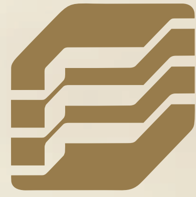

EQUITABLE GROUP INC.

Annual Report 2008

Focusing on Our Strengths

EQUITABLE GROUP INC.

Equitable Group Inc. is a niche mortgage lender. Our core business is first charge 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. It also serves the investing public as a provider of Guaranteed Investment Certificates.

Equitable is active in providing deposit services across all Canadian provinces and territories. We actively originate mortgages in Ontario, Alberta and Manitoba.

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.

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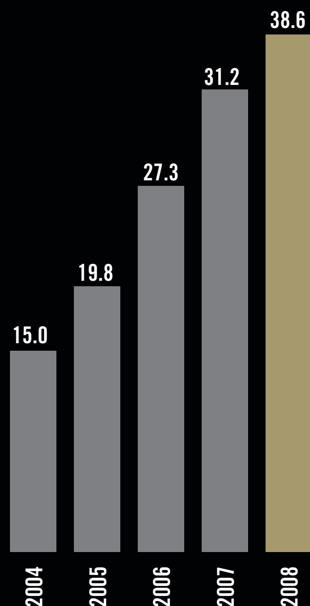
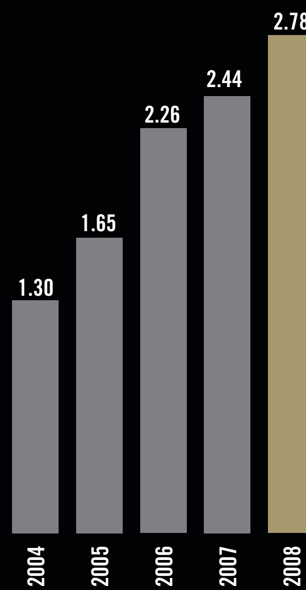
Focusing on our strengths has allowed Equitable to produce excellent results for shareholders, business partners and customers over many years – including 2008. It has also created a solid foundation upon which we can deliver value now and in the future.

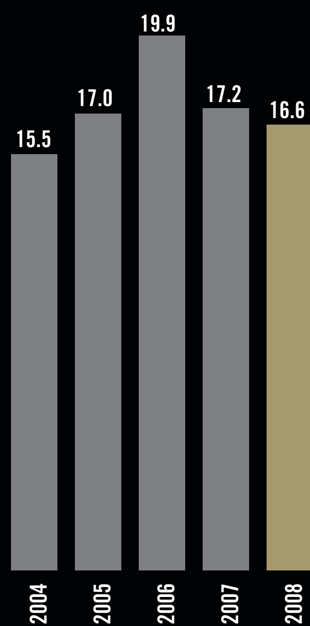
Net Income *($ millions)*



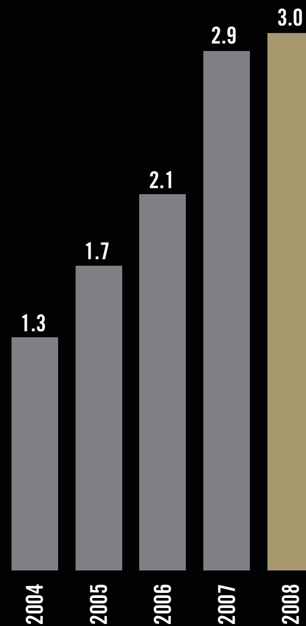
Earnings Per Share – Diluted *($)*



Return on Average Equity *(%)*



Mortgage Assets[1] *($ billions)*



[1] Not including mortgage backed security assets under adminstration.

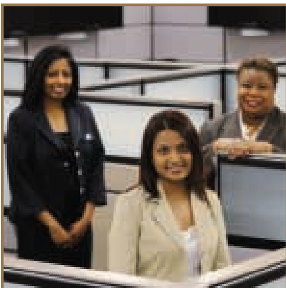
Strength of Purpose

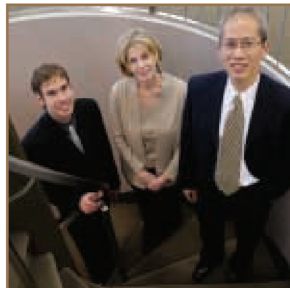
Single Family Lending Services

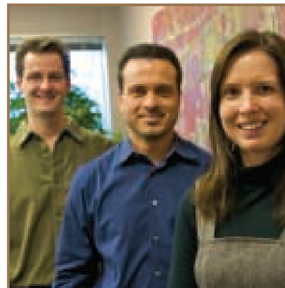
Single Family residential mortgage lending is a key part of Equitable's future. Financially, this line of business offers excellent investment return potential, has proven credit evaluation and collection capabilities – which have contributed to our outstanding track record of credit quality – and consumes less regulatory capital than commercial mortgages. Competitively, it enjoys broad relationships with an extensive network of licensed mortgage brokers and agents in our selected territories, has a highly responsive customer service ethic and delivers financial solutions to an attractive, under-served niche. Single Family customers include business-for-self Canadians, new immigrants, and foreign investors who have the financial resources to achieve real estate ownership but don't meet the traditional credit criteria of the major banks. We adjust our mortgage products, terms and credit criteria according to both market conditions and our risk-weighted return requirements. For new single family purchases or re-financings, we provide open and fixed-term mortgages with terms of up to five years on a variety of properties including homes and rental units. Reflecting our strategy, Single Family Lending was our fastest-growing business in 2008. At year end, Single Family had originated $818.3 million of mortgage principal outstanding.

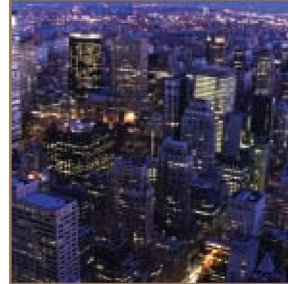
Commercial Mortgage – Broker Services

Through this proven line of business, we specialize in mortgage lending to qualified entrepreneurs, business operators and real estate investors who seek to buy mixed-use (storefront), retail office, multi-unit residential, commercial and industrial properties. Commercial Mortgage – Broker Services has a long history of success built on its extensive network of mortgage broker relationships, disciplined underwriting process, deep understanding of customer needs and clear niche market focus. Borrowers who use our solutions are often new Canadians who have strong business credentials in their native countries. Broker Services has originated loans with an average value that is in the $400,000 range. As in Single Family, our rigorous lending process is coupled with consideration of the applicant beyond numerical measures. At year end, this business represented 22.3% of mortgage principal and was a solid contributor to risk-weighted returns.









Commercial Lending Services

Commercial Lending Services works in partnership with national mortgage banking organizations and corporations to invest in highly selected commercial mortgages, including CMHC-insured products, that provide good investment return characteristics within acceptable risk tolerances. Its extensive experience, market-oriented strategy and disciplined underwriting practices have enabled this line of business to successfully participate over many years in lending on a variety of commercial property types with mortgage loans ranging from $500,000 to more than $25 million. In 2008, in reflection of Equitable's strategy to maximize return on equity adjusted for risk, Commercial Lending Services increased its focus on CMHC-insured multi-family mortgages for securitization, single-family warehoused mortgages and to a lesser extent construction loans and limited other forms of commercial property lending. At year end 2008, this line of business represented 50.7% of mortgage principal, and was well positioned for market realities.

Deposit Services

Through The Equitable Trust Company, we are a federally-regulated deposit taking institution and member of the Canada Deposit Insurance Corporation ("CDIC"). As such, we are licensed to issue Guaranteed Investment Certificates in every province and territory in Canada. The taking of Guaranteed Investment Certificate ("GIC") deposits is central to funding our business. To build additional relationships with independent deposit brokers, investment dealers, financial planners and other intermediaries who recommend our products, we maintain a dedicated Deposit Services operation. Today, Deposit Services is enjoying strong demand for our short, long term and cashable GIC products, which are considered safe havens for investors saving for the future. Equitable's GIC clients can choose terms up to five years. At the end of 2008, total deposit principal outstanding was $3.6 billion.

Chairman's Letter

The global economy entered a recessionary phase in 2008, considered by many to be the worst in generations. Many leading financial institutions were impacted as a result of imprudent risk management and were forced to take significant write-downs, retreat from the market and in some cases, seek government intervention. Your Company was not amongst them.

In 2008, Equitable Group met or surpassed all of its annual performance targets. Net income increased 23.9% over 2007 to a record $38.6 million ($2.78 per share diluted). Return on average equity was 16.6%. Total assets reached a record $4.1 billion. Single family residential mortgages surpassed the $1 billion milestone for the first time. Equitable Trust's total capital ratio increased to 13.5% including general allowance – the strongest level in our history as a public company. Realized loan losses amounted to $36 thousand. Dividends were paid at a rate of $0.10 per share per quarter.

This outstanding performance was not a matter of happenstance, especially in light of Canada's economic deceleration and the disruption of credit markets. It was the result of forward-thinking capital management, disciplined credit processes and attentive customer service delivered by a dedicated team of experienced professionals.

Looking Ahead

We begin 2009 with the knowledge that difficult times are ahead, despite initiatives by the federal government – including the recent launch of the NHA MBS auction of insured mortgage pools and the introduction of the Canadian Lenders Assurance Facility – to stabilize and restore credit markets. It will likely be some time before government stimulus and historically low central bank rates stem the tide of global recession.

In the meantime, weaker job prospects in Canada and the economy's impact on real estate values present meaningful challenges to mortgage lenders, including the prospect of higher than normal defaults.

We are prepared. We have well-established underwriting, collection and risk management processes and strategies in place designed with challenging conditions in mind. Our balance sheet has been fortified. As significant shareholders, your Board of Directors and management team are not only committed to protecting value, we are demonstrating this commitment through active participation in corporate governance. With all hands on deck, we believe Equitable will fully participate, as an even stronger business, in the economic recovery when it begins.

Paul Alofs is retiring from our Board after five years of service. We thank him for his many contributions to our Board deliberations and committee work. In February of this year, Nick Zelenczuk tendered his resignation from the Board owing to a change in his employment which precluded service on outside boards. We thank Nick for his participation, albeit for a short period, and we wish both gentlemen good luck in their future activities.

We welcome Morris Shohet of Toronto to the Board to fill one of the vacancies. A description of his qualifications appears in this year's Management Information Circular. His experience with and engagement in the real estate field should prove to be a valuable asset in Board deliberations.

I sincerely thank all stakeholders for your contributions to Equitable's record results in 2008. We look forward to continuing to deliver the benefits of our steady, disciplined approach to building our business.

Yours sincerely,

Austin Beutel
Chairman of the Board

Message from the President and CEO

Corporate strength is best measured by the ability to perform over the long term, not just in good times.

The record performance Equitable has achieved every year since we became a public company – including 2008 when good economic times gave way to recession – is a powerful indicator of the strength of our business.

Over the five year period that began in 2004, we have grown our assets from $1.1 billion to $4.1 billion, increased annual net income from $15.0 million to $38.6 million by managing credit quality and realizing the benefits of our low-cost business model, and achieved return on average equity of 17.2%.

We are pleased with this progress and the strength our company has amassed, not just over five years, but since 1970. At the same time, however, we are attuned to the substantial challenges facing the Canadian economy and by extension, our customers and our business.

While we certainly make no claim to having unique insight into what the future holds, we did anticipate the potential for declining real estate prices and slowing economic conditions and have made significant moves to position Equitable for a tough economic cycle, including:

- progressively tightening our underwriting criteria from mid-2007 onward to reduce credit risk in our mortgage portfolio;
- changing our variable rate mortgage products to reduce our exposure to dramatically falling interest rates brought on by central bank easing;
- increasing our liquid assets from $468.7 million at December 31, 2007 to $918.7 million at December 31, 2008; and
- proactively raising Tier 1 equity capital in July 2008, before many larger financial institutions, as part of a broader plan to increase capital ratios that increases the resilience of the institution in the face of economic shocks.

The economic environment has also created significant opportunities for a nimble organization like Equitable, as we were able to:

- build our CMHC-insured securitization business in the face of much improved market dynamics for this business;
- improve spreads on our newly-originated mortgages in the face of much diminished competition; and
- buy mortgages at discounts to face value, as competitors relying on non-bank financing exited the market.

Focusing on our Strengths

The recent disruption in financial markets has shown the flaws in the "originate to distribute" business model employed by many financial institutions and demonstrated the many strengths of Equitable's business as a regulated financial institution, including:

- in-depth knowledge of real estate markets and broad relationships with mortgage bankers, brokers and agents who originate our mortgages;
- solid presence in selected urban markets chosen for their potential and made even more attractive recently because of diminished competition;

- disciplined, economically-attuned credit risk management that has enabled us to amass quality assets;
- ample liquidity, supported by deep sources of funding provided by well-established depositor and deposit agent relationships;
- commitment to service excellence and partner and customer satisfaction; and
- a low-cost business model that consistently produces outstanding productivity.

I am confident that these strengths will be increasingly recognized by the capital markets as we continue to develop our business.

Forward Agenda

In 2009, our first job is to protect Equitable's financial strength in the face of financial uncertainty. Matching loan volumes to our assessment of risk, managing liquidity, and devoting resources to our existing loan book to build margins and minimize credit losses are all part of our day-to-day activities designed to safeguard our capital base and enhance value. So too is our never-ending drive to improve operations. While we have long been one of Canada's most efficient lenders, continuous analysis and benchmarking show that we can continue to improve productivity.

Superior customer service is the lifeblood of our business. While technology plays a role, our focus is on ensuring that the Equitable team moves with a common resolve to provide great service. Equitable continues to grow its reputation within the mortgage industry and further strengthened our relationships with mortgage brokers. Our message to these professionals is simple: we want Equitable to be their first choice where our products make sense for their customers.

Service is also critical to our deposit services operation, which has achieved strong growth in GIC deposits over the past five years. Here our strategy is to increase penetration of deposit agent and broker distribution channels and make use of the full spectrum of terms offered to GIC customers.

Experience Counts

I would like to thank members of the Equitable team for their dedication and efforts through 2008. We are confident that we have the experience and skill to continue to build the business – and are even more certain today that we have the passion and attitude to do this with success. During the year we added to the team in a number of areas. This included the addition of John Ayanoglou as Equitable's Chief Financial Officer. John has already made some key contributions to our business.

As we look forward, we are confident that we have the skill sets, attitude and motivation necessary to deliver our objectives.

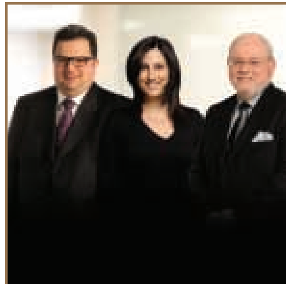
In closing, we believe our fundamentals support a higher valuation than has been afforded to our company in recent months. By safeguarding our strengths and continuing to implement business enhancements that we have planned, we believe valuation will improve.

I sincerely thank you for your support of Equitable and pledge that we will focus on using our strengths to your advantage.

Yours sincerely,

Andrew Moor
President and Chief Executive Officer

Strength in Numbers



Six Questions for Our Team

How has Equitable responded to changing Canadian real estate and mortgage market conditions?

Quality lending opportunities continue to exist and are increasingly available to Equitable given a better competitive environment. An example of this can be found in the high level of securitization activity that was underwritten and sold through government sponsored programs in 2008. Deteriorating Canadian real estate and mortgage markets are, however, the focus of much management attention. We continually monitor the economic and credit environment and adjust our lending criteria to ensure that we are originating quality business. Our response to changes that led to the current external environment started back in mid 2007. At that time, we began to progressively tighten our lending criteria in those lending areas where we anticipated heightened levels of risk. We adjusted the mix of our mortgage originations to shift away from variable rate mortgages in order to reduce our exposure to falling interest rates. We also shifted our asset mix to improve returns on a risk-weighted basis and reduce use of regulatory capital. Furthermore, we adhered to our long-standing policies of maintaining conservative loan-to-value ratios on uninsured mortgages and avoiding single-industry communities. Having achieved record results in 2008, these measures certainly produced desired outcomes, and we entered 2009 with a strong balance sheet, high quality mortgage portfolio and ongoing confidence in our credit policies and processes.

Equitable securitized and sold $1.3 billion of CHMC-insured mortgages in 2008. What factors led to this increase and do you anticipate that the effects of these factors will continue?

Equitable has a strong history of originating CMHC-insured mortgages and securitizing these in the government-sponsored NHA MBS (National Housing Act Mortgage Backed Securities) market. But 2008 was a watershed year, not only for volumes but spreads, which were wider than historical norms. The driver of this improvement was the fact that the commercial MBS market has not operated since August of 2007. So securitization through government sponsored programs such as NHA MBS and the CMB (Canada Mortgage Bond) Program have become attractive alternatives for investors and the lenders that are eligible to participate. We expect that this type of securitization activity will continue to be an excellent business opportunity for us into 2009 given the altered fundamentals of credit markets.

At the end of 2008, Equitable had an impressive amount of liquidity on its balance sheet. Why have you chosen to hold this level of liquidity, is this something you expect will continue through 2009 and are you employing strategies to offset the impact on earnings?

The presence of higher than historical levels of liquidity is intended to insulate our business from unexpected shocks in capital markets and will be maintained until this period of economic uncertainty and volatility subsides. We believe this is an appropriate measure that will safeguard our institution, our depositors and our shareholders. At the same time, we understand there is a cost to additional liquidity and this has been magnified as a number of

larger institutions are participating more actively in the GIC market to fund their liquidity needs. As a nationally-licensed deposit-taking institution, and member of the CDIC, Equitable enjoys the advantage of participating in a GIC market that is deep and liquid, but additional competition from these institutions has increased the cost of funding. To mitigate the cost of maintaining higher levels of liquidity, we are disciplined about ensuring that we invest in those easy-to-access, safe investments that provide Equitable with the best available returns. Our constant attention to this area will help ease the costs of maintaining high levels of liquidity, while ensuring the continued safeguarding of our business.

