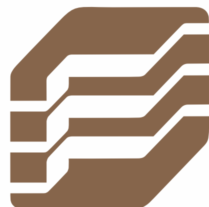
SERVICE IS OUR PASSION!



EQUITABLE GROUP INC.

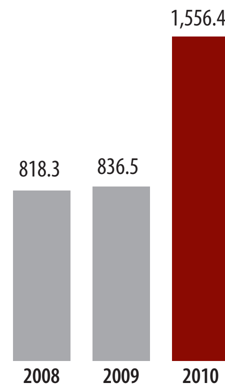
Annual Report 2010

Service Lines

Single Family Lending Services

Our Single Family Lending Services line of business 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 solutions to an attractive, under-served niche. Single family customers include business-for-self Canadians, newcomers 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. 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. At year end 2010, Single Family Lending Services accounted for $1.6 billion or 44.8% of our total mortgage principal outstanding. As part of our strategic focus to build value, we intend to continue to grow this business in 2011 both on an absolute and relative basis.

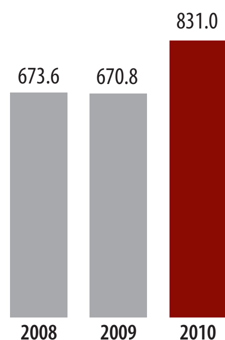
Single Family Lending Services Mortgage Principal Outstanding ($ millions)



Commercial Mortgage – Broker Services

Through Commercial Mortgage – Broker Services ("Broker Services"), we specialize in mortgage lending to qualified entrepreneurs, business operators and real estate investors who seek to buy mixed-use (storefront), retail office, multi-residential, commercial and industrial properties. This business line has a long history of success built on its extensive network of mortgage broker relationships, deep understanding of customer needs, highly engaged service team and clear niche market focus. Broker Services has originated loans with value that is in the $100,000 to $2.5 million range. At year-end 2010, this business represented $831.0 million or 24.0% of mortgage principal.

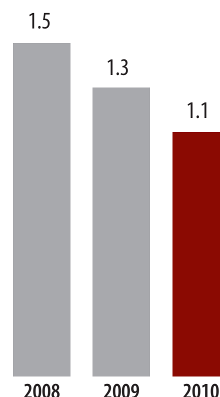
Commercial Mortgage – Broker Services Mortgage Principal Outstanding ($ millions)



Commercial Lending Services

Commercial Lending Services funds large, sophisticated transactions that are secured by mortgages originated by commercial broker specialists. These commercial mortgages are chosen to provide low risk and good return characteristics. With extensive experience, a market and service-oriented strategy and disciplined underwriting practices, Commercial Lending Services has successfully participated over many years in lending on a variety of commercial property types – including multi-family apartment buildings – with mortgage loans ranging from $500,000 to more than $25 million. At year end 2010, this line of business represented $1.1 billion or 31.2% of mortgage principal.

Commercial Lending Services Mortgage Principal Outstanding ($ billions)



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 ("GICs") in every province and territory in Canada. The taking of 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 deliver service through a dedicated Deposit Services operation and provide short, long-term (up to five years) and Cashable GICs for investors wishing to save securely for the future. At year end 2010, total deposit outstanding was $3.9 billion.

Customer Deposits ($ billions)

Corporate Overview

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 GICs across all Canadian provinces and territories. We actively originate mortgages across Canada. Equitable Group's common and preferred shares are traded on the Toronto Stock Exchange under the symbols ETC and ETC.PR.A, respectively. Visit the Company on line at www.equitabletrust.com and click on Investor Relations.

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In 2010, we produced our best ever financial results and for the first time surpassed $1 billion in single family residential mortgage originations – a key strategic accomplishment.

But no matter how quickly we grow, service will always remain our passion, our strength and the cornerstone of our business.

Service Starts With Listening

In any transaction, the most important voice belongs to the customer. In our business, our customers are both borrowers and their mortgage broker professionals who shop the financial services market to find the most suitable mortgage solution.

To ensure the voice of our customer is heard, we seek mortgage broker feedback on a daily basis. We listen attentively to our internal team of service providers in sales and underwriting who are in a unique position to understand broker needs. And throughout the year, we host regular broker feedback events in each of our regions that add to our knowledge and allow us to build stronger relationships between brokers and every level of our Company. In short, we have multiple opportunities to listen to our customers, and we take advantage of each one.

However, we go a step further. On an annual basis, our CEO conducts Broker Advisory Meetings. These formal sessions present an opportunity for brokers – both those who choose to do business with us as well as those who don't (yet) – to tell us what they think of Equitable, and how we can improve.

Findings from these meetings provide us with valuable feedback to enhance our strategies for growth. We also benefit from the intelligence we gather on competitive products and products demanded by the marketplace. In short, seeking advice from mortgage brokers helps us to live up to our commitment to outstanding customer service in our business – and simply makes us better.

By listening before acting, we have added important tools and educational programs to assist brokers in expanding their businesses, significantly increased our market share and identified a path to continuous improvement that focuses on new products and processes to support great service above all.

And Continues With Training and Team Building

Service can never be static. To be effective, it must develop and improve so that it can keep pace with overall business growth and changes in the industry. Recognizing this requirement, we expanded our team by recruiting talented people in 2010 to serve in our various regional markets and continued to develop our skills and knowledge so that we have the right answers for our customers.

We are also big believers in the power of healthy competition as a way to stretch our organization and build camaraderie and so we recognize high performance on a regular basis.

As part of an internal goal to be a highly flexible organization where each of us understands the various moving parts involved with credit decision-making, mortgage service and deposit-taking, we encourage cross functional project teams and host regular learning sessions. Combined with intensive training and employee town hall meetings, the net result is greater awareness of the big picture and the creation of a service first organization that is ready to meet the demands of growth once again in 2011.

Service Requires the Highest Standards of Care

Service is more than a word to us, it's our passion. We demonstrate it by caring about what others think and need and finding ways to help them achieve the objectives that are important to them.

For mortgage brokers, a common objective – and one we share – is to grow by giving great service to their clients when they seek a new mortgage. Great service means, among other things, providing a mortgage solution that fits their clients' needs and includes fast, efficient and consistent decision making on mortgage applications.

To condense the time between credit applications and the delivery of a Mortgage Commitment Letter, we use our intimate understanding of each market and the knowledge of experienced underwriting teams to create the best solution. Having feet on the street in our markets provides face-to-face service and faster back-end processing.

In simple terms, we marshal all of our resources to provide the best broker experience in the business. The goal is to provide outstanding service on every single transaction.

Prompt and seamless service is also a requirement – and our passion – as a national provider of GICs. Our Deposit Services team works with deposit agents on a high volume basis to deliver our suite of short and long-term GICs, Cashable GICs and Tax Free Savings Account ("TFSAs"). In this business line, service excellence is about accurate, timely and effective processing and administration and we concentrate on these fundamentals every day. It's why we enjoy long-term customer relationships.

And Accountability

Good strategy is vital in producing good results but service transcends strategy in its power to build long-term performance.

We understand this and hold ourselves accountable for consistently achieving the highest levels of service.

We focus our organization on two fundamentals of service – what has been promised and when that promise will be delivered. This ensures that the way the Company is organized is as effective and productive as it can be for employees, business partners and clients.

EQUITABLE

To Get Personal, We Use Technology

Technology can be a boon to service or an impediment, depending on how it's designed and how it's used.

We use technology to allow our stakeholders, brokers and agents to access information and to enhance our response rate for a better service experience. Technology offers us the ability to effectively and efficiently process loans, generate documents and manage our interest rates and pricing.

In fact, a good example of how technology can strengthen service is our new website. Launched in 2010, it was constructed from the viewpoint of our broker network, deposit agents, end customers and shareholders, with content-rich information organized in a way to help users find exactly what they need quickly. From a mortgage broker tool kit and important legal forms to an approved appraisers' list and French-language toggle for our Hypothèques Commerciales (Commercial Lending Services), it's a one-stop repository that is now used hundreds of times every day.

And Focus on Building a Professional Industry

Equitable is active in industry events sponsored by organizations such as the Canadian Association of Accredited Mortgage Professionals (CAAMP), Mortgage Brokers Association of BC (MBABC), Alberta Mortgage Brokers Association (AMBA) and the Independent Mortgage Brokers Association (IMBA).

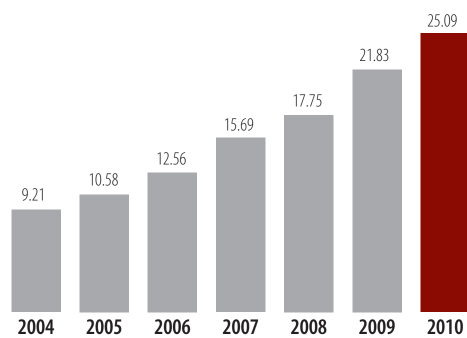
We engage with these industry associations to better understand our key markets, regional trends, and our competitive space. Engagement also allows us to introduce Equitable to those in attendance at regional symposiums and events.

We also give back by sharing our knowledge and insight with others and supporting educational endeavours such as "An Introduction to Commercial Mortgage Brokering" presented jointly by Seneca College and the Real Estate and Mortgage Institute of Canada. We participate in national symposiums offered by CAAMP and provide a number of accredited courses that will be available to brokers at national symposiums and on an on-going basis. Today, 25 Equitable employees have achieved their AMP or Accredited Mortgage Professional designations through CAAMP.

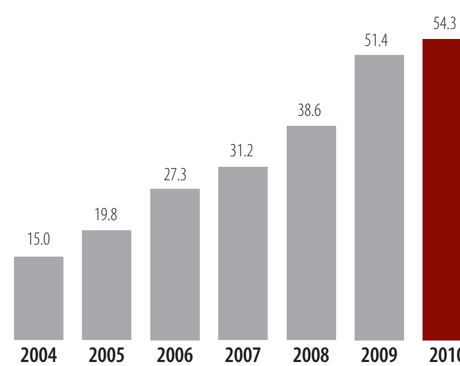
Service Delivers Strong Results

In the world of financial services, it takes more than competitive rates to win the day. It requires a passion for service excellence … the kind that Equitable demonstrated every day in 2010 as we grew our on-balance sheet mortgage assets and book value per share by 25.5% and 14.9% respectively compared to 2009 – while maintaining strength in our capital ratios, productivity within our operations and credit quality within our mortgage portfolio.

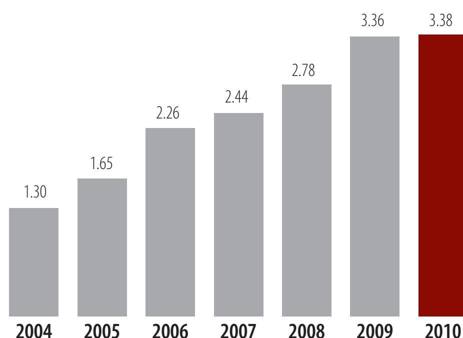
Book value per share ($)



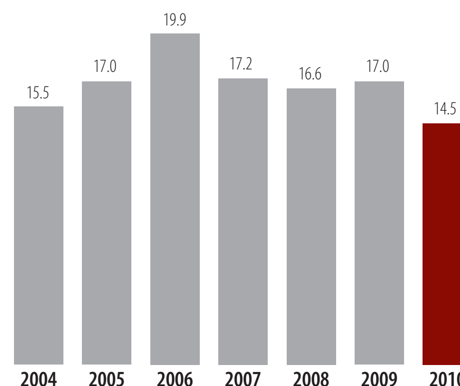
Net Income ($ millions)



Earnings per share – diluted ($)

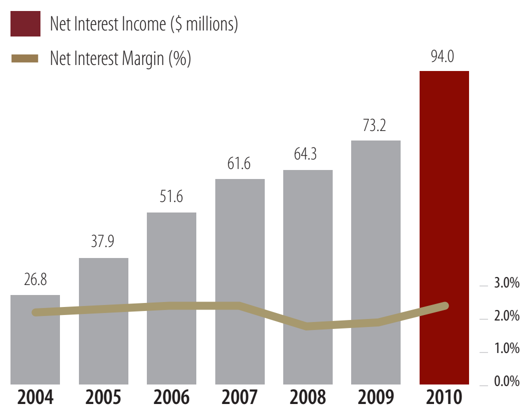


Return on equity[1] (%)

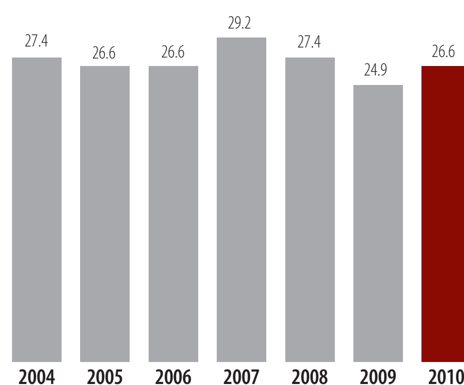


[1] Return on equity is calculated based on net income available to common shareholders divided by the weighted average common equity outstanding during the year.

Net Interest Income / Net Interest Margin

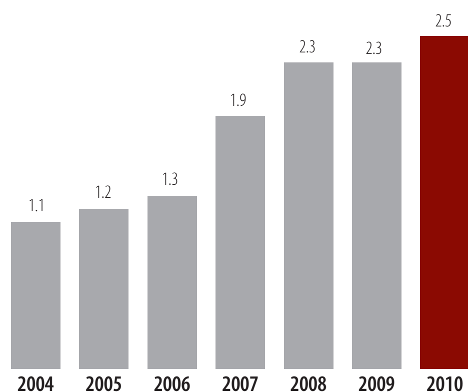


Productivity ratio – taxable equivalent basis[1] (%)



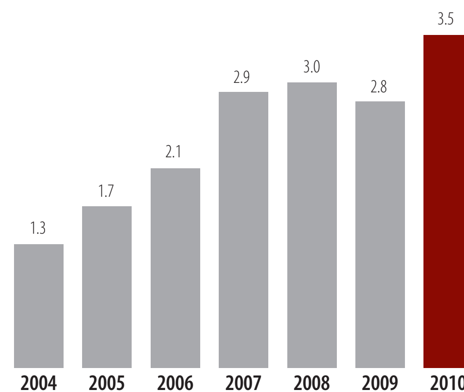
[1] Productivity ratios for 2004-2006 conform to the presentation in the following years.

Mortgage production[1] ($ millions)

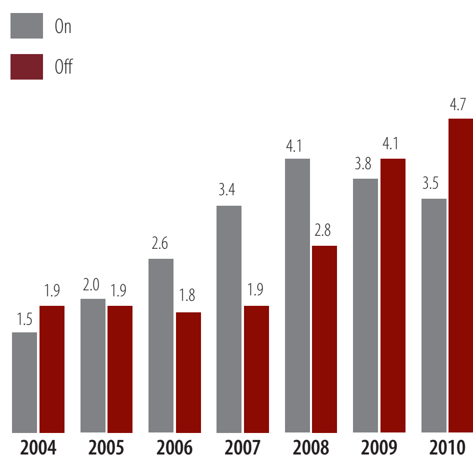


[1] Does not include advances related to mortgages held for sale warehouse facilities.

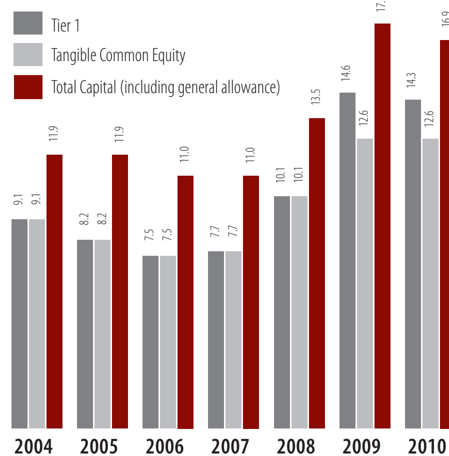
Mortgage principal outstanding ($ billions)



Total on and off-balance sheet assets ($ billions)



Capital ratios[1] (%)



[1] Capital ratios for 2007-2010 are calculated under Basel II.

Austin Beutel, Chairman of the Board

Andrew Moor, President and Chief Executive Officer

Fellow Shareholders:

Equitable reached several important milestones in 2010, our fortieth year in business:

- Mortgage production in our Single Family Lending Services business surpassed $1 billion;
- Best ever origination volumes in our Commercial Mortgage – Broker Services business;
- Another new record for earnings.

This outstanding performance – and the earnings momentum it creates for 2011 – reflects the dedication of our staff and business partners, and deliberate actions taken to reposition our business in favour of on-balance sheet mortgage assets that produce the best returns on capital when adjusted for risk.

Repositioning Equitable's mortgage portfolio began with the introduction of a growth and earnings enhancement strategy in 2008. This strategy was designed to build on our strengths in customer service and capitalize on the improved competitive landscape in the area of single family lending after the financial crisis.

The results of this strategy are apparent in 2010's key metrics. Net interest margin – the main driver of profitability – increased 28.5 percent over 2009. Net income also improved as did book value – the latter by $3.26 per share.

Supporting higher profitability was 25.5 percent growth in total mortgages receivable. Single family residential mortgage production increased 164.5 percent year over year; Broker Services production increased 168.4 percent; and, Commercial Lending Services production grew 41.2 percent. Production of CMHC multi-unit residential mortgages – an off-balance sheet business – was reduced by $925 million in response to the reduced spreads available in that market.

While delivering profitable growth, and successfully expanding into the Quebec commercial mortgage market and the British Columbia single family residential market, we maintained the high quality of our mortgage portfolio and our high efficiencies by applying the usual Equitable discipline in underwriting, credit and cost management.

We would like to give our personal thanks to our employees for their efforts in executing on the Company's strategies during 2011. Growing a business is always hard work – and to do it while continuing to improve service levels is particularly challenging and we thank them for that.

In summary, 2010 was an excellent year and we are confident that this performance positions Equitable well to continue to deliver more value for our shareholders.

The Way Forward

We intend to continue to grow our traditional mortgage lending businesses in a low cost and risk-aware manner. Emphasis will remain on growing our Single Family Lending Services business. In 2010, single family became, for the first time, Equitable's largest business – representing almost 45 percent of total mortgage principal. We expect that our relentless efforts to enhance service to the mortgage brokers we serve in this business will allow the single family portfolio to continue to grow in 2011.

At the same time, we will retain the advantage of diversification by growing our commercial mortgage portfolios where we have the best opportunity to earn attractive and sustainable risk-adjusted returns. We have become more deliberate and strategic about the types of commercial real estate we lend on in order to identify niches that offer superior returns with less risk. In this way, growth will be accomplished with the purpose of delivering meaningful earnings and ROE enhancements.

Passion for Excellence

As a financial institution without branches, Equitable takes extra care to understand and meet the needs of our customers. In our business, our customers are represented by mortgage brokers and deposit agents, whom we consider key partners in our business.

As indicated elsewhere in this report, we have a passion for providing responsive, respectful and meaningful service to our partners and customers.

While we are very pleased with the progress we have made with our service levels, the good news is we are well aware of the things we can do to improve and are working hard to make the necessary changes to our business to make improvements.

Raising the bar on service will involve the ongoing development of our processes, leveraging the technology investments made recently – and planned for 2011 – and encouraging the natural passion for service excellence that our team demonstrated on the way to producing record 2010 results.

Financial Strength

Preserving the financial strength amassed over the past two years will remain a key part of our 2011 plan. We achieved our current capital strength through earnings retention, shifting our portfolio to lower risk-weighted assets and in 2009, completing a preferred share offering.

As a result of these initiatives, we believe we will not need to raise any new, incremental capital to be in full compliance with the new international banking regimen, commonly referred to as Basel III, expected to be implemented beginning in 2013.

IFRS

The adoption of International Financial Reporting Standards ("IFRS") in place of Canadian Generally Accepted Accounting Principles is expected to impact all financial institutions. Among the impacts, this changeover will see $4.7 billion of insured mortgages that have been securitized transferred back onto our balance sheet. In future, upfront gains from securitization activities will no longer be immediately recognized, but rather interest income will be recognized on these mortgages over the life of each loan. We are prepared for this changeover and started controlling the growth in our off-balance sheet portfolio some time ago in light of IFRS and its impact on our assets to capital multiple.

To assist in preparing for IFRS, we have presented our 2010 consolidated financial statements by quarter beginning on page 81 as these will become the comparables by which we assess 2011 performance, beginning in the first quarter. Although there are significant presentation changes, a key point is that they do not alter the economics of our underlying business.

Dividend Increase

Of great importance to our future, we finished the year with strong capital ratios that support ongoing growth. The 10% increase we announced in our common share dividend, effective with the April 4, 2011 payment, reflects the confidence we have in our capital position and the future outlook for the business.

Our Board will be reviewing our dividend payout capacity regularly, as we intend to make common share dividend increases a regular feature of our performance in coming years.

Governance

We are fortunate to have a strong, committed and experienced Board of Directors to guide our business. We thank our Directors for their dedication and wise counsel in 2010 and are pleased that all Board members will serve again in 2011.

