	4.9	–
$ 28.79	32,500	4.9	–

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $818 (2006 - $413) related to grants of options under the stock option plan. This amount has been credited to contributed surplus. The fair value of options granted during the year is estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 4.0% (2006 - 3.9%); (ii) expected option life of 4.0 years (2006 - 4.0 years); (iii) expected volatility of 23.0% (2006 - 19.0%); and (iv) expected dividends of 1.3% (2006 - 2.3%). The weighted average fair value of each option granted during the year was $6.22 (2006 - $3.49).

16. Commitments and contingencies:

(a) The Company is committed to annual payments under two non-cancellable operating leases for office premises through 2015 in the total amount of approximately $3,608. Annual payments are:

2008	$ 467
2009	467
2010	467
2011	451
2012	439
Thereafter	1,317

In addition to these minimum lease payments for premises rental, the Company will pay its share of common area maintenance and realty taxes over the term of the leases.

(b) The Company has commitments to fund a total of $290,212 (2006 - $279,278) of mortgages in the ordinary course of business at year end.

(c) In the normal course of operations, the Company enters into agreements that provide general obligations in connection with its loan securitization activities. The nature of these agreements prevents us from making a reasonable estimate of the maximum amount required to be paid. There are no expected credit losses as the loans are government guaranteed.

(d) The Company is subject to various claims and litigation arising from time to time in the ordinary course of business. Management has determined that the aggregate liability, if any, that may result from various outstanding legal proceedings would not be material and no provisions have been recorded in these financial statements.

17. Related party transactions:

Certain of the Company's directors and officers have purchased GIC deposits, and/or purchased subordinated debentures from the Company. These purchases were made in the ordinary course of business at terms comparable to those offered to unrelated parties. As at December 31, 2007, directors and officers have purchased $1,881 (2006 - $2,202) of GIC deposits and $7,591 (2006 - $8,425) of subordinated debentures.

18. Future accounting changes:

International Financial Reporting Standards:

The CICA plans to transition Canadian GAAP for public companies to International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.

Capital and Financial Instrument Disclosures:

The CICA issued new accounting standards that require the disclosure of both qualitative and quantitative information that enables financial statement users to evaluate the objectives, policies and processes for managing capital as well as enhanced disclosure regarding financial instruments. These new standards are effective for the Company beginning January 1, 2008.

19. Other comprehensive loss:

Other comprehensive loss includes the after tax change in unrealized gains and losses on available-for-sale investments and retained interests - loan securitizations.

Available-for-sale investments:	
Losses from changes in fair value, net of income taxes of $(2,771)	$ (4,948)
Reclassification to income for loss on investments, net of income taxes of $794	1,418
Balance, end of year	(3,530)
Available-for-sale loan securitizations - retained interests:	
Gains from changes in fair value, net of income taxes of $721	1,288
Reclassification to income for loan securitizations - retained interests, net of income taxes of $(31)	(55)
Balance, end of year	1,233
Total other comprehensive loss	$ (2,297)

20. Interest rate sensitivity:

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or repricing date, as at December 31, 2007:

	Floating rate	0 - 3 months	4 - 12 months	1 - 5 years	Greater than 5 years	Non-interest sensitive	Total
Assets:[(a)]							
Cash and cash equivalents	$ 20,927	$ –	$ –	$ –	$ –	$ –	$ 20,927
Effective interest rate	4.19%	–	–	–	–	–	4.19%
Investments purchased under reverse repurchase agreements	–	232,120	–	–	–	–	232,120
Effective interest rate	–	4.09%	–	–	–	–	4.09%
Investments	–	51,162	58,457	93,152	22,585	(4,659)	220,697
Effective interest rate	–	4.14%	4.18%	4.00%	4.27%	–	4.19%
Loan securitizations – retained interests	–	3,107	8,213	28,278	10,070	1,546	51,214
Effective interest rate	–	4.81%	4.82%	4.91%	4.91%	–	4.74%
Mortgages receivable[(b)]	1,495,455	232,335	275,495	854,930	–	16,026	2,874,241
Effective interest rate	6.84%	5.71%	6.98%	6.66%	–	–	6.67%
Other assets	–	–	–	–	–	10,427	10,427
Total assets	$ 1,516,382	$ 518,724	$ 342,165	$ 976,360	$ 32,655	$ 23,340	$ 3,409,626

20. Interest rate sensitivity (continued):

	Floating rate	0 - 3 months	4 - 12 months	1- 5 years	Greater than 5 years	Non-interest sensitive	Total
Liabilities:[a]							
Customer deposits[b]	$ 710,195	$1,019,812	$ 418,924	$ 891,523	$ –	$ 64,070	$ 3,104,524
Effective interest rate	4.18%	4.45%	4.44%	4.36%	–	–	4.27%
Other	–	–	–	–	–	25,368	25,368
Bank term loans	–	–	–	44,595	–	–	44,595
Effective interest rate	–	–	–	6.53%	–	–	6.53%
Subordinated debentures [b]	–	–	–	–	31,969	–	31,969
Effective interest rate	–	–	–	–	7.35%	–	7.35%
Shareholders' equity	–	–	–	–	–	203,170	203,170
Total liabilities and shareholders' equity	$ 710,195	$1,019,812	$ 418,924	$ 936,118	$ 31,969	$ 292,608	$ 3,409,626
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 806,187	$ (501,088)	$ (76,759)	$ 40,242	$ 686	$ (269,268)	$ –
Total assets - 2006	$ 1,125,430	$ 231,988	$ 384,720	$ 832,169	$ 33,525	$ 17,923	$ 2,625,755
Total liabilities and shareholders' equity - 2006	570,455	703,951	354,416	742,394	25,250	229,289	2,625,755
Excess (deficiency) of assets over liabilities and shareholders' equity - 2006	$ 554,975	$ (471,963)	$ 30,304	$ 89,775	$ 8,275	$ (211,366)	$ –

(a) Accrued interest is excluded in calculating interest sensitive assets and liabilities.
(b) Potential prepayments of fixed rate loans have not been estimated. Cashable GICs are included with floating rate liabilities as these are cashable by the depositor upon demand. Any prepayments of subordinated debentures, contractual or otherwise, have not been estimated as these would require pre-approval by OSFI.

An immediate and sustained 1% decrease in interest rates as at December 31, 2007 would negatively impact net interest income for the following 12-month period by $3,058 (2006 - $1,086) before adjusting for income taxes.

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Princess Margaret Hospital Foundation

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Chairman, Oakwest Corporation Limited,
an investment holding company

Eric Beutel
Vice-President, Oakwest Corporation Limited,
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TSX: ETC

Annual Meeting of Shareholders
Thursday, May 15, 2008 10 a.m. EST
TSX Broadcast & Conference Centre Gallery
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