Mortgages originated through Single Family Lending Services represented about 27% of your total loan portfolio in 2008, up from 17% in 2007. Will you continue to focus on originating single family business?

The short answer is yes. We're excited about the opportunities in the single family market, given reduced competition and continued consumer demand in that space. We've seen 10 competitors withdraw from that market in less than two years. That said, our Single Family Lending Services business is just one of our three business lines. Commercial Mortgage – Broker Services as well as Commercial Lending Services also continue to provide quality opportunities. Our real focus is to remain disciplined to ensure the returns we achieve across our business on a mortgage-by-mortgage basis meet our ROE expectations. This means continually optimizing our portfolio to drive returns on a risk-weighted basis.

Are you comfortable with Equitable Trust's current capital levels?

At January 1, 2008, our total capital ratio, including general allowance, was 11.0%. At December 31, 2008, it was 13.5% – the highest since we became a public company. While we successfully raised capital during 2008, we were also effective in managing our capital ratios by retaining earnings and shifting our originations towards lower risk-weighted assets. We are particularly confident in our abilities to manage capital through the retention of earnings and management of assets, since these contributed to approximately half of the total capital ratio increase achieved in 2008.

Are there opportunities for Equitable that you anticipate as a result of changing market conditions?

Changes in market conditions have had a dramatic affect on the financial services landscape in Canada. There are fewer competitors in all areas of our business than was the case two years ago. The overall environment provides us with new opportunity to expand our business and improve spreads on newly-originated mortgages. As we mentioned earlier, market changes have also allowed us to build volumes and improve spreads within our CMHC-insured securitization business. And fundamentally, we believe the value of our deposit-taking capabilities has substantially increased. Given the significant barriers to entry, it is difficult to become a regulated financial institution in Canada, able to participate in the GIC market. This is one of our most coveted advantages. Coupled with our long-standing industry relationships, this means we are exceptionally well-positioned for the future.

The preceeding material contains forward-looking statements. Please see "Cautionary Note Regarding Forward-Looking Statements" on page 38 of this report.

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

For the three months and year ended December 31, 2008

Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the financial position and the results of operations of Equitable Group Inc. ("Equitable" or the "Company") for the three months ("quarter") and year ended December 31, 2008. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 18 19 and 20) and the audited consolidated financial statements for the year ended December 31, 2008, and accompanying notes. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This report, and the information provided herein, is dated as at February 25, 2009. Additional information about the Company, including its 2008 Annual Information Form, is available on the Company's website at www.equitablegroupinc.com and on SEDAR at www.sedar.com.

The material below contains forward-looking statements. Please see "Cautionary Note Regarding Forward-Looking Statements."

Business Profile and Objectives

The Company is a niche mortgage lender that provides first charge mortgages and mortgages insured by the Canada Mortgage and Housing Corporation ("CMHC"), through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Equitable Trust was founded in 1970. The primary sources of the Company's revenues are interest income derived from its mortgage financing business. 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 CMHC Mortgage Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") Programs. The Company also earns interest and dividend income from investments. 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 Company's strong competitive position have established it as a leader in its mortgage lending niches and have contributed to excellent financial results.

Equitable's diversified mortgage portfolio, across both residential and commercial real estate, is the Company's most valuable asset. The Company's ability to fund its business by attracting depositors and providing excellent service as a regulated Canada Deposit Insurance Corporation ("CDIC") member is also a core strength – one of enduring value to the enterprise and all of its stakeholders.

The Board and management are focused on positioning Equitable for long-term growth, by identifying and investing in the development of mortgage products and those selected geographic markets that will deliver superior returns on capital, thereby enhancing shareholder value in the short-term. Given the need to navigate through current turbulent economic conditions, management has established the following key corporate objectives for 2009:

- Operating lending businesses in which the Company has the best opportunity to earn attractive and sustainable returns with a view to enhancing the value of its diversified mortgage portfolio and maintaining prudent credit risk practices.
- Driving the continuous improvement of processes and operating efficiencies, recognizing that shareholders are best served by focusing on optimizing return on equity ("ROE") adjusted for risk.
- Protecting shareholder value through focused monitoring and mitigation of the Company's business risks, including the disciplined management of arrears and the maintenance of optimal levels of regulatory capital and liquidity.
- Funding growth primarily through the retention of earnings, while pursuing opportunities that will allow the Company to raise non-dilutive forms of capital.

Lending Businesses

The Company has three core lending businesses, which align well with its competitive strengths, competencies and profitability objectives:

- Single Family Lending Services ("Single Family"): This business benefits from Equitable Trust's well-established relationships with a large independent broker network, Equitable's experience in utilizing a disciplined approach to credit evaluation and collections, as well as its 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 mortgages on a variety of property types, including mixed-use, apartment buildings, commercial and industrial properties 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.

- Commercial Lending Services: This business 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 mortgages that have particularly attractive qualities include short-term construction loans, single family warehoused mortgages and CMHC-insured multi-family mortgages for securitization.

During 2008, to complement its ability to securitize under the CMHC MBS Program, the Company became an approved seller under the CMB Program and was able to securitize and sell $1.3 billion in CMHC-insured residential mortgages.

Operating Efficiency and ROE

Equitable evaluates each mortgage and assesses its pricing based on the respective contribution that the mortgage can make to ROE. Each mortgage is expected to deliver a return on investment that meets established requirements. While attractive pricing can be garnered on a variety of loan types, single family residential mortgages typically generate a higher ROE than commercial mortgages because they require less regulatory capital, even though they involve higher processing costs.

Management believes that shareholders are best served by focusing on lending opportunities that optimize ROE. The Company is also committed to using automation and other means to improve operating efficiencies and reduce costs where possible.

2008 Highlights

During 2008, the Company achieved its highest earnings ever and met or exceeded its financial and strategic goals for the year, despite the protracted and severe turbulence that continues to challenge Canadian and international capital and credit markets. During 2008, the Company reached new milestones; for the first time, its total assets surpassed the $4.0 billion threshold, while its total mortgages receivable surpassed $3.0 billion. At the same time, Equitable Trust held the strongest capital ratio and liquidity positions since the Company was taken public.

Earnings Performance

In 2008, Equitable set a new earnings record. The Company grew its mortgage origination capabilities and took advantage of credit market opportunities that allowed it to securitize and sell $1.3 billion in CMHC-insured mortgages, at wider spreads and at volumes that were beyond historical levels. Despite six consecutive decreases in the Bank of Canada's lending rate and corresponding decreases in the Prime Rate of Interest ("Prime Rate") that had the effect of compressing net interest margin:

- net income increased 23.9% over 2007 to $38.6 million;
- diluted earnings per share increased 13.9% over 2007 to $2.78 per share on a higher number of shares outstanding; and
- ROE was 16.6% – in line with the Company's 16% to 18% objective set for 2008.

Additionally, demonstrating the efficiency of the Company's approach to business, the 2008 productivity ratio on a Taxable Equivalent Basis ("TEB" – see explanation of TEB in the "Non-GAAP Financial Measures" section of this MD&A) was 27.4% – an improvement over the 29.2% ratio achieved in 2007.

Credit Quality

Despite a deteriorating economy and the negative implications this has on real estate values and unemployment rates, the Company's mortgage portfolio continues to perform within expectations. Although net impaired mortgages grew to 1.21% of total mortgage principal at the end of 2008 compared to 0.30% at the end of 2007, the majority of these impaired mortgages relate to one borrower connection, for which provision has been made. Furthermore, the Company does not lend uninsured mortgages at high loan-to-value ratios, thereby limiting its exposure to loss. Management continually monitors credit risk exposure in order to ensure that underwriting policies are prudent and reflective of current and expected economic conditions.

As a result of changes in economic conditions and real estate values in certain regions of western Canada and to a lesser extent in Ontario, the Company recorded $2.8 million of specific provisions to provide for potential losses. This proactive measure had the effect of reducing basic and diluted earnings per share ("EPS") by $0.13 per share. Problem accounts are being actively managed, with plans in place to liquidate certain properties in order to effect the orderly discharge of certain loans.

Performance Against Objectives

Equitable met or exceeded all of its key performance objectives for 2008. Table 1 benchmarks the Company's performance against those objectives:

Table 1: Performance against objectives

	2008 Objectives	2008 Performance
Return on equity[1]	16% – 18%	16.6%
Percentage increase in net income over prior year	16% – 20%	23.9%
Productivity ratio – TEB	27% – 30%	27.4%

[1] *Return on equity is calculated based on the weighted average equity outstanding during the year.*

Consistent with its objectives for the year ended December 31, 2008, the Company also:

- grew its Single Family business faster than its other mortgage businesses;
- continued to deliver on its commitment to reduce commercial mortgage exposure; and
- securitized and sold record levels of multi-unit and single family residential CMHC-insured mortgages.

Furthermore, Equitable Trust achieved its key objective of attaining a 13.0% total capital ratio by December 31, 2008. This was achieved by a combination of factors, including:

- a successful shift towards its Single Family business, which requires less regulatory capital than its mixed-use or commercial mortgage products;
- the insurance of portions of Equitable Trust's previously uninsured portfolio, which has the effect of reducing the amount of regulatory capital required to support the respective assets that were insured; and
- the issuance of additional Tier 1 capital.

During the third quarter of 2008, in order to further augment Equitable Trust's Tier 1 regulatory capital base and accelerate its progress towards its goal of increasing its total capital ratio, and support the continued growth of its single family mortgage portfolio, the Company issued 1.9 million common shares at a price of $21.50 per share for aggregate gross proceeds of $40.9 million. The Company then used these proceeds, after deducting certain underwriting, legal and other expenses, to invest $38.9 million in the equity of Equitable Trust. At December 31, 2008, Equitable Trust's total capital ratio (including general allowance) was 13.5% – its strongest capital position since the Company was taken public, and much improved over the 11.0% ratio of January 1, 2008.

2009 Business Outlook

Global credit markets have experienced significant and prolonged volatility. Since the third quarter of 2007, rapidly rising mortgage default rates and a lack of confidence in the US mortgage market, combined with credit concerns related to complex financing structures that were used, have resulted in widely-publicized challenges for numerous financial institutions around the world, many of which have experienced significant credit losses and strains on liquidity. In reaction to these issues, governments and central bankers worldwide have taken action in efforts to alleviate the economic stress and uncertainty.

More recently, the Canadian economy has shown signs of deterioration, due to the global economic downturn, including indications of slowing real estate markets, falling real estate values and weakening employment levels. This deterioration has reduced Equitable's near-term earnings visibility, given that a number of the respective risks to earnings relate to factors that are external and therefore largely out of management's control. While there is no clear indicator with respect to the magnitude of future reductions in real estate values and the impact that this might have on credit losses, management continues to proactively monitor the real estate markets in which it lends in order to assess the Company's credit risk exposure and evaluate the necessity for changes in its underwriting policies or the potential need for increases in general and specific credit loss provisions. Despite this environment of continued market turbulence and uncertainty, the Company continues to believe that adequate collateral is available to support the value of its mortgage portfolio.

Management believes that quality lending opportunities continue to exist in Canadian real estate markets and is focused on identifying and originating these opportunities. However, management continues to be concerned that there is potential for further real estate market declines that go beyond some of the prevailing market forecasts. Management is focused on safeguarding the future health of its portfolio, since it is the Company's most valuable asset. As such, the Company is selective and prudent in its underwriting business to ensure adequate returns are delivered consistent with risk taken. While these factors will temper origination volumes until better economic conditions prevail, the impact on fee income and earnings is expected to be marginal, since the majority of the Company's earnings and cash flows are generated from the interest it earns on its existing $3.0 billion portfolio. Furthermore, the Company will benefit substantially from the recurring cash flows it receives from its $2.8 billion securitized mortgage portfolio – a portfolio management intends to grow considerably in 2009.

The Guaranteed Investment Certificate ("GIC") market continues to provide deep and liquid funding for Equitable Trust's business. As such, the volatility in the credit markets has had less impact on Equitable than on many other mortgage lenders. As an approved seller under the CMB Program, Equitable Trust is also able to transact securitization activities with government-sponsored programs that continue to be available.

Equitable faces fewer competitors in its core mortgage markets than was the case a year ago and this is expected to provide a long-term opportunity to improve interest rate spreads on the Company's mortgage portfolio. In the near-term, the Company expects to continue to experience some compression in its net interest margin. The Company experienced a 50 basis point decrease in the Prime Rate in the first quarter of 2009, and one or more subsequent decreases are anticipated. Such reductions in Prime Rate compress net interest margin, as yields on newly originated mortgages and existing variable rate mortgages tend to decrease immediately, while corresponding reductions in the pricing of GIC deposits lag behind and take effect only as new deposits are raised. Another negative influence on net interest margin is the fact that a number of larger institutions are currently participating more actively than is typical in the GIC market in order to fund their liquidity needs. This is expected to continue to place upward pressure on the cost of funding the Company's mortgage assets. Also affecting net interest margin is the cost associated with maintaining excess liquidity. Management believes that the maintenance of higher than normal levels of liquidity on its consolidated balance sheet is a prudent measure, intended to insulate the Company's business and ensure it is well-positioned to manage any unexpected and unforeseen events that may impact its liquidity during this period of uncertainty in the Canadian and international capital markets. Pressure on net interest margin is expected to continue until overall deposit costs ease and interest spreads return to more normal levels. On the positive side, management continues to implement revised pricing objectives for new and renewing mortgages and is focused on over $680 million of commercial mortgages that are maturing in 2009 – the majority of which are expected to renew at new pricing. This will assist in easing pressure on net interest margin over time.

During the fourth quarter of 2008, the Canadian Minister of Finance announced that CMHC will provide support to the Canadian credit markets by conducting a National Housing Act ("NHA") MBS Auction in which it will purchase insured mortgage pools as part of the Government of Canada's plan to maintain the availability of longer-term credit in Canada. More recently, this program has been expanded and additional NHA MBS Auctions have been planned for 2009. Also during the fourth quarter of 2008, the Minister of Finance announced the launch of the Canadian Lenders Assurance Facility, which is a component of Canada's implementation of the G7 Plan of Action to stabilize financial markets, restore the flow of credit and support global economic growth. The purpose of this latter facility is to ensure that Canadian financial institutions are not put at a competitive disadvantage when raising funds in wholesale markets. The Company is a deposit-taking institution eligible for participation and liquidity support from both of these programs.

Equity securities held by the Company are comprised of preferred shares, which are classified as available for sale assets for financial instrument accounting purposes. Current economic volatility in Canadian stock markets and the resultant unrealized losses have continued to affect this portfolio and the Company's other comprehensive income during 2008. Other than a small impairment write-down which was taken in the fourth quarter of 2008, management believes that there is no permanent impairment to this portfolio, which is comprised of high-quality investments.

Given its strong balance sheet, quality mortgage portfolio and focused risk management philosophy, Equitable remains well-positioned to manage through the current economic turbulence. In maintaining a high level of financial health, including prudent levels of capital and liquidity, management is also ensuring that the Company will be in a strong position to capitalize on accretive growth opportunities that may become available, including strategic acquisitions.

The purpose of this outlook is to give the reader an indication of factors that may affect Equitable's performance in the near-term. Readers should be aware that information contained in this section may not be appropriate for any other purpose. See "Cautionary Note Regarding Forward-Looking Statements."

Table 2: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND EMPLOYEE AMOUNTS)	2008	2007[1]	2006	Change from 2007	
OPERATIONS					
Net income	**38,611**	31,171	27,338	7,440	23.9%
EPS – basic	**$ 2.79**	$ 2.47	$ 2.30	$ 0.32	13.0%
EPS – diluted	**$ 2.78**	$ 2.44	$ 2.26	$ 0.34	13.9%
Net interest income	**64,343**	61,579	51,637	2,764	4.5%
Total revenue	**226,766**	185,933	143,219	40,833	22.0%
Return on equity[2]	**16.6%**	17.2%	19.9%		
Return on average assets	**1.0%**	1.0%	1.2%		
Mortgage origination	**3,107,986**	2,728,237	2,156,536	379,749	13.9%
Productivity ratio – TEB[3]	**27.4%**	29.2%	32.0%		
Number of employees at year end	**135**	124	107		
BALANCE SHEET AND OFF-BALANCE SHEET					
Total assets	**4,087,551**	3,409,626	2,625,755	677,925	19.9%
Mortgages receivable	**3,023,015**	2,874,241	2,135,662	148,774	5.2%
Shareholders' equity	**264,146**	203,170	149,736	60,976	30.0%
Mortgage backed security assets under administration	**2,825,063**	1,888,250	1,807,479	936,813	49.6%
COMMON SHARES					
Number of common shares outstanding at year end	**14,882,710**	12,952,710	11,924,468		
Dividends per share	**$ 0.40**	$ 0.40	$ 0.40	$ –	– %
Book value per common share	**$ 17.75**	$ 15.69	$ 12.56	$ 2.06	13.1%
Common share price – close	**$ 11.75**	$ 28.75	$ 31.20	$ (17.00)	(59.1%)
Market capitalization	**174,872**	372,390	372,043	(197,518)	(53.0%)
CREDIT QUALITY					
Realized loan losses – net of recoveries	**36**	21	21	15	71.4%
Mortgages in arrears 90 days or more[4] as a % of total mortgages	**1.57%**	0.30%	0.05%		
Net impaired mortgages[5] as a % of total mortgages	**1.21%**	0.30%	0.05%		

(1) *2007 results include a $3.4 million after-tax impairment write-down of the Company's preferred shares included in its investment portfolio. Excluding the impairment write-down, net income would have been $34.5 million, basic and diluted earnings per share would have been $2.74 and $2.71, respectively, return on equity would have been 18.9%, return on average assets would have been 1.1% and productivity ratio – TEB would have been 27.2% – see the "Non-GAAP Financial Measures" section of this MD&A.*
(2) *Return on equity is calculated based on the weighted average equity outstanding during the year.*
(3) *Decreases in this ratio reflect improved efficiencies.*
(4) *Mortgages in arrears 90 days or more do not include CMHC-insured mortgages that are less than 365 days in arrears.*
(5) *Net impaired mortgages do not include CMHC-insured mortgages that are less than 365 days in arrears and reflect gross mortgage principal of impaired mortgages less specific allowance.*

Financial Review – Earnings

Net Income

Net income was $38.6 million in 2008 compared with $31.2 million in the prior year. This performance was achieved despite taking higher than normal provision for credit losses during 2008, as well as six consecutive decreases in the Prime Rate that totaled 250 basis points over the course of 2008. The latter had the effect of compressing the Company's interest rate spreads as yields on newly originated mortgages and existing variable rate mortgages tend to decrease without immediate corresponding reductions in the pricing of GIC deposits. The drivers of the earnings growth, which include an $8.8 million increase in year-over-year gains from loan securitizations, are discussed in further detail below.