We are also pleased to announce the nomination of two new highly experienced executives to the Board of Directors of Equitable Group Inc. and The Equitable Trust Company, David LeGresley and Lynn McDonald. David served National Bank Financial for 12 years, including as its Vice Chairman from 2006 to 2008. Earlier in his career, he held positions at Salomon Brothers Canada and CIBC Wood Gundy. Lynn is a director of the Bridgepoint Health Foundation and earlier in her career served as a Managing Director at CIBC World Markets and Deputy Minister and Executive Director, Office of the Premier and Cabinet Office for the Government of Ontario. Both Lynn and David will add important skill sets to our Board and we welcome them.

Looking Ahead

Canadian real estate markets seem to be stable and we have a fairly positive outlook for 2011. Rising interest rates may increase the cost of home ownership and dampen sales volume although their impact should be largely offset by an improving employment picture.

Consequently, we plan for continued production growth in our areas of focus and significant accumulation of high quality, on-balance sheet mortgages – selected to meet our requirements.

Our financial objectives include continued earnings per share and ROE enhancements as growth in our mortgage portfolio and investments in people and infrastructure made in earlier periods provide ongoing rewards.

In closing, we have a strong foundation, 40 years in the making – and great momentum – to carry us toward better performance for our customers, employees and shareholders.

Yours sincerely,

Austin Beutel
Chairman of the Board

Andrew Moor
President and Chief Executive Officer

FINANCIAL REVIEW

Management's Discussion and Analysis

Consolidated Financial Statements
For the Three Months and Year Ended
December 31, 2010

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

For the three months and year ended December 31, 2010

Management's Discussion and Analysis ("MD&A") is provided in order to enable readers 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, 2010. This MD&A should be read in conjunction with the Company's unaudited interim consolidated financial statements for the fourth quarter (see Tables 16, 17 and 18 on pages 35 to 37 of this report) and the audited consolidated financial statements for the year ended December 31, 2010, 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 23, 2011. Additional information about the Company, including its 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 loans secured by first mortgages and mortgages insured by the Canada Mortgage and Housing Corporation ("CMHC"), through its wholly-owned subsidiary, The Equitable Trust Company ("Equitable Trust"). Founded in 1970, Equitable Trust is a federally regulated financial institution supervised by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). The primary sources of the Company's revenues are interest income as well as commitment, renewal and discharge fees derived from its mortgage financing business. The Company also earns income from insured mortgages whose securitization is facilitated by CMHC through the Government of Canada's National Housing Act Mortgage Backed Securities ("MBS") and Canada Mortgage Bond ("CMB") Programs. In addition, the Company earns interest and dividend income from investments.

Equitable Trust's ability to fund its mortgage business by attracting depositors as a regulated Canada Deposit Insurance Corporation ("CDIC") member is also a core strength of enduring enterprise value. This ability has allowed Equitable to build a diversified mortgage portfolio secured by residential and commercial real estate. The Company operates without a branch network, choosing instead to achieve lower overheads by serving independent mortgage brokers who originate mortgages and independent deposit agents who originate deposits. The Company is a leader in its mortgage lending niches. Its business model and the strong competitive position it enjoys have contributed to its excellent long-term financial results. Management has established the following operating priorities as a guide in identifying those mortgage products and selected geographic markets in which it intends to focus:

- Optimize return on equity ("ROE") adjusted for risk, by growing the lending businesses in which the Company has the best opportunity to earn attractive and sustainable risk-adjusted returns.
- Invest in the continuous improvement of processes and operating efficiencies, recognizing that the provision of superior service to its mortgage brokers, deposit agents and customers is critical to its growth objectives.
- Protect shareholder value by operating through strong management of the Company's business risks, including prudent credit risk practices, the disciplined management of arrears and the maintenance of optimal levels of regulatory capital and liquidity.

Management's key operating objectives for 2011 include continued pursuit of service excellence as a cornerstone to its single family growth strategy, while it also identifies and pursues those commercial lending opportunities that offer superior returns, when adjusted for risk. The investments in people and infrastructure that have been made in 2010 and earlier, in pursuit of long-term growth, are expected to result in the Company's ability to meet its financial objectives for 2011, which include continued growth in ROE and earnings per share ("EPS").

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, its focus on customer service, as well as Equitable's experience in utilizing a disciplined approach to credit evaluation and collections.
- Commercial Mortgage – Broker Services ("Broker Services"): This business funds mortgages that are typically below $2.5 million dollars in size, 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. Its broad mortgage broker relationships and strong underwriting capabilities are among its key strengths.
- Commercial Lending Services: This business funds larger, more sophisticated transactions that are secured by mortgages which provide low risk and good return characteristics for Equitable, but are originated through commercial broker specialists.

Operating Efficiency and ROE

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

Equitable evaluates each mortgage and assesses its pricing based on the respective contribution that the mortgage can make to ROE, such that 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.

2010 Highlights

During 2010, the Company achieved its highest earnings ever and met its financial and strategic goals for the year. The Company's strong results continued to reflect its focus on prudent growth in its on-balance sheet mortgage lending business. This focus on traditional lending activities will continue to benefit the quality of the Company's earnings and assist in achieving its financial and strategic goals for 2011 – including the execution of its single family residential growth strategy. The Company also continued to reshape and develop various aspects of its commercial mortgage business in order to effect prudent growth in its asset base and enhance its interest rate and credit risk profile. In order to further Equitable's objective of growing its single family residential mortgage portfolio, additions were made to its sales and underwriting teams in Ontario and Alberta, and mortgage lending operations were expanded to serve selected markets in British Columbia. Also, during 2010, its Commercial Mortgage – Broker Services lending business opened an office in Montreal, in order to serve the Quebec market.

At the end of 2010, owing to retention of earnings, Equitable Trust held strong capital ratio and liquidity positions, with a total capital ratio of 16.9% (including general allowance), as well as Tier 1 regulatory capital and tangible common equity ratios (see explanation in the Non-GAAP Financial Measures section of this MD&A) at December 31, 2010 of 14.3% and 12.6%, respectively.

Earnings Performance

In 2010, Equitable established another new annual earnings record reflecting a 28.5% year-over-year expansion in net interest income which stood at $94.0 million compared to $73.2 million in 2009. This outstanding performance reflected robust portfolio growth and year-over-year improvement in the average net interest margin ("NIM") from the Company's lending activities. NIM, which is calculated on a taxable equivalent basis ("TEB" – see explanation in the Non-GAAP Financial Measures section of this MD&A) improved to 2.4% from an average of 1.9% in 2009. As anticipated and discussed in management's outlook for 2010, Equitable's securitization business continued to experience reduced volumes and tighter spread margins during 2010 than those experienced during much of 2009. During 2010, the Company securitized and sold CMHC-insured mortgages valued at $0.8 billion, compared to $1.4 billion in 2009. Nonetheless, earnings from high quality on-balance sheet mortgage lending activity more than offset the decline in earnings from lower securitization activities.

Diluted earnings per share and ROE were impacted by dividends on preferred shares that were issued by the Company in the third quarter of 2009. Dividends of $0.9 million were paid in each quarter of 2010 to preferred shareholders, resulting in a commensurate reduction in net income available to common shareholders. As the Company continues to deploy capital in future periods, management expects EPS and ROE to increase commensurate with the success of the Company's growth objectives.

As a result of the effects described above:

- net income increased 5.5% over 2009 to $54.3 million; net income available to common shareholders increased 0.8% to $50.6 million;
- diluted earnings per share increased 0.6% over 2009 to $3.38 per share; and
- ROE for 2010 was 14.5% compared to 17.0% in 2009.

Demonstrating the efficiency of the Company's approach to business, the 2010 productivity ratio on a TEB was 26.6%. The increase from the 24.9% ratio achieved in 2009 was anticipated and reflected the costs associated with growing the Company's single family mortgage lending business, as well as a reduction in securitization earnings.

Credit Quality

The quality of the Company's mortgage portfolio continues to reflect the effectiveness and prudence of its underwriting. The Company does not lend against 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 reflective of current and expected economic conditions. Furthermore, effective mortgage administration and collections practices as well as relatively stable real estate market conditions within Equitable's lending regions have allowed the Company to minimize credit losses and maintain strong control over its arrears. Management's workout activities with respect to impaired loans continue to yield good results. Net impaired mortgages were 0.85% of total mortgage principal at the end of 2010, compared to 1.20% at the end of 2009. Net realized loan losses of $3.3 million incurred during 2010 were charged against specific allowances and primarily related to the successful completion of loan workout activities. Although mortgages in arrears 90 days or more increased to 1.05% of total mortgage principal outstanding at December 31, 2010 from 0.89% at September 30, 2010 and 0.64% a year earlier, approximately $8.9 million of the $36.5 million mortgages in arrears 90 days or more were worked out through property sales or were otherwise brought up to date during January 2011. Removing this $8.9 million from arrears at December 31, 2010 would have improved the ratio of mortgages in arrears 90 days or more to 0.79% of total mortgage principal. Management is comfortable that provisions taken adequately provide for the risk of loss inherent in the Company's mortgage portfolio. At the end of the 2010, 50.0% of the portfolio's gross impaired principal had been provided for within the Company's allowance for credit losses as compared to 39.0% at the end of the prior year. Allowance for credit losses as a percentage of total mortgage principal amounted to 0.51% at December 31, 2010 compared to 0.53% at December 31, 2009. Management expects arrears and net impaired mortgage levels to remain stable on a relative basis through 2011.

2011 Business Outlook

Excellent progress was made during 2010 in refocusing Equitable's business towards on-balance sheet mortgage lending. The Company ended the year with a fourth quarter that achieved the best quarterly earnings performance in its history. Management is confident that the Company's growth strategy, with its emphasis on growing single family residential mortgage lending, will successfully position Equitable for high quality future earnings growth. In 2011, the Company will continue to focus on its core mortgage lending businesses, and continue to seek opportunities to develop new products that serve segments of the Canadian financial services marketplace that are generally not the focus of Canada's large banking institutions. The Company also expects to benefit from its expansion into new geographic areas and anticipates increased origination volumes from these markets in 2011.

Management remains confident in the strength of the Company's business model due to long-term and 2010 financial performance, as well as the solid operational progress made in executing against its strategic plan and the current level of demand for mortgage financing in Equitable's product and market niches. The Company intends to continue focusing on providing outstanding service to its customers and the brokers with which it does business.

Although international markets continue to show signs of weakness and expectations are for Canadian real estate market conditions to soften compared to the faster pace of activity in 2010, management believes significant business opportunities will continue to exist. Equitable continues to operate in a favourable competitive environment relative to years past.

Within the context of its lending risk management discipline as well as stable real estate market and credit conditions, Equitable Trust continues to deliver on its strategically focused sales efforts. During 2010, this strategy resulted in single family residential origination volumes of $1.3 billion, a 221.3% increase over the $397.7 million in fundings reported in 2009. Management is cognizant that the strong levels of activity in residential real estate markets in the opening quarters of 2010 were affected by improving economic conditions and historically low interest rates, as well as pre-buying in advance of Harmonized Sales Tax (HST) implementation in two Canadian provinces. During 2011, the Company expects that real estate markets will remain relatively healthy, though there may be some increased residential activity in the first quarter of 2011, ahead of recently announced changes in CMHC-insured mortgage lending rules, followed by a somewhat slower pace of market activity in the latter part of the year. Changes to CMHC insurance rules announced by Canada's Department of Finance were intended to achieve more orderly market conditions that will reduce the risk of real estate market volatility, by limiting allowable amortization periods and loan to values on refinances. These changes are not expected to negatively affect demand for the Company's products. Prudent lending will continue to be Equitable's trademark and management believes that prudent lending opportunities will continue to be available.

The Company's NIM remained strong throughout 2010, averaging 2.4%. From a nominal dollar standpoint, the mortgage portfolio growth achieved by Equitable during the second half of 2009 and 2010 benefitted net interest income during 2010. The Bank of Canada increased the benchmark interest rate by 25 basis point increments in each of June, July and September of 2010 and signaled that it did not expect to increase rates over the few quarters that followed. The Company anticipates one or more increases in the prime rate of interest ("Prime Rate")

on or after the Bank of Canada's April 2011 interest rate announcement. Any increases in this benchmark interest rate that may occur in 2011 may temporarily expand the Company's net interest margin as a result of the fact that floating rate mortgage yields tend to increase immediately, while corresponding increases in the pricing of Guaranteed Investment Certificate ("GIC") deposits lag behind and take effect only as new deposits are raised. Generally, recent market dynamics have resulted in a slightly tighter overall deposit costs. Also, given the relatively stable lending markets that have prevailed, certain high coupon earning mortgages that have been originated in the past few years may renew at lower spreads or discharge in 2011. Although these effects may result in some contraction from the Company's currently strong NIM position, management does not expect this effect to be significant.

Equity securities held by the Company are comprised of preferred shares, which are classified as available for sale assets for financial instrument accounting purposes. This portfolio increased by $37.2 million during 2010, primarily as a result of $31.0 million in purchases, net of sales and redemptions, and an increase of $6.2 million in market values.

The GIC market continues to provide ample funding for Equitable Trust's business. In recent years, management has maintained higher than normal levels of liquidity on its balance sheet as 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 periods of uncertainty in Canadian and international capital markets. The cost associated with maintaining excess liquidity has a negative impact on NIM. Management intends to maintain the Company's liquidity throughout 2011 at levels similar to those experienced in 2010.

Canadian Public Companies are 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. Please refer to "Future Accounting Changes - International Financial Reporting Standards" later in this MD&A. Over and above the growth in ROE and EPS that management plans to achieve in 2011 as a result of asset growth in the mortgage portfolio, the Company also anticipates an improvement in 2011 earnings, ROE and EPS as a result of IFRS, as it replaces the securitization income it would have otherwise recorded with excess interest spread (net of amortization of transaction expenses, ongoing servicing and other costs) that it earns over the remaining life of the $4.7 billion mortgage assets that will have been re-recognized onto its balance sheet as at January 1, 2011.

Equitable transacted its 2010 securitization activities at reduced volumes and tighter spreads than those experienced in 2009. Management believes that the Company will continue to originate insured mortgage volumes that it will be able to securitize through the CMB and NHA MBS securitization programs in 2011, securitizing these at similar volumes and spreads as those experienced in 2010. Prior to converting to IFRS, the majority of the Company's earnings have been generated from the interest it earns on the mortgage portfolio it has held on its balance sheet. After adopting IFRS in 2011, the Company's earnings will also be affected by the ongoing interest income being earned from its $4.7 billion securitized mortgage portfolio – a portfolio that has grown by approximately $0.6 billion since the end of 2009.

The Company is committed to maintaining a strong capital base. Management believes that this provides the Company with financial strength that supports continued delivery of superior returns and allows the Company to capitalize on market opportunities that may arise – within well controlled and prudent levels of acceptable risk. During December 2010, the Company issued a total of $20.0 million of Series 9 Debentures ("Series 9"), a new class of subordinated debt, at an initial interest cost of 6.092% – approximately 350 basis points over the then current 5-year Government of Canada benchmark yield. The gross proceeds of the Series 9 offering were used by the Company to purchase subordinated debt of Equitable Trust, which qualifies as Tier 2B regulatory capital. The Series 9 will pay fixed interest monthly for the first five years of its 10-year term, and then bear a floating interest rate that is calculated at the 90-day Banker's Acceptance Rate plus 338 basis points thereafter, payable quarterly. Concurrent with the Series 9 issuance, Equitable Trust redeemed all $20.0 million of its remaining Series 6 subordinated debentures, which bore a weighted average interest cost to Equitable Trust of 7.27%. The Company also repaid $15.0 million of its term credit facilities with a Canadian chartered bank.

In December 2010, following a one year consultation period, the Basel Committee on Banking Supervision ("BCBS") released an agreed text (commonly referred to as "Basel III") on new international bank capital adequacy and liquidity rules, with the objective of promoting a more resilient banking sector in the wake of the 2007 – 2009 global financial crisis. Under Basel III, the emphasis is on strengthening the common equity component (considered the highest form of loss absorbing capital) of regulatory capital held by regulated financial institutions. Among other requirements, such as a capital conservation buffer and a new non risk-based minimum Tier 1 leverage ratio, Basel III includes higher minimum common equity, Tier 1 and total capital ratios. In January 2011, the BCBS issued additional guidance with respect to a Non-Viability Contingent Capital (NVCC) requirement, which requires that all regulatory capital instruments issued by a regulated financial institution be capable of absorbing losses in the event that the institution was deemed unable to support itself in the private market. OSFI has confirmed that, pending agreement and finalization of certain aspects of the new Basel III rules, OSFI endorses their implementation in Canada. The various measures are expected to be phased in over a 7 to 10 year horizon, commencing January 1, 2013. During the phase in period, in

accordance with these rules, certain non-common forms of capital that the Company has issued (including its Series 9 Debentures) will become increasingly ineligible for regulatory capital purposes at the increasing rate of 10% per year, until they are replaced with new compliant instruments. Based on the guidance issued to date and the Company's preliminary analysis, as well as the profile of its business and the assets and capital currently held, Equitable has determined that it will not need to raise any new, incremental capital to be in full compliance with the capital measures proposed under Basel III.

Given its strong balance sheet, quality mortgage portfolio and focused risk management philosophy, Equitable remains well positioned, with a high level of financial health, including prudent levels of capital and liquidity, to capitalize on future business opportunities. Equitable's Board of Directors and management are confident that it will continue to generate improved earnings and growth throughout 2011.

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" on page 47 of this MD&A.

Dividends

On February 23, 2011, the Company's Board of Directors declared a quarterly dividend in the amount of $0.11 per common share, payable on April 4, 2011, to common shareholders of record at the close of business on March 15, 2011.

Also, on February 23, 2011, the Company's Board of Directors declared a quarterly dividend in the amount of $0.453125 per preferred share, payable on March 31, 2011, to preferred shareholders of record at the close of business on March 15, 2011 (see Note 14 to the consolidated financial statements).

Table 1: Selected financial information

($ THOUSANDS, EXCEPT SHARE, PER SHARE AND EMPLOYEE AMOUNTS)	2010	2009	2008	Change from 2009	
OPERATIONS					
Net income	**54,267**	51,438	38,611	2,829	5.5%
Net income available to common shareholders	**50,642**	50,226	38,611	416	0.8%
EPS – basic	**$ 3.39**	$ 3.37	$ 2.79	$ 0.02	0.6%
EPS – diluted	**$ 3.38**	$ 3.36	$ 2.78	$ 0.02	0.6%
Net interest income	**94,047**	73,169	64,343	20,878	28.5%
Total revenue	**211,116**	207,824	226,766	3,292	1.6%
Return on equity[1]	**14.5%**	17.0%	16.6%		
Return on average assets	**1.3%**	1.3%	1.0%		
Mortgage origination[2]	**2,470,630**	2,272,537	2,330,593	198,093	8.7%
Productivity ratio – TEB[3]	**26.6%**	24.9%	27.4%		
Number of employees at year end	**183**	145	135		
BALANCE SHEET AND OFF BALANCE-SHEET					
Total assets	**4,453,466**	3,846,074	4,087,551	607,392	15.8%
Mortgages receivable	**3,468,607**	2,763,020	3,023,015	705,587	25.5%
Shareholders' equity	**423,462**	373,861	264,146	49,601	13.3%
Mortgage backed security assets under administration	**4,704,687**	4,093,180	2,825,063	611,507	14.9%
COMMON SHARES					
Number of common shares outstanding at year end	**14,943,437**	14,903,846	14,882,710		
Dividends per common share	**$ 0.40**	$ 0.40	$ 0.40	$ –	– %
Book value per common share	**$ 25.09**	$ 21.83	$ 17.75	$ 3.26	14.9%
Common share price – close	**$ 24.99**	$ 21.25	$ 11.75	$ 3.74	17.6%
Market capitalization	**373,436**	316,707	174,872	56,729	17.9%
EQUITABLE TRUST CAPITAL RATIOS					
Tangible common equity ratio[4]	**12.6%**	12.6%	10.1%		
Tier 1 capital ratio	**14.3%**	14.6%	10.1%		
Total capital ratio (including general allowance)	**16.9%**	17.6%	13.5%		
CREDIT QUALITY					
Realized loan losses – net of recoveries	**3,308**	6,516	36		
Mortgages in arrears 90 days or more as a % of total mortgages[5]	**1.05%**	0.64%	1.57%		
Net impaired mortgages as a % of total mortgages[6]	**0.85%**	1.20%	1.21%		

(1) *Return on equity is calculated based on net income available to common shareholders divided by the weighted average common equity outstanding during the year.*
(2) *Does not include $488,762 for the year ended December 31, 2010 (2009 - $546,846, 2008 - $777,393) of advances related to mortgages held for sale warehouse facilities. See Table 8 - Mortgages held for sale.*
(3) *Increases in this ratio reflect reduced efficiencies, whereas decreases reflect improved efficiencies.*
(4) *The tangible common equity ratio is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is a non-GAAP financial measure that is used as a key indicator of capital strength.*
(5) *Mortgages in arrears 90 days or more do not include CMHC-insured mortgages that are less than 365 days in arrears.*
(6) *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 increased 5.5% year-over-year to $54.3 million in 2010 from $51.4 million in the prior year. Diluted earnings per share were $3.38, compared to $3.36 in 2009. This performance reflected strong year-over-year expansion in NIM, partially offset by reductions in the level of securitization income and the 2009 issuance of non-cumulative preferred shares to strengthen capital and invest in growth.