Diluted earnings per share were $2.78, compared with $2.44 in 2007, an increase of 13.9%. 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 1.9 million shares in 2008.

Net Interest Income

Net interest income is the main driver of profitability for the Company. It is measured on a TEB 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 2008 compared to 2007 on a TEB.

Table 3: Net interest income

($ THOUSANDS)	**2008 Average balance**	**2008 Revenue/ expense**	**2008 Average rate**	2007 Average balance	2007 Revenue/ expense	2007 Average rate
Interest revenues or interest expenses derived from:						
Assets:						
Liquidity investments	**$ 574,172**	**$ 19,226**	**3.3%**	$ 289,227	$ 14,467	5.0%
Equity securities – TEB[1]	**126,270**	**9,789**	**7.3%**	161,226	12,968	7.2%
Mortgages	**2,934,665**	**186,519**	**6.4%**	2,492,610	164,631	6.6%
Total interest earning assets – TEB	**$ 3,635,107**	**$ 215,534**	**5.9%**	$ 2,943,063	$ 192,066	6.5%
Total assets – TEB	**$ 3,748,589**	**$ 215,534**	**5.7%**	$ 3,017,691	$ 192,066	6.4%
Liabilities and shareholders' equity:						
Customer deposits	**$ 3,319,612**	**$ 142,238**	**4.3%**	$ 2,684,242	$ 118,746	4.4%
Bank term loans[1]	**44,595**	**3,025**	**6.8%**	39,673	2,952	6.8%
Subordinated debentures[1]	**31,969**	**2,348**	**7.3%**	28,610	2,367	7.4%
Total interest bearing liabilities	**$ 3,396,176**	**$ 147,611**	**4.3%**	$ 2,752,525	$ 124,065	4.5%
Total liabilities and shareholders' equity	**$ 3,748,589**	**$ 147,611**	**3.9%**	$ 3,017,691	$ 124,065	4.1%
Net interest income – TEB		**$ 67,923**			$ 68,001	
Net interest margin – TEB			**1.8%**			2.3%
Less: Taxable equivalent adjustment		**(3,580)**			(6,422)	
Net interest income		**$ 64,343**			$ 61,579	

[1] *Average rate for equity securities is calculated based on the average of the month end balances outstanding during the year. Average rate for bank term loans and subordinated debentures is calculated based on the weighted average balances outstanding during the year.*

Total interest revenues, using the TEB approach, increased 12.2% to $215.5 million in 2008, compared to $192.1 million in the prior year, mostly due to growth in the Company's interest-earning asset base and the resultant increase in mortgage revenues of $21.9 million or 13.3% in 2008 over 2007. Income derived from equity securities on a TEB decreased $3.2 million or 24.5% compared to last year, primarily due to the $35.0 million decrease in the average size of the portfolio.

The Company's net interest margin declined to 1.8% in 2008. 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. Customer deposits are in the form of GICs. 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 margin while a decrease has the opposite effect. In 2008, the Company experienced 75 basis point decreases in the Prime Rate in the first quarter, followed by a 50 basis point decrease in the second quarter and an additional 125 basis point decrease in the last quarter of the year – a total decrease of 250 basis points over the course of the year.

Interest rates on average customer deposits outstanding during 2008 decreased to 4.3% compared to 4.4% in 2007. However, overall interest expense on customer deposits grew $23.5 million or 19.8% over 2007 primarily due to a 23.7% increase in average customer deposits outstanding during 2008 compared to 2007. The market for customer deposits continues to provide deep and liquid funding for the Company's mortgage lending operations. However, some competitive demand for GIC deposits from other financial institutions resulted in short-term deposits being raised at tighter spreads to the Prime Rate than have typically prevailed in the market, which also contributed to compression in interest rate spread on floating rate mortgages.

During 2008, the Company entered into interest rate swaps in order to hedge interest rates on term GICs used to fund floating rate mortgages. Interest rate swaps of $615.0 million were outstanding at December 31, 2008. 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.

Interest income from the Company's liquidity investments increased $4.8 million or 32.9% from 2007 due to a larger debt securities portfolio that was held throughout the year.

The TEB adjustment of $3.6 million in 2008 was 44.3% lower than in 2007 due to decreased dividends received from the Company's smaller average equity securities portfolio throughout 2008. 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.

Other Income

Other income includes ancillary fees related to the origination and administration of the mortgage portfolio, as well as gains on the securitization of mortgages and the related excess interest spread, net of servicing fees earned on mortgages securitized through the 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 $14.8 million for 2008 compared to $0.3 million in 2007.

The components of securitization income are excess interest spread, net of servicing fee and gain on securitization activities. Total income from loan securitizations increased $9.1 million or 217.3% to $13.3 million in 2008. Gross margins on the securitization of CMHC-insured mortgages increased to 78 basis points in 2008 from 36 basis points in 2007. The Company securitized and sold $1.3 billion of CMHC-insured mortgages compared to $359.5 million in 2007. Equitable benefited from credit market dynamics which allowed it to securitize these mortgages at wider spreads and at volumes that were higher than historical levels.

Excess interest spread, net of servicing fees, increased by $0.3 million or 10.0% in 2008 over 2007. This increase reflected a higher average securitized principal balance outstanding during 2008 compared to 2007.

Table 4: Other income

($ THOUSANDS)	**2008**	2007	Change from 2007	
Loan securitizations – gain on securitization activities	**$ 10,076**	$ 1,277	$ 8,799	689.0%
Loan securitizations – excess interest spread, net of servicing fee	**3,199**	2,907	292	10.0%
Total income from loan securitizations	**13,275**	4,184	9,091	217.3%
Fees and other income	**1,832**	1,275	557	43.7%
Net loss on investments	**(295)**	(5,170)	4,875	94.3 %
Total	**$ 14,812**	$ 289	$ 14,523	5,025.3%

Non-Interest Expenses

The largest components of non-interest expenses are compensation and benefits, capital taxes, insurance, premises and equipment and other general and administrative expenses. The increase of $2.7 million compared to the prior year reflects higher staffing levels to support growth in the Single Family line of business and an increased investment in support functions. Included in compensation and benefits expense during 2008 and 2007 was a charge for stock-based compensation expense in the amount of $0.8 million related to grants of options. The effect of this expense was an increase to contributed surplus by the same amount.

The Company's productivity ratio – TEB was 27.4% in 2008 compared to 29.2% in 2007. This ratio is a non-GAAP financial measure derived by dividing non-interest expenses by the sum of net interest income – TEB and other income. In general, a lower productivity ratio is associated with a more efficient cost structure. However, the Company's productivity index can also be affected by increases and declines in funding volumes and the Company's need to maintain staffing levels commensurate with volume expectations. Management believes this ratio will increase over time as a result of growth in Single Family mortgage originations, since origination and servicing of these mortgages are more costly on a per dollar basis; however, the offset is an expected improvement in risk-adjusted returns on equity.

Table 5: Non-interest expenses and productivity ratio

($ THOUSANDS)	**2008**	2007	Change from 2007	
Compensation and benefits	**$ 13,253**	$ 11,340	$ 1,913	16.9%
Capital taxes, licenses, regulatory fees and insurance	**2,665**	2,680	(15)	(0.6%)
Premises and equipment	**2,385**	2,031	354	17.4%
Marketing, travel and communications	**1,223**	927	296	31.9%
Mortgage servicing	**1,121**	993	128	12.9%
Legal, audit and related services	**630**	541	89	16.5%
Other	**1,414**	1,456	(42)	(2.9%)
Total	**$ 22,691**	$ 19,968	$ 2,723	13.6%
Productivity ratio – TEB	**27.4%**	29.2%		

Income Taxes

The Company's effective income tax rate in 2008 was 27.2% compared to 24.0% in 2007. The effective tax rate was less than the statutory tax rate of 33.3% primarily due to the tax-exempt dividend income from the securities portfolio. In 2007, 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 $4.7 million from the prior year was primarily due to future taxes payable relating to loan securitizations.

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

The Company's mortgage portfolio consists of first charge and CMHC-insured mortgages. Mortgage principal increased $158.7 million or 5.5% during 2008 to $3.0 billion at year end. This primarily resulted from growth in its Single Family originations, as moderated by the securitization of CMHC-insured multi-unit and single family residential mortgages, natural amortization and payout of the Company's portfolio. This result was affected by management's explicit objective to slow the pace of commercial mortgage growth and increase single family residential originations in order to increase capital ratios and improve overall investment returns on a risk-weighted basis – an objective that was successfully met. At December 31, 2008, single family dwelling mortgages represented the largest portion of the portfolio (see Table 6).

Table 6: Mortgages receivable – by property type

($ THOUSANDS)	**2008**	**% of total**	2007	% of total	2006	% of total
Single family dwelling[1]	**$ 1,035,300**	**34.2%**	$ 739,050	25.8%	$ 549,299	25.8%
Mixed-use property	**333,235**	**11.0%**	287,643	10.0%	192,433	9.0%
Multi-unit residential	**515,575**	**17.0%**	660,071	23.0%	570,312	26.7%
CMHC-insured multi-unit residential	**74,380**	**2.5%**	178,971	6.2%	33,617	1.6%
Commercial	**649,591**	**21.5%**	652,783	22.8%	431,017	20.2%
Mortgages held for sale	**297,952**	**9.8%**	272,370	9.5%	268,396	12.6%
Construction	**120,908**	**4.0%**	77,395	2.7%	87,043	4.1%
Total mortgage principal	**3,026,941**	**100.0%**	2,868,283	100.0%	2,132,117	100.0%
Deferred net mortgage commitment fees, net (discounts) premiums and sundry	**(2,786)**		368		1,423	
Mortgages reported	**3,024,155**		2,868,651		2,133,540	
Accrued interest	**13,411**		14,515		10,168	
Allowances for credit losses	**(14,551)**		(8,925)		(8,046)	
Total mortgages receivable	**$ 3,023,015**		$ 2,874,241		$ 2,135,662	

[1] *Includes $176,436 (2007 – nil, 2006 – nil) of CMHC-insured and $12,267 (2007 – nil, 2006 – nil) of other insured single family dwelling mortgages.*

A significant area of growth was in the single family dwelling category. Single family mortgage principal increased $296.3 million or 40.1% compared to a year ago. This increase is consistent with the Company's corporate strategy to grow its Single Family line of business. CMHC-insured single family dwelling mortgages comprised 5.8% of the portfolio.

The portfolio of mortgages on mixed-use properties grew $45.6 million or 15.9% from December 31, 2007. These mortgages on mixed-use properties were originated by Equitable's Commercial Mortgage – Broker Services team.

Multi-unit residential mortgages decreased by $144.5 million or 21.9% from December 31, 2007, primarily as a result of the Company's success in renewing a significant number of these as CMHC-insured mortgages during the year. The multi-unit residential portfolio includes apartment buildings and retirement residences.

CMHC-insured multi-unit residential mortgages comprised 2.5% of the portfolio compared to 6.2% a year ago while the principal balance outstanding decreased $104.6 million over the preceding year to $74.4 million. The principal balance outstanding is affected by the timing of securitization activities and the emphasis that the Company has placed on securitizing and selling this category of mortgages through the CMB Program. The majority of the securitization business conducted by the Company in 2008 related to CMHC-insured multi-unit residential mortgages.

Commercial mortgages decreased $3.2 million or 0.5% from December 31, 2007. This too was a direct result of the 2008 corporate objective to limit commercial mortgage originations and shift towards originating single family residential mortgages.

Mortgages held for sale increased 9.4% from 2007. This portfolio was comprised of 46.2% residential and 53.8% commercial mortgages originated by third-party lenders who require financing prior to pooling and eventually selling the mortgages to investors. Growth in mortgages held for sale was primarily related to an increase in insured single family residential warehouses, in which Equitable Trust continues to see good activity.

Construction mortgages increased $43.5 million or 56.2% compared to the prior year and comprised 4.0% of the portfolio.

Floating rate mortgages within the portfolio remained consistent at $1.5 billion at December 31, 2008 and represented 50.1% of the portfolio. In order to limit the Company's interest rate exposure on floating rate mortgages management has been focused on putting interest rate floors on these mortgages as they renew. Floating rate mortgages that have interest rate floors on them now represent 10.6% of Equitable Trust's mortgage 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 CMHC-insured multi-unit residential and conventional mortgages, including a component of mortgages held for sale. FNFLP originated approximately $750 million of the Company's outstanding on-balance sheet mortgage principal at December 31, 2008. CMHC-insured mortgages are funded almost exclusively for securitization through the CMHC MBS Program. When these mortgages are securitized and sold, 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 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 December 31, 2008, consistent with a year ago, 69.8% of the Company's mortgages were secured by properties located in Ontario. The Company's Alberta business continued to grow at a conservative pace in 2008 to 19.2% of the portfolio. Of the remaining portfolio, 6.7% are located in Quebec, 1.7% in Manitoba, 1.3% in British Columbia, with the remaining 1.3% in the rest of Canada.

Table 7: Mortgage principal outstanding – by lending business

($ THOUSANDS)	**2008**	**% of total**	2007	% of total
Single Family Lending Services	**$ 818,290**	**27.0%**	$ 488,656	17.0%
Commercial Mortgage – Broker Services	**673,648**	**22.3%**	619,124	21.6%
Commercial Lending Services	**1,535,003**	**50.7%**	1,760,503	61.4%
Total mortgage principal	**$ 3,026,941**	**100.0%**	$ 2,868,283	100.0%

The Company funded $3.1 billion of mortgages during the year, an increase of 13.9% over 2007, when a total of $2.7 billion of mortgages were funded. Including approximately $153.3 million in mortgages that were acquired on a bulk basis, the Company funded $609.9 million through Single Family Lending Services during 2008, up 78.4% from $341.2 million in 2007, consistent with the Company's corporate objectives. Through its Commercial Mortgage – Broker Services, the Company funded $165.1 million in mortgages compared to $266.4 million in 2007.

Table 8: Mortgage production – by lending business

	2008		2007			
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Change from 2007	
Single Family Lending Services	**$ 609,887**	**19.6%**	$ 341,155	12.5%	$ 268,732	78.8%
Commercial Mortgage – Broker Services	**165,069**	**5.3%**	266,418	9.8%	(101,349)	(38.0%)
Commercial Lending Services:						
CMHC-insured multi-unit residential	**1,253,345**	**40.3%**	428,003	15.7%	825,342	192.8%
Mortgages held for sale	**777,393**	**25.1%**	824,656	30.2%	(47,263)	(5.7%)
Conventional mortgages	**302,292**	**9.7%**	868,005	31.8%	(565,713)	(65.2%)
Total	**$ 3,107,986**	**100.0%**	$ 2,728,237	100.0%	$ 379,749	13.9%

During 2008, the Company continued to focus its Commercial Lending Services business on those niches that offer the best potential return, including CMHC-insured mortgages on multi-family apartment buildings, while significantly reducing the production of conventional commercial mortgages in order to slow the growth in higher risk-weighted assets and build its capital ratios. Not including origination of mortgages held for sale, Commercial Lending Services originated a total of $1.6 billion of mortgages during the year, comprised of $1.3 billion of CHMC-insured mortgages, $86.1 million of construction loans, and $216.2 million of conventional mortgages.

Table 9: Mortgages held for sale

($ THOUSANDS)	2008	2007
Principal balance, beginning of year	$ 272,370	$ 268,396
Production	777,393	824,656
Repayments and discharges	(751,811)	(820,682)
Principal balance, end of year	$ 297,952	$ 272,370
Net change in principal balance	$ 25,582	$ 3,974

The timing of warehoused mortgage production and discharges can lead to volatility in balances held in the warehoused mortgage program. As mentioned above, 2008 production of mortgages held for sale primarily related to advances on insured single family warehouses in which Equitable continues to see good activity. In terms of commercial mortgage warehouses, the level of warehoused discharge activity in 2008 continued to be low by historical standards, reflecting ongoing disruption in the Commercial Mortgage Backed Securities market. While these commercial warehouses continue to perform and pay down, the underlying mortgages are being held for longer periods than originally anticipated.

Credit Quality and Provisions

Table 10: Mortgage credit quality

($ THOUSANDS)	2008	2007	2006	Change from 2007	
Credit quality measures:					
Gross impaired mortgage principal	$ 39,631	$ 8,617	$ 1,138	$ 31,014	359.9%
Allowance for credit losses	14,551	8,925	8,046	5,626	63.0%
Allowance for credit losses as a % of total mortgage principal	0.48%	0.31%	0.38%		
Mortgage principal in arrears 90 days or more[1]	47,627	8,617	1,138	39,010	452.7%
Mortgage principal in arrears 90 days or more[1] as a % of total mortgage principal	1.57%	0.30%	0.05%		
Continuity of allowance for credit losses:					
Balance, beginning of year	$ 8,925	$ 8,046	$ 7,167		
Provision charged to statement of income	3,450	900	900		
Allowance for credit losses on acquired portfolio	2,212	–	–		
Recovery of prior year losses added to allowance	–	29	–		
Realized losses deducted from allowance	(36)	(50)	(21)		
Balance, end of year	$ 14,551	$ 8,925	$ 8,046		

(1) *Mortgages in arrears 90 days or more do not include CMHC-insured mortgages less than 365 days in arrears.*

Although net impaired mortgages have grown to 1.21% of total mortgage assets at the end of 2008, compared to 0.30% at the end of 2007, the majority of the impaired mortgage balance relates to a specific group of multi-unit residential mortgages advanced to one borrower connection in western Canada. The Company took the prudent measure of assessing an additional pre-tax charge of $2.4 million with respect to this connection in 2008, to provide for potential losses. This proactive measure had the effect of reducing basic and diluted earnings per share by $0.12 per share. These problem accounts are being actively managed, with plans in place to liquidate certain properties in order to effect orderly mortgage discharge. Excluding this one connection, net impaired mortgages would have been 0.38% of total mortgage principal. Mortgages that were between 30 to 89 days past due increased from 0.25% of total outstanding principal at December 31, 2007 to 0.54% at December 31, 2008, representing $16.4 million in principal. A total specific allowance for losses of $2.9 million was recorded as at December 31, 2008; 86.4% of this specific allowance relates to mortgages that are secured by properties located in Alberta, while 13.6% relates to Ontario.

By way of comparison, 78.5% of the Company's gross impaired mortgages relate to Alberta, 20.3% to Ontario and 0.7% to Quebec. For further information, please refer to Note 7 to the consolidated financial statements for the year ended December 31, 2008.

Despite a rapidly deteriorating economy and the negative implications this has on real estate values and unemployment rates, the Company's mortgage portfolio continued to perform within expectations, incurring only a $36 thousand loan loss during the year. The underwriting practices of the Company continue to be conservative. Management actively analyzes the profile of its originations in tandem with external market conditions. Where management judges that the commensurate risk associated with a particular region or product is no longer acceptable, it adjusts its underwriting criteria. The Company's underwriting policies, together with its mortgage administration and collections practices, are designed to safeguard the future health of its portfolio. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in improved mortgage originations and which continue to ensure a prudent credit risk profile for its portfolio. However, slowing Canadian real estate markets and softening real estate values have been noted in certain markets, which has resulted in delinquent mortgages taking longer to resolve. However, management believes that the Company's prudent lending practices, including conservative loan-to-value policies and a strong collection process, continue to protect its mortgage portfolio from downside risk associated with real estate price declines. The Company does not lend uninsured mortgages at high loan-to-value ratios and management continually monitors its credit risk exposure and the business it is originating in order to ensure prudent underwriting policies that are reflective of economic conditions are in place.

Liquidity Investments and Equity Securities

At December 31, 2008 liquid assets eligible for regulatory purposes increased $507.6 million or 162.3% to $820.3 million. Liquid assets eligible for regulatory purposes represented 20.1% of Equitable Trust's total assets compared to 9.2% a year ago. Although the cost associated with maintaining excess liquidity compresses net interest margin, management believes that the maintenance of higher than normal levels of liquidity on its balance sheet is a prudent measure, intended to insulate the Company's business from unexpected and unforeseen events that may impact its liquidity during the current period of economic uncertainty in the Canadian and international capital markets. Liquidity investments eligible as regulatory liquidity at the end of 2008 consisted of $698.3 million of Government of Canada bonds purchased under reverse repurchase agreements, $25.0 million of Government of Canada treasury bills, $73.6 million of NHA-MBS and $23.5 million of deposits held with major Canadian banks. Non-regulatory liquidity is comprised of other deposits held with the Company's bank and the Company's investment in preferred shares.

The Company's liquidity position is monitored on a daily basis. Management believes that the liquid capital resources that the Company has at its disposal, together with its ability to raise GIC deposits, are sufficient to meet the requirements of its funding commitments, as well as ensure the collection of its receivables and the discharge of its liabilities and other obligations. Liquidity is used by the Company to manage its liquidity needs (see commentary under Liquidity Risk), which include the funding of $94.4 million in mortgage commitments issued by the Company that were outstanding at the end of 2008, down from $290.2 million a year ago.

Equity securities are comprised of preferred shares that are held to yield tax-preferred dividend income, which are classified as available for sale assets for financial instrument accounting purposes. Equity securities decreased $59.0 million or 37.9% to $96.8 million at December 31, 2008 from $155.8 million a year earlier. Of this decrease, $20.8 million can be attributed to the redemption of certain preferred share positions. A further $16.2 million of this decrease can be attributed to sales, which were offset by a $5.0 million purchase. Unrealized losses in market values of the shares, which have resulted from volatility in Canadian stock markets, account for another $27.0 million of the decrease. While volatility in capital market values has continued to negatively affect this portfolio in the opening weeks of 2009, preferred share price increases had moderated the decline in value such that, on a mark-to-market basis, $4.1 million of the decline had reversed by January 31, 2009. During the fourth quarter of 2008, the Company wrote down its preferred share positions by $0.2 million in the consolidated statement of income, which represents a permanent impairment in one of its positions. Unrealized changes in fair value on this portfolio are included in the Company's other comprehensive income and affect Equitable Trust's capital ratios.

Table 11: Liquid assets

($ THOUSANDS)	2008	2007	2006	Change from 2007	
Eligible deposits with regulated financial institutions[(1)]	**$ 23,466**	$ 15,705	$ 21,590	$ 7,761	49.4%
Government guaranteed debt instruments:					
Investments purchased under reverse repurchase agreements	**698,276**	232,120	–	466,156	200.8%
Debt securities issued by a Canadian Province or Government of Canada	**24,996**	38,851	220,480	(13,855)	(35.7%)
Debt securities guaranteed by the Government of Canada	**73,563**	26,064	18,322	47,499	182.2%
Total liquid assets for regulatory purposes	**820,301**	312,740	260,392	507,561	162.3%
Other deposits with regulated financial institutions	**1,659**	222	98	1,437	647.3%
Equity securities	**96,758**	155,782	166,669	(59,024)	(37.9%)
Total liquid assets	**$ 918,718**	$ 468,744	$ 427,159	$ 449,974	96.0%
Total liquid assets as a % of total assets	**22.5%**	13.7%	16.3%		
Total liquid assets for regulatory purposes as a % of total Equitable Trust assets	**20.1%**	9.2%	9.9%		

(1) Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $8.4 million (2007 – $5.0 million, 2006 – nil) of restricted cash held as collateral by a third party for the Company's interest rate swap transactions.

Securitization Retained Interests

The Company periodically securitizes mortgages primarily to diversify funding sources and enhance liquidity positions. The Company securitizes CMHC-insured mortgages through the creation of MBS. Equitable continues to service the underlying mortgages that were securitized. Please refer to Note 1 of the consolidated financial statements for the accounting policy on securitization retained interests. Total mortgages in the CMHC MBS Program increased by $0.9 billion to $2.8 billion outstanding at December 31, 2008, from $1.9 billion outstanding at December 31, 2007.

Securitization retained interests amounted to $101.8 million at December 31, 2008, an increase of $50.6 million or 98.8% from 2007. Securitization retained interests represent the discounted future earnings to be received relating to the insured mortgages securitized through the CMHC MBS Program. Securitization retained interests are presented gross of the estimated future servicing liability included in other liabilities for securitizations entered into after July 1, 2001. For securitizations entered into prior to this date, the servicing liability and the future excess interest spread are reported on a net basis. For further information, see Note 5 to the consolidated financial statements and the "Critical Accounting Estimates", "Derivative Financial Instruments" and "Off-Balance Sheet Arrangements" sections of this MD&A.

Deposits

The Company funds its mortgage businesses 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 $576.1 million or 18.9% to $3.6 billion at year end from $3.0 billion of the prior year. Issuances of Cashable GICs continued to grow strongly in 2008, with principal balances up $116.2 million or 16.4% from 2007. At year end, Cashable GICs represented 22.9% of total deposits outstanding versus 23.4% in 2007. 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 to accept deposits in all Canadian jurisdictions.

Table 12: Deposits

($ THOUSANDS)	2008	2007	2006	Change from 2007	
Cashable GIC deposits	**$ 826,438**	$ 710,194	$ 570,455	$ 116,244	16.4%
Fixed-term GIC deposits	**2,789,869**	2,330,040	1,766,011	459,829	19.7%
Accrued interest on deposits	**85,363**	72,507	53,289	12,856	17.7%
Deferred deposit agent commissions	**(9,101)**	(8,217)	–	(884)	(10.8%)
Total	**$ 3,692,569**	$ 3,104,524	$ 2,389,755	$ 588,045	18.9%

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 can be redeemed each year in an amount equal to 20% of Equitable Trust's prior year net income.

During 2008, there were no issuances or redemptions of subordinated debentures. In 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 loan facility.

Table 13: Subordinated debentures and bank term loans

($ THOUSANDS)	Interest rate	2008	2007	2006	Change from 2007	
Subordinated debentures						
Series 5	7.31% – 7.58%	**$ 17,519**	$ 17,519	$ 20,250	$ –	– %
Series 6	7.27%	**5,000**	5,000	5,000	–	–
Series 7	7.10%	**9,450**	9,450	–	–	–
Total subordinated debentures		**$ 31,969**	$ 31,969	$ 25,250	$ –	– %
Bank term loans						
	6.37%	**$ 17,095**	$ 17,095	$ 19,750	$ –	– %
	6.82%	**15,000**	15,000	15,000	–	–
	6.41%	**12,500**	12,500	–	–	–
Total bank term loans		**$ 44,595**	$ 44,595	$ 34,750	$ –	– %
Total subordinated debentures and bank term loans		**$ 76,564**	$ 76,564	$ 60,000	$ –	– %

Other Assets, Future Income Taxes and Other Liabilities

Other assets increased $25.2 million or 241.3% to $35.6 million from $10.4 million a year earlier. Other assets include fair value on derivative financial instruments, income taxes recoverable, capital assets consisting of leasehold improvements, office furniture and computer equipment and sundry receivables and prepaid expenses. The largest component of other assets was primarily related to the Company's interest rate swaps, which had increased by $14.3 million at the end of 2008 over the prior year. At the end of 2008, the Company also recorded income taxes recoverable of $11.6 million, an increase of $8.2 million over the end of 2007.

Table 14: Other assets, future income taxes and other liabilities

($ THOUSANDS)	2008	2007	2006	Change from 2007	
Other assets:					
Derivative financial instruments – interest rate swaps	$ 14,836	$ 539	$ –	$ 14,297	2,652.5%
Income taxes recoverable	11,588	3,382	–	8,206	242.6%
Other receivables and prepaids	6,334	3,586	6,112	2,748	76.6%
Capital assets	2,536	2,857	2,263	(321)	(11.2%)
Mortgage commitments	296	63	–	233	369.8%
Deferred deposit agent commissions	–	–	6,288	–	N/A
Total	$ 35,590	$ 10,427	$ 14,663	$ 25,163	241.3%
Future income taxes and other liabilities:					
Securitized mortgage servicing liability	$ 19,945	$ 5,953	$ 6,044	$ 13,992	235.0%
Future income taxes	17,839	7,945	4,700	9,894	124.5%
Mortgagor realty taxes	9,048	6,616	5,089	2,432	36.8%
Derivative financial instruments – securitization activities	3,935	1,996	–	1,939	97.1%
Accounts payable and accrued liabilities	3,505	2,858	6,860	647	22.6%
Income taxes payable	–	–	3,571	–	N/A
Total	$ 54,272	$ 25,368	$ 26,264	$ 28,904	113.9%

Future income taxes payable result from differences between the measurement of assets and liabilities for financial statement purposes versus measurement for tax purposes. A large portion of future taxes relates to the Company's securitization activities net of its general allowance for credit losses. On a year-over-year basis, future income taxes increased primarily as a result of future taxes that will be paid by the Company on the residual cash flows that will be received in future periods from its loan securitizations. Securitized mortgage servicing liability relates to the Company's estimate of the future cost of servicing the mortgages that have been previously securitized.

Shareholders' Equity

By the end of 2008, shareholders' equity had increased $61.0 million or 30.0% to $264.1 million from $203.2 million a year earlier. This increase in shareholders' equity reflected earnings, net of dividends, as well as the issuance of new equity during the year. On July 16, 2008 and August 12, 2008, the Company issued 1,840,000 and 60,000 common shares, respectively, at a price of $21.50 per share for aggregate gross proceeds of $40.9 million. Included in these issuances were 1,660,000 common shares which were issued by public offering and 240,000 common shares which were issued under private placement to Emberwood Glen Enterprise Ltd., a wholly-owned subsidiary of Oakwest Corporation Limited, whose controlling shareholders are directors of the Company. The Company used the proceeds, after deducting certain underwriting, legal and other expenses, to invest $38.9 million in the equity of Equitable Trust in order to augment its Tier 1 regulatory capital base and support the continued growth of its single family mortgage portfolio, as well as for general corporate purposes. The balance of new equity in 2008 came from the exercise of stock options. In 2007, the Company issued 1,028,242 common shares that contributed $28.6 million to common share capital. The majority of this equity was issued through a public offering – priced at $32.50 per share – in April 2007 that raised $25.0 million, with the balance of new equity again coming from the exercise of employee stock options.

At the date of this report, the Company has 14,882,710 common shares issued and outstanding. There are unexercised stock options, which are or will be exercisable, to purchase 787,250 common shares for maximum proceeds of $18.7 million.

The Company paid an annual dividend of $0.40 per share in 2008, consistent with the dividend paid in 2007.

Table 15: Shareholders' equity

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	**2008**	2007	2006	Change from 2007	
Shareholders' equity:					
Capital stock	**$ 126,993**	$ 87,062	$ 57,849	$ 39,931	45.9%
Contributed surplus	**2,553**	1,778	1,539	775	43.6%
Retained earnings	**149,365**	116,325	90,348	33,040	28.4%
Accumulated other comprehensive loss	**(14,765)**	(1,995)	–	(12,770)	(640.1%)
Total shareholders' equity	**$ 264,146**	$ 203,170	$ 149,736	$ 60,976	30.0%
Dividends paid	**$ 5,571**	$ 5,081	$ 4,761	$ 490	9.6%
Dividends per share	**$ 0.40**	$ 0.40	$ 0.40	$ –	– %

Capital Management

Equitable maintains a capital management policy to govern the quality and quantity of capital utilized by the Company's wholly-owned subsidiary, Equitable Trust. OSFI has issued guidance on new capital requirements in accordance with the Bank for International Settlements, Basel II pronouncements, effective January 1, 2008. These pronouncements changed Equitable Trust's capital requirements. Effective January 1, 2008, Equitable Trust has been reporting its capital ratio under Basel II requirements.

In order to determine prudent capital levels to maintain, Equitable Trust has developed and implemented an Internal Capital Adequacy Assessment Process ("ICAAP"), which is based on an assessment of Equitable Trust's business risks. As a result of this process, Equitable Trust formulated a plan to build its total capital ratio, inclusive of general allowance, to 13.0% during 2008, by adopting a number of measures including slowing growth in its higher risk-weighted commercial assets and retaining earnings.

The Company's issuance of an additional 1.9 million common shares during the third quarter of 2008 augmented Equitable Trust's Tier 1 regulatory capital base, allowing it to invest $38.9 million in the equity of Equitable Trust and meet its goals with respect to its total capital ratio. Furthermore, during 2008, the Company executed a plan to CMHC-insure $228.4 million of its existing single family mortgage portfolio, which had the effect of removing the capital requirements previously related to those assets and further improving Equitable Trust's capital ratios.

As a result of these management initiatives, Equitable Trust's total capital ratio (when general allowance is included in capital) increased from 11.0% at January 1, 2008 to 13.5% at December 31, 2008.

Equitable Trust is positioned to maintain strong capital levels through the retention of earnings and the management of its risk-weighted asset mix. In less turbulent markets, the Company also intends to investigate opportunities that will allow it to raise non-dilutive forms of additional capital.

Table 16: Capital measures (relating solely to Equitable Trust)

($ THOUSANDS)	**Basel II**	Basel II	Basel I
	December 31, 2008	January 1, 2008	December 31, 2007
Risk-weighted assets:[1]			
Credit risk	**$ 2,423,996**	$ 2,510,966	$ 2,423,118
Operational risk[2]	**125,086**	100,724	N/A
Total risk-weighted assets	**$ 2,549,082**	$ 2,611,690	$ 2,423,118
Tier 1 capital:[1]			
Capital stock	**$ 128,162**	$ 87,621	$ 87,621
Contributed surplus	**2,138**	1,363	1,363
Retained earnings	**146,901**	114,645	114,645
Accumulated other comprehensive loss[3]	**(20,330)**	(2,982)	(2,982)
Total	**256,871**	200,647	200,647
Tier 2 capital:[1]			
Subordinated debentures (Tier 2B)[4]	**76,564**	76,564	76,564
Total	**76,564**	76,564	76,564
Total regulatory capital[1]	**$ 333,435**	$ 277,211	$ 277,211
Regulatory capital to risk-weighted assets:[1]			
Tier 1 capital	**10.1%**	7.7%	8.3%
Tier 2 capital	**3.0%**	2.9%	3.1%
Total regulatory capital as a % of total risk-weighted assets	**13.1%**	10.6%	11.4%
Total capital calculated as defined under ICAAP:			
Total regulatory capital	**$ 333,434**	$ 277,211	N/A
General allowance[5]	**11,651**	8,775	N/A
Total capital as defined under ICAAP	**$ 345,085**	$ 285,986	N/A
Total capital ratio for ICAAP purposes	**13.5%**	11.0%	N/A

(1) *As defined in the guidelines issued by OSFI, Basel I and Basel II calculations are not directly comparable.*

(2) *For operational risk, Equitable Trust uses the Basic Indicator Approach – calculated as 15% of the previous three year average of net interest income and other income, excluding gain or loss on investments. The risk-weighted equivalent is determined by multiplying the capital requirement for operational risk by 12.5.*

(3) *As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equities are included in Tier 2A capital.*

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

(5) *Equitable Trust includes its general allowance in capital when assessing its capital requirements under its ICAAP.*

Summary of Quarterly Results

Table 17 summarizes the Company's performance over the last eight quarters. Equitable does not expect its earnings to be seasonal, but changes in short-term interest rates and volumes of mortgages securitized may cause some volatility in earnings from quarter to quarter as described elsewhere in this MD&A.