During 2010, the Company paid dividends of $3.6 million to preferred shareholders, thereby reducing the amount of net income available to common shareholders to $50.6 million. As such, ROE was 14.5% for 2010 compared to 17.0% for 2009, whereas annualized return on average assets remained on par with the corresponding prior year at 1.3%.

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 2 illustrates the Company's net interest margin in 2010 compared to 2009 on a TEB.

Table 2: Net interest income

		2010			2009	
($ THOUSANDS)	**Average balance**	**Revenue/ expense**	**Average rate[1][2][3]**	Average balance	Revenue/ expense	Average rate[1][2][3]
Interest revenues derived from:						
Assets:						
Mortgages	**$ 3,103,533**	**$ 176,540**	**5.7%**	$ 2,880,584	$ 162,991	5.7%
Liquidity investments[2]	**699,339**	**11,535**	**1.8%**	799,500	12,078	1.8%
Equity securities – TEB[2]	**168,589**	**12,490**	**6.8%**	123,368	8,419	7.3%
Total interest earning assets – TEB	**$ 3,971,461**	**$ 200,565**	**5.1%**	$ 3,803,452	$ 183,488	4.8%
Total assets – TEB	**$ 4,149,770**	**$ 200,565**	**4.8%**	$ 3,966,813	$ 183,488	4.6%
Interest expenses related to:						
Liabilities and shareholders' equity:						
Customer deposits	**$ 3,527,118**	**$ 96,462**	**2.7%**	$ 3,433,864	$ 101,471	3.0%
Bank term loans[3]	**27,048**	**2,059**	**7.6%**	36,048	3,188	7.4%
Subordinated debentures[3]	**38,397**	**2,626**	**6.8%**	34,820	2,310	7.3%
Other interest bearing liabilities[2]	**930**	**120**	**0.8%**	–	–	–
Total interest bearing liabilities	**$ 3,593,493**	**$ 101,267**	**2.8%**	$ 3,504,732	$ 106,969	3.1%
Total liabilities and shareholders' equity	**$ 4,149,770**	**$ 101,267**	**2.4%**	$ 3,966,813	$ 106,969	2.7%
Net interest income – TEB		**$ 99,298**			$ 76,519	
Net interest margin – TEB			**2.4%**			1.9%
Less: Taxable equivalent adjustment		**(5,252)**			(3,350)	
Net interest income		**$ 94,046**			$ 73,169	

[1] *Average rate is a simple average calculated with reference to opening and closing period balances.*
[2] *Average rates for liquidity investments, equity securities and other interest bearing liabilities are calculated based on the average of the month-end balances outstanding during the year.*
[3] *Average rate for bank term loans and subordinated debentures is calculated based on weighted average balances outstanding during the year.*

Total interest revenues, using the TEB approach, increased 9.3% to $200.6 million in 2010, compared to $183.5 million in the prior year. Mortgage interest income increased $13.5 million or 8.3% in 2010 over the prior year. This growth reflected the increased size of the Company's mortgage portfolio and improved interest spreads on new and renewing mortgages. Decreases in the relative amount of liquidity carried during 2010 resulted in reduced interest income being earned by the Company on its liquidity investment balances, which was approximately $0.5 million less in 2010 than that in the prior year. Income derived from equity securities on a TEB increased $4.1 million to $12.5 million in 2010 compared to the prior year.

Average interest rates paid on average customer deposit balances outstanding during 2010 decreased to 2.7% compared to 3.0% in 2009. During 2010, overall interest expense on customer deposits decreased $5.0 million or 4.9% over 2009, despite a 2.7% increase in average customer deposits outstanding during the year compared to 2009. This was primarily the result of lower prevailing GIC rates in the market. The market for customer deposits provides ample funding for the Company's mortgage lending operations.

Net interest income – TEB increased $22.8 million or 29.8% to $99.3 million in 2010 compared to $76.5 million earned during 2009. During 2010, the Company experienced total increases of 75 basis points in the Prime Rate. 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. Since 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. Despite the effects of earlier decreases in the Prime Rate, the Company was able to increase net interest margin over the prior year by significantly improving pricing for new and renewing mortgages. The Company also benefitted from lower GIC rates that prevailed in the latter half of 2009, as deposits that were locked in for longer terms or were cashable in nature matured and were replaced with less expensive funding. The Company's net interest margin increased to an average 2.4% in 2010, compared to 1.9% in 2009. The Company's NIM remained relatively stable from the fourth quarter of 2009 through to the fourth quarter of 2010.

Other Income

Other income includes ancillary fees related to the origination and administration of the mortgage portfolio, as well as gains on the securitization and sale of mortgages and the related excess interest spread, net of servicing fees, earned on mortgages securitized through the CMHC MBS and CMB Programs. Sundry income, gains or losses on investments and other non-mortgage related fees are also included in other income. During the recent recession, as an approved seller under the CMB Program, Equitable Trust was able to transact securitization activities at interest rate spreads that were higher than historical norms. Changes and competition in the securitization market resulted in lower volumes and margin opportunities in 2010 and led to a reduction in other income, which decreased by $11.9 million or 42.9% to $15.8 million in 2010, compared to $27.7 million in 2009. This was primarily the result of a decrease of $11.7 million in total income from loan securitization activities, as well as a $0.4 million decrease in fees and other income.

Reflecting, in part, increased competition in its multi-unit residential securitization business, the Company securitized and sold $0.8 billion of CMHC-insured mortgages compared to $1.4 billion in 2009. Gross margins on the securitization of CMHC-insured mortgages decreased to an average of 64 basis points during 2010 (90 basis points in the fourth quarter of 2010) from 131 basis points during 2009 (118 basis points in the fourth quarter of 2009).

Management anticipated reductions in its securitization business volumes and the interest spreads that these generate and refocused its strategy and sales efforts in mid-2009 toward growth in on-balance sheet mortgage lending activity.

Table 3: Other income

($ THOUSANDS)	**2010**	2009	Change from 2009	
Loan securitizations — excess interest spread, net of servicing fees	**$ 3,931**	$ 4,169	$ (238)	(5.7%)
Loan securitizations — gains on securitization activities	**8,760**	20,221	(11,461)	(56.7%)
Total income from loan securitizations	**12,691**	24,390	(11,699)	(48.0%)
Fees and other income	**2,882**	3,246	(364)	(11.2%)
Net gain on investments	**230**	50	180	360.0%
Total	**$ 15,803**	$ 27,686	$ (11,883)	(42.9%)

Non-interest Expenses

The largest component of non-interest expenses relates to compensation and benefits. The year-over-year increase of $4.7 million or 18.0% in 2010 compared to 2009 reflected a $3.2 million increase in payroll costs as well as an increase in general and administrative costs of $1.4 million. Included in compensation and benefits expense during 2010 and 2009 was a charge for stock-based compensation expense in the amount of $0.7 million and $0.8 million, respectively, related to grants of options. The accounting effect of charges for stock-based compensation expense result in corresponding increases to contributed surplus.

As a result of the province of Ontario's transition to a Harmonized Sales Tax (HST), the Company experienced increased non-interest expenses, as certain expenses such as rent, consulting fees, legal and audit fees increased by 8%, to a total of 13% on July 1, 2010. This increased level is expected to continue into future years.

The Company's productivity ratio – TEB was 26.6% in 2010 compared to 24.9% in 2009. 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. While a lower productivity ratio is generally associated with a more efficient cost structure, the Company's productivity index can also be affected by increases and declines in funding volumes and the Company's need to maintain human resource staffing levels commensurate with volume expectations. As anticipated by management, this ratio increased as a result of growth in single family mortgage originations, since origination and servicing of these mortgages are more costly per dollar of underlying mortgage; however, the offset is an improvement in risk-adjusted returns on equity. This ratio has also increased as a result of the decline in securitization income levels and their impact on profitability, since this has had the effect of reducing the denominator of the productivity ratio calculation.

Table 4: Non-interest expenses and productivity ratio

($ THOUSANDS)	**2010**	2009	Change from 2009	
Compensation and benefits	**$ 18,599**	$ 15,367	$ 3,232	21.0%
Premises and equipment	**2,768**	2,449	319	13.0%
Licenses, regulatory fees and insurance	**2,625**	1,917	708	36.9%
Marketing, travel and communications	**1,564**	1,130	434	38.4%
Legal, audit and related services	**942**	550	392	71.3%
Mortgage servicing	**595**	687	(92)	(13.4%)
Other	**3,485**	3,807	(322)	(8.5%)
Total	**$ 30,578**	$ 25,907	$ 4,671	18.0%
Productivity ratio – TEB	**26.6%**	24.9%		

Income Taxes

The Company's statutory income tax rate decreased to 30.6% from 32.4% in 2009. This decrease was caused by a reduction in Ontario corporate income tax rates that were enacted in the latter part of 2009. The Company's effective income tax rate in 2010 was 24.0% compared to 24.7% in 2009.

The effective tax rate was less than the statutory tax rate of 30.6%, primarily as a result of tax-exempt dividend income earned from its equity securities portfolio. In 2010, the Company recorded a one-time tax benefit of $0.8 million related to the tax treatment accorded to a preferred share redemption. Income taxes are allocated between current and future taxes. Future taxes result from timing differences between the Company's financial statement income and net income for tax purposes. Future taxes are established at the rates expected to be in effect at the date of the reversal of the timing differences. The net decrease in future income tax expense of $3.5 million from 2009 was primarily due to future taxes payable relating to loan securitizations as well as future rate reductions.

Financial Review – Balance Sheet

Mortgage Portfolio

Equitable's mortgage portfolio is diversified across both residential and commercial real estate asset categories and consists of first charge and CMHC-insured mortgages. Mortgage principal increased $706.3 million or 25.5% during 2010 to $3.5 billion at year end, net of the effects of natural amortization and the payout of mortgages. This increase resulted from management's success in transitioning Equitable's business towards on-balance sheet lending, with a focus on its single family residential business. The relative size of the Company's mortgage portfolio should also be considered in the context of 2010 growth of 14.9% or $0.6 billion in the Company's off-balance sheet portfolio of securitized CMHC-insured multi-unit residential and single family mortgages.

Table 5: Mortgages receivable – by property type

($ THOUSANDS)	**2010**	**% of total**	2009	% of total	2008	% of total
Single family dwelling[1]	**$ 1,682,372**	**48.4%**	$ 1,010,266	36.5%	$ 1,035,300	34.2%
Mixed-use property	**321,951**	**9.3%**	325,816	11.8%	333,235	11.0%
Multi-unit residential	**404,367**	**11.6%**	383,945	13.9%	515,575	17.0%
CMHC-insured multi-unit residential	**75,992**	**2.2%**	141,460	5.1%	74,380	2.5%
Commercial	**823,306**	**23.7%**	689,402	24.9%	649,591	21.5%
Mortgages held for sale	**44,332**	**1.3%**	104,728	3.8%	297,952	9.8%
Construction	**120,155**	**3.5%**	110,596	4.0%	120,908	4.0%
Total mortgage principal	**3,472,475**	**100.0%**	2,766,213	100.0%	3,026,941	100.0%
Deferred net mortgage commitment fees, net (discounts) premiums and sundry	**905**		(13)		(2,786)	
Mortgages receivable	**3,473,380**		2,766,200		3,024,155	
Accrued interest	**13,107**		11,455		13,411	
Allowance for credit losses	**(17,880)**		(14,635)		(14,551)	
Total mortgages receivable	**$ 3,468,607**		$ 2,763,020		$ 3,023,015	

[1] *Includes $43,718 (2009 – $56,777, 2008 – $176,436) of CMHC-insured and $11,940 (2009 – $37,869, 2008 – $12,267) of other insured single family dwelling mortgages.*

At December 31, 2010, single family dwelling mortgages represented the largest portion of the portfolio (see Table 5), as a direct result of the increased pace of origination experienced by the Company's Single Family line of business, starting with the fourth quarter of 2009. Single family dwelling mortgages increased by $672.1 million or 66.5% from December 31, 2009. CMHC-insured single family dwelling mortgages comprised 1.3% of the portfolio.

The portfolio of mixed-use property mortgages originated by Equitable's Broker Services team decreased by $3.9 million or 1.2% from December 31, 2009, while multi-unit residential mortgages increased by $20.4 million or 5.3% from December 31, 2009.

CMHC-insured multi-unit residential mortgages comprised 2.2% of the portfolio compared to 5.1% a year ago while the principal balance outstanding decreased $65.5 million over the preceding year to $76.0 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. Consistent with prior years, the majority of the securitization business conducted by the Company in 2010 related to CMHC-insured multi-unit residential mortgages and all of its securitization activities were exclusively conducted by means of CMHC-sponsored programs.

Partly as a result of the acquisition of several mortgages during the year, the Company's commercial mortgage balance increased $133.9 million or 19.4% from December 31, 2009.

Also during 2010, the Company chose to focus on quality construction mortgages that provided attractive returns but entailed lower than average risk. This resulted in an increase of $9.6 million or 8.6% in its construction mortgage balance from the prior year level, such that they comprised 3.5% of the portfolio at December 31, 2010.

In order to limit the Company's interest rate exposure on floating rate mortgages during 2009, management implemented a policy of converting certain floating rate mortgages to fixed rate and adding interest rate floors on these mortgages as they renewed. Demonstrating the year-over-year results of this initiative, fixed rate mortgages represented 78.5% of the portfolio at December 31, 2010, compared to 70.1% at December 31, 2009. Floating rate mortgages that had no floors amounted to 10.4% of the portfolio at December 31, 2010, compared to 15.6% at December 31, 2009. Management does not expect to see further declines in variable rate exposure in coming quarters.

The majority of the Company's mortgages are sourced each year by a network of independent mortgage brokers and other mortgage originators. A mortgage brokerage 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 $505.9 million of the Company's outstanding on-balance sheet mortgage principal at December 31, 2010. CMHC-insured mortgages are funded almost exclusively for securitization through CMHC Programs.

At December 31, 2010, 75.5% and 14.4% of the Company's mortgages were secured by properties located in Ontario and Alberta, respectively. Of the remaining portfolio, 5.0% were located in Quebec, 1.1% in Manitoba, 1.9% in British Columbia, with the remaining 2.1% in the rest of Canada.

Table 6: Mortgage principal outstanding – by lending business

($ THOUSANDS)	**2010**	**% of total**	2009	% of total
Single Family Lending Services	**$ 1,556,415**	**44.8%**	$ 836,526	30.2%
Commercial Mortgage – Broker Services	**831,032**	**24.0%**	670,767	24.2%
Commercial Lending Services	**1,085,028**	**31.2%**	1,258,920	45.6%
Total mortgage principal	**$ 3,472,475**	**100.0%**	$ 2,766,213	100.0%

During the latter half of 2009, the Company increased its sales efforts, within the context of ongoing lending and risk management discipline, commensurate with improving real estate markets and management's comfort with credit conditions. These efforts continue to positively affect the Company's funding results expressed in Table 7. The Company funded $2.5 billion of mortgages during 2010. Comprising the largest component of this amount were over $1.0 billion of conventional mortgages originated by Single Family Lending Services through the mortgage broker channel and an additional $0.3 billion of CMHC-insured originated on a wholesale basis. Through its Commercial Mortgage – Broker Services business, the Company funded $283.7 million in mortgages in 2010 compared to $105.7 million in 2009. During 2010, 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. Commercial Lending Services originated $0.9 billion of mortgages during the year, comprised of $0.7 billion of CMHC-insured mortgages, $127.7 million of construction loans and $106.4 million of other conventional mortgages.

Table 7: Mortgage production – by lending business

	2010		2009			
($ THOUSANDS)	**Mortgage principal funded**	**% of total**	Mortgage principal funded	% of total	Change from 2009	
Single Family Lending Services:						
CMHC-insured single family	**$ 255,777**	**10.4%**	$ 11,338	0.5%	$ 244,439	2155.9%
Conventional mortgages	**1,021,866**	**41.3%**	386,346	17.0%	635,520	164.5%
Commercial Mortgage – Broker Services	**283,719**	**11.5%**	105,690	4.7%	178,029	168.4%
Commercial Lending Services:[(1)]						
CMHC-insured multi-unit residential	**675,155**	**27.3%**	1,603,357	70.5%	(928,202)	(57.9%)
Conventional mortgages	**234,113**	**9.5%**	165,806	7.3%	68,307	41.2%
Total	**$ 2,470,630**	**100.0%**	$ 2,272,537	100.0%	$ 198,093	8.7%

(1) *Does not include $488,762 (2009 – $546,846) of advances related to mortgages held for sale warehouse facilities.*

At December 31, 2010, the Company's portfolio of mortgages held for sale was comprised of 22.2% residential and 77.8% commercial mortgages that are held within mortgage warehouse line of credit facilities that the Company has made available to third-party financial lending firms. Mortgages held for sale decreased 57.7% from 2009. The timing of advances and discharges on mortgages held for sale in warehoused mortgage facilities can lead to variability in those balances. During 2010, $488.8 million of advances were made with respect to mortgages held for sale in those facilities. Many of these advances related to CMHC-insured single family warehoused mortgages.

Credit Quality and Allowance for Credit Losses

Table 8: Mortgage credit quality

($ THOUSANDS)	**2010**	2009	2008	Change from 2009	
Credit quality measures:					
Gross impaired mortgage principal	**$ 35,756**	$ 37,562	$ 39,631	$ (1,806)	(4.8%)
Allowance for credit losses	**17,880**	14,635	14,551	3,245	22.2%
Allowance for credit losses as a % of total mortgage principal	**0.51%**	0.53%	0.48%		
Mortgage principal in arrears 90 days or more[(1)]	**36,456**	17,832	47,627	18,624	104.4%
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[(1)]	**1.05%**	0.64%	1.57%		
Continuity of allowance for credit losses:					
Balance, beginning of year	**$ 14,635**	$ 14,551	$ 8,925		
Provision charged to statement of income	**7,826**	6,600	3,450		
Allowance for credit losses on acquired portfolio	**(1,273)**	–	2,212		
Recovery of prior losses	**231**	108	–		
Realized losses deducted from allowance	**(3,539)**	(6,624)	(36)		
Balance, end of year	**$ 17,880**	$ 14,635	$ 14,551		

(1) *Mortgage principal in arrears 90 days or more does not include CMHC-insured mortgages that are less than 365 days in arrears.*

Management actively analyzes the profile of its lending businesses and its originations in tandem with external market conditions, including market values and employment conditions. Where management judges that the commensurate risk associated with a particular region or product is no longer acceptable, it adjusts its underwriting criteria to ensure that its underwriting policies are prudent and reflective of current and expected economic conditions and thereby safeguards the future health of the Company's mortgage portfolio. The Company does not lend against uninsured mortgages at high loan to value ratios, thereby limiting its exposure to loss. When appropriate, Equitable also responds to the changing marketplace with initiatives that result in increased mortgage originations, while continuing to ensure a prudent credit risk profile for its portfolio. Seasonal increases in arrears rates are typical in the first quarter of most years. Management also monitors the real estate markets in which it operates to assess the Company's credit risk exposure therein in order to re-evaluate its expectations and the potential need for an increase in general and specific credit loss provisions.

Management's workout activities with respect to impaired loans continue to yield good results. Net impaired mortgages were 0.85% of total mortgage principal at the end of 2010, compared to 1.20% reported at the end of 2009. Although mortgage principal in arrears 90 days or more (excluding CMHC-insured mortgages that are less than 365 days in arrears) was 1.05% of total mortgage principal outstanding at December 31, 2010 compared to 0.89% at September 30, 2010 and 0.64% at December 31, 2009, approximately $8.9 million of the $36.5 million mortgages in arrears 90 days or more were worked out through property sales or were otherwise brought up to date during January 2011. Removing this $8.9 million from arrears at December 31, 2010 would have improved the ratio of mortgages in arrears 90 days or more to 0.79% of total mortgage principal. Mortgages that were in early stage delinquency, between 30 to 89 days past due, decreased from 0.68% of total mortgage principal outstanding at December 31, 2009 to 0.43% at December 31, 2010.

Allowance for credit losses as a percentage of total mortgage principal of 0.51% at December 31, 2010 compared to 0.53% at December 31, 2009. Management is comfortable that provisions taken adequately provide for the risk of loss entailed in the Company's mortgage portfolio. As a measure of the adequacy of total allowances at the end of the 2010, 50.0% of the portfolio's gross impaired principal had been provided for within the Company's allowance for credit losses as compared to 39.0% at the end of the prior year.

At December 31, 2010, the Company held a total specific allowance for losses of $6.3 million; 98.0% of this specific allowance related to mortgages that are secured by properties located in Ontario, while 1.1% related to Alberta and 0.9% to British Columbia. By way of comparison, 92.9% of the Company's gross impaired mortgages related to Ontario, 3.0% to Alberta and 3.3% to British Columbia. For further information, see Note 7 to the consolidated financial statements.