Table 17: Summary of quarterly results

($ THOUSANDS, EXCEPT BALANCE SHEET AND OFF-BALANCE SHEET ITEMS AND PER SHARE AMOUNTS)	2008				2007			
	Q4	Q3	Q2	Q1	Q4[1]	Q3	Q2	Q1
OPERATIONS								
Net income	**7,894**	**10,752**	**10,280**	**9,685**	6,911	8,788	7,480	7,992
EPS – basic	**$ 0.53**	**$ 0.74**	**$ 0.79**	**$ 0.75**	$ 0.53	$ 0.68	$ 0.59	$ 0.67
EPS – diluted	**$ 0.53**	**$ 0.74**	**$ 0.79**	**$ 0.74**	$ 0.53	$ 0.67	$ 0.59	$ 0.66
Net interest income	**14,862**	**16,398**	**15,473**	**17,610**	17,353	15,658	14,467	14,101
Net interest margin – TEB	**1.5%**	**1.7%**	**1.8%**	**2.2%**	2.3%	2.2%	2.2%	2.3%
Total revenues	**56,613**	**61,488**	**55,852**	**52,813**	48,981	49,556	44,728	42,668
Return on equity – annualized	**11.8%**	**16.7%**	**19.1%**	**18.8%**	13.7%	18.2%	17.0%	21.1%
Return on average assets – annualized	**0.8%**	**1.1%**	**1.2%**	**1.1%**	0.8%	1.1%	1.0%	1.2%
Productivity ratio – TEB	**32.7%**	**24.9%**	**26.8%**	**26.0%**	33.9%	27.4%	29.6%	26.5%
BALANCE SHEET AND OFF-BALANCE SHEET ($ millions)								
Total assets at quarter end	**4,088**	**4,094**	**3,814**	**3,368**	3,410	3,333	2,901	2,866
Mortgages receivable at quarter end	**3,023**	**3,036**	**2,916**	**2,811**	2,874	2,699	2,313	2,299
Shareholders' equity at quarter end	**264**	**268**	**221**	**212**	203	198	186	158
Book value per share at quarter end	**$ 17.75**	**$ 17.98**	**$ 17.03**	**$ 16.35**	$ 15.69	$ 15.29	$ 14.43	$ 13.17
Mortgage backed security assets under administration at quarter end	**2,825**	**2,629**	**2,285**	**1,970**	1,888	1,849	1,785	1,816
MORTGAGE PRODUCTION								
Conventional mortgages	**$ 174,059**	**$ 355,907**	**$ 350,106**	**$ 197,176**	$ 347,711	$ 450,264	$ 406,625	$ 270,978
Mortgages held for sale	**356,776**	**170,105**	**180,054**	**70,458**	63,449	216,699	249,643	294,865
CMHC-insured multi-unit residential	**260,209**	**450,881**	**439,611**	**102,644**	171,582	112,410	45,652	98,359
Total	**$ 791,044**	**$ 976,893**	**$ 969,771**	**$ 370,278**	$ 582,742	$ 779,373	$ 701,920	$ 664,202

[1] *Fourth quarter 2007 results include an after-tax impairment write-down of $3.4 million for Quebecor World Inc. preferred shares held in the investment portfolio at year end.*

Fourth Quarter Overview

During the three months ended December 31, 2008:

- net income was $7.9 million, an increase of 14.2% from the fourth quarter of 2007;
- diluted earnings per share were $0.53, consistent the corresponding period of 2007; and
- ROE was 11.8% compared to 13.7% in the fourth quarter of 2007.

Management continually monitors the real estate markets in which it lends in order to assess the Company's credit risk exposure and re-evaluate the necessity for changes in its underwriting policies. During the quarter, Equitable made deliberate adjustments to its underwriting criteria. Together with slowing markets, this had the effect of slowing origination volumes from where they would have otherwise been. In terms of mortgage originations during the quarter:

- Single Family production was $102.5 million, or 7.8% higher than the $95.1 million of the corresponding period of 2007;
- Commercial Mortgage - Broker Services production decreased to $16.8 million compared to $81.5 million in the fourth quarter of 2007; and
- Commercial Lending Services production was $671.7 million, compared to $406.1 million in the fourth quarter of 2007. Of the 2008 fourth quarter production, $260.2 million related to CMHC-insured multi-unit residential mortgages that were originated for the purpose of being securitized and sold to government sponsored programs, compared to $171.6 million in the fourth quarter of 2007.

During the fourth quarter, the balance of average interest earning assets was $4.0 billion, up 20.1% from $3.3 billion from the same period a year ago. Mortgage interest income decreased 3.1% to $45.9 million compared to $47.3 million a year earlier due to decreases in interest lending rates. Investment income decreased 10.1% from the same quarter a year ago due to a decline in the balance of the Company's investment in equity securities. Net interest income decreased $2.5 million or 14.4% from the same quarter a year ago due to compression in spreads on the Company's floating rate mortgages, resulting from consecutive Prime Rate decreases, combined with narrowing spreads between the Prime Rate and short-term deposit rates that was caused by increased competition among deposit-takers for GIC deposits.

Other income increased $7.3 million or 184.8% during the quarter compared to the same period a year ago primarily due to the write-down of a preferred share investment in the previous year.

Non-interest expenses increased $0.8 million in the fourth quarter compared to the same quarter of 2007. As a component of non-interest expenses, compensation costs for the quarter increased $0.5 million or 15.5% reflecting higher staffing levels during the quarter compared to the corresponding period of 2007.

The Company also incurred unrealized losses of $14.9 million, net of tax, on its preferred share portfolio, reflecting the current turmoil in the capital markets. This was the primary reason for the comprehensive loss of $2.2 million that was recorded by the Company during the three months ended December 31, 2008.

At December 31, 2008, book value per share was $17.75 compared to $15.69 at the close of the prior year.

Table 18: Unaudited interim consolidated statements of income – fourth quarters 2008 and 2007

	For the three months ended	
($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	**December 31, 2008**	December 31, 2007
Interest income:		
Mortgages	**$ 45,855**	$ 47,329
Investments	**2,119**	2,357
Other	**5,300**	3,233
	53,274	52,919
Interest expense:		
Customer deposits	**35,243**	32,338
Deposit agent commissions	**1,825**	1,882
Bank term loans	**754**	754
Subordinated debentures	**590**	592
	38,412	35,566
Net interest income	**14,862**	17,353
Provision for credit losses	**1,550**	225
Net interest income after provision for credit losses	**13,312**	17,128
Other income:		
Fees and other income	**526**	353
Net loss on investments	**(453)**	(5,169)
Gains on securitization activities and income from retained interests	**3,266**	878
	3,339	(3,938)
Net interest income and other income	**16,651**	13,190
Non-interest expenses:		
Compensation and benefits	**3,622**	3,135
Other	**2,585**	2,239
	6,207	5,374
Income before income taxes	**10,444**	7,816
Income taxes (recovery):		
Current	**(1,271)**	803
Future	**3,821**	102
	2,550	905
Net income	**$ 7,894**	$ 6,911
Earnings per share:		
Basic	**$ 0.53**	$ 0.53
Diluted	**$ 0.53**	$ 0.53
Weighted average number of shares outstanding:		
Basic	**14,882,710**	12,943,749
Diluted	**14,882,710**	13,039,976

Table 19: Unaudited interim consolidated statements of comprehensive income – fourth quarters 2008 and 2007

($ THOUSANDS)	For the three months ended December 31, 2008	December 31, 2007
Net income	$ 7,894	$ 6,911
Other comprehensive (loss) income, net of tax:		
Available for sale investments:		
Net unrealized losses from change in fair value[(1)]	(9,929)	(1,905)
Reclassification of net (gains) losses to income[(2)]	(168)	1,199
Other comprehensive loss	(10,097)	(706)
Comprehensive (loss) income	$ (2,203)	$ 6,205

[(1)] *Net of income tax benefit of $4,955 (2007 – tax benefit of $1,058).*
[(2)] *Net of income tax benefit of $84 (2007 – tax expense of $670).*

Table 20: Unaudited interim consolidated statements of cash flows – fourth quarters 2008 and 2007

($ THOUSANDS)	For the three months ended December 31, 2008	December 31, 2007
Cash provided by (used in):		
Operating activities:		
Net income	$ 7,894	$ 6,911
Non-cash items:		
Financial instruments – fair value adjustments and reclassifications	(4,616)	(1,197)
Loan securitizations – (gain) loss on securitization activities	(2,108)	6
Amortization of capital assets	215	259
Provision for credit losses	1,550	225
Net loss on investments	195	5,169
Future income taxes	4,519	1,230
Stock-based compensation	208	226
Amortization of premiums on investments, net	184	831
	8,041	13,660
Change in operating assets and liabilities:		
Other assets	(2,768)	1,736
Other liabilities	3,829	1,796
	9,102	17,192
Financing activities:		
(Decrease) increase in customer deposits	(24,625)	68,121
Dividends paid on common shares	(1,488)	(1,295)
Issuance of common shares	(698)	(314)
	(26,811)	66,512
Investing activities:		
Proceeds on sale or redemption of investments	8,602	54,047
Purchase of investments purchased under reverse repurchase agreements	(698,276)	(232,120)
Proceeds on sale or redemption of investments purchased under reverse repurchase agreements	748,183	–
Change in restricted cash	(3,422)	–
Increase in mortgages receivable	(803,587)	(583,059)
Mortgage principal repayments	516,323	401,466
Proceeds from loan securitizations	282,998	7,189
Securitization retained interests	6,318	3,231
Purchase of capital assets	(294)	(627)
	56,845	(349,873)
Increase (decrease) in cash and cash equivalents	39,136	(266,169)
Cash and cash equivalents, beginning of period	10,985	282,096
Cash and cash equivalents, end of period	$ 50,121	$ 15,927

Dividend

On February 25, 2009, the Company's Board of Directors declared a quarterly dividend in the amount of $0.10 per share, payable on April 3, 2009, to shareholders of record at the close of business on March 13, 2009.

Changes in Accounting Policies

Understanding the Company's significant accounting policies is essential to understanding the Company's reported results of operations and financial position. A summary of the Company's significant accounting policies is presented in Note 1 to the consolidated financial statements.

Effective January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants: Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. Please refer to Note 1 of the consolidated financial statements for further details.

International Financial Reporting Standards

Canadian Public Companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for financial years beginning on or after January 1, 2011.

Equitable will adopt IFRS effective January 1, 2011 and present financial results for the quarter ended March 31, 2011 on that basis. Comparative data and an opening balance sheet as at January 1, 2011 will also be presented in accordance with IFRS. In order to meet the transition requirements, management has developed a project plan that is arranged according to the following phases:

- Impact assessment of IFRS.
- Requirements gathering, detailed review of IFRS and adoption planning.
- Results delivery (selection of IFRS policies).
- Training and communication.
- Refinement or updating of policy selection choices (for IFRS changes that are instituted prior to 2011).

Equitable is on schedule with its IFRS adoption project, having completed the impact assessment phase and having started the requirements gathering and detailed planning phase. The Company has also commenced the implementation of a training program that will ensure that management has sufficiently trained expertise required for adoption.

The table that follows is a status assessment of the Company's progress on its plan to transition to IFRS, as at December 31, 2008.

Table 21: Status of transition to IFRS as at December 31, 2008

Key activity or milestone	Planned completion date	Status
Financial statement preparation Identification of differences in Canadian GAAP/IFRS accounting policies and IFRS policy selection: • Identify differences in Canadian GAAP/IFRS policies • Select ongoing IFRS accounting policies • Select IFRS 1 exemptions and exceptions (at transition) • Develop financial statement format • Quantify effects of transition to IFRS	Second quarter, 2009 Fourth quarter, 2009 Fourth quarter, 2009 Second quarter, 2010 First quarter, 2010	• Significant progress made; on schedule • On schedule • Review completed; selections to be made by milestone date • Format to be developed by milestone date • Unable to quantify effects of transition at this stage
Infrastructure IFRS expertise identification and development at levels of: • Accounting staff • Senior Executives and Board (including audit committee)	Fourth quarter, 2009 Second quarter, 2010	• Expert resources identified; level 2 and 3 training underway; significant progress made • Level 1 training underway
Infrastructure Information Technology applications IFRS compliant: • Program upgrades/changes • One off calculations (IFRS 1) • Gathering data for disclosures • Budget monitoring process	Third quarter, 2009 Fourth quarter, 2009 Fourth quarter, 2009 Third quarter, 2009	• User group discussion instituted; impact assessment underway • Impact assessment underway • Impact assessment underway • Impact assessment underway
Business policy assessment Financial Covenants: • Identify impacts on financial covenants (including securitization) • Complete any required renegotiations/changes	First quarter, 2010 Second quarter, 2010	• Impact assessment to be completed • Impact assessment to be completed
Business policy assessment Compensation arrangements: • Identify if arrangements are affected • Renegotiate arrangements if required	First quarter, 2010 Third quarter, 2010	• Impact assessment to be completed • Impact assessment to be completed
Business policy assessment Capital adequacy: • Assess impact on capital plan • Amend capital plan if required	First quarter, 2010 Second quarter, 2010	• Impact assessment to be completed • Impact assessment to be completed
Control environment Internal Control Over Financial Reporting: • For all accounting policy changes identified, assess Internal Control Over Financial Reporting design effectiveness • Implement appropriate changes	Third quarter, 2010 Fourth quarter, 2010	• Impact assessment to be completed • Impact assessment to be completed
Control environment Disclosure controls and procedures: • For all accounting policy changes identified, publish impact of conversion on key performance indicators in MD&A • MD&A communications package verification	Third quarter, 2010 First quarter, 2011	• Impact assessment to be completed • Impact assessment to be completed

Critical Accounting Estimates

The Company's critical accounting estimates primarily relate to the areas of allowance for credit losses and valuation of securitization retained interests and other financial instruments. The policies and methodologies used to determine these estimates and their significance 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 Company's mortgage portfolio as at the consolidated 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 $11.7 million as at December 31, 2008 represented 0.38% 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 securitization 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, the disbursement of 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 portions of its 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 $19.9 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 securitization 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 derivatives to protect the cash flows relating to the Company's mortgages that were securitized and sold through the CMB Program. The Company enters into hedging transactions to manage interest rate exposures on certain other mortgages designated as held for trading. The Company also uses interest rate swaps to manage market interest rate exposure on term GICs used to fund floating rate mortgages. The Company has not entered into any other types of derivative contracts. For more information on hedges, forward bond contracts and interest rate swaps see Note 6 to the consolidated financial statements.

Contractual Obligations

Material contractual obligations of the Company at December 31, 2008 are outlined in Table 22.

Table 22: Contractual obligations

		Payments due by period			
($ THOUSANDS)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
GIC principal and interest	$ 3,878,468	$ 2,669,212	$ 620,728	$ 588,528	$ –
Subordinated debentures principal and interest[1]	47,771	2,348	4,697	4,697	36,029
Bank term loans principal and interest	50,827	2,913	35,247	12,667	–
Operating leases[2]	3,834	538	1,116	1,080	1,100
Total contractual obligations	$ 3,980,900	$ 2,675,011	$ 661,788	$ 606,972	$ 37,129

[1] *Obligations do not include any pre-maturity redemptions relating to Equitable Trust's prior year's net income.*
[2] *Represents minimum lease payments for premises rental.*

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

Related Party Transactions

The Company's issuance of common shares on July 16, 2008 included 240,000 common shares which were issued under private placement to Emberwood Glen Enterprise Ltd., a wholly-owned subsidiary of Oakwest Corporation Limited, whose controlling shareholders are directors of the Company. This issuance, which raised gross proceeds to the Company of $5.2 million, was concurrent with a public offering of 1.6 million shares, at the same offering price of $21.50 per share, but without underwriting or broker commission costs to the Company.

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 18 to the consolidated financial statements provides details of these transactions.

Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of the global economic downturn on Canadian capital markets as well as other 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

Credit risk is defined as the possibility that Equitable will not receive the full value of amounts and recovery costs owed to it if counterparties fail to honour their obligations to the Company.

Equitable Trust's focus is on providing first mortgages 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 nature. 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 may typically decline borrowers.

On a regular basis, management establishes credit limits for exposure to certain counterparties, industries or market segments. Management also monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage portfolio. Key components of credit risk that are closely monitored and measured are credit concentration risk and the risk associated with economically-sensitive assets. By way of definition, credit concentration risk results if an unduly large proportion of the Company's lending business involves a single person, organization or group of related persons or organizations, a single geographic area, a single industry or a single category of investment.

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 75.6% of the preferred share equity securities portfolio at December 31, 2008, compared to 79.6% a year earlier.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets (for example, mortgages and other investments) or liabilities (for example, deposits) have unmatched terms, interest rates or other attributes.

The Company's primary method of managing interest rate risk involves the matching of asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner 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 models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity and on net interest income for the 12 months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages. Estimates 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 during the 12-month period following December 31, 2008 would increase by $4.1 million. Conversely, if interest rates were to decrease by 1%, net interest income would decrease by $7.8 million.

The Company hedges the interest rate risk for all multi-unit residential mortgages that are to be securitized through the CMHC MBS Program. Hedging protects the Company from losses due to changes in interest rates during the relevant period.

The Company also holds such replacement assets in the form of MBS as are necessary to reduce the interest rate risk inherent in the CMB Program.

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

Liquidity risk is defined as the possibility that the Company will be unable to generate or obtain sufficient cash or its equivalents in a timely manner, at a reasonable price, to meet its commitments as they fall due. Liquidity risk may be affected if an unduly large proportion of the Company's deposit-taking business involves a single person, organization or group of related persons or a single geographic area.

Managing liquidity risk requires management to keep sufficient liquid assets on hand at all times to meet the mortgage funding needs, investment purchase commitments and GIC redemption and maturity obligations of Equitable Trust. Eligible liquid assets for regulatory purposes consist of cash and cash equivalents and debt instruments guaranteed by governments that are held by Equitable Trust. Assets eligible for regulatory liquidity purposes are $820.3 million as at December 31, 2008 and $312.7 million at December 31, 2007. The increase on a year-over-year basis relates to liquidity requirements associated with the potential redemption of deposit obligations.

The Company adheres to a funding and liquidity risk management policy, which provides guidelines relating to the required maintenance of a pool of high quality liquid assets, including asset eligibility, liquidity portfolio composition criteria, minimum liquidity ratios, the measurement and forecast of cash flows, liquidity stress testing and an approved contingency plan. The Company's liquidity position and adherence to the requirements of this policy are monitored daily by senior management, with quarterly reporting to the Investment Committee of the Board of Directors. As defined in the policy, the stress analysis model considers seven scenarios that incorporate institution-specific and financial market disruptions. In order to establish these scenarios, the Company assesses deposit benchmarks and makes assumptions related to the cash flow behaviour of each type of asset and liability. For all scenarios that comprised Equitable's liquidity stress testing conducted during 2008, the Company held sufficient liquidity and funding capacity to meet all funding obligations over the one-year forecasting period.

The Company was in compliance with its liquidity policy at December 31, 2008 and at the date of this report. It is the Company's policy to maintain, at all times, regulatory liquid assets at levels equivalent to, or greater than 22.5% of GICs maturing in the next 100 days and all Cashable GICs ("100 Day Maturities"). At December 31, 2008, these maturities amounted to $1.6 billion. The Company held regulatory liquid assets corresponding to 51.8% of its 100 Day Maturities at December 31, 2008.

Operational Risk

Operational risk is the possibility that a loss will result from inefficient, inadequate or failed internal processes, people or systems or from external events. As a minimum, operational risk takes into account the following:

- regulatory, legal and contractual obligations;
- fraud;
- employee practices and workplace safety;
- client, product and business practices;
- damage to physical assets;
- business disruptions and system failures;
- execution, delivery and process management.

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

Strategic risk is defined as the possibility that the Company's ability to implement its strategy successfully over the next three to five years will be affected by changes in business environment, technological limitations, adverse business decisions, unsuccessful implementation of decisions or lack of responsiveness to changes in the business environment.

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

Business risk is the possibility that an unfavorable development of business factors will lead to an operating result that varies from the expected result for the current year and beyond.

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 may 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 25% of the Company's outstanding on-balance sheet mortgages as at December 31, 2008. Management believes it has a strong relationship with FNFLP. If the Company were 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 or others will have an adverse opinion of the Company – irrespective of whether this is based on facts or merely public perception. This can result in potential losses to the Company arising from a decline in business volumes or 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, 2008. Based on this 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 and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2008 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 National Instrument 52-109 of the Canadian Securities Administrators. Based on this evaluation, management has concluded that the design and operational effectiveness of internal control over financial reporting was effective as of December 31, 2008.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

John Ayanoglou was appointed Chief Financial Officer of the Company on May 19, 2008, subsequent to Equitable's acceptance of the resignation of its previous Chief Financial Officer, which occurred on February 12, 2008. There were no other changes in the Company's internal control over financial reporting that occurred during 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Non-GAAP Financial Measures

The presentation of financial information on a 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 2008, the grossed-up amount was $3.6 million as compared to $6.4 million in 2007.

From time to time, the Company also utilizes non-GAAP financial measures to reflect circumstances where the management separates and discloses non-recurring items from results that have otherwise been reported, in order to more accurately represent the underlying, recurring business performance. The Company believes that adjusted results can sometimes enhance comparability between reporting periods or provide the reader with a better understanding of how management views the Company's performance.

Cautionary Note Regarding Forward-Looking Statements

Statements made by the Company in the sections of this report entitled "Chairman's Letter", "Message from the President and CEO", "Six Questions for Our Team", and MD&A subsections entitled "Business Profile and Objectives", "2009 Business Outlook", "Non-Interest Expenses", "Credit Quality and Provisions" and "Liquidity Investments and Equity Securities" , as well as in other filings with Canadian securities regulators and in other communications, include forward-looking statements within the meaning of applicable securities laws ("forward-looking statements"). These statements include, but are not limited to, statements about the Company's objectives, strategies and initiatives, financial result expectations and other statements made herein, whether with respect to the Company's businesses or the Canadian economy. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "planned", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases which state that certain actions, events or results "may" ,"could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, closing of transactions, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, legislative and regulatory developments, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risks and Uncertainties" herein and in the Company's documents filed on SEDAR at www.sedar.com.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate and liquidity conditions affecting the Company and the Canadian economy. Although the Company believes the assumptions used to make such statements are reasonable at this time and has attempted to identify in its continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material assumptions are applied by the Company in making forward-looking statements, including without limitation, assumptions regarding its continued ability to fund its mortgage business at current levels, a continuation of the current level of economic uncertainty that affects real estate market conditions, continued acceptance of its products in the marketplace, as well as no material changes in its operating cost structure and the current tax regime. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

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.

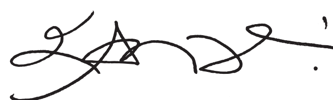
Management maintains a system of internal control to meet its responsibility for the integrity of the consolidated financial statements. Management also administers a program of ethical business conduct, which includes quality standards in hiring and training employees, written policies and a written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

The Board of Directors of the Company (the "Board") oversees management's responsibilities for the consolidated financial statements through the Audit Committee. The Audit Committee conducts a detailed review of the consolidated 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 consolidated 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



John Ayanoglou
Chief Financial Officer

February 25, 2009

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Equitable Group Inc. as at December 31, 2008 and 2007 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, 2008 and 2007 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 25, 2009

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31	**2008**	2007
Assets		
Cash and cash equivalents *(note 3)*	**$ 50,121**	$ 15,927
Restricted cash *(note 3)*	**8,422**	5,000
Investments purchased under reverse repurchase agreements *(note 4)*	**698,276**	232,120
Investments *(note 4)*	**170,321**	220,697
Securitization retained interests *(note 5)*	**101,806**	51,214
Mortgages receivable *(note 7)*	**3,023,015**	2,874,241
Other assets *(note 8)*	**35,590**	10,427
	$ 4,087,551	$ 3,409,626
Liabilities and Shareholders' Equity		
Liabilities:		
Customer deposits *(note 9)*	**$ 3,692,569**	$ 3,104,524
Future income taxes *(note 10)*	**17,839**	7,945
Other liabilities *(note 11)*	**36,433**	17,423
Bank term loans *(note 12)*	**44,595**	44,595
Subordinated debentures *(note 13)*	**31,969**	31,969
	3,823,405	3,206,456
Shareholders' equity *(notes 14 and 15)*:		
Capital stock	**126,993**	87,062
Contributed surplus	**2,553**	1,778
Retained earnings	**149,365**	116,325
Accumulated other comprehensive loss	**(14,765)**	(1,995)
	264,146	203,170
Commitments and contingencies *(note 17)*		
	$ 4,087,551	$ 3,409,626

See accompanying notes to consolidated financial statements.

Austin Beutel
Chairman

Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

Years ended December 31	**2008**	2007
Interest income:		
Mortgages	**$ 186,519**	$ 164,631
Investments	**8,180**	12,180
Other	**17,255**	8,833
	211,954	185,644
Interest expense:		
Customer deposits	**133,770**	112,017
Deposit agent commissions	**8,468**	6,729
Bank term loans	**3,025**	2,952
Subordinated debentures	**2,348**	2,367
	147,611	124,065
Net interest income	**64,343**	61,579
Provision for credit losses *(note 7)*	**3,450**	900
Net interest income after provision for credit losses	**60,893**	60,679
Other income:		
Fees and other income	**1,832**	1,275
Net loss on investments *(note 4)*	**(295)**	(5,170)
Gains on securitization activities and income from retained interests *(note 5)*	**13,275**	4,184
	14,812	289
Net interest income and other income	**75,705**	60,968
Non-interest expenses:		
Compensation and benefits	**13,253**	11,340
Other	**9,438**	8,628
	22,691	19,968
Income before income taxes	**53,014**	41,000
Income taxes *(note 10)*:		
Current	**4,929**	5,063
Future	**9,474**	4,766
	14,403	9,829
Net income	**$ 38,611**	$ 31,171
Earnings per share *(note 14)*:		
Basic	**$ 2.79**	$ 2.47
Diluted	**$ 2.78**	$ 2.44

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

Years ended December 31	**2008**	2007
Capital stock:		
Balance, beginning of year	**$ 87,062**	$ 57,849
Common shares issued *(note 14)*:		
Gross proceeds of equity issue	**40,850**	25,000
Issue expenses, net of tax recovery of $698 (2007 – $497)	**(1,510)**	(953)
Proceeds from exercise of stock options	**525**	4,587
Transfer from contributed surplus relating to the exercise of stock options	**66**	579
Balance, end of year	**126,993**	87,062
Contributed surplus:		
Balance, beginning of year	**1,778**	1,539
Stock-based compensation *(note 15)*	**841**	818
Transfer to common shares relating to the exercise of stock options	**(66)**	(579)
Balance, end of year	**2,553**	1,778
Retained earnings:		
Balance, beginning of year	**116,325**	90,348
Transition adjustment – financial instruments	**–**	(113)
Net income	**38,611**	31,171
Dividends	**(5,571)**	(5,081)
Balance, end of year	**149,365**	116,325
Accumulated other comprehensive income (loss):		
Balance, beginning of year	**(1,995)**	–
Transition adjustment – financial instruments	**–**	302
Other comprehensive loss	**(12,770)**	(2,297)
Balance, end of year	**(14,765)**	(1,995)
Total retained earnings and accumulated other comprehensive income (loss)	**134,600**	114,330
Total shareholders' equity	**$ 264,146**	$ 203,170

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS OF DOLLARS)

Years ended December 31	**2008**	2007
Net income	**$ 38,611**	$ 31,171
Other comprehensive income (loss), net of tax:		
Available for sale investments:		
Net unrealized losses from change in fair value[(1)]	**(12,483)**	(3,660)
Reclassification of net (gains) losses to income[(2)]	**(287)**	1,363
Other comprehensive loss	**(12,770)**	(2,297)
Comprehensive income	**$ 25,841**	$ 28,874

[(1)] *Net of income tax benefit of $6,229 (2007 – tax benefit of $2,050).*

[(2)] *Net of income tax benefit of $144 (2007 – tax expense of $763).*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2008	2007
Cash provided by (used in):		
Operating activities:		
Net income	$ 38,611	$ 31,171
Non-cash items:		
Financial instruments – fair value adjustments and reclassifications	(10,023)	(604)
Loan securitizations – gains on securitization activities	(10,076)	(1,277)
Amortization of capital assets	779	694
Provision for credit losses	3,450	900
Net loss on investments	39	5,170
Future income taxes	9,475	4,766
Stock-based compensation	841	818
Amortization of premiums on investments, net	1,344	3,864
	34,440	45,502
Change in operating assets and liabilities:		
Other assets	(3,586)	5,432
Other liabilities	511	(6,985)
	31,365	43,949
Financing activities:		
Increase in customer deposits	582,665	714,989
Issuance of bank term loan	–	12,500
Repayment of bank term loan	–	(2,655)
Issuance of subordinated debentures	–	9,450
Redemption of subordinated debentures	–	(2,731)
Dividends paid on common shares	(5,571)	(5,081)
Issuance of common shares	39,167	28,137
	616,261	754,609
Investing activities:		
Purchase of investments	(5,000)	(126,919)
Proceeds on sale or redemption of investments	104,538	211,849
Purchase of investments purchased under reverse repurchase agreements	(2,133,537)	(232,120)
Proceeds on sale or redemption of investments purchased under reverse repurchase agreements	1,667,381	–
Change in restricted cash	(3,422)	(5,000)
Increase in mortgages receivable	(3,135,352)	(2,735,737)
Mortgage principal repayments	1,581,808	1,716,441
Proceeds from loan securitizations	1,291,679	269,209
Securitization retained interests	18,931	13,092
Purchase of capital assets	(458)	(1,288)
	(613,432)	(890,473)
Increase (decrease) in cash and cash equivalents	34,194	(91,915)
Cash and cash equivalents, beginning of year	15,927	107,842
Cash and cash equivalents, end of year	$ 50,121	$ 15,927
Supplemental cash flow information:		
Interest paid	$ 135,084	$ 99,196
Income taxes paid	10,415	13,530

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 consolidated 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 sheets 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 have been designated as available for sale, are accounted for at settlement date and are reported on the consolidated balance sheets at fair value with unrealized gains and losses reported in other comprehensive income, net of income taxes.

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

(e) Mortgages receivable and revenue recognition:

(i) Mortgages receivable designated as loans and receivables:

Mortgages receivable are recorded at amortized cost plus accrued interest, net of unamortized origination fees, unearned income, unamortized premiums or discounts and an allowance for credit losses. Net fees relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in interest income – mortgages in the consolidated statements of income.

(ii) Mortgages held for securitization designated as held for trading:

Mortgages held for securitization are carried at fair value with changes in fair value included in gains on securitization activities and income from retained interests in the consolidated statements of income. Net fees relating to mortgage origination are

1. Significant accounting policies (continued):

expensed as incurred and are included in gains on securitization activities and income from retained interests in the consolidated statements of income.

(iii) Other mortgages designated as held for trading:

Certain mortgages designated as held for trading are carried at fair value with changes in fair value included in interest income – mortgages in the consolidated 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 collectability, either in whole or in part, of principal or interest. Conventional mortgages where payment is contractually past due 90 days and mortgages guaranteed by the Government of Canada where payment is contractually past due 365 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 collectability of principal.

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 mortgage's effective interest rate. This impairment is reflected in the consolidated 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) Securitization retained interests:

For each securitization transaction, where the Company retains the servicing rights, an asset is recognized as securitization retained interests on the consolidated balance sheets. Securitization retained interests are investments 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 mortgages are sold in a securitization transaction under terms that transfer control to third parties, the transaction is recognized as a sale and the related mortgage 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 mortgages is recognized immediately in the consolidated statements of income. The amount of the gain or loss recognized depends in part on the previous carrying amount of the mortgages 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 derivative financial instruments primarily to manage exposure to interest rate risk. The most frequently used derivative products are interest rate swaps and forward contracts. Derivative financial instruments are recorded on the consolidated

1. Significant accounting policies (continued):

balance sheets at fair value with changes in fair value included in gains on securitization activities and income from retained interests for derivatives related to securitization activities and in interest expense for derivatives related to other activities. 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, on commitments for mortgages to be securitized and on certain other mortgages designated as held for trading.

These derivative instruments are reported on the consolidated balance sheets as held for trading financial instruments and are carried at fair value.

(i) Stock-based compensation plan:

The Company has 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.

(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 calculated using a reducing-balance method over the estimated useful lives of the assets at the following annual rates:

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) Customer deposits:

Customer deposits are comprised of guaranteed investment certificates ("GICs") issued to depositors. Customer deposits, with the exception of those designated as held for trading, are recorded on the consolidated balance sheets at amortized cost using the effective interest method. 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.

(m) Bank term loans and subordinated debentures:

Bank term loans and subordinated debentures are recorded in the consolidated balance sheets at amortized cost using the effective interest method.

1. Significant accounting policies (continued):

(n) 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.

(o) Use of estimates:

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the years. Certain estimates, including the allowance for credit losses, the fair values of financial instruments, accounting for securitizations and income taxes require management to make subjective or complex judgments. Accordingly, actual results could differ from those estimates.

(p) Changes in accounting policy:

Effective January 1, 2008, the Company adopted new accounting standards issued by The Canadian Institute of Chartered Accountants ("CICA").

Section 1535, Capital Disclosures specifies the disclosure of (i) objectives, policies and processes for managing capital; (ii) quantitative data about what is regarded as capital; and (iii) compliance or non-compliance with capital requirements and effect thereof.

Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation, which sets revised and enhanced disclosure and presentation requirements. An increased emphasis is placed on disclosures regarding risks arising from financial instruments and the management thereof.

As a result of adopting these standards, new or enhanced disclosure is provided in the notes to the consolidated financial statements.

(q) Future accounting changes:

International Financial Reporting Standards ("IFRS"):

The CICA Accounting Standards Board requires that all publicly accountable enterprises adopt IFRS for years beginning on or after January 1, 2011. IFRS will replace Canadian GAAP and on January 1, 2011, these standards will apply to the Company. The Company has started an IFRS conversion project and is evaluating the impact of the initial application of these standards on the consolidated financial statements.

(r) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008.

2. Financial instruments:

The Company's business activities result in a consolidated balance sheet that consists primarily of financial instruments and the majority of net income results from gains, losses, income and expenses related to the same.

Financial instrument assets include cash and cash equivalents, restricted cash, investments purchased under reverse repurchase agreements, investments, mortgages receivable, securitization retained interests and derivative financial instruments. Financial instrument liabilities include customer deposits, derivative financial instruments, bank term loans and subordinated debentures.