In actively managing its arrears portfolio, the Company foreclosed on certain properties in order to ensure successful collection of the respective mortgage principal. During the year ended December 31, 2010, the Company recognized $0.2 million in losses related to foreclosure – none of which were incurred during the fourth quarter of the year. Net fair value of real estate owned as a result of foreclosure was $1.1 million and related to seven single family properties at December 31, 2010. Real estate owned is recorded as held for sale at its net realizable value. Real estate owned at December 31, 2010 has been appraised by third party consultants and the amounts recorded represent management's best estimate of the proceeds to be received on sale. Effective collections management and the health of real estate markets have allowed the Company to sell properties and work out problem loans in an expeditious and effective manner, without incurring unreasonable losses.

Net realized loan losses of $3.3 million incurred during 2010 primarily related to the successful completion of loan workout activities. By industry standards, this is a relatively low level of loan losses, which reflects the quality of the Company's mortgage portfolio and the effectiveness and prudence of its underwriting.

Liquidity Investments and Equity Securities

The Company holds adequate levels of liquidity on its balance sheet in order to insulate the Company's business and ensure it is well positioned to manage unexpected and unforeseen events that may impact its ability to obtain funding. At December 31, 2010, assets held for the purpose of providing liquidity protection amounted to $621.0 million and consisted of $289.1 million of MBS (guaranteed by the Government of Canada), $26.2 million of Government of Canada Bonds, $74.9 million of Government of Canada Bonds that were purchased under reverse repurchase agreements, $67.0 million of debt securities issued by regulated financial institutions and $163.7 million of cash held with major Canadian banks.

Management closely monitors the Company's liquidity position and believes that the level of liquid capital resources together with Equitable's ability to raise GIC deposits, are sufficient to meet funding and GIC maturity commitments, as well as ensure the collection of its other receivables and the discharge of its liabilities and other obligations. Liquidity is used by the Company to manage its funding needs, which include the funding of $436.4 million in mortgage commitments issued by the Company that were outstanding at December 31, 2010 ($318.9 million at December 31, 2009). Based on strong liquidity management processes and indications of relative stability in capital markets during 2010, management slowly reduced assets held for the purpose of providing liquidity protection to current levels. Assets held to provide liquidity protection amounted to 13.9% of Equitable Trust's total assets at December 31, 2010, compared to 19.9% at December 31, 2009. In addition to assets that are held for the purpose of providing liquidity protection, other liquid assets held by the Company include other deposits held with the Company's bank and the Company's investments in preferred shares.

Equity securities in which the Company invests are comprised of preferred shares that are held to yield tax-preferred dividend income and are classified as available for sale assets for financial instrument accounting purposes. As such, unrealized changes in fair value on this portfolio are included in the Company's other comprehensive income. At December 31, 2010, equity securities were $37.2 million or 24.8% higher than at December 31, 2009. The increased balance from December 31, 2009 was primarily a result of $31.0 million in preferred share purchases, net of sales and redemptions, and a $6.2 million decrease in unrealized losses related to the net appreciation in the market values of the underlying portfolio. Total net unrealized losses related to the equity portfolio as at December 31, 2010 decreased to $2.8 million from $9.0 million at December 31, 2009. Tax-exempt dividend income from equity securities assists in lowering the Company's effective tax rate, which was 24.0% for the year ended December 31, 2010 compared to the Company's statutory income tax rate of 30.6%.

Table 9: Liquid assets

($ THOUSANDS)	2010	2009	2008	Change from 2009	
Eligible deposits with regulated financial institutions[(1)]	**$ 163,669**	$ 395,784	$ 23,466	$ (232,115)	(58.6%)
Debt securities issued by regulated financial institutions	**67,060**	–	–	67,060	N/A
Government guaranteed debt instruments:					
Investments purchased under reverse repurchase agreements	**74,908**	129,721	698,276	(54,813)	(42.3%)
Debt securities issued by a Canadian Province or Government of Canada	**26,213**	–	24,996	26,213	N/A
Debt securities guaranteed by Government of Canada	**289,115**	238,061	73,563	51,054	21.4%
Assets held for the purpose of providing liquidity protection	**620,965**	763,566	820,301	(142,601)	(18.7%)
Other deposits with regulated financial institutions	**128**	51	1,659	77	151.0%
Equity securities	**187,202**	149,976	96,758	37,226	24.8%
Total liquid assets	**$ 808,295**	$ 913,593	$ 918,718	$ (105,298)	(11.5%)
Total liquid assets as a % of total assets	**18.1%**	23.8%	22.5%		
Total assets held for the purpose of providing liquidity protection as a % of total Equitable Trust assets	**13.9%**	19.9%	20.1%		

(1) *Eligible deposits with regulated financial institutions represent deposits of Equitable Trust which are held with major Canadian banks and excludes $9.0 million (2009 – $5.0 million, 2008 – $8.4 million) 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, and the ultimate sale of MBS through the CMB Program. Equitable either directly or indirectly retains responsibility for servicing the underlying mortgages. See Note 1 of the consolidated financial statements for the accounting policy on securitization retained interests.

Securitization retained interests increased $6.4 million to $153.6 million at December 31, 2010 from $147.2 million at December 31, 2009. Total mortgages in the CMHC MBS program outstanding at December 31, 2010 were $4.7 billion, a $0.6 billion increase from $4.1 billion outstanding at December 31, 2009. 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, as well as and the "Critical Accounting Estimates" and "Off-Balance Sheet Arrangements and Derivative Financial Instruments" sections of this MD&A. Please also refer to "Future Accounting Changes - International Financial Reporting Standards."

Deposit Liabilities

As a regulated CDIC member, Equitable Trust's ability to fund its mortgage businesses by attracting depositors and providing excellent service is critical to the success of its business. Deposits, which are primarily in the form of GICs, provide a stable source of funding that can be properly matched against mortgage maturities. Customer deposits are used to fund most of the Company's liquidity needs, including asset acquisitions, and consist of GIC deposits sourced primarily through a national distribution network of independent deposit agents. This continues to be a deep and liquid source of funding for the Company.

Total deposit principal outstanding increased $535.0 million or 16.4% to $3.8 billion at year end from $3.3 billion of the prior year. At year end, cashable GICs represented 14.7% of total deposits outstanding versus 21.1% in 2009. The Company's cashable GIC is a one-year product, cashable on demand at any time after its initial 30-day term. Other GIC products consist of 30-day to five-year fixed term GICs. Equitable Trust is licensed to accept deposits in all Canadian jurisdictions.

Table 10: Deposits

($ THOUSANDS)	2010	2009	2008	Change from 2009	
Cashable GIC deposits	$ 560,729	$ 688,782	$ 826,438	$ (128,053)	(18.6%)
Fixed-term GIC deposits	3,245,208	2,582,186	2,789,869	663,022	25.7%
Accrued interest on deposits	85,138	71,798	85,363	13,340	18.6%
Deferred deposit agent commissions	(12,222)	(10,447)	(9,101)	(1,775)	17.0%
Total	$ 3,878,853	$ 3,332,319	$ 3,692,569	$ 546,534	16.4%

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. The Company can elect to redeem these debentures during their term subject to the approval of OSFI.

In December 2010, the Company issued $20.0 million of Series 9 subordinated debentures ("Series 9"), a new class of subordinated debt. The gross proceeds of the offering of the Series 9 were used by the Company to purchase subordinated debentures of Equitable Trust, which qualify as Tier 2B regulatory capital. Equitable Trust used these proceeds to concurrently redeem all $20.0 million of its Series 6 subordinated debentures, $15.0 million of which was held by the Company. As part of this transaction, the Company also repaid $15.0 million of its bank term loans. The Series 9 pays fixed interest monthly for the first five years of its 10-year term, and then bears a floating interest rate that is calculated at the 90-day Banker's Acceptance Rate plus 338 basis points thereafter.

In December 2009, the Company issued $23.2 million of Series 8 subordinated debentures ("Series 8"), a new class of subordinated debt. Equitable Trust concurrently redeemed the remaining $30.8 million of its Series 5, $13.3 million of which was held by the Company. As part of this transaction, the Company repaid $13.3 million of its bank term loans. The gross proceeds of the offering of the Series 8 were used by the Company to purchase subordinated debentures of Equitable Trust, which qualify as Tier 2B regulatory capital and which were, in turn, be used for general corporate purposes. The Series 8 pays fixed interest semi-annually for the first five years of its 10-year term, and then bears a floating interest rate that is calculated at the 90-day Banker's Acceptance Rate plus 480 basis points thereafter.

The Company is in compliance with all of the covenants required by its bank loan facility, only $12.5 million of which remained outstanding at December 31, 2010.

Table 11: Subordinated debentures and bank term loans

($ THOUSANDS)		2010	2009	2008	Change from 2009	
Subordinated debentures						
Series 5	7.31% – 7.58%	$ –	$ –	$ 17,519	$ –	N/A
Series 6	7.27%	–	5,000	5,000	(5,000)	(100.0%)
Series 7	7.10%	9,450	9,450	9,450	–	– %
Series 8	6.50%	23,221	23,221	–	–	– %
Series 9	6.09%	20,000	–	–	20,000	N/A
Total subordinated debentures		$ 52,671	$ 37,671	$ 31,969	$ 15,000	39.8%
Bank term loans						
	6.37%	$ –	$ –	$ 17,095	$ –	N/A
	6.82%	–	15,000	15,000	(15,000)	(100.0%)
	6.41%	12,500	12,500	12,500	–	– %
Total bank term loans		$ 12,500	$ 27,500	$ 44,595	$ (15,000)	(54.5%)
Total subordinated debentures and bank term loans		$ 65,171	$ 65,171	$ 76,564	$ –	–%

Other Assets, Future Income Taxes and Other Liabilities

Other assets decreased $3.2 million to $14.0 million from $17.3 million a year earlier. Other assets include the fair value of derivative financial instruments, income taxes recoverable, real estate held for sale, capital assets consisting of leasehold improvements, office furniture and computer equipment and sundry receivables and prepaid expenses. During the year, items affecting this aggregate balance included a $1.4 million reduction in income taxes recoverable, a $2.4 million reduction in the value of derivative financial instruments, and a $1.4 million decrease in real estate owned due to foreclosure, offset by a $2.1 million increase in prepaids and other receivables.

Other liabilities include the future servicing liability of securitized mortgages, realty taxes collected from borrowers, accounts payable and accrued liabilities, and the fair value of derivative financial instruments. Securitized mortgage servicing liability relates to the Company's estimate of the future cost of servicing the mortgages that have been previously securitized.

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.

Table 12: Other assets, future income taxes and other liabilities

($ THOUSANDS)	**2010**	2009	2008	Change from 2009	
Other assets:					
Other receivables and prepaids	**$ 7,485**	$ 5,434	$ 6,334	$ 2,051	37.7%
Income taxes recoverable	**2,774**	4,187	11,588	(1,413)	(33.7%)
Capital assets	**2,131**	2,211	2,536	(80)	(3.6%)
Real estate owned	**1,105**	2,518	–	(1,413)	(56.1%)
Derivative financial instruments – securitization activities	**537**	2,358	–	(1,821)	(77.2%)
Derivative financial instruments – interest rate swaps	**–**	294	14,836	(294)	(100.0%)
Derivative financial instruments – hedges	**–**	264	–	(264)	(100.0%)
Mortgage commitments	**–**	–	296	–	N//A
Total	**$ 14,032**	$ 17,266	$ 35,590	$ (3,234)	(18.7%)
Future income taxes and other liabilities:					
Securitized mortgage servicing liability	**$ 43,860**	$ 40,606	$ 19,945	$ 3,254	8.0%
Future income taxes	**22,163**	19,999	17,839	2,164	10.8%
Mortgagor realty taxes	**14,564**	10,317	9,048	4,247	41.2%
Accounts payable and accrued liabilities	**4,288**	3,787	3,505	501	13.2%
Mortgage commitments	**711**	14	–	697	4,978.6%
Derivative financial instruments – interest rate swaps	**331**	–	–	331	N/A
Derivative financial instruments – hedges	**63**	–	408	63	N/A
Derivative financial instruments – securitization activities	**–**	–	3,527	–	N/A
Total	**$ 85,980**	$ 74,723	$ 54,272	$ 11,257	15.1%

Shareholders' Equity

Total shareholders' equity increased $49.6 million or 13.3% to $423.5 million at December 31, 2010 from $373.9 million at December 31, 2009, primarily owing to the retention of earnings.

In 2009, the Company issued 2.0 million non-cumulative 5-year rate reset Series 1 preferred shares ("Series 1 Shares") at a price of $25.00 per share for gross proceeds of $50.0 million. The Company used the proceeds from the offering to acquire non-cumulative 5-year rate reset Series 1 Shares from Equitable Trust, which qualify as Tier 1 regulatory capital for Equitable Trust. The Series 1 preferred shares yield 7.25% annually, payable quarterly as and when declared by the Board of Directors for an initial period ending September 30, 2014. Thereafter, the dividend rate will reset every five years at a level of 4.53% over the then five-year Government of Canada bond yield.

Subject to regulatory approval, the Company may redeem all or part of the outstanding Series 1 Shares, at its option, without the consent of the holder, by payment in cash of $25.00 per share with all declared and unpaid dividends on September 30, 2014 and on September 30 every five years thereafter.

Holders of Series 1 Shares, subject to certain conditions, have the option to convert their shares to non-cumulative floating rate Series 2 preferred shares ("Series 2 Shares") on September 30, 2014 and on the fifth anniversary thereafter. Holders of the Series 2 Shares will be entitled to a floating quarterly dividend rate equal to the 90-day Canadian Treasury Bill Rate plus 4.53%, as and when declared by the Board.

The Company has a Dividend Reinvestment Plan ("DRIP"). Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume-weighted average trading price of the common shares on the Toronto Stock Exchange for the five trading days immediately preceding the dividend payment date. Common shares issued as a result of participation in the DRIP are issued from the Company's treasury. During the year ended December 31, 2010, 16,491 common shares were issued under the DRIP.

At December 31, 2010, the Company had 14,943,437 common shares issued and outstanding compared to 14,903,846 common shares issued and outstanding at December 31, 2009. During 2010, 152,000 employee stock options were granted and 23,100 options were exercised, which contributed $0.3 million to common share capital. At December 31, 2010, there were 896,150 unexercised stock options, which are or will be exercisable, to purchase 896,150 common shares for maximum proceeds of $21.7 million.

The Company paid an annual dividend of $0.40 per common share in 2010, consistent with the dividend paid in 2009. At the date of this report, the Company has 14,948,505 common shares issued and outstanding.

The Company paid quarterly dividends totaling $1.81 per share on the Series 1 preferred shares in 2010.

Table 13: Shareholders' equity

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2010	2009	2008	Change from 2009	
Shareholders' equity:					
Preferred shares	**$ 48,523**	$ 48,523	$ –	$ –	– %
Common shares	**128,156**	127,424	126,993	732	0.6%
Contributed surplus	**3,935**	3,267	2,553	668	20.4%
Retained earnings	**238,307**	193,635	149,365	44,672	23.1%
Accumulated other comprehensive income (loss)	**4,541**	1,012	(14,765)	3,529	348.7%
Total shareholders' equity	**$ 423,462**	$ 373,861	$ 264,146	$ 49,601	13.3%
Dividends on common shares	**$ 5,970**	$ 5,956	$ 5,571	$ 14	0.2%
Dividends per common share	**$ 0.40**	$ 0.40	$ 0.40	$ –	– %
Dividends on preferred shares	**$ 3,625**	$ 1,212	$ –	$ 2,413	199.1%
Dividends per preferred share	**$ 1.81**	$ 0.61	$ –	$ 1.20	196.7%

Capital Management

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision ("Basel II"). In order to determine prudent capital levels and govern the quality and quantity of capital necessary to maintain the business based on its inherent risks, Equitable Trust utilizes an Internal Capital Adequacy Assessment Process ("ICAAP").

The Company has been successful in shifting its business to lower risk-weighted assets and in retaining its earnings. As a result of utilization of capital related to growth in its business, Equitable Trust's total capital ratio (when general allowance is included in capital) was 16.9% at December 31, 2010 compared to 17.6% at December 31, 2009. Similarly, Equitable Trust's Tier 1 regulatory capital position was at 14.3% at December 31, 2010 compared to 14.6% at December 31, 2009. As at December 31, 2010, tangible common equity was 12.6%, consistent with December 31, 2009. Tangible common equity ratio (a non-GAAP financial measure) is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. Equitable Trust's strong tangible common equity ratio is considered by management and many investors and investment analysts to be a key measure of capital strength.

Management considers Equitable Trust to be well capitalized and positioned to maintain strong capital levels through the retention of earnings and the management of its risk-weighted asset mix.

Table 14: Capital measures (relating solely to Equitable Trust)

($ THOUSANDS)	**December 31, 2010**	December 31, 2009	December 31, 2008
Risk weighted assets:			
Credit risk	**$ 2,724,055**	$ 2,355,526	$ 2,423,996
Operational risk[1]	**181,457**	154,352	125,086
Total risk-weighted assets	**$ 2,905,512**	$ 2,509,878	$ 2,549,082
Tier 1 capital:			
Common shares	**$ 129,823**	$ 129,337	$ 128,162
Non-cumulative preferred shares	**50,000**	50,000	-
Contributed surplus	**3,520**	2,852	2,138
Retained earnings	**233,775**	189,715	146,901
Accumulated other comprehensive loss[2]	**(1,676)**	(5,953)	(20,330)
Total	**415,442**	365,951	256,871
Tier 2 capital:			
Subordinated debentures (Tier 2B)[3]	**65,171**	65,171	76,564
Total	**65,171**	65,171	76,564
Total regulatory capital	**$ 480,613**	$ 431,122	$ 333,435
Regulatory capital to risk-weighted assets:			
Tier 1 capital	**14.3%**	14.6%	10.1%
Tier 2 capital	**2.2%**	2.6%	3.0%
Total regulatory capital as a % of total risk-weighted assets	**16.5%**	17.2%	13.1%
Total capital calculated as defined under ICAAP:			
Total regulatory capital	**$ 480,613**	$ 431,122	$ 333,435
General allowance[4]	**11,541**	10,339	11,651
Total capital as defined under ICAAP	**$ 492,154**	$ 441,461	$ 345,086
Total capital ratio as defined under ICAAP	**16.9%**	17.6%	13.5%
Tangible common equity ratio[5]	**12.6%**	12.6%	10.1%

(1) *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.*

(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 equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities 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.*

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

(5) *The tangible common equity ratio is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other tangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets. This ratio is a non-GAAP financial measure that is used as a key indicator of capital strength.*

Summary of Quarterly Results

Table 15 summarizes the Company's performance over the last eight quarters. Equitable does not expect material seasonality in its earnings, 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 15: Summary of quarterly results

($ THOUSANDS, EXCEPT BALANCE SHEET AND OFF-BALANCE SHEET ITEMS AND PER SHARE AMOUNTS)	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
OPERATIONS								
Net income	**16,151**	**13,570**	**12,588**	**11,958**	15,572	12,045	11,877	11,944
Net income available to common shareholders	**15,245**	**12,663**	**11,682**	**11,052**	14,360	12,045	11,877	11,944
EPS – basic	**$ 1.02**	**$ 0.85**	**$ 0.78**	**$ 0.74**	$ 0.96	$ 0.81	$ 0.80	$ 0.80
EPS – diluted	**$ 1.01**	**$ 0.84**	**$ 0.78**	**$ 0.74**	$ 0.96	$ 0.81	$ 0.80	$ 0.80
Net interest income	**24,952**	**23,931**	**22,634**	**22,529**	21,113	19,547	17,503	15,006
Net interest margin – TEB	**2.4%**	**2.4%**	**2.4%**	**2.5%**	2.4%	2.2%	1.9%	1.6%
Total revenues	**58,591**	**54,162**	**49,623**	**48,740**	50,891	50,748	50,758	55,427
Return on equity – annualized	**16.4%**	**14.1%**	**13.6%**	**13.5%**	17.9%	15.7%	16.5%	17.8%
Return on average assets – annualized	**1.4%**	**1.3%**	**1.3%**	**1.3%**	1.6%	1.3%	1.3%	1.2%
Productivity ratio – TEB	**25.0%**	**26.3%**	**29.2%**	**26.1%**	25.1%	25.7%	24.4%	24.3%
Conventional mortgage production	**393,442**	**334,342**	**495,376**	**316,538**	266,884	194,154	136,686	60,117
CMHC-insured production	**246,238**	**338,455**	**168,346**	**177,893**	373,703	260,328	508,633	472,032
Mortgages held for sale warehouse advances	**121,197**	**178,361**	**119,518**	**69,686**	65,144	126,122	85,483	270,097
BALANCE SHEET AND OFF-BALANCE SHEET ($ millions)								
Total assets	**4,453**	**4,400**	**4,043**	**3,842**	3,846	3,688	3,719	3,889
Mortgages receivable	**3,469**	**3,437**	**3,244**	**2,840**	2,763	2,829	2,857	2,895
Shareholders' equity	**423**	**412**	**397**	**386**	374	359	297	281
Book value per common share	**$ 25.09**	**$ 24.38**	**$ 23.38**	**$ 22.64**	$ 21.83	$ 20.86	$ 19.94	$ 18.90
Mortgage backed security assets under administration	**4,705**	**4,487**	**4,329**	**4,271**	4,093	3,792	3,537	3,232

Fourth Quarter Overview

Equitable established a new quarterly record for net income in the fourth quarter of 2010, and drove a substantial increase in ROE over the immediately preceding third quarter of 2010 as it took advantage of recent momentum in mortgage production and benefitted from its strategic focus on traditional mortgage lending activities.

During the three months ended December 31, 2010:

- net income of $16.2 million increased 19.0% and 3.7%, respectively, compared to $13.6 million in the third quarter of 2010 and $15.6 million from the fourth quarter of 2009; net income available to common shareholders of $15.2 million increased 20.4% and 6.2%, respectively, compared to $12.7 million in the third quarter of 2010 and $14.4 million a year ago;
- diluted earnings per share were $1.01 compared to $0.84 in the immediately preceding quarter and $0.96 in the fourth quarter of 2009;
- ROE was 16.4% compared to 14.1% in the third quarter of 2010 and 17.9% in the fourth quarter of 2009; and
- conventional mortgage production increased 47.4% to $393.4 million from $266.9 million in the fourth quarter of 2009.

By business line:

- Single Family Lending Services originated $288.8 million in conventional mortgages and a further $59.6 million in CMHC-insured mortgages; combined production was $348.4 million, or 108.3% higher than the $167.2 million of the corresponding period of 2009;
- Commercial Mortgage – Broker Services production increased to $67.2 million compared to $42.6 million in the fourth quarter of 2009; and
- Commercial Lending Services production was $224.1 million, compared to $430.7 million in the fourth quarter of 2009; of the 2010 fourth quarter production, $186.6 million related to CMHC-insured multi-unit residential mortgages which were originated for the purpose of being securitized and sold to government sponsored programs, compared to $368.4 million in the fourth quarter of 2009.

During the fourth quarter, the balance of average interest-earning assets was $4.2 billion, up 18.0% from $3.6 billion in the same period a year ago. As a result of the Company's larger mortgage portfolio, mortgage interest income increased 15.0% to $47.1 million compared to $40.9 million a year earlier. Net interest income increased $3.8 million or 18.2% from the same quarter a year ago.

During the quarter, the Company benefited from the redemption of a preferred share. As a result of a low paid-up capital on the share, the one-time impact to taxes was approximately $0.7 million.

Other income increased $0.2 million or 3.0% during the fourth quarter of 2010. The Company securitized and sold $235.2 million of CMHC-insured mortgages in the fourth quarter of 2010 compared to $344.9 million in the corresponding quarter of 2009. Lower volumes and securitization spreads (which were 90 basis points in the fourth quarter of 2010 compared to 118 basis points a year earlier) were offset by fair value gains on hedges, and gains made on sales of securitization pool replacement assets, as well as recurring securitization revenues earned from the Company's larger securitized portfolio. Total income from loan securitizations in the fourth quarter of $4.9 million was consistent with the fourth quarter of 2009.

Non-interest expenses increased $1.3 million in the fourth quarter compared to the same quarter of 2009. As a component of non-interest expenses, compensation costs for the quarter increased $0.4 million or 10.1% reflecting higher staffing levels during the quarter compared to the corresponding period of 2009. Nonetheless, productivity ratio on a TEB was 25.0%, an improvement from 26.3% in the third quarter of 2010 and 25.1% a year ago, despite record single family residential mortgage production.

The record earnings of the fourth quarter of 2010 were particularly noteworthy given the higher amount of net income tax expense reported in the fourth quarter of 2010 compared to the corresponding quarter of 2009. This difference in tax amounts primarily related to one-time favorable tax adjustments of approximately $3.3 million that were recorded during the fourth quarter of 2009. These adjustments were in relation to lower future tax rates that were enacted in Ontario as well an annual recalibration of the increased amount of business that the Company carried out in Alberta, which bears a lower tax rate than Ontario. No such adjustments were made in the fourth quarter of 2010.

At December 31, 2010, book value per share was $25.09 compared to $21.83 at the close of the prior year.

Table 16: Unaudited interim consolidated statements of income – fourth quarters 2010 and 2009

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	For the three months ended December 31, 2010	December 31, 2009
Interest income:		
Mortgages	**$ 47,077**	$ 40,939
Investments	**4,906**	3,701
Other	**802**	614
	52,785	45,254
Interest expense:		
Customer deposits	**24,073**	20,651
Deposit agent commissions	**2,352**	1,965
Bank term loans	**698**	972
Subordinated debentures	**697**	553
Other	**13**	–
	27,833	24,141
Net interest income	**24,952**	21,113
Provision for credit losses	**1,725**	2,250
Net interest income after provision for credit losses	**23,227**	18,863
Other income:		
Fees and other income	**736**	706
Net gain on investments	**210**	14
Gains on securitization activities and income from retained interests	**4,860**	4,917
	5,806	5,637
Net interest income and other income	**29,033**	24,500
Non-interest expenses:		
Compensation and benefits	**4,551**	4,133
Other	**3,725**	2,888
	8,276	7,021
Income before income taxes	**20,757**	17,479
Income taxes (recovery):		
Current	**5,118**	1,327
Future	**(512)**	580
	4,606	1,907
Net income	**16,151**	15,572
Dividends on preferred shares	**906**	1,212
Net income available to common shareholders	**$ 15,245**	$ 14,360
Weighted average number of common shares outstanding:		
Basic	**14,933,044**	14,897,076
Diluted	**15,020,854**	14,969,290
Earnings per share:		
Basic	**$ 1.02**	$ 0.96
Diluted	**$ 1.01**	$ 0.96

Table 17: Unaudited interim consolidated statements of comprehensive income – fourth quarters 2010 and 2009

($ THOUSANDS)	For the three months ended	
	December 31, 2010	December 31, 2009
Net income	**$ 16,151**	$ 15,572
Other comprehensive (loss) income, net of tax:		
Available for sale investments:		
Net unrealized (losses) gains from change in fair value[1]	**(1,991)**	2,397
Reclassification of net gains to income[2]	**(1,255)**	(970)
Other comprehensive (loss) income	**(3,246)**	1,427
Comprehensive income	**$ 12,905**	$ 16,999

[1] *Net of income tax benefit of $876 (2009 – tax expense of $1,149).*
[2] *Net of income tax benefit of $552 (2009 – tax benefit of $465).*

Table 18: Unaudited interim consolidated statements of cash flows – fourth quarters 2010 and 2009

($ THOUSANDS)	For the three months ended December 31, 2010	December 31, 2009
Cash provided by (used in):		
Operating activities:		
Net income	**$ 16,151**	$ 15,572
Non-cash items:		
Financial instruments – fair value adjustments	**2,121**	(2,168)
Securitization gains	**(4,066)**	(4,131)
Amortization of capital assets	**160**	161
Provision for credit losses	**1,725**	2,250
Net loss (gain) on investments	**2,489**	(27)
Future income taxes	**(512)**	580
Stock-based compensation	**190**	161
Amortization of premiums on investments, net	**559**	255
	18,817	12,653
Changes in operating assets and liabilities:		
Other assets	**(4,214)**	(4,016)
Other liabilities	**3,332**	(1,642)
	17,935	6,995
Financing activities:		
Increase in customer deposits, net	**39,856**	145,417
Repayment of bank term loan	**(15,000)**	(13,284)
Issuance of subordinated debentures	**20,000**	23,221
Redemption of subordinated debentures	**(5,000)**	(17,519)
Dividends paid on preferred shares	**(906)**	(1,212)
Dividends paid on common shares	**(1,370)**	(1,299)
Preferred share issuance expenses	**–**	(76)
Issuance of common shares	**212**	104
	37,792	135,352
Investing activities:		
Purchase of investments	**(250,325)**	(215,521)
Proceeds on sale or redemption of investments	**246,142**	199,781
Purchase of investments purchased under reverse repurchase agreements	**(74,908)**	(129,721)
Change in investments purchased under reverse repurchase agreements	**69,862**	126,230
Change in restricted cash	**(1,725)**	3,070
Increase in mortgages receivable	**(762,055)**	(713,019)
Mortgage principal repayments	**385,527**	368,031
Proceeds from loan securitizations	**234,357**	348,011
Securitization retained interests	**11,282**	7,892
Purchase of capital assets	**(83)**	(81)
	(141,926)	(5,327)
(Decrease) increase in cash and cash equivalents	**(86,199)**	137,020
Cash and cash equivalents, beginning of period	**249,996**	258,815
Cash and cash equivalents, end of period	**$ 163,797**	$ 395,835

Changes In Accounting Policies

The Company's significant accounting policies are essential to an understanding of its 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.

Future Accounting Changes - International Financial Reporting Standards

Background and project plan:

Canadian Public Companies are required to prepare their financial statements in accordance with IFRS for financial years beginning on or after January 1, 2011. Equitable will prepare its financial statements in accordance with IFRS from this date.

In order to meet the transition requirements, management has developed and implemented 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; and
- Refinement or updating of policy selection choices (for IFRS changes that are instituted prior to 2011).

Equitable is on schedule with its overall transition plan, with the following project milestones remaining (see detail contained in Table 21):

- Refinement of first IFRS quarterly and annual financial statement format;
- Finalization of recording comparative 2010 accounting entries, and audit of the balances;
- Implementation of revised internal controls over financial reporting; and
- Ongoing senior management and accounting staff training.

Impacts on the financial statements:

Table 19 details a number of the impacts (quantitative and qualitative) to the Company's financial statements, as identified, resulting from differences in accounting treatments between Canadian GAAP and IFRS:

Table 19: Areas impacted by IFRS

Securitization accounting	• Securitization accounting for transactions under the CMHC's CMB and MBS programs is the most material transition and ongoing IFRS issue applicable to the Company. • Certain financial assets that previously qualified for derecognition on transfer under Canadian GAAP are to be re-recognized under IFRS. • Using the IFRS 1 election, IFRS will be applied retroactively to all securitization transactions occurring after January 1, 2004, with an adjustment to opening retained earnings that is intended to unwind the previously reported impact of these securitization transactions. • Previous securitization gains will be reversed and the mortgage assets will continue to reside on the Company's balance sheet, earning interest spread (less amortization of transaction expenses, ongoing servicing and other costs) over the course of their term. A securitization liability will also be recorded on the Company's balance sheet. • OSFI has advised that mortgages securitized under CMB and MBS programs prior to March 31, 2010 are permitted to be grandfathered or excluded from the assets-to-capital multiple ("ACM") calculations; this has mitigated the impact of IFRS on the Company's ACM in the short term. • OSFI has also advised that the impact to regulatory capital from the transition to IFRS may be phased in over an eight quarter period, to be completed by the quarter ending December 31, 2012. Equitable is planning to take advantage of this phase in period. • Based on information that is presently available, Equitable will continue to engage in future securitization activities subsequent to the implementation of IFRS, to the extent that these continue to provide a cost effective source of funding and represent an efficient use of its ACM regulatory capacity.

Collective impairment allowance	• The collective impairment allowance model under IFRS and the general allowance model under Canadian GAAP are both incurred loss models. As such, the methodology to calculate the collective impairment allowance under both accounting standards is similar. • Equitable has refined the model used to calculate the collective impairment allowance, to include multiple tiers of loan characteristics, yielding results which are not different from the levels of allowances recorded under Canadian GAAP. As such, there is no adjustment to equity on transition to IFRS related to the collective impairment allowance. • No additional amount has been included in the transition adjustment relating to the collective impairment allowance on mortgages that were previously derecognized under Canadian GAAP as a result of securitization activities, which will be re-recognized under IFRS. This is due to the fact that these mortgages are insured by CMHC and no losses are expected to be incurred as a result of defaults. • The current ratio for collective impairment allowance (general allowance under Canadian GAAP) as a percentage of total mortgage principal outstanding is 0.33%, but is expected to drop to approximately 0.14% under IFRS due to the increase in the relative size of the mortgage asset base. The Company believes that this is in keeping with the IFRS requirements that the collective impairment allowance be indicative of the inherent risk in the portfolio.
Individual impairment allowance	• The Company's current policy is to suspend the accrual of interest for conventional mortgages that are 90 days or more past due and 365 days past due for CMHC-insured mortgages. • IFRS requires that these loans continue to accrue interest even though they are classified as non-performing. This additional accrued interest is expected to be substantially offset by an increase in the individual impairment allowance relating to the mortgages (specific allowance under Canadian GAAP).
IFRS 1 - First time adoption of IFRS	• With the exception of the effects of electing IFRS 1 in relation to transition relief for pre-January 1, 2004 securitization transactions, the Company's elections and exemptions under IFRS 1 are not expected to have a material impact on the financial statements. • With the exception of mortgage commitments (previously fair-valued) as well as mortgages awaiting securitization (previously designated as held for trading and now being re-designated as loans and receivables) held at January 1, 2010, no other financial instruments have been re-designated on transition under IFRS 1. • Additional reconciliations and disclosures as required by IFRS 1 will be disclosed in the financial statements throughout 2011.
Leases	• IAS 17 - Leases requires that lease rentals and inducements (discounts or rent-free periods) to be recognized to the income statement on a straight-line basis over the term of the lease. • All increases expected during the period of the lease are to be recorded on a straight-line basis from the inception of the lease term. • The related effect on the Company's income statement is not material.
Income taxes	• Changes to future tax benefits (deferred tax under IFRS) related to share issuance costs as a result of changing intra-period tax rates is to be recorded against equity per IFRS. Under Canadian GAAP this amount was previously expensed through the income statement. • The related effect on the Company's income statement is not material.
Additional disclosure	• Due to disclosure requirements across a number of IFRS rules applicable to the Company, the IFRS financial statements will contain additional disclosure compared to those previously issued under Canadian GAAP.

Most adjustments required on transition to IFRS are made retrospectively, against opening retained earnings as of January 1, 2010. On the transition date to IFRS of January 1, 2010, the IFRS opening retained earnings and accumulated other comprehensive income are adjusted for the net impact of the accounting differences between current Canadian GAAP and IFRS. The major impact of the adjustment relates to securitization activities, as indicated above. The Company has calculated that this is a downward adjustment to retained earnings of approximately $37.9 million. This opening retained earnings adjustment will be recovered through earnings for future periods under IFRS reporting. The following is a reconciliation of the impact of IFRS on shareholders' equity at the January 1, 2010 transition date.

Table 20: Reconciliation of equity on transition to IFRS

($ MILLIONS)	Previous Canadian GAAP December 31, 2009	Effect of transition to IFRS January 1, 2010	IFRS January 1, 2010
Shareholders' equity :			
Preferred shares	$ 48.5	$ –	$ 48.5
Common shares[1]	127.4	(0.1)	127.3
Contributed surplus	3.3	–	3.3
Retained earnings[2]	193.6	(37.9)	155.7
Accumulated other comprehensive income (loss)[3]	1.0	(6.5)	(5.5)
Total Shareholders' equity	$ 373.8	$ (44.5)	$ 329.3

(1) *Changes to future tax benefits (deferred tax under Canadian GAAP) related to share issuance costs as a result of changing intra-period tax rates is to be recorded against equity per IFRS. Under Canadian GAAP this amount was previously expensed through the income statement.*
(2) *Retained earnings effect of securitization accounting, leases and income taxes.*
(3) *Accumulated other comprehensive income effect of securitization accounting.*

In an advisory issued by OSFI in March 2010, items applicable to Equitable are as follows:

- Mortgages securitized under CMB and MBS programs prior to March 31, 2010 are permitted to be grandfathered or excluded from the ACM calculations; this has mitigated the impact of IFRS on the Company's ACM in the short term.
- The impact to regulatory capital from the transition to IFRS may be phased in over an eight quarter period, to be completed by the quarter ending December 31, 2012.

As such, Equitable is planning to take advantage of this phase in period, as well as the grandfathering provisions related to securitized assets and their impact on its ACM.

Upon adoption of IFRS, the inclusion of mortgages securitized after March 31, 2010 will increase the Company's ACM, though this will remain well within authorized limits. Based on information that is presently available, Equitable will continue to engage in future securitization activities subsequent to the implementation of IFRS, to the extent that these continue to provide a cost effective source of funding and represent an efficient use of its ACM regulatory capacity.

On adoption of IFRS at January 1, 2011, total mortgages on the Company's balance sheet will be approximately $8.2 billion, which compares to $6.9 billion under IFRS at January 1, 2010.

The Company will commence regular reporting on an IFRS basis starting with the first quarter of 2011, which will be accompanied by comparative IFRS financial statements for the first quarter of 2010.

The Company's 2010 earnings, as restated on an IFRS basis, are affected by differences in the method of accounting for securitized assets and the related derivatives used within its securitization activities, including the activities it undertakes to hedge its interest rate risk. Although hedged on an economic basis, the requirements for hedge accounting in 2010 or earlier periods under both Canadian GAAP and IFRS could not be met, leading to unmatched accounting for movements in fair value, which had an unfavorable pre-tax impact on the measurement of 2010 income under IFRS. In 2011 and subsequent years, the Company will be able to apply hedge accounting by designating interest rate swaps as hedges of interest rate risk with respect to its securitization activities, which will remove much of the measurement volatility associated with the respective interest rate swaps.

The Company anticipates an improvement in 2011 earnings, ROE and EPS as a result of IFRS, as it replaces the securitization income that it would have otherwise earned with excess interest spread (net of amortization of transaction expenses, ongoing servicing and other costs) that it will earn over the remaining life of the $4.7 billion mortgage assets that will have been re-recognized onto its balance sheet as at January 1, 2011.

Table 21: Status of transition to IFRS as at December 31, 2010

The project is on track with targets set. The milestone analysis table included below has been updated, at a more detailed level, to indicate the status and planned completion dates of activities to transition to IFRS at December 31, 2010:

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	Second quarter, 2009	• Complete
• Select ongoing IFRS accounting policies	Fourth quarter, 2009	• Complete
• Select IFRS 1 exemptions and exceptions (at transition)	Fourth quarter, 2009	• Complete
• Develop financial statement format	Second quarter, 2010	• Complete
• Quantify effects of transition to IFRS	First quarter, 2010	• Complete
Infrastructure		
IFRS expertise identification and development at levels of:		
• Accounting staff	Fourth quarter, 2009	• Training completed, updates as required
• Senior Executives and Board (including audit committee)	Second quarter, 2010	• Training completed, updates as required
Information Technology applications IFRS compliant:		
• Program upgrades / changes	Third quarter, 2009	• Complete
• One off calculations (IFRS 1)	Fourth quarter, 2009	• Complete
• Gathering data for disclosures	Fourth quarter, 2009	• Complete
Business Policy Assessment		
Financial covenants:		
• Identify impacts on financial covenants (including securitization)	First quarter, 2010	• Complete
• Complete any required renegotiations / changes	Second quarter, 2010	• Complete
Compensation arrangements:		
• Identify if arrangements are affected	First quarter, 2010	• Complete
• Renegotiate arrangements if required	Third quarter, 2010	• Complete
Capital adequacy:		
• Assess impact on capital plan	First quarter, 2010	• Complete
• Amend capital plan if required	Second quarter, 2010	• Complete
Control Environment		
Internal Control Over Financial Reporting:		
• For all accounting policy changes identified, assess Internal Control Over Financial Reporting design effectiveness	Third quarter, 2010	• Complete
• Implement appropriate changes	First quarter, 2011	• In progress
Disclosure controls and procedures:		
• For all accounting policy changes identified, publish impact of conversion on key performance indicators in MD&A	Third quarter, 2010	• Phased in, as appropriate
• MD&A communications package verification	First quarter, 2011	• Impact assessment to be completed

Critical Accounting Estimates

The Company's critical accounting estimates primarily relate to the areas of credit risk, 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 Notes 1, 2 and 3 to the audited consolidated financial statements for the year ended December 31, 2010.

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 the 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 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 fees. 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. Under Canadian GAAP in effect prior to transition to IFRS, management uses historical data to support any amendments to its estimation methodology of the carrying value of securitization retained interests. A sensitivity analysis of specified 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 And Derivative Financial Instruments

Under Canadian GAAP in effect prior to transition to IFRS, the Company's off-balance sheet activities have included securitization and the commitment it makes to fund its pipeline of mortgage originations. The Company hedges the interest rate risk on all mortgages and mortgage commitments intended for securitization, as well as certain other mortgages designated as held for trading. In order to protect against rises in interest rates that can occur between the rate commitment date and the sale date, which can lead to a reduced value of the mortgage upon securitization, the Company enters into Government of Canada guaranteed debt security short sale and repurchase agreements. The hedges act to significantly reduce the likelihood that, as a result of interest rate movements, the proceeds on the sale of the mortgage (comprised of the fair value of the mortgage and the fair value of hedge) will vary from the fair value of the mortgage at the date of rate commitment.