2. Financial instruments (continued):

Financial assets and liabilities are recognized in the consolidated balance sheets at fair value, cost or amortized cost according to the categories determined by the accounting framework for financial instruments.

(a) Risks associated with financial instruments:

The use of financial instruments exposes the Company to credit risk, interest rate risk and liquidity risk. The following is a discussion of the Company's risk exposures and how it manages those risks:

Credit risk:

Credit risk is defined as the possibility that the Company will not receive the full value of amounts and recovery costs owed to it if counterparties fail to honour their obligations.

The Company's focus is on providing first mortgages 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 nature. As a result, the Company can underwrite mortgages on favourable terms to borrowers who have good equity and debt service ratios in situations where conventional lenders may typically decline borrowers.

On a regular basis, management establishes credit limits for exposure to certain counterparties, industries or market segments. Management also monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage portfolio. Key components of credit risk that are closely monitored and measured are credit concentration risk and the risk associated with economically-sensitive assets. By way of definition, credit concentration risk results if an unduly large proportion of the Company's lending business involves a single person, organization or group of related persons or organizations a single geographic area, a single industry or a single category of investment.

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 75.6% of the preferred share equity securities portfolio at December 31, 2008, compared to 79.6% a year earlier.

Interest rate risk management:

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect the Company's financial condition. Interest rate risk may be affected if an unduly large proportion of the Company's assets (for example, mortgages and other investments) or liabilities (for example, deposits) have unmatched terms, interest rates or other attributes.

The Company's primary method of managing interest rate risk involves the matching of asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner 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 models to estimate the effects of various interest rate change scenarios on the economic value of shareholders' equity and on net interest income for the 12 months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the pre-maturity redemptions of GICs and early payouts of mortgages. Estimates of Cashable GIC redemptions are also modeled.

The Company hedges the interest rate risk for all mortgages that are to be securitized through the Canada Mortgage and Housing Corporation ("CMHC") Mortgage Backed Securities ("MBS") Program. Hedging protects the Company from losses due to changes in interest rates during the relevant period.

2. Financial instruments (continued):

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:

Liquidity risk is defined as the possibility that the Company will be unable to generate or obtain sufficient cash or its equivalents in a timely manner, at a reasonable price, to meet its commitments as they fall due. Liquidity risk may be affected if an unduly large proportion of the Company's deposit-taking business involves a single person, organization or group of related persons or a single geographic area.

Managing liquidity risk requires management to keep sufficient liquid assets on hand at all times to meet the mortgage funding needs, investment purchase commitments and GIC redemption and maturity obligations of Equitable Trust. Eligible liquid assets for regulatory purposes consist of cash and cash equivalents and debt instruments guaranteed by governments held by Equitable Trust. Assets eligible for regulatory liquidity purposes are $820.3 million as at December 31, 2008 and $312.7 million at December 31, 2007. The increase on a year-over-year basis related to liquidity requirements associated with the potential redemption of deposit obligations.

The Company was in compliance with its liquidity policy at December 31, 2008. It is the Company's policy to maintain, at all times, regulatory liquid assets at levels equivalent to, or greater than 22.5% of GICs maturing in the next 100 days and all Cashable GICs ("100 Day Maturities"). At December 31, 2008, these maturities amounted to $1.6 billion. The Company held regulatory liquid assets corresponding to 51.8% of its 100 Day Maturities as at December 31, 2008.

(b) Determination of fair value:

When a financial instrument is initially recognized, its fair value is the amount of consideration for which the financial instruments would be exchanged in an arm's-length transaction between knowledgeable parties who are under no compulsion to act.

Subsequent to initial recognition, for financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices 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.

Valuation methods and assumptions used to estimate fair values of financial instruments:

(i) Financial instruments whose carrying value approximates fair value:

The carrying value of certain financial assets and financial liabilities corresponds to a reasonable approximation of fair value. The Company considers that the carrying value of cash and cash equivalents, restricted cash, investments purchased under reverse repurchase agreements as well as certain other assets and liabilities, approximates fair value.

(ii) Available for sale and held for trading financial assets and liabilities:

These financial assets are presented on the consolidated balance sheets at fair value. For financial instruments measured at fair value where active market prices are available, bid prices are used for financial assets and ask prices 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.

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

2. Financial instruments (continued):

(iii) Mortgages receivable:

The estimated fair value of mortgages receivable is determined using a discounted cash flow calculation and the market interest rates offered for mortgages with similar terms and credit risks.

(iv) Customer deposits:

The estimated fair value of customer deposits is determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms.

(v) Bank term loans and subordinated debentures:

The estimated fair value of bank term loans and subordinated debentures are determined by discounting expected future contractual cash flows using market interest rates offered for similar terms.

The following table presents the carrying values for each category of financial assets and liabilities and their estimated fair values. The table does not include assets and liabilities that are not considered financial instruments.

2008	Financial instruments required to be classified as held for trading	Financial instruments designated as held for trading	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Carrying value	Fair value
Financial assets:						
Cash and cash equivalents	$ 50,121	$ –	$ –	$ –	$ 50,121	$ 50,121
Restricted cash	8,422	–	–	–	8,422	8,422
Investments purchased under reverse repurchase agreements	–	–	–	698,276	698,276	698,276
Investments	–	–	170,321	–	170,321	170,321
Securitization retained interests	–	–	101,806	–	101,806	101,806
Mortgages receivable	–	83,636	–	2,939,379	3,023,015[1]	3,034,760
Other assets:						
Fair value of derivative financial instruments						
– interest rate swaps	14,836	–	–	–	14,836	14,836
Mortgage commitments	296	–	–	–	296	296
Other	–	–	–	5,266	5,266	5,266
Total financial assets	$ 73,675	$ 83,636	$ 272,127	$ 3,642,921	$ 4,072,359	$ 4,084,104
Financial liabilities:						
Customer deposits	$ –	$ 620,042	$ –	$ 3,072,527	$ 3,692,569[1]	$ 3,751,844
Other liabilities:						
Fair value of derivative financial instruments						
– securitization activities	3,935	–	–	–	3,935	3,935
Other	–	–	–	30,987	30,987	30,987
Bank term loans	–	–	–	44,595	44,595	47,222
Subordinated debentures	–	–	–	31,969	31,969	32,889
Total financial liabilities	$ 3,935	$ 620,042	$ –	$ 3,180,078	$ 3,804,055	$ 3,866,877

[1] *Mortgages receivable are presented, net of deferred loan origination fees and deferred commitment income. Customer deposits are presented, net of deferred deposit agent commissions.*

2. Financial instruments (continued):

2007	Financial instruments required to be classified as held for trading	Financial instruments designated as held for trading	Available for sale	Loans and receivables/ financial liabilities at cost or amortized cost	Carrying value	Fair value
Financial assets:						
Cash and cash equivalents	$ 15,927	$ –	$ –	$ –	$ 15,927	$ 15,927
Restricted cash	5,000	–	–	–	5,000	5,000
Investments purchased under reverse repurchase agreements	–	–	–	232,120	232,120	232,120
Investments	–	–	220,697	–	220,697	220,697
Securitization retained interests	–	–	51,214	–	51,214	51,214
Mortgages receivable	–	167,341	–	2,706,900	2,874,241[(1)]	2,861,290
Other assets:						
Fair value of derivative financial instruments						
– interest rate swaps	539	–	–	–	539	539
Mortgage commitments	63	–	–	–	63	63
Other	–	–	–	2,711	2,711	2,711
Total financial assets	$ 21,529	$ 167,341	$ 271,911	$ 2,941,731	$ 3,402,512	$ 3,389,561
Financial liabilities:						
Customer deposits	$ –	$ 185,220	$ –	$ 2,919,304	$ 3,104,524[(1)]	$ 3,105,563
Other liabilities:						
Fair value of derivative financial instruments						
– securitization activities	1,996	–	–	–	1,996	1,996
Other	–	–	–	15,235	15,235	15,235
Bank term loans	–	–	–	44,595	44,595	44,771
Subordinated debentures	–	–	–	31,969	31,969	33,253
Total financial liabilities	$ 1,996	$ 185,220	$ –	$ 3,011,103	$ 3,198,319	$ 3,200,818

(1) Mortgages receivable are presented, net of deferred loan origination fees and deferred commitment income. Customer deposits are presented, net of deferred deposit agent commissions.

3. Cash and cash equivalents and restricted cash:

	2008	2007
Deposits with regulated financial institutions	**$ 25,125**	$ 15,927
Short-term investments	**24,996**	–
	$ 50,121	$ 15,927

Restricted cash of $8,422 (2007 – $5,000) is held as collateral by a third party for the Company's interest rate swap transactions.

4. Investments:

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

	Maturities				2008	2007
	Within 1 year	**Over 1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total carrying value**	Total carrying value
Debt securities issued or guaranteed by:						
Canada	**$ –**	**$ –**	**$ 73,563**	**$ –**	**$ 73,563**	$ 26,064
Provinces	**–**	**–**	**–**	**–**	**–**	38,851
Equity securities:						
Preferred shares	**8,969**	**47,992**	**9,197**	**30,600**[1]	**96,758**	155,782
	$ 8,969	**$ 47,992**	**$ 82,760**	**$ 30,600**	**$ 170,321**	$ 220,697

[1] *Includes investments with no specific maturity.*

The analysis of investments at fair value is as follows:

	2008				2007			
	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	**$ 69,950**	**$ 3,613**	**$ –**	**$ 73,563**	$ 26,089	$ –	$ (25)	$ 26,064
Provinces	**–**	**–**	**–**	**–**	38,832	22	(3)	38,851
Equity securities:								
Preferred shares	**127,235**	**12**	**(30,489)**	**96,758**	160,435	506	(5,159)	155,782
	$ 197,185	**$ 3,625**	**$ (30,489)**	**$ 170,321**	$ 225,356	$ 528	$ (5,187)	$ 220,697

The Company wrote down its available for sale preferred share positions by $243 (2007 – $5,175) in the consolidated statement of income, of which $243 (2007 – $1,873) represents the impairment amount reclassified from the consolidated statement of comprehensive income.

The Company held investments under reverse repurchase agreements at December 31, 2008 in the amount of $698,276 (2007 – $232,120). 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.

5. Securitization retained interests:

(a) Retained interests:

The Company securitizes Government of Canada guaranteed residential mortgages through the creation of mortgage backed securities and removes the mortgages from the consolidated balance sheets. As at December 31, 2008, outstanding securitized mortgages totalled $2,825,063 (2007 – $1,888,250).

Under GAAP, the Company accounts for securitization transactions as sales when control over the mortgages has been surrendered and consideration, in addition to beneficial interests in the transferred mortgages, have been received in exchange. At the time of sale, a gain is recognized based on the Company's best estimate of the net present value of expected future cash flows, primarily the retained interests, net of an estimate for the cost of servicing obligations as the Company retained the responsibility for servicing the mortgages.

5. Securitization retained interests (continued):

The retained interests are recorded as part of securitization retained interests while the servicing liability is recorded as part of other liabilities (note 11). During the life of the securitization, the retained interests are amortized as cash is received. Similarly, the servicing liability previously recognized is also amortized to gains on securitization activities and income from retained interests in the consolidated statements of income.

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.

The following table provides quantitative information about mortgages securitized during the year:

	2008	2007
Mortgages securitized and sold	$ 1,295,955	$ 274,131
Mortgages securitized but not sold	74,364	–
Cash proceeds, net of accrued interest received on mortgages securitized and sold	1,291,679	269,209
Retained rights to future excess interest	66,504	15,174
Servicing liability recorded	16,718	1,533
Gains on securitization activities	10,076	1,277

The following table provides quantitative information about key assumptions in measuring the Company's retained interests at the date of securitization during the year:

	2008	2007
	Residential mortgages	Residential mortgages
Discount rate	3.66%	4.60%
Prepayment rate[1]	0.69%	0.00%
Excess spread	1.21%	1.09%

[1] *The prepayment rate assumption used for single-family residential mortgages is 20.00%. Multi-family residential mortgages have no prepayment rate assumption, 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 or prepayment of any mortgage.*

With respect to expected credit losses, the Company has assumed no credit losses for purposes of measuring its retained interests since all mortgages securitized are Government of Canada guaranteed.

Other quantitative information related to securitization retained interests are as follows:

	2008	2007
Cash flows received on securitization retained interests, net of servicing fees paid	$ 19,405	$ 14,375
Securitization retained interests	101,806	51,214
Securitization retained interests amortization	18,931	13,092
Securitized mortgage servicing liability *(note 11)*	19,945	5,953
Amortization of securitized mortgage servicing liability	2,725	1,624
Net unrealized fair value gain included in securitization retained interests	4,908	1,545

5. Securitization retained interests (continued):

The components of income from gains on securitization activities and income from retained interests are as follows:

	2008	2007
Excess interest spread, net of servicing fee	**$ 3,199**	$ 2,907
Gains on securitization activities	**10,076**	1,277
	$ 13,275	$ 4,184

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, 2008. The following sensitivity analysis is hypothetical and should be used with caution:

	2008	2007
	Residential mortgages	Residential mortgages
Carrying value of retained interests	**$ 101,806**	$ 51,214
Discount rate	**2.28%**	4.31%
Impact on fair value of a 10% adverse change	**(542)**	(545)
Impact on fair value of a 20% adverse change	**(1,078)**	(1,090)

The valuation of the future excess interest spread includes a weighted average excess spread of 0.92% (2007 – 0.69%), and the key assumption of a weighted average discount rate of 2.28% (2007 – 4.31%). 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 20.00%.

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

	Excess interest spread	**Servicing liability**
2009	**$ 21,181**	**$ 3,957**
2010	**21,132**	**4,205**
2011	**19,644**	**4,097**
2012	**17,648**	**3,895**
2013	**12,811**	**2,871**
Thereafter	**9,390**	**920**
	$ 101,806	**$ 19,945**

(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 fair value of mortgage commitments of $296 (2007 – $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, on commitments for mortgages to be securitized, and on certain other mortgages designated as held for trading, typically for periods of up to 90 days.

Hedge instruments outstanding at year end relating to forward contracts on Government of Canada bonds, where the counterparties are chartered banks, are as follows:

			2008			2007
Bond term (years)	**Notional amount**	**Fair value**	**Unrealized loss[1]**	Notional amount	Fair value	Unrealized loss[1]
1 to 5	**$ 73,900**	**$ 77,884**	**$ 3,362**	$ 94,300	$ 96,685	$ 863
6 to 10	**13,357**	**14,940**	**408**	74,500	74,589	1,133
	$ 87,257	**$ 92,824**	**$ 3,770**	$ 168,800	$ 171,274	$ 1,996

[1] *The hedge instruments to manage interest rate exposures on mortgages held for securitization and on commitment for mortgages to be securitized are fair value hedges and are held for trading and carried at fair value with changes in fair value included in gains on securitization activities and income from retained interests. The hedge instruments to manage interest rate exposures on certain other mortgages designated as held for trading are fair value hedges and are held for trading and carried at fair value with changes in fair value included in interest income – mortgages. 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 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 GICs used to fund floating rate mortgages. The Company also enters into interest rate swaps in order to protect its retained interests in mortgages that have been securitized and sold through the CMHC MBS Program. 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. Interest rate swaps outstanding at year end are as follows:

		2008		2007
Swap term (years)	**Notional amount**	**Fair value**	Notional amount	Fair value
1 to 5	**$ 661,879**	**$ 14,671**	$ 185,000	$ 539

The fair value of the interest rate swap agreements used to manage interest rate exposures on term GICs of $14,836 (2007 – $539) is included in other assets (note 8) with the changes in fair value included in interest expense. The fair value of the interest rate swap agreements used to protect retained interests of ($165) (2007 – nil) is included in other liabilities (note 11) with changes in fair value included in gains on securitization activities and income from retained interests in the consolidated statements of income.

(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:

2008	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$ 1,978,004	$ 2,650	$ 8,728	$ 11,378	$ 1,966,626
Other mortgages	684,494	250	2,215	2,465	682,029
Mortgages held for securitization or for sale	361,657	–	708	708	360,949
Accrued interest	13,411	–	–	–	13,411
	$ 3,037,566	$ 2,900	$ 11,651	$ 14,551	$ 3,023,015

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

Included in mortgages held for securitization or for sale are Government of Canada insured mortgages of $66,518 (2007 – $165,527). 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 fair value adjustment of Government of Canada guaranteed mortgages held for securitization is $2,683 (2007 – $1,814). Mortgages held for sale include mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet dates at their investment cost. These mortgages are carried at amortized cost.

Included in other mortgages are certain mortgages designated as held for trading and are carried at fair value with changes in fair value included in interest income – mortgages. As at December 31, 2008, mortgage principal outstanding for these mortgages held for trading is $13,224 (2007 – nil) and the fair value adjustment is $1,211 (2007 – nil).

During 2008, the Company acquired $171,069 (2007 – nil) in mortgages on a bulk basis. At December 31, 2008 the outstanding balance of these mortgages is $148,871 (2007 – nil).

There are no foreclosed assets held for sale at December 31, 2008 and 2007. All mortgages are secured by real estate property in Canada.

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 $2,110,214 (2007 – $1,999,362) of mortgages secured by properties located in the Province of Ontario and $581,585 (2007 – $495,195) of mortgages secured by properties located in the Province of Alberta.

(b) Impaired and past due mortgages:

The Company classifies a mortgage receivable as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest. Conventional mortgages where payment is contractually past due 90 days and mortgages guaranteed by the government of Canada where payment is contractually past due 365 days are automatically placed on a non-accrual basis, unless management is reasonably assured as to the recoverability of principal and interest.