The Company securitizes CMHC-insured residential mortgages through the creation of MBS. These MBS are sold through the CMHC MBS and CMB Programs or are otherwise retained on the Company's consolidated balance sheet. After securitization, the Company retains the rights to certain excess interest spreads and servicing obligations and records these on its consolidated balance sheet as securitization retained interests and servicing liabilities, respectively. The Company administers all securitized mortgages after sale and, upon maturity of the mortgage, will renew these mortgage loans whenever possible. At December 31, 2010, the outstanding securitized mortgage portfolio totaled $4.7 billion (2009 – $4.1 billion) with a securitization retained interest of $153.6 million (2009 – $147.2 million). The servicing liability was $43.9 million (2009 – $40.6 million) at December 31, 2010.

In order to participate in the CMB Program administered by Canada Housing Trust ("CHT"), the Company enters into certain arrangements with accredited counterparties that are intended to secure the cash flows payable to the CHT. The mismatch and reinvestment risk that exists between the amortizing MBS and the CMB is managed by the Company through the retention of replacement assets, in the form of MBS, on its consolidated balance sheet, and their periodic sale to CHT to replace the original MBS that has amortized. Approved counterparties are limited to chartered banks and other financial intermediaries.

With respect to market interest rate exposure on term GICs to fund floating rate mortgages, the Company from time to time uses interest rate swaps to manage its interest rate risk, as required. The Company has not entered into any complex derivative contracts. For more information on hedges and interest rate swaps see Note 6 to the consolidated financial statements.

Contractual Obligations

Material contractual obligations of the Company at December 31, 2010 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	$ 4,050,770	$ 2,230,174	$ 1,414,120	$ 406,476	$ –
Subordinated debentures principal and interest[1]	86,763	3,399	6,797	7,214	69,353
Bank term loans principal and interest	13,468	801	12,667	–	–
Operating leases[2]	3,123	652	1,235	1,236	–
Total contractual obligations	$ 4,154,124	$ 2,235,026	$ 1,434,819	$ 414,926	$ 69,353

[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 and Derivative Financial Instruments" section of this MD&A and Note 5 to the consolidated financial statements for the year ended December 31, 2010. Details related to the Company's bank term loans can be found in Note 12 to the consolidated financial statements and details related to the Company's subordinated debentures can be found in Note 13. There have been no material changes to contractual obligations that are outside the ordinary course of the Company's business.

Related Party Transactions

From time to time, certain of the Company's directors and officers purchase GICs and subordinated debentures from the Company in the ordinary course of business, at market terms and conditions.

Risk Management

The Company, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and 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. 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 discussion below highlights certain key risks. For additional discussion of the risks that affect this business, please refer to pages 18 to 25 of the Company's Final Short Form Prospectus dated August 24, 2009, which is available on SEDAR at www.sedar.com. 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 honor 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 favorable terms to borrowers who have good equity and debt service ratios in situations where conventional lenders may typically decline borrowers.

Key components of credit risk, including credit concentration risk are closely monitored. 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. On a regular basis, management establishes credit limits for exposure to certain counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage portfolio.

The Company also invests in preferred share securities to generate returns that meet an acceptable ROE threshold. 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 66.1% of the preferred share equity securities portfolio at December 31, 2010, compared to 61.9% a year earlier. This year-over-year increase related to the net purchase in 2010 of $33.7 million of securities rated P-2 and higher.

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 or liabilities have unmatched terms, interest rates or other attributes.

The Company's primary method of managing interest rate risk involves matching 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 cashable GICs and early payouts of mortgages.

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, 2010 would increase by $3.3 million. Conversely, if interest rates were to decrease to a floor of 0% (and therefore not be allowed to go negative), net interest income would decrease by $3.1 million.

The Company hedges the interest rate risk for all 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 replacement assets in the form of MBS in order to reduce the interest rate risk and replacement asset exposure inherent in its participation 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.

Funding Risk

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

Managing funding 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. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions that were held by Equitable Trust. These assets amounted to $621.0 million at December 31, 2010 and $763.6 million at December 31, 2009.

The Company adheres to a funding risk management policy that 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 management, with quarterly reporting to the Investment Committee of the Board of Directors. As defined

in the policy, the stress analysis model considers 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 behavior of each type of asset and liability. For all scenarios that comprised Equitable's liquidity stress testing conducted during 2010, 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 funding policy at December 31, 2010 and at the date of this report.

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; and
- execution, delivery and process management.

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 Company's operations. Management strives to attract, develop and retain employees.

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 relies on business conducted on behalf of investing clients by members of the Investment Industry Regulatory Organization of Canada and the Registered Deposit Brokers Association. Mortgage originations depend on a network of independent mortgage brokers, mortgage brokerage firms 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 14.6% of the Company's outstanding on-balance sheet mortgages at December 31, 2010. The Company's relationship with FNFLP is assessed by management as strong and is supported and governed by contractual agreement. 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 from existing or new broker sources in order to meet corporate targets.

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 the 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.

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 appropriate information systems and procedures in place 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, maintains an oversight 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 and the Senior Vice President and Chief Financial 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, 2010. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management has evaluated the design and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2010 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, 2010.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Non-Generally Accepted Accounting Principles ("GAAP") Financial Measures

Management uses a variety of financial measures to evaluate the Company's performance. In addition to GAAP prescribed measures, management uses certain non-GAAP measures that it believes provide useful information to investors regarding our financial condition and results of operations. Readers are cautioned that non-GAAP measures, such as the tangible common equity ratio do not have any standardized meaning prescribed by Canadian GAAP, and therefore, are unlikely to be comparable to similar measures presented by other companies. This ratio is a key measure of capital strength that is defined as shareholder's equity plus any qualifying other non-controlling interest in subsidiaries less preferred shares issued and outstanding, any goodwill, other intangible assets and certain components of accumulated other comprehensive income, as a percentage of risk-adjusted assets less other intangible assets.

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 2010, the TEB adjustment was $5.3 million as compared to $3.4 million in 2009.

From time to time, the Company also utilizes non-GAAP financial measures to reflect circumstances where 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 entitled "Business Profile and Objectives", "2011 Business Outlook", "Net Interest Income", "Non-Interest Expenses", "Mortgage Portfolio", "Credit Quality and Allowance for Credit Losses", "Liquidity Investments and Equity Securities", "Capital Management", "Future Accounting Changes – International Financial Reporting Standards" and "Risk Management" of this report, 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 changes in accounting standards, policies and estimates, changes to and new interpretations of risk based capital guidelines, capital markets and additional funding requirements, fluctuating interest rates and general economic conditions, the impact of legislative and regulatory developments, the nature of our customers and rates of default, and competition as well as those factors discussed under the heading "Risk Management" 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. Equitable does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the Company or on its behalf, 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 23, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Equitable Group Inc.

We have audited the accompanying consolidated financial statements of Equitable Group Inc. which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of income, changes in shareholders' equity, comprehensive income, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Equitable Group Inc. as at December 31, 2010 and 2009, 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 23, 2011

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS)

As at December 31	2010	2009
Assets		
Cash and cash equivalents *(note 3)*	**$ 163,797**	$ 395,835
Restricted cash *(note 3)*	**8,965**	5,000
Investments purchased under reverse repurchase agreements *(note 4)*	**74,908**	129,721
Investments *(note 4)*	**569,590**	388,037
Securitization retained interests *(note 5)*	**153,567**	147,195
Mortgages receivable *(note 7)*	**3,468,607**	2,763,020
Other assets *(note 8)*	**14,032**	17,266
	$ 4,453,466	$ 3,846,074
Liabilities and Shareholders' Equity		
Liabilities:		
Customer deposits *(note 9)*	**$ 3,878,853**	$ 3,332,319
Future income taxes *(note 10)*	**22,163**	19,999
Other liabilities *(note 11)*	**63,817**	54,724
Bank term loans *(note 12)*	**12,500**	27,500
Subordinated debentures *(note 13)*	**52,671**	37,671
	4,030,004	3,472,213
Shareholders' equity:		
Preferred shares *(note 14)*	**48,523**	48,523
Common shares *(note 14)*	**128,156**	127,424
Contributed surplus *(note 15)*	**3,935**	3,267
Retained earnings	**238,307**	193,635
Accumulated other comprehensive income	**4,541**	1,012
	423,462	373,861
Commitments and contingencies *(note 18)*		
	$ 4,453,466	$ 3,846,074

See accompanying notes to consolidated financial statements.

Austin Beutel
Chairman

Andrew Moor
President and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

Years ended December 31	**2010**	2009
Interest income:		
Mortgages	**$ 176,540**	$ 162,991
Investments	**16,029**	13,548
Other	**2,744**	3,599
	195,313	180,138
Interest expense:		
Customer deposits	**87,871**	94,322
Deposit agent commissions	**8,591**	7,149
Bank term loans	**2,059**	3,188
Subordinated debentures	**2,626**	2,310
Other	**120**	–
	101,267	106,969
Net interest income	**94,046**	73,169
Provision for credit losses *(note 7)*	**7,826**	6,600
Net interest income after provision for credit losses	**86,220**	66,569
Other income:		
Fees and other income	**2,882**	3,246
Net gain on investments	**230**	50
Gains on securitization activities and income from retained interests *(note 5)*	**12,691**	24,390
	15,803	27,686
Net interest income and other income	**102,023**	94,255
Non-interest expenses:		
Compensation and benefits	**18,599**	15,367
Other	**11,979**	10,540
	30,578	25,907
Income before income taxes	**71,445**	68,348
Income taxes *(note 10)*:		
Current	**16,466**	12,660
Future	**712**	4,250
	17,178	16,910
Net income	**54,267**	51,438
Dividends on preferred shares	**3,625**	1,212
Net income available to common shareholders	**$ 50,642**	$ 50,226
Weighted average number of shares outstanding *(note 16)*:		
Basic	**14,922,263**	14,888,797
Diluted	**14,998,838**	14,928,901
Earnings per share *(note 16)*:		
Basic	**$ 3.39**	$ 3.37
Diluted	**$ 3.38**	$ 3.36

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ THOUSANDS)

Years ended December 31	2010	2009
Preferred shares *(note 14)*:		
Balance, beginning of year	$ 48,523	$ –
Gross proceeds of equity issue, Series 1	–	50,000
Issue expenses, net of tax recovery of nil (2009 — $638)	–	(1,477)
Balance, end of year	48,523	48,523
Common shares *(note 14)*:		
Balance, beginning of year	127,424	126,993
Proceeds from reinvestment of dividends	357	189
Proceeds from exercise of stock options	318	195
Transferred from contributed surplus relating to the exercise of stock options	57	47
Balance, end of year	128,156	127,424
Contributed surplus:		
Balance, beginning of year	3,267	2,553
Stock-based compensation *(note 15)*	725	761
Transferred to common shares relating to the exercise of stock options	(57)	(47)
Balance, end of year	3,935	3,267
Retained earnings:		
Balance, beginning of year	193,635	149,365
Net income	54,267	51,438
Dividends		
Preferred shares	(3,625)	(1,212)
Common shares	(5,970)	(5,956)
Balance, end of year	238,307	193,635
Accumulated other comprehensive income:		
Balance, beginning of year	1,012	(14,765)
Other comprehensive income	3,529	15,777
Balance, end of year	4,541	1,012
Total retained earnings and accumulated other comprehensive income	242,848	194,647
Total shareholders' equity	$ 423,462	$ 373,861

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ THOUSANDS)

Years ended December 31	2010	2009
Net income	$ 54,267	$ 51,438
Other comprehensive income, net of tax:		
Available for sale investments:		
Net unrealized gains from change in fair value[(1)]	8,635	19,324
Reclassification of net gains to income[(2)]	(5,106)	(3,547)
Other comprehensive income	3,529	15,777
Comprehensive income	$ 57,796	$ 67,215

(1) *Net of income tax expense of $3,798 (2009 – tax expense of $9,262).*

(2) *Net of income tax benefit of $2,246 (2009 – tax benefit of $1,700).*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS)

Years ended December 31	2010	2009
Cash provided by (used in):		
Operating activities:		
Net income	$ 54,267	$ 51,438
Non-cash items:		
Financial instruments – fair value adjustments	(1,183)	2,572
Securitization gains	(8,760)	(20,221)
Amortization of capital assets	609	605
Provision for credit losses	7,826	6,600
Net loss (gain) on investments	2,504	(27)
Future income taxes	2,164	2,798
Stock-based compensation	725	761
Amortization of premiums on investments, net	2,113	803
	60,265	45,329
Changes in operating assets and liabilities:		
Other assets	774	5,783
Other liabilities	(4,010)	(6,312)
	57,029	44,800
Financing activities:		
Increase (decrease) in customer deposits	546,534	(355,328)
Repayment of bank term loan	(15,000)	(17,095)
Issuance of subordinated debentures	20,000	23,221
Redemption of subordinated debentures	(5,000)	(17,519)
Dividends paid on preferred shares	(3,625)	(1,212)
Dividends paid on common shares	(5,612)	(5,765)
Issuance of preferred shares	–	47,885
Issuance of common shares	318	195
	537,615	(325,618)
Investing activities:		
Purchase of investments	(524,988)	(239,098)
Proceeds on sale or redemption of investments	499,318	248,080
Purchase of investments purchased under reverse repurchase agreements	(364,189)	(941,681)
Proceeds on sale or redemption of investments purchased under reverse repurchase agreements	419,002	1,510,236
Change in restricted cash	(3,965)	3,422
Increase in mortgages receivable	(2,977,263)	(2,838,218)
Mortgage principal repayments	1,255,691	1,454,319
Proceeds from loan securitizations	830,864	1,402,222
Securitization retained interests	39,377	27,530
Purchase of capital assets	(529)	(280)
	(826,682)	626,532
(Decrease) increase in cash and cash equivalents	(232,038)	345,714
Cash and cash equivalents, beginning of year	395,835	50,121
Cash and cash equivalents, end of year	$ 163,797	$ 395,835
Supplemental cash flow information:		
Interest paid	$ 79,218	$ 102,811
Income taxes paid	16,329	15,767

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 guaranteed debt securities by the Company effected with a simultaneous agreement to sell the assets back at a specified price on a specified future date, which is generally short term. The 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 designated as held for trading 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 expensed as incurred and are included in gains on securitization activities and income from retained interests in the consolidated statements of income.

1. Significant accounting policies (continued):

(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. Derivative products that are primarily used are interest rate swaps and short sale and repurchase agreements of Government of Canada guaranteed debt securities. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the maturity characteristics of existing assets and liabilities. Short sale and repurchase agreements 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.

1. Significant accounting policies (continued):

Derivative financial instruments are recorded on the consolidated balance sheets as held for trading financial instruments and are carried at fair value. Changes in fair value for derivatives related to securitization activities are included, as appropriate, in gains on securitization activities and income from retained interests. Changes in fair value for derivatives related to other mortgages designated as held for trading are included in interest income. Changes in fair value for derivatives related to interest rate swap activities are included in interest expense.

(i) Stock-based compensation:

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 with a corresponding increase in 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.

In addition to the stock option plan, the Company has a Deferred Share Unit ("DSU") plan for directors. The obligation that results from the award of a DSU is recognized in income upon the grant of the unit and the corresponding amount is included in other liabilities in the consolidated balance sheets. The change in the obligation attributable to the change in stock price and dividends paid on common shares is recognized in compensation expense in the consolidated statements of income for the period in which the changes occur. The redemption value of each DSU is the volume-weighted average trading price of the common shares of the Company on the Toronto Stock Exchange ("TSX") for the five trading days prior to the date the individual ceases to be a director.

(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.

1. Significant accounting policies (continued):

(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.

(n) Earnings per share:

Earnings per share is computed by dividing net income available to common shareholders 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) Future accounting changes:

International Financial Reporting Standards ("IFRS"):

The AcSB 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. A description of the Company's implementation plan, progress and the expected impact on its financial reporting is included in the Company's Management's Discussion and Analysis for the three months and year ended December 31, 2010 on pages 38 to 41.

(q) Comparative figures:

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for 2010.

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, securitization retained interests, mortgages receivable and derivative financial instruments. Financial instrument liabilities include customer deposits, derivative financial instruments, securitized mortgage servicing liability, bank term loans and subordinated debentures.

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 funding risk. The following is a discussion of these risk exposures and how it manages those risks:

2. Financial instruments (continued):

Credit risk management:

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.

Key components of credit risk, including credit concentration risk are closely monitored. 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. On a regular basis, management establishes credit limits for exposure to certain counterparties, industries or market segments, monitors these credit exposures, and prepares detailed analyses and reports assessing overall credit risk within the mortgage portfolio.

The Company also invests in preferred share securities to generate returns that meet an acceptable 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 66.1% of the preferred share equity securities portfolio at December 31, 2010, compared to 61.9% 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 or liabilities have unmatched terms, interest rates or other attributes.

The Company's primary method of managing interest rate risk involves matching 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") and Canada Mortgage Bond ("CMB") Programs. Hedging protects the Company from losses due to changes in interest rates during the relevant period.

The Company also holds replacement assets in the form of MBS in order to reduce the interest rate risk and replacement asset exposure inherent in its participation 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.

Funding risk management:

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

2. Financial instruments (continued):

Managing funding 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. Assets held for the purpose of providing liquidity protection consist of cash and cash equivalents, debt instruments guaranteed by governments and debt securities issued by regulated financial institutions that were held by Equitable Trust. These assets amounted to $621.0 million at December 31, 2010 and $763.6 million at December 31, 2009.

The Company was in compliance with its funding policy at December 31, 2010. 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, 2010, these maturities amounted to $901.3 million. The Company held regulatory liquid assets corresponding to 68.9% of its 100 Day Maturities as at December 31, 2010.

(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 and financial liabilities 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 a yield plus a spread for like term Government of Canada guaranteed debt securities.

(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.

2. Financial instruments (continued):

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.

2010	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	$ 163,797	$ –	$ –	$ –	$ 163,797	$ 163,797
Restricted cash	8,965	–	–	–	8,965	8,965
Investments purchased under reverse repurchase agreements	–	–	–	74,908	74,908	74,908
Investments	–	–	569,590	–	569,590	569,590
Securitization retained interests	–	–	153,567	–	153,567	153,567
Mortgages receivable[1]	–	124,847	–	3,343,760	3,468,607	3,489,557
Other assets:						
Fair value of derivative financial instruments – securitization activities	537	–	–	–	537	537
Other	–	–	–	3,397	3,397	3,397
Total financial assets	$ 173,299	$ 124,847	$ 723,157	$ 3,422,065	$ 4,443,368	$ 4,464,318
Financial liabilities:						
Customer deposits[1]	$ –	$ –	$ –	$ 3,878,853	$ 3,878,853	$ 3,907,152
Other liabilities:						
Fair value of derivative financial instruments – interest rate swaps	331	–	–	–	331	331
Fair value of derivative financial instruments – hedges	63	–	–	–	63	63
Mortgage commitments	711	–	–	–	711	711
Other	–	–	–	62,362	62,362	62,362
Bank term loans	–	–	–	12,500	12,500	12,886
Subordinated debentures	–	–	–	52,671	52,671	54,857
Total financial liabilities	$ 1,105	$ –	$ –	$ 4,006,386	$ 4,007,491	$ 4,038,362

[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):

2009	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	$ 395,835	$ –	$ –	$ –	$ 395,835	$ 395,835
Restricted cash	5,000	–	–	–	5,000	5,000
Investments purchased under reverse repurchase agreements	–	–	–	129,721	129,721	129,721
Investments	–	–	388,037	–	388,037	388,037
Securitization retained interests	–	–	147,195	–	147,195	147,195
Mortgages receivable[(1)]	–	141,449	–	2,621,571	2,763,020	2,796,545
Other assets:						
Fair value of derivative financial instruments – interest rate swaps	294	–	–	–	294	294
Fair value of derivative financial instruments – hedges	264	–	–	–	264	264
Fair value of derivative financial instruments – securitization activities	2,358	–	–	–	2,358	2,358
Other	–	–	–	3,503	3,503	3,503
Total financial assets	$ 403,751	$ 141,449	$ 535,232	$ 2,754,795	$ 3,835,227	$ 3,868,752
Financial liabilities:						
Customer deposits[(1)]	$ –	$ 10,238	$ –	$ 3,322,081	$ 3,332,319	$ 3,343,148
Other liabilities:						
Mortgage commitments	14	–	–	–	14	14
Other	–	–	–	54,243	54,243	54,243
Bank term loans	–	–	–	27,500	27,500	28,838
Subordinated debentures	–	–	–	37,671	37,671	37,610
Total financial liabilities	$ 14	$ 10,238	$ –	$ 3,441,495	$ 3,451,747	$ 3,463,853

[(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):

(c) Fair value hierarchy:

Financial instruments recorded at fair value on the consolidated balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets and liabilities.