7. Mortgages receivable (continued):

Outstanding impaired mortgages, net of allowance for credit losses are as follows:

	2008			2007		
	Gross	**Specific allowance**	**Net**	Gross	Specific allowance	Net
Residential mortgages	**$ 38,470**	**$ (2,650)**	**$ 35,820**	$ 8,617	$ (150)	$ 8,467
Other mortgages	**1,161**	**(250)**	**911**	–	–	–
Mortgages held for securitization or for sale	**–**	**–**	**–**	–	–	–
	$ 39,631	**$ (2,900)**	**$ 36,731**	$ 8,617	$ (150)	$ 8,467

The following table presents information about the Company's outstanding mortgages that are past due but not classified as impaired:

				2008
	30 – 59 days	**60 – 89 days**	**90+ days**	**Total**
Residential mortgages	**$ 11,881**	**$ 3,908**	**$ 8,113**	**$ 23,902**
Other mortgages	**632**	**–**	**–**	**632**
Mortgages held for securitization or for sale	**–**	**–**	**–**	**–**
	$ 12,513	**$ 3,908**	**$ 8,113**	**$ 24,534**

				2007
	30 – 59 days	60 – 89 days	90+ days	Total
Residential mortgages	$ 5,026	$ 744	$ –	$ 5,770
Other mortgages	639	796	–	1,435
Mortgages held for securitization or for sale	–	–	–	–
	$ 5,665	$ 1,540	$ –	$ 7,205

(c) Allowance for credit losses:

	2008			2007		
	Specific allowance	**General allowance**	**Total**	Specific allowance	General allowance	Total
Balance, beginning of year	**$ 150**	**$ 8,775**	**$ 8,925**	$ 160	$ 7,886	$ 8,046
Provision for credit losses	**2,786**	**664**	**3,450**	11	889	900
Allowance for credit losses on acquired portfolio	**–**	**2,212**	**2,212**	–	–	–
Realized losses	**(36)**	**–**	**(36)**	(50)	–	(50)
Recoveries	**–**	**–**	**–**	29	–	29
Balance, end of year	**$ 2,900**	**$ 11,651**	**$ 14,551**	$ 150	$ 8,775	$ 8,925

7. Mortgages receivable (continued):

(d) The following table presents information about the Company's reported and securitized mortgages:

2008	**Gross amount**	**Principal amount of mortgages 90 or more days past due**
Residential mortgages	**$ 4,803,067**	**$ 48,229**
Other mortgages	**684,494**	**1,161**
Mortgages held for securitization or for sale	**361,657**	**–**
Total mortgages reported and securitized	**5,849,218**	**49,390**
Less mortgages securitized	**2,825,063**	**1,763**
Mortgages reported prior to accrued interest *(note 7(a))*	**$ 3,024,155**	**$ 47,627**

2007	Gross 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

8. Other assets:

	2008	2007
Derivative financial instruments – interest rate swaps *(note 6(b))*	**$ 14,836**	$ 539
Income taxes recoverable	**11,588**	3,382
Receivables relating to securitization activities	**2,643**	1,123
Accrued interest and dividends on non-mortgage assets	**2,621**	849
Capital assets	**2,536**	2,857
Prepaid expenses and other	**1,070**	1,614
Mortgage commitments *(note 5(b))*	**296**	63
	$ 35,590	$ 10,427

9. Customer deposits:

	2008	2007
Cashable GICs, payable on demand	**$ 826,438**	$ 710,194
GICs with fixed maturity dates	**2,789,869**	2,330,040
Accrued interest	**85,363**	72,507
Deferred deposit agent commissions	**(9,101)**	(8,217)
	$ 3,692,569	$ 3,104,524

9. Customer deposits (continued):

Included in GICs with fixed maturity dates are $614,882 (2007 – $185,000) of GICs designated as held for trading. These GICs are carried at fair value determined by discounting expected future contractual cash flows using observed market interest rates offered for deposits with similar terms. Changes in fair value reflect changes in interest rates which have occurred since the GICs were issued. The fair value adjustment of ($5,160) (2007 – $220) is included in interest expense.

The following table outlines the maturity profile of customer deposits:

	2008					2007
	Maturities					
	Payable on demand	**Within 1 year**	**1 to 3 years**	**4 to 5 years**	**Total**	Total
GICs	**$ 826,438**	**$ 1,734,851**	**$ 536,736**	**$ 518,282**	**$ 3,616,307**	$ 3,040,234

10. Income taxes:

The provision for income taxes shown in the consolidated 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:

	2008	2007
Canadian statutory income tax rate	**33.3%**	35.9%
Increase (decrease) resulting from:		
Tax-exempt income	**(4.5%)**	(10.0%)
Future tax rate decreases	**(2.2%)**	(2.1%)
Non-deductible expenses and other	**0.6%**	0.2%
Effective income tax rate	**27.2%**	24.0%

The net future income tax liability is comprised of:

	2008	2007
Future income tax assets:		
Allowance for credit losses	**$ 3,438**	$ 2,488
Share issue expenses	**960**	578
Deferred mortgage fees	**11**	485
Available for sale financial instruments	**–**	1,117
	4,409	4,668
Future income tax liabilities:		
Deferred GIC commissions	**2,892**	2,659
Securitization retained interests	**19,035**	8,368
Other	**321**	1,586
	22,248	12,613
Net future income tax liability	**$ 17,839**	$ 7,945

11. Other liabilities:

	2008	2007
Securitized mortgage servicing liability	**$ 19,945**	$ 5,953
Mortgagor realty taxes	**9,048**	6,616
Derivative financial instruments – securitization activities (note 6)	**3,935**	1,996
Accounts payable and accrued liabilities	**3,505**	2,858
	$ 36,433	$ 17,423

12. Bank facilities:

(a) Operating credit facility:

The Company has a $35,000 credit facility in place with a major Canadian chartered bank. The facility is secured by the Company's investments in equity securities. There was no outstanding balance as at December 31, 2008 (2007 – nil).

(b) 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. Under the terms of these loans, the Company is required to maintain a minimum tangible net worth ratio, an interest coverage ratio and a maximum assets-to-capital ratio. The Company is in compliance with the financial covenants required by the term loans.

Interest rate	Date loan received	Maturity date	2008	2007
6.37%	March 2005	March 2010	**$ 17,095**	$ 17,095
6.82%	April 2006	April 2011	**15,000**	15,000
6.41%	March 2007	March 2012	**12,500**	12,500
			$ 44,595	$ 44,595

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 the Company's option. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest is paid quarterly.

Debenture	Interest rate	Issue date	Maturity date	2008	2007
Series 5	7.31% – 7.58%	2004/05	January 2015	**$ 17,519**	$ 17,519
Series 6	7.27%	2006	January 2016	**5,000**	5,000
Series 7	7.10%	2007	January 2017	**9,450**	9,450
				$ 31,969	$ 31,969

14. Shareholders' equity:

(a) Capital stock:

Authorized:
Unlimited preferred shares
Unlimited common shares

Issued:		2008		2007
	Number of shares	**Amount**	Number of shares	Amount
Common shares:				
Balance, beginning of year	**12,952,710**	**$ 87,062**	11,924,468	$ 57,849
Equity issue	**1,900,000**	**39,340**	769,231	24,047
Issued on exercise of stock options	**30,000**	**525**	259,011	4,587
Transfer from contributed surplus relating to the exercise of stock options	**–**	**66**	–	579
Balance, end of year	**14,882,710**	**$ 126,993**	12,952,710	$ 87,062

On July 16, 2008 and August 12, 2008, the Company issued 1,840,000 and 60,000 common shares, respectively, at a price of $21.50 per share for aggregate gross proceeds of $40,850 before issue expenses. Included in these issuances were 1,660,000 common shares which were issued by public offering and 240,000 common shares which were issued under private placement. Expenses of $1,510 related to the issuances have been recorded in capital stock, net of income taxes recovered of $698.

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. Expenses of $953 related to the issue have been recorded in capital stock, net of income taxes recovered of $497.

During 2008, 30,000 (2007 – 259,011) shares were issued as a result of the exercise of stock options for cash consideration of $525 (2007 – $4,587) and $66 (2007 – $579) 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:

	2008	2007
Basic	**13,841,836**	12,606,208
Related to stock options	**30,724**	158,345
Diluted	**13,872,560**	12,764,553

(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 November 2013. A summary of the Company's stock option activity and related information for the years ended December 31, 2008 and 2007 is as follows:

15. Stock-based compensation plan (continued):

	2008		2007	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**692,500**	**$ 26.14**	749,011	$ 20.54
Granted	**284,750**	**15.52**	272,500	32.20
Exercised	**(30,000)**	**17.50**	(259,011)	17.71
Forfeited/cancelled	**(50,500)**	**27.22**	(70,000)	21.06
Outstanding, end of year	**896,750**	**$ 22.99**	692,500	$ 26.14
Exercisable, end of year	**263,500**	**$ 23.47**	145,000	$ 20.79

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2008:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 17.50	165,000	0.1	112,500
$ 20.40	28,000	0.9	20,000
$ 24.10	54,000	1.9	32,000
$ 28.75	130,000	2.9	52,000
$ 34.49	150,000	3.2	30,000
$ 31.75	30,000	3.6	6,000
$ 28.79	25,000	3.9	5,000
$ 28.63	30,000	3.9	6,000
$ 24.10	27,500	4.2	–
$ 20.90	30,000	4.3	–
$ 21.63	50,000	4.4	–
$ 11.55	177,250	4.9	–

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $841 (2007 – $818) 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 2.8% (2007 – 4.0%); (ii) expected option life of 4.0 years (2007 – 4.0 years); (iii) expected volatility of 28.1% (2007 – 23.0%); and (iv) expected dividends of 2.8% (2007 – 1.3%). The weighted average fair value of each option granted during the year was $2.77 (2007 – $6.22).

16. Capital management:

Effective January 1, 2008, OSFI adopted Basel II, a new capital management framework for Canadian federally regulated financial institutions. Equitable Trust manages and reports its capital in accordance with those requirements. Under Basel II, certain asset classes attract different risk weightings than under Basel I and additional capital is required to support operational risk. As a result, Basel II capital ratios are not directly comparable to those previously calculated under Basel I.

16. Capital management (continued):

Regulatory guidelines require deposit-taking financial institutions to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be Tier 1 capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI has established that deposit-taking institutions need to maintain a minimum total capital ratio of 10%, with a Tier 1 ratio of not less than 7%. Equitable Trust's Tier 1 capital is primarily comprised of common shareholders' equity while Tier 2 capital is comprised of subordinated debentures. In addition to Tier 1 and total capital ratios, Canadian deposit-taking institutions are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by total capital, does not exceed the maximum level prescribed by OSFI.

Equitable Trust maintains capital management policies to govern the quality and quantity of capital utilized in its operations. The objective of these policies is to ensure that adequate capital requirements are met, while providing sufficient return to investors.

During the year, Equitable Trust complied with all internal and external capital requirements.

Regulatory capital (relating solely to Equitable Trust) is as follows:[1]

	Basel II	Basel I
	2008	2007
Tier 1 capital:[1]		
Capital stock	**$ 128,162**	$ 87,621
Contributed surplus	**2,138**	1,363
Retained earnings	**146,901**	114,645
Accumulated other comprehensive loss[2]	**(20,330)**	(2,982)
Total	**256,871**	200,647
Tier 2 capital:[1]		
Subordinated debentures (Tier 2B)[3]	**76,564**	76,564
Total	**76,564**	76,564
Total regulatory capital[1]	**$ 333,435**	$ 277,211

(1) Basel I and Basel II calculations are not directly comparable.
(2) As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Net unrealized fair value losses on available for sale equities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equities are included in Tier 2A capital.
(3) Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.

17. Commitments and contingencies:

(a) The Company is committed to annual payments under two non-cancellable operating leases for office premises through 2015. Annual payments are:

2009	$ 538
2010	558
2011	558
2012	530
2013	550
Thereafter	1,100
Total	$ 3,834

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.

17. Commitments and contingencies (continued):

(b) The Company has commitments to fund a total of $94,361 (2007 – $290,212) 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 the Company from making a reasonable estimate of the maximum amount required to be paid. There are no expected credit losses as the mortgages 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, which may result from various outstanding legal proceedings would not be material and no provisions have been recorded in these consolidated financial statements.

18. Related party transactions:

During the year the Company issued 1,900,000 common shares, at a price of $21.50 per share for aggregate gross proceeds of $40,850 before issue expenses. Included in the issuance were 1,660,000 common shares which were issued by public offering and 240,000 common shares which were issued under private placement to Emberwood Glen Enterprises Ltd., a wholly-owned subsidiary of Oakwest Corporation Limited, whose controlling shareholders are directors of the Company.

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, 2008, directors and officers held $652 (2007 – $1,881) of GIC deposits and $3,947 (2007 – $7,591) of subordinated debentures.

19. 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, 2008:

	Floating rate	0 – 3 months	4 – 12 months	1– 5 years	Greater than 5 years	Non-interest sensitive	Total[(1)(2)(3)]
Assets:							
Cash and cash equivalents and restricted cash	$ 33,547	$ 24,996	$ –	$ –	$ –	$ –	$ 58,543
Effective interest rate	1.43%	0.67%	–	–	–	–	1.11%
Investments purchased under reverse repurchase agreements	–	698,276	–	–	–	–	698,276
Effective interest rate	–	1.35%	–	–	–	–	1.35%
Investments	–	20,882	9,002	163,888	3,657	(27,108)	170,321
Effective interest rate	–	4.08%	3.82%	3.96%	5.25%	–	4.63%
Securitization retained interests	–	3,752	15,855	68,300	8,991	4,908	101,806
Effective interest rate	–	3.51%	3.47%	3.26%	4.85%	–	3.28%
Mortgages receivable	1,480,209	129,477	270,951	1,090,849	–	51,529	3,023,015
Effective interest rate	4.38%	6.69%	6.54%	6.79%	–	–	5.47%
Other assets	–	–	–	–	–	35,590	35,590
Total assets	$ 1,513,756	$ 877,383	$ 295,808	$ 1,323,037	$ 12,648	$ 64,919	$ 4,087,551

19. Interest rate sensitivity (continued):

	Floating rate	0 – 3 months	4 – 12 months	1– 5 years	Greater than 5 years	Non-interest sensitive	Total[(1)(2)(3)]
Liabilities:							
Customer deposits	$ 826,438	$ 1,198,003	$ 542,094	$ 1,044,613	$ –	$ 81,421	$ 3,692,569
Effective interest rate	2.99%	2.40%	4.50%	4.40%	–	–	3.35%
Other	–	–	–	–	–	54,272	54,272
Bank term loans	–	–	–	44,595	–	–	44,595
Effective interest rate	–	–	–	6.62%	–	–	6.62%
Subordinated debentures	–	–	–	–	31,969	–	31,969
Effective interest rate	–	–	–	–	7.35%	–	7.35%
Shareholders' equity	–	–	–	–	–	264,146	264,146
Total liabilities and shareholders' equity	$ 826,438	$ 1,198,003	$ 542,094	$ 1,089,208	$ 31,969	$ 399,839	$ 4,087,551
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 687,318	$ (320,620)	$ (246,286)	$ 233,829	$ (19,321)	$ (334,920)	$ –
Total assets – 2007	$ 1,516,382	$ 518,724	$ 342,165	$ 976,360	$ 32,655	$ 23,340	$ 3,409,626
Total liabilities and shareholders' equity – 2007	$ 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 – 2007	$ 806,187	$ (501,088)	$ (76,759)	$ 40,242	$ 686	$ (269,268)	$ –

(1) *Total includes interest sensitive interest rate hedges at the notional amounts.*

(2) *Accrued interest is excluded in calculating interest sensitive assets and liabilities.*

(3) *Potential prepayments of fixed rate mortgages 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 1.0% decrease in interest rates as at December 31, 2008 would negatively impact net interest income for the following 12-month period by $3,608 (2007 – $3,058). For the purpose of this valuation, Cashable GICs are assumed to perform in the same manner as floating rate liabilities. Furthermore, no assumption has been made with respect to prepayment of fixed rate mortgages and prepayment of subordinated debentures, contractual or otherwise.

DIRECTORS

Paul Alofs
President and Chief Executive Officer,
Princess Margaret Hospital Foundation

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Chairman, Oakwest Corporation Limited,
an investment holding company

Eric Beutel
Vice-President, Oakwest Corporation Limited,
an investment holding company

Joseph Dickstein
Vice-Chairman, PPI Financial Group,
a financial services company

Eric Kirzner
Professor of Finance, Rotman School of Management,
University of Toronto

Andrew Moor
President and Chief Executive Officer of the Company
and Equitable Trust

Katherine Rethy
Corporate Director and Leadership Consultant,
President, KAR Development Corp.,
a real estate investment company

Lionel Robins
President, PFDL Investments Limited,
an investment holding company

Michael Shulman
President, The Birchwood Group Inc.,
an investment holding company

OFFICERS

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Senior Vice-President, Credit and
Chief Risk Officer of Equitable Trust

Timothy Storus
Vice-President, General Counsel,
Chief Compliance Officer and
Secretary of the Company and Equitable Trust

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and Equitable Trust

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Vice-President, Residential Mortgages
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Vice-President, Financial Controls
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Nicholas Strube
Treasurer of Equitable Trust

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Stock Listing
TSX: ETC

Annual Meeting of Shareholders
Monday, May 11, 2009 10 a.m. EST
TSX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario

Dividend Reinvestment Plan

For information regarding Equitable Group's dividend reinvestment plan, please contact the Plan Agent at www.computershare.com or toll free at 1.800.564.6253. To obtain a copy of the Offering Circular, Enrollment Form and to review commonly asked questions, please visit the Company's website at www.equitablegroupinc.com under Investor Relations, Shareholder Information.

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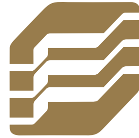

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