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – valuation techniques with significant unobservable market inputs.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheet, classified using the fair value hierarchy:

2010	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 163,797	$ –	$ –	$ 163,797
Restricted cash	8,965	–	–	8,965
Investments	280,475	289,115	–	569,590
Securitization retained interests	–	153,567	–	153,567
Mortgages receivable	–	124,847	–	124,847
Other assets:				
Fair value of derivative financial instruments – securitization activities	537	–	–	537
Total financial assets	$ 453,774	$ 567,529	$ –	$ 1,021,303
Financial liabilities:				
Other liabilities:				
Fair value of derivative financial instruments – interest rate swaps	$ –	$ 331	$ –	$ 331
Fair value of derivative financial instruments – hedges	63	–	–	63
Mortgage commitments	–	711	–	711
Total financial liabilities	$ 63	$ 1,042	$ –	$ 1,105

2. Financial instruments (continued):

2009	Level 1	Level 2	Level 3	Total financial assets/ financial liabilities at fair value
Financial assets:				
Cash and cash equivalents	$ 395,835	$ –	$ –	$ 395,835
Restricted cash	5,000	–	–	5,000
Investments	151,147	236,890	–	388,037
Securitization retained interests	–	147,195	–	147,195
Mortgages receivable	–	141,449	–	141,449
Other assets:				
Fair value of derivative financial instruments – interest rate swaps	–	294	–	294
Fair value of derivative financial instruments – hedges	264	–	–	264
Fair value of derivative financial instruments – securitization activities	2,358	–	–	2,358
Total financial assets	$ 554,604	$ 525,828	$ –	$ 1,080,432
Financial liabilities:				
Customer deposits	$ –	$ 10,238	$ –	$ 10,238
Other liabilities:				
Mortgage commitments	–	14	–	14
Total financial liabilities	$ –	$ 10,252	$ –	$ 10,252

3. Cash and cash equivalents and restricted cash:

	2010	2009
Deposits with regulated financial institutions	**$ 163,797**	$ 395,835
	$ 163,797	$ 395,835

Restricted cash of $8,965 (2009 – $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				2010	2009
	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 by regulated financial institutions	$ 37,040	$ 30,020	$ –	$ –	$ 67,060	$ –
Debt securities issued or guaranteed by Government of Canada	3,740	70,728	186,028	54,832	315,328	238,061
Equity securities - preferred shares	–	37,894	9,890	139,418[1]	187,202	149,976
	$ 40,780	$ 138,642	$ 195,918	$ 194,250	$ 569,590	$ 388,037

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

The analysis of investments at fair value is as follows:

	2010				2009			
	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value	Amortized cost	Unrealized gains	Unrealized losses	Estimated fair value
Debt securities issued by regulated financial institutions	$ 67,076	$ –	$ (16)	$ 67,060	$ –	$ –	$ –	$ –
Debt securities issued or guaranteed by Government of Canada	308,145	7,183	–	315,328	230,212	8,035	(186)	238,061
Equity securities - preferred shares	190,027	–	(2,825)	187,202	158,958	2,588	(11,570)	149,976
	$ 565,248	$ 7,183	$ (2,841)	$ 569,590	$ 389,170	$ 10,623	$ (11,756)	$ 388,037

The Company held investments under reverse repurchase agreements at December 31, 2010 in the amount of $74,908 (2009 – $129,721). Investments purchased under reverse repurchase agreements represent a purchase of Government of Canada guaranteed debt 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. These mortgage backed securities are sold through the CMHC MBS and CMB Programs or are otherwise retained on the Company's consolidated balance sheets. As at December 31, 2010, outstanding securitized mortgages totaled $4,704,687 (2009 – $4,093,180).

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. 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.

5. Securitization retained interests (continued):

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 a yield plus a spread for like term Government of Canada guaranteed debt securities.

The following table provides quantitative information about the securitization activities during the year:

	2010	2009
Mortgages securitized and sold	**$ 831,128**	$ 1,400,939
Mortgages securitized and retained	**156,639**	205,883
Cash proceeds, net of accrued interest received on mortgages securitized and sold	**830,864**	1,402,222
Retained rights to future excess interest	**45,506**	76,395
Servicing liability recorded	**13,293**	28,522
Gains on mortgages securitized and sold	**5,344**	18,320
Gains on other securitization activities	**3,416**	1,901

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

	2010	2009
	Residential mortgages	Residential mortgages
Discount rate	**3.07%**	2.82%
Prepayment rate[1]	**3.04%**	1.33%
Excess spread	**0.89%**	1.11%

[1] *The prepayment rate assumption used for single-family residential mortgages is 12.30%. 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 pre-payment 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 is as follows:

	2010	2009
Cash flows received on securitization retained interests, net of servicing fees paid	**$ 33,269**	$ 23,837
Securitization retained interests	**153,567**	147,195
Amortization of securitization retained interests	**39,377**	27,530
Securitized mortgage servicing liability *(note 11)*	**43,860**	40,606
Amortization of securitized mortgage servicing liability	**10,039**	7,862
Net unrealized fair value gain included in securitization retained interests	**1,935**	1,692

5. Securitization retained interests (continued):

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

	2010	2009
Excess interest spread, net of servicing fees	$ 3,931	$ 4,169
Gains on securitization activities	8,760	20,221
	$ 12,691	$ 24,390

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, 2010. The following sensitivity analysis is hypothetical and should be used with caution:

	2010	2009
	Residential mortgages	Residential mortgages
Carrying value of retained interests	$ 153,567	$ 147,195
Discount rate	2.61%	2.82%
Impact on fair value of a 10% adverse change	(964)	(973)
Impact on fair value of a 20% adverse change	(1,899)	(1,932)

The valuation of the future excess interest spread includes a weighted average excess spread of 0.97% (2009 – 0.98%), and the key assumption of a weighted average discount rate of 2.61% (2009 – 2.82%). 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 14.16%.

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

	Excess interest spread	Servicing liability
2011	$ 39,915	$ 10,743
2012	37,190	10,500
2013	32,338	9,355
2014	16,674	4,751
2015	8,719	2,188
Thereafter	18,731	6,323
	$ 153,567	$ 43,860

(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 change in the bid side of like term Government of Canada guaranteed debt securities plus a spread. 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 negative $711 (2009 – negative $14) is included in other liabilities (note 11).

6. Derivative financial instruments:

(a) Hedge instruments:

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

Hedge instruments outstanding at year end are short sale and repurchase agreements of Government of Canada guaranteed debt securities, where the counterparties are chartered banks, their subsidiaries or other financial intermediaries, and are as follows:

			2010			2009
Bond term (years)	**Notional amount**	**Fair value**	**Unrealized gain [1]**	Notional amount	Fair value	Unrealized gain [1]
1 to 5	**$ 35,450**	**$ 35,077**	**$ (261)**	$ 62,100	$ 61,652	$ (533)
6 to 10	**86,045**	**86,225**	**(213)**	103,745	102,732	(2,089)
	$ 121,495	**$ 121,302**	**$ (474)**	$ 165,845	$ 164,384	$ (2,622)

[1] *Hedge instruments to manage interest rate exposures on mortgages held for securitization and on commitments for mortgages to be securitized are fair value hedges carried at fair value with changes in fair value included in gains on securitization activities and income from retained interests. Hedge instruments to manage interest rate exposures on certain other mortgages designated as held for trading are fair value hedges and are 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 guaranteed debt securities at the reporting date. The unrealized gains are included in other assets (note 8) and the unrealized losses are 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, as well as certain other mortgages designated as held for training. These hedging facilities are secured by investments in preferred shares and cash equivalents. There are no outstanding GIC interest rate swap agreements at December 31, 2010. For December 31, 2009, the fair value of the GIC interest rate swap agreements was included in other assets (note 8) with the changes in fair value included in interest expense. For December 31, 2010, the fair value of interest rate swap agreements for certain other mortgages designated as held for trading are included in other liabilities (note 11) with changes in fair value included in interest income. Approved counterparties are limited to chartered banks and other financial intermediaries.

Interest rate swaps outstanding at year end are as follows:

		2010		2009
Swap term (years)	**Notional amount**	**Fair value**	Notional amount	Fair value
1 to 5	**$ –**	**$ –**	$ 10,000	$ 294
6 to 10	**37,995**	**(331)**	–	–
	$ 37,995	**$ (331)**	$ 10,000	$ 294

(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:

2010	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$ 2,482,217	$ 489	$ 8,192	$ 8,681	$ 2,473,536
Other mortgages	873,190	5,850	3,243	9,093	864,097
Mortgages held for securitization or for sale	117,973	–	106	106	117,867
Accrued interest	13,107	–	–	–	13,107
	$ 3,486,487	$ 6,339	$ 11,541	$ 17,880	$ 3,468,607

2009	Gross amount	Allowance for credit losses Specific	General	Total	Net amount
Residential mortgages	$ 1,783,664	$ 2,266	$ 8,181	$ 10,447	$ 1,773,217
Other mortgages	739,656	2,030	1,927	3,957	735,699
Mortgages held for securitization or for sale	242,880	–	231	231	242,649
Accrued interest	11,455	–	–	–	11,455
	$ 2,777,655	$ 4,296	$ 10,339	$ 14,635	$ 2,763,020

Included in mortgages held for securitization or for sale are Government of Canada insured residential mortgages of $72,899 (2009 – $127,866) which have been designated as held for trading and are carried at fair value determined by reference to the change in the bid side of like term Government of Canada guaranteed debt securities plus a spread. 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 $44 (2009 – ($1,553)). Mortgages held for sale include mortgages which are to be pooled and discharged subsequent to the consolidated balance sheet date at their investment cost. These mortgages are carried at 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, 2010, mortgage principal outstanding for these mortgages held for trading is $50,890 (2009 – $13,065) and the fair value adjustment is $1,058 (2009 – $518).

Real estate owned held for sale at December 31, 2010 amounted to $1,105 (2009 – $2,518) and are included in other assets (note 8).

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 $2,620,650 (2009 – $2,012,289) of mortgages secured by properties located in the Province of Ontario and $499,662 (2009 – $447,599) of mortgages secured by properties located in the Province of Alberta. All mortgages are secured by real estate property in Canada.

(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:

	2010			2009		
	Gross	**Specific allowance**	**Net**	Gross	Specific allowance	Net
Residential mortgages	**$ 19,527**	**$ (489)**	**$ 19,038**	$ 29,635	$ (2,266)	$ 27,369
Other mortgages	**16,229**	**(5,850)**	**10,379**	7,927	(2,030)	5,897
Mortgages held for securitization or for sale	**–**	**–**	**–**	–	–	–
	$ 35,756	**$ (6,339)**	**$ 29,417**	$ 37,562	$ (4,296)	$ 33,266

Outstanding mortgages that are past due but not classified as impaired are as follows:

				2010
	30 – 59 days	**60 – 89 days**	**90+ days**	**Total**
Residential mortgages	**$ 10,352**	**$ 4,643**	**$ 5,918**	**$ 20,913**
Other mortgages	**–**	**–**	**848**	**848**
Mortgages held for securitization or for sale	**–**	**–**	**–**	**–**
	$ 10,352	**$ 4,643**	**$ 6,766**	**$ 21,761**

				2009
	30 – 59 days	60 – 89 days	90+ days	Total
Residential mortgages	$ 7,467	$ 3,908	$ 5,450	$ 16,825
Other mortgages	7,300	–	531	7,831
Mortgages held for securitization or for sale	–	–	–	–
	$ 14,767	$ 3,908	$ 5,981	$ 24,656

(c) Allowance for credit losses:

	2010			2009		
	Specific allowance	**General allowance**	**Total**	Specific allowance	General allowance	Total
Balance, beginning of year	**$ 4,296**	**$ 10,339**	**$ 14,635**	$ 2,900	$ 11,651	$ 14,551
Provision for credit losses	**5,142**	**2,684**	**7,826**	7,912	(1,312)	6,600
Allowance for credit losses on acquired portfolio	**209**	**(1,482)**	**(1,273)**	–	–	–
Realized losses(1)	**(3,539)**	**–**	**(3,539)**	(6,624)	–	(6,624)
Recoveries	**231**	**–**	**231**	108	–	108
Balance, end of year	**$ 6,339**	**$ 11,541**	**$ 17,880**	$ 4,296	$ 10,339	$ 14,635

(1) *Includes realized losses of $1,424 (December 31, 2009 - nil) relating to mortgages restructured during the year.*

7. Mortgages receivable (continued):

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

2010	**Gross amount**	**Principal amount of mortgages 90 or more days past due**
Residential mortgages	**$ 7,187,291**	**$ 28,034**
Other mortgages	**873,190**	**11,534**
Mortgages held for securitization or for sale	**117,973**	**–**
Total mortgages reported and securitized	**8,178,454**	**39,568**
Less mortgages securitized	**4,704,687**	**2,590**
Mortgages reported prior to accrued interest	**$ 3,473,767**	**$ 36,978**

2009	Gross amount	Principal amount of mortgages 90 or more days past due
Residential mortgages	$ 5,876,844	$ 20,178
Other mortgages	739,656	2,361
Mortgages held for securitization or for sale	242,880	–
Total mortgages reported and securitized	6,859,380	22,539
Less mortgages securitized	4,093,180	4,112
Mortgages reported prior to accrued interest	$ 2,766,200	$ 18,427

8. Other assets:

	2010	2009
Prepaid expenses and other	**$ 4,088**	$ 1,930
Income taxes recoverable	**2,774**	4,187
Capital assets	**2,131**	2,211
Receivables relating to securitization activities	**2,025**	2,075
Accrued interest and dividends on non-mortgage assets	**1,372**	1,429
Real estate owned *(note 7)*	**1,105**	2,518
Derivative financial instruments — securitization activities *(note 6)*	**537**	2,358
Derivative financial instruments — interest rate swaps *(note 6)*	**–**	294
Derivative financial instruments — hedges *(note 6)*	**–**	264
	$ 14,032	$ 17,266

9. Customer deposits:

	2010	2009
Cashable GICs, payable on demand	**$ 560,729**	$ 688,782
GICs with fixed maturity dates	**3,245,208**	2,582,186
Accrued interest	**85,138**	71,798
Deferred deposit agent commissions	**(12,222)**	(10,447)
	$ 3,878,853	$ 3,332,319

9. Customer deposits (continued):

There were no GICs designated as held for trading as at December 31, 2010. As at December 31, 2009, GICs with fixed maturity dates included $10,000 of GICs designated as held for trading. These GICs were 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. For December 31, 2009, the fair value adjustment of negative $238 was included in interest expense.

The following table outlines the maturity profile of customer deposits:

					2010	2009
	Maturities					
	Payable on demand	**Within 1 year**	**1 to 3 years**	**4 to 5 years**	**Total**	Total
GICs	**$ 560,729**	**$ 1,586,922**	**$ 1,289,918**	**$ 368,368**	**$ 3,805,937**	$ 3,270,968

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 income before the provision for income taxes for the following reasons:

	2010	2009
Canadian statutory income tax rate	**30.6%**	32.4%
Increase (decrease) resulting from:		
Tax-exempt income	**(5.0%)**	(2.9%)
Future tax rate decreases	**(1.8%)**	(4.2%)
Non-deductible expenses and other	**0.2%**	(0.6%)
Effective income tax rate	**24.0%**	24.7%

The net future income tax liability is comprised of:

	2010	2009
Future income tax assets:		
Allowance for credit losses	**$ 3,417**	$ 2,715
Share issue expenses	**723**	1,080
Other	**52**	1,360
	4,192	5,155
Future income tax liabilities:		
Deferred mortgage fees	**148**	–
Deferred GIC commissions	**3,310**	3,020
Securitization retained interests	**22,897**	22,134
	26,355	25,154
Net future income tax liability	**$ 22,163**	$ 19,999

11. Other liabilities:

	2010	2009
Securitized mortgage servicing liability *(note 5)*	**$ 43,860**	$ 40,606
Mortgagor realty taxes	**14,564**	10,317
Accounts payable and accrued liabilities	**4,288**	3,787
Mortgage commitments *(note 5)*	**711**	14
Derivative financial instruments — interest rate swaps *(note 6)*	**331**	–
Derivative financial instruments — hedges *(note 6)*	**63**	–
	$ 63,817	$ 54,724

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 December 31, 2010 (2009 – nil).

(b) Term loans:

The Company has a non-revolving term loan of $12,500. 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 $15,000 of Series 6 and $12,500 of Series 7 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 the loan, 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.

2010

Interest rate	Date loan received	Maturity date	**Outstanding December 31, 2009**	**Issued during the year**	**Repaid during the year**	**Outstanding December 31, 2010**
6.82%	April 2006	April 2011	**$ 15,000**	**$ –**	**$ 15,000**	**$ –**
6.41%	March 2007	March 2012	**12,500**	**–**	**–**	**12,500**
			$ 27,500	**$ –**	**$ 15,000**	**$ 12,500**

2009

Interest rate	Date loan received	Maturity date	Outstanding December 31, 2008	Issued during the year	Repaid during the year	Outstanding December 31, 2009
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	$ –	$ 17,095	$ 27,500

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. Series 6, 7 and 8 are redeemable any time at the Company's option. Series 9 is redeemable at any time on or after December 15, 2015. Any redemption of this debt, contractual or earlier, is subject to regulatory approval. Interest is paid quarterly on Series 6 and 7 subordinated debentures. Interest on Series 8 subordinated debentures is paid at a fixed rate of 6.50% per annum, payable semi-annually for the first five years of its 10-year term. Thereafter, Series 8 will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 480 basis points, payable quarterly. Interest on Series 9 subordinated debentures is paid at a fixed rate of 6.09% per annum, payable monthly for the first five years of its 10-year term. Thereafter, Series 9 will bear a floating rate of interest to maturity at 90-day Banker's Acceptance Rate plus 338 basis points, payable quarterly.

2010

Debenture	Interest rate	Issue date	Maturity date	**Outstanding December 31, 2009**	**Issued during the year**	**Repaid during the year**	**Outstanding December 31, 2010**
Series 6	7.27%	2006	January 2016	**$ 5,000**	**$ –**	**$ 5,000**	**$ –**
Series 7	7.10%	2007	January 2017	**9,450**	**–**	**–**	**9,450**
Series 8	6.50%	2009	December 2019	**23,221**	**–**	**–**	**23,221**
Series 9	6.09%	2010	December 2020	**–**	**20,000**	**–**	**20,000**
				$ 37,671	**$ 20,000**	**$ 5,000**	**$ 52,671**

2009

Debenture	Interest rate	Issue date	Maturity date	Outstanding December 31, 2008	Issued during the year	Repaid during the year	Outstanding December 31, 2009
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
Series 8	6.50%	2009	December 2019	–	23,221	–	23,221
				$ 31,969	$ 23,221	$ 17,519	$ 37,671

14. Shareholders' equity:

(a) Capital stock:

Authorized:

Unlimited number of non-cumulative 5-year rate reset preferred shares, Series 1
Unlimited number of non-cumulative floating rate preferred shares, Series 2
Unlimited number of common shares

Issued and outstanding shares:

			2010			2009
	Number of shares	**Amount**	**Dividends per share**	Number of shares	Amount	Dividends per share
Preferred shares, Series 1:						
Balance, beginning of year	**2,000,000**	**$ 48,523**		–	$ –	
Equity issue	**–**	**–**		2,000,000	48,523	
Balance, end of year	**2,000,000**	**$ 48,523**	**$ 1.81**	2,000,000	$ 48,523	$ 0.61

			2010			2009
	Number of shares	**Amount**	**Dividends per share**	Number of shares	Amount	Dividends per share
Common shares:						
Balance, beginning of year	**14,903,846**	**$ 127,424**		14,882,710	$ 126,993	
Issued on reinvestment of dividends	**16,491**	**357**		11,136	189	
Issued on exercise of stock options	**23,100**	**318**		10,000	195	
Transferred from contributed surplus relating to the exercise of stock options	**–**	**57**		–	47	
Balance, end of year	**14,943,437**	**$ 128,156**	**$ 0.40**	14,903,846	$ 127,424	$ 0.40

(b) Preferred shares:

Issuance of preferred shares

On September 1, 2009, the Company issued 2,000,000 Series 1 Preferred Shares at a price of $25.00 per share for gross proceeds of $50,000, before issue expenses. Expenses of $1,477 related to the issuance have been recorded in capital stock, net of income taxes recovered of $638. The initial dividend was paid on December 31, 2009 and was $0.605822 per share.

Series 1 – 5 Year Rate Reset Preferred Shares

Holders of Series 1 Preferred Shares are entitled to receive fixed quarterly non-cumulative preferential cash dividends, as and when declared by the Board of Directors, which will be paid at a per annum rate of 7.25% per share for an initial period ending September 30, 2014. Thereafter, the dividend rate will reset every five years at a level of 4.53% over the then five-year Government of Canada bond yield. Series 1 Preferred Shares are redeemable in cash at the Company's option, subject to prior regulatory approval, on September 30, 2014 and September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption. Series 1 Preferred Shares are convertible at the holder's option, subject to certain conditions, to non-cumulative floating rate preferred shares, Series 2 (the "Series 2 Preferred Shares") on September 30, 2014 and on September 30 every five years thereafter.

14. Shareholders' equity (continued):

Series 2 – Floating Rate Preferred Shares

Holders of the Series 2 Preferred Shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend equal to the 90-day Canadian Treasury Bill Rate plus 4.53%, as and when declared by the Board of Directors. Redeemable in cash at the Company's option, subject to prior regulatory approval, (i) on September 30, 2019 and September 30 every five years thereafter, in whole or in part, at a price of $25.00 per share plus all declared and unpaid dividends at the date fixed for redemption; or (ii) $25.50 plus all declared and unpaid dividends to the date fixed for redemption in the case of redemptions on any other date on or after September 30, 2014. Convertible at the holder's option, subject to certain conditions, to non-cumulative 5-year rate reset preferred shares, Series 1 (the "Series 1 Preferred Shares") on September 30, 2019 and on September 30 every five years thereafter.

(c) Common shares:

Issuances of common shares

During 2010, 23,100 (2009 – 10,000) shares were issued as a result of the exercise of stock options for cash consideration of $318 (2009 – $195) and $57 (2009 – $47) was transferred from contributed surplus to common shares as a result of these exercises. In addition, 16,491 (2009 -11,136) common shares were issued under the Dividend Reinvestment Plan.

(d) Dividend reinvestment plan:

The Company has a Dividend Reinvestment Plan. Participation in the plan is optional and under the terms of the plan, cash dividends on common shares are used to purchase additional common shares at the volume-weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the dividend payment date. At the option of the Company, the common shares may be issued from the Company's treasury or acquired from the open market at market price.

(e) 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:

(a) 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 or six years and vest over a five-year period. The maximum number of common shares available for issuance under the plan is 10% of the Company's issued and outstanding common shares. The outstanding options expire on various dates to December 2016. A summary of the Company's stock option activity and related information for the years ended December 31, 2010 and 2009 is as follows:

	2010		2009	
	Number of stock options	**Weighted average exercise price**	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	**814,750**	**$ 23.71**	896,750	$ 22.99
Granted	**152,000**	**24.75**	172,000	20.42
Exercised	**(23,100)**	**13.77**	(10,000)	19.52
Forfeited/cancelled	**(47,500)**	**23.04**	(244,000)	18.93
Outstanding, end of year	**896,150**	**$ 24.18**	814,750	$ 23.71
Exercisable, end of year	**350,000**	**$ 26.65**	241,950	$ 27.05

15. Stock-based compensation (continued):

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 2010:

	Options outstanding		Options exercisable
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
$ 28.75	125,000	0.9	100,000
$ 34.49	150,000	1.2	90,000
$ 31.75	30,000	1.6	18,000
$ 28.79	25,000	1.9	15,000
$ 28.63	30,000	1.9	18,000
$ 24.10	15,000	2.2	6,000
$ 20.90	30,000	2.3	12,000
$ 21.63	25,000	2.4	10,000
$ 11.55	150,550	2.9	49,000
$ 10.00	3,000	3.2	600
$ 20.60	160,600	4.9	31,400
$ 24.75	152,000	5.9	–

Under the fair value-based method of accounting for stock options, the Company has recorded compensation expense in the amount of $725 (2009 – $761) 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 2010 was estimated at the date of grant using the Black-Scholes valuation model, with the following assumptions: (i) risk-free rate of 2.6% (2009 – 3.7%); (ii) expected option life of 4.5 years (2009 – 4.0 years); (iii) expected volatility of 30.0% (2009 – 30.0%); and (iv) expected dividends of 1.6% (2009 – 1.9%). The weighted average fair value of each option granted during 2010 was $4.61 (2009 – $3.67).

(b) Deferred share unit plan:

Under the DSU Plan, notional units are allocated to a Director from time to time by the Board of Directors and the units vest at the time of the grant. When an individual ceases to be a Director (the "Separation Date"), the DSUs shall be redeemed for cash no later than the end of the first calendar year commencing after the Separation Date. The redemption value of each DSU redeemable by a Director is the volume-weighted average trading price of the common shares of the Company on the TSX for the five trading days prior to the Separation Date. In the event of any stock dividend, stock split, reverse stock split, consolidation, subdivision, reclassification or any other change in the capital of the Company affecting its common shares, the Company will make, with respect to the number of DSUs outstanding under the DSU Plan, any proportionate adjustment as it considers appropriate to reflect that change. A Director will be credited with additional DSUs whenever a cash dividend is declared by the Company. The DSU Plan will be administered by the Board or a committee thereof. For the year ended December 31, 2010, 8,224 (2009 - 8,046) DSUs had been granted by the Company. The Company has recorded compensation expense in the amount of $238 (2009 – $172) related to DSUs granted during the year.

16. Earnings per share:

Diluted earnings per share are calculated based on net income available to common shareholders divided by the weighted average number of common shares outstanding, taking into account the dilution effect of stock options using the treasury stock method.

	2010	2009
Earnings per common share — basic:		
Net income	$ 54,267	$ 51,438
Dividends on preferred shares	3,625	1,212
Net income available to common shareholders	$ 50,642	$ 50,226
Weighted average basic number of common shares outstanding	14,922,263	14,888,797
Earnings per common share — basic	$ 3.39	$ 3.37
Earnings per common share — diluted:		
Net income available to common shareholders	$ 50,642	$ 50,226
Weighted average basic number of common shares outstanding	14,922,263	14,888,797
Adjustment to weighted average number of common shares outstanding		
Stock options	76,575	40,104
Weighted average diluted number of common shares outstanding	14,998,838	14,928,901
Earnings per common share — diluted	$ 3.38	$ 3.36

For the year ended December 31, 2010, the calculation of the diluted earnings per share excluded 604,825 (2009 – 602,636) average options outstanding with a weighted average exercise price of $27.61 (2009 – $26.73) as the exercise price of these options was greater than the average price of the Company's common shares.

17. Capital management:

Equitable Trust manages its capital in accordance with guidelines established by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee on Banking Supervision (Basel II). This guideline requires 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 comprised of common and preferred shareholder's 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.

In 2010, Equitable Trust redeemed $20,000 of Series 6 subordinated debentures, of which $15,000 was held by the Company. The Company used these funds to repay a portion of its term loan facility and in turn issued $20,000 in Series 9 subordinated debentures. The gross proceeds of this issuance were used by the Company to invest in Series 9 subordinated debentures issued by Equitable Trust.

In 2009, Equitable Trust redeemed $34,614 of Series 5 subordinated debentures, of which $17,095 was held by the Company. The Company used these funds to repay a portion of its term loan facility and in turn issued $23,221 in Series 8 subordinated debentures. The gross proceeds of this issuance were used by the Company to invest in Series 8 subordinated debentures issued by Equitable Trust.

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.

17. Capital management (continued):

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

	2010	2009
Tier 1 capital:		
Common shares	**$ 129,823**	$ 129,337
Non-cumulative preferred shares	**50,000**	50,000
Contributed surplus	**3,520**	2,852
Retained earnings	**233,775**	189,715
Accumulated other comprehensive loss[1]	**(1,676)**	(5,953)
Total	**415,442**	365,951
Tier 2 capital:		
Subordinated debentures (Tier 2B)[2]	**65,171**	65,171
Total	**65,171**	65,171
Total regulatory capital	**$ 480,613**	$ 431,122

[1] 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 equity securities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on available for sale equity securities are included in Tier 2A capital.

[2] Tier 2B capital may be included in Tier 2 capital to a maximum of 50% of net Tier 1 capital.

18. Commitments and contingencies:

(a) The following table summarizes the contractual maturities of the Company's financial liabilities as at December 31, 2010:

		Payments due by period			
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
GIC principal and interest[1]	$ 4,050,770	$ 2,230,174	$ 1,414,120	$ 406,476	$ –
Subordinated debentures principal and interest[1]	86,763	3,399	6,797	7,214	69,353
Bank term loans principal and interest[1]	13,468	801	12,667	–	–
Other liabilities	63,467	30,350	19,855	6,939	6,323
Total contractual obligations	$ 4,214,468	$ 2,264,724	$ 1,453,439	$ 420,629	$ 75,676

[1] The balances for the financial liabilities above will not agree with those in our consolidated balance sheet as this table incorporates all cash flows, on an undiscounted basis, including both principal and interest.

18. Commitments and contingencies (continued):

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

2011	$ 652
2012	617
2013	618
2014	618
2015	618
	$ 3,123

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.

(c) The Company has commitments to fund a total of $436,369 (2009 – $318,919) of mortgages in the ordinary course of business at year end.

(d) 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.

(e) 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.

(f) The Company has issued letter of credits in the normal course of business. Letter of credits in the amount of $649 (2009 – nil) were outstanding at December 31, 2010, none of which have been drawn upon at that date.

19. Related party transactions:

Certain of the Company's directors and officers have purchased GIC deposits, and/or purchased subordinated debentures from the Company. These purchases were made in the ordinary course of business at terms comparable to those offered to unrelated parties. As at December 31, 2010, directors and officers did not hold any GIC deposits (2009 – $1,701) and held $2,650 (2009 – $3,650) of subordinated debentures.

20. Interest rate sensitivity:

The following table shows the Company's position with regard to interest rate sensitivity of assets, liabilities and equity on the date of the earlier of contractual maturity or repricing date, as at December 31, 2010:

	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	$ 172,762	$ –	$ –	$ –	$ –	$ –	$ 172,762
Effective interest rate	1.14%	–	–	–	–	–	1.14%
Investments purchased under reverse repurchase agreements	–	74,908	–	–	–	–	74,908
Effective interest rate	–	0.95%	–	–	–	–	0.95%
Investments	127,093	3,775	23,676	357,767	50,363	6,916	569,590
Effective interest rate	2.22%	3.18%	4.22%	4.23%	4.10%	–	3.68%
Securitization retained interests	–	9,945	29,107	93,910	18,670	1,935	153,567
Effective interest rate	–	3.36%	3.36%	3.31%	3.74%	–	3.34%
Mortgages receivable	736,877	208,726	811,344	1,587,040	78,974	45,646	3,468,607
Effective interest rate	4.82%	5.37%	5.06%	5.63%	5.75%	–	5.24%
Other assets	–	–	–	–	–	14,032	14,032
Total assets	$ 1,036,732	$ 297,354	$ 864,127	$ 2,038,717	$ 148,007	$ 68,529	$ 4,453,466
Liabilities:							
Customer deposits	$ 560,729	$ 287,491	$ 1,299,646	$ 1,658,071	$ –	$ 72,916	$ 3,878,853
Effective interest rate	1.06%	1.53%	2.12%	3.41%	–	–	2.43%
Other liabilities	–	–	–	–	–	85,980	85,980
Bank term loans	–	–	–	12,500	–	–	12,500
Effective interest rate	–	–	–	6.41%	–	–	6.41%
Subordinated debentures	–	–	–	43,221	9,450	–	52,671
Effective interest rate	–	–	–	6.31%	7.10%	–	6.45%
Shareholders' equity	–	–	–	48,523	–	374,939	423,462
Total liabilities and shareholders' equity	$ 560,729	$ 287,491	$ 1,299,646	$ 1,762,315	$ 9,450	$ 533,835	$ 4,453,466
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 476,003	$ 9,863	$ (435,519)	$ 276,402	$ 138,557	$ (465,306)	$ –
Total assets – 2009	$ 1,222,279	$ 405,272	$ 726,304	$ 1,419,162	$ 46,947	$ 26,110	$ 3,846,074
Total liabilities and shareholders' equity – 2009	$ 688,782	$ 294,176	$ 980,042	$ 1,406,974	$ 14,450	$ 461,650	$ 3,846,074
Excess (deficiency) of assets over liabilities and shareholders' equity – 2009	$ 533,497	$ 111,096	$ (253,738)	$ 12,188	$ 32,497	$ (435,540)	$ –

(1) *Totals include interest sensitive interest rate hedges at the notional amount.*

(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.*

At December 31, 2010, an immediate and sustained 1.0% decrease in interest rates that is not allowed to decrease beyond a floor of 0% (and is therefore not allowed to be negative) would decrease net interest income by $3.1 million during the 12 months that follow. For the purpose of this sensitivity analysis, Cashable GICs are assumed to perform in the same manner as floating rate liabilities. Certain assumptions have been made with respect to prepayment of fixed rate mortgages. No prepayments of subordinated debentures and bank term loans, contractual or otherwise, have been assumed.

2010 CONVERTED TO IFRS

The consolidated statements of financial position (which were previously referred to as the Company's balance sheets), the consolidated statements of income and selected financial information presented on pages 82 to 84 have been converted to IFRS for the purposes of comparison. These statements should be read in conjunction with the information contained within the MD&A under "Future Accounting Changes – International Financial Reporting Standards", including Table 19.

2010 CONVERTED TO IFRS

Consolidated statements of financial position prepared under IFRS

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Fourth Quarter 2010	Third Quarter 2010	Second Quarter 2010	First Quarter 2010
Assets				
Cash and cash equivalents	$ 155,242	$ 242,663	$ 153,545	$ 268,282
Restricted cash	86,570	32,811	29,415	22,346
Investment purchased under reverse repurchase agreements	74,908	69,862	69,543	149,876
Investments	338,422	307,262	233,906	210,334
Mortgage receivable	8,217,301	7,963,445	7,611,334	7,166,813
Other assets	11,686	7,989	11,591	11,073
	$ 8,884,129	$ 8,624,032	$ 8,109,334	$ 7,828,724
Liabilities and Shareholders' Equity				
Liabilities:				
Customer deposits	$ 3,878,853	$ 3,838,997	$ 3,460,584	$ 3,282,827
Securitization liabilities	4,531,680	4,335,118	4,170,998	4,088,846
Obligations under repurchase agreement	–	–	37,558	29,918
Deferred tax liabilities	7,086	7,664	6,012	6,194
Other liabilities	19,884	17,726	18,562	13,431
Bank term loans	12,500	27,500	27,500	27,500
Subordinated debentures	52,671	37,671	37,671	37,671
	8,502,674	8,264,676	7,758,885	7,486,387
Shareholders' equity:				
Preferred shares	48,494	48,494	48,494	48,494
Common shares	128,068	127,692	127,631	127,568
Contributed surplus	3,935	3,784	3,613	3,457
Retained earnings	202,187	180,503	174,316	165,643
Accumulated other comprehensive loss	(1,229)	(1,117)	(3,605)	(2,825)
	381,455	359,356	350,449	342,337
	$ 8,884,129	$ 8,624,032	$ 8,109,334	$ 7,828,724
Book value per common share	$ 22.28	$ 20.83	$ 20.24	$ 19.70

2010 CONVERTED TO IFRS

Consolidated statements of income prepared under IFRS

($ THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	Full Year 2010	Fourth Quarter 2010	Third Quarter 2010	Second Quarter 2010	First Quarter 2010
Interest income:					
Mortgages	$ 378,094	$ 102,024	$ 96,874	$ 90,212	$ 88,984
Investments	8,683	2,892	2,136	2,190	1,465
Other	3,235	1,015	915	653	652
	390,012	105,931	99,925	93,055	91,101
Interest expense:					
Securitization liabilities	168,796	45,287	42,951	40,990	39,568
Customer deposits	87,871	24,073	23,051	20,940	19,807
Deposit agent commissions	8,591	2,352	2,256	2,018	1,965
Bank term loans	2,059	698	467	430	464
Subordinated debentures	2,626	697	653	649	627
Other	120	13	54	44	9
	270,063	73,120	69,432	65,071	62,440
Net interest income	119,949	32,811	30,493	27,984	28,661
Mortgage impairment and losses	9,748	2,544	2,776	1,488	2,940
Net interest income after mortgage impairment and losses	110,201	30,267	27,717	26,496	25,721
Other income:					
Fees and other income	3,003	756	606	875	766
Net gain (loss) on investments	230	210	144	(68)	(56)
	3,233	966	750	807	710
Net interest income and other income	113,434	31,233	28,467	27,303	26,431
Non-interest expenses:					
Compensation and benefits	18,632	4,559	4,752	4,930	4,391
Other	14,918	4,554	3,653	3,480	3,231
	33,550	9,113	8,405	8,410	7,622
Income before income taxes and fair value (loss) gain	79,884	22,120	20,062	18,893	18,809
Fair value (loss) gain on derivative financial instruments – securitization activities[(1)]	(7,544)	5,756	(7,118)	(3,453)	(2,729)
Income before income taxes	72,340	27,876	12,944	15,440	16,080
Income taxes:					
Current	16,004	4,370	2,706	4,551	4,377
Future	443	(578)	1,652	(182)	(449)
	16,447	3,792	4,358	4,369	3,928
Net income	55,893	24,084	8,586	11,071	12,152
Dividends on preferred shares	3,625	906	907	906	906
Net income available to common shareholders	$ 52,268	$ 23,178	$ 7,679	$ 10,165	$ 11,246
Weighted average number of shares outstanding:					
Basic	14,922,263	14,933,044	14,923,444	14,920,467	14,911,853
Diluted	14,998,838	15,020,854	14,991,004	14,997,402	14,985,996
Earnings per share:					
Basic	$ 3.50	$ 1.55	$ 0.51	$ 0.68	$ 0.75
Diluted	$ 3.48	$ 1.54	$ 0.51	$ 0.68	$ 0.75

(1) *Although hedged on an economic basis, the requirements for hedge accounting in 2010 under both Canadian GAAP and IFRS were not in place, leading to unmatched accounting for movements in fair value. In 2011 and subsequent years, the Company will be able to apply hedge accounting.*

2010 CONVERTED TO IFRS

Selected financial information prepared under IFRS

($ THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Full Year 2010	Fourth Quarter 2010	Third Quarter 2010	Second Quarter 2010	First Quarter 2010
OPERATIONS					
Net income	55,893	24,084	8,586	11,071	12,152
Net income available to common shareholders	52,268	23,178	7,679	10,165	11,246
EPS – basic	$ 3.50	$ 1.55	$ 0.51	$ 0.68	$ 0.75
EPS – diluted	$ 3.48	$ 1.54	$ 0.51	$ 0.68	$ 0.75
Net interest income	119,949	32,811	30,493	27,984	28,661
Net interest margin – TEB – total assets	1.5%	1.6%	1.5%	1.5%	1.5%
Net interest margin – TEB – non-securitization assets[1]	2.6%	2.6%	2.6%	2.6%	2.7%
Net interest margin – TEB – securitization assets	0.6%	0.7%	0.5%	0.5%	0.6%
Total revenues	393,245	106,897	100,675	93,862	91,811
Return on equity – annualized	17.0%	28.6%	9.9%	13.7%	15.9%
Return on average assets – annualized	0.6%	1.1%	0.4%	0.5%	0.6%
Productivity ratio – TEB	26.1%	25.2%	26.0%	28.3%	25.2%
BALANCE SHEET					
Total liquid assets		799,740	783,699	588,635	797,454
Total non-securitization assets[1]		4,043,611	4,058,361	3,708,650	3,479,623
Total securitization assets held on balance sheet		4,840,518	4,565,671	4,400,684	4,349,101
Total assets		8,884,129	8,624,032	8,109,334	7,828,724
Total liquid assets as a % of non-securitization assets[2]		19.8%	19.3%	15.9%	22.9%
Total liquid assets as a % of total assets		9.0%	9.1%	7.3%	10.2%
Mortgages receivable		8,217,301	7,963,445	7,611,334	7,166,813
Shareholders' equity		381,455	359,356	350,449	342,337
Book value per common share		$ 22.28	$ 20.83	$ 20.24	$ 19.70
CREDIT QUALITY					
Net impaired mortgages as a % of total mortgages[3]		0.42%	0.38%	0.45%	0.65%
Gross impaired mortgage principal		43,679	39,205	40,436	53,809
Mortgage principal in arrears 90 days or more[4]		37,349	31,982	32,409	38,394
Mortgage principal in arrears 90 days or more as a % of total mortgage principal[4]		0.46%	0.40%	0.43%	0.54%
Allowance for credit losses		21,103	20,041	17,710	17,663
Allowance for credit losses as a % of total mortgage principal		0.26%	0.25%	0.23%	0.25%

(1) Non-securitization assets are defined as total assets less mortgages securitized through the MBS and CMB Programs, the reinvestment accounts held within the CMB Program and the mortgage collection accounts related to the securitized mortgages.

(2) Liquid assets include NHA MBS securities at fair value supported by mortgages securitized but not funded by securitization liabilities.

(3) 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.

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

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Chairman, Oakwest Corporation Limited,
an investment holding company

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

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Eric Kirzner
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University of Toronto

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

Katherine Rethy
Corporate Director and President
KAR Development Corp., a leadership
consulting company

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

Morris Shohet
Principal, The Dorchester Corporation,
a real estate investment company

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

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and Equitable Trust

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of the Company and Equitable Trust

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

Kimberley Graham
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Chief Compliance Officer and Secretary
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Kimberly Kukulowicz
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Jody Sperling
Vice-President, Human Resources
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Stock Listings
TSX: ETC and ETC.PR.A

Annual Meeting of Shareholders
Thursday, May 19, 2011, 10 a.m. EST
TMX Broadcast Centre
The Exchange Tower
130 King Street West
Toronto, Ontario, Canada

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.equitabletrust.com under Investor Relations.

EQUITABLE
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www.equitabletrust.com