Consolidated Financial Statements

Management's Responsibility for Financial Information

The consolidated financial statements of Home Capital Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The accounting policies used to prepare these financial statements, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company were prepared in accordance with Canadian generally accepted accounting principles. The financial statements reflect amounts, which must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control system designed to provide assurance that the transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.

The internal control systems are further supported by a compliance function, which ensures that the Company and its employees comply with all regulatory requirements, as well as by a risk integration function and an operating risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditor periodically evaluates various aspects of the Company's operations and makes recommendations to management for, among other things, improvements to the control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada makes such examinations and inquiries as deemed necessary to satisfy itself that Home Trust Company is in a sound financial position and that it complies with the provisions of the Trust and Loan Companies Act (Canada) as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

Ernst & Young LLP, independent auditors, appointed by the shareholders, perform an audit of the Company's consolidated financial statements and their report follows.

The internal auditor, the external auditors and the Office of the Superintendent of Financial Institutions of Canada meet periodically with the Audit and Risk Management Committee, with management either present or absent, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management, as well as the assessment of significant transactions and related party transactions through its Audit and Risk Management Committee. This committee is composed solely of external directors.

(signed) Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer
Toronto, Canada
February 6, 2004

(signed) Cathy A. Sutherland

Cathy A. Sutherland, CA
Treasurer

Auditors' Report

To the Shareholders of Home Capital Group Inc.

We have audited the consolidated balance sheets of Home Capital Group Inc. as at December 31, 2003 and 2002 and the consolidated statements of shareholders' equity, income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) Ernst & Young LLP
Ernst & Young LLP
Chartered Accountants

Toronto, Canada
February 6, 2004

Consolidated Balance Sheet

As at December 31	2003	2002
ASSETS		
Cash Resources		
Deposits with Regulated Financial Institutions	$ 30,099,947	$ 24,580,055
Treasury Bills Guaranteed by Canada	36,751,090	30,954,941
	66,851,037	55,534,996
Securities (Note 3)		
Issued or Guaranteed by Canada	55,685,216	12,559,449
Issued or Guaranteed by Provinces	798,298	6,197,648
Other Securities	112,783,745	111,002,945
	169,267,259	129,760,042
Loans (Note 4)		
Personal and Credit Card Loans	46,618,674	25,251,930
Residential Mortgages	1,511,311,393	1,116,647,294
Other Mortgages	60,670,932	36,758,286
General Allowance for Credit Losses	(10,299,600)	(7,555,880)
	1,608,301,399	1,171,101,630
Other		
Mortgage-Backed Securities Receivable (Note 5)	21,583,484	10,375,022
Capital Assets (Note 6)	1,892,784	2,194,806
Deferred Development Costs (Note 7)	2,167,067	2,767,067
Other Assets (Note 8)	27,113,075	22,555,007
	52,756,410	37,891,902
	$ 1,897,176,105	$ 1,394,288,570
LIABILITIES		
Term Loan (Note 9)	$ 10,000,000	$ 10,000,000
Subordinated Term Loan (Note 10)	4,000,000	–
Subordinated Secured Loan	–	5,000,000
Deposits and Borrowings (Note 11)		
Payable on Demand	13,979,959	12,207,188
Payable on a Fixed Date	1,650,123,198	1,202,971,991
	1,678,103,157	1,230,179,179
Other		
Cheques and Other Items in Transit	6,195,194	5,825,939
Other Liabilities (Note 12)	91,712,040	63,697,117
	97,907,234	69,523,056
	1,776,010,391	1,299,702,235
SHAREHOLDERS' EQUITY		
Capital Stock (Note 13)	31,733,465	31,930,215
Contributed Surplus	33,296	–
Retained Earnings	89,398,953	62,656,120
	121,165,714	94,586,335
	$ 1,897,176,105	$ 1,394,288,570

See accompanying notes to the Consolidated Financial Statements.

On behalf of the Board:

(signed) Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer

(signed) William A. Dimma

William A. Dimma
Chairman of the Board

Consolidated Statement of Income

For the year ended December 31	2003	2002
Income		
Interest from Loans	$ 112,842,234	$ 91,076,601
Dividends from Securities	7,759,952	7,630,864
Other Interest	3,778,543	2,483,169
	124,380,729	101,190,634
Interest Expense		
Interest on Deposits and Borrowings	63,936,078	54,133,211
Interest on Term and Subordinated Term Loans	1,167,709	1,195,522
	65,103,787	55,328,733
Net Interest Income	59,276,942	45,861,901
Provision for Credit Losses (Note 4)	4,286,000	3,588,000
	54,990,942	42,273,901
Non-interest Income		
Fees and Other Income	11,917,077	9,286,335
Securitization Gains on Mortgage-Backed Securities (Note 5)	9,949,184	4,389,222
Loss on Sale of Securities	(1,658,198)	(2,309,770)
	20,208,063	11,365,787
	75,199,005	53,639,688
Non-interest Expenses		
Salaries and Staff Benefits	13,183,265	10,310,219
Premises	1,771,416	1,317,454
General and Administration	17,199,898	14,013,055
	32,154,579	25,640,728
INCOME BEFORE INCOME TAXES	43,044,426	27,998,960
Income Taxes (Note 14)		
Current	11,415,777	5,781,804
Future	2,121,883	1,622,299
	13,537,660	7,404,103
NET INCOME FOR THE YEAR	$ 29,506,766	$ 20,594,857
AVERAGE NUMBER OF CLASS A AND CLASS B SHARES OUTSTANDING		
Basic (Note 13)	33,523,960	33,020,706
Fully Diluted (Note 13)	34,446,220	34,623,906
NET INCOME PER CLASS A AND CLASS B SHARE		
Basic (Note 13)	$ 0.88	$ 0.62
Fully Diluted (Note 13)	$ 0.86	$ 0.59
DIVIDENDS PER CLASS A AND CLASS B SHARE		
Dividend	$ 0.08	$ 0.06

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31		2003		2002
Capital Stock				
Convertible Class A Shares				
Balance at the Beginning of the Year	$	**576,295**	$	1,390,000
Conversion to Class B Subordinated Voting Shares		**(576,295)**		(813,705)
Balance at the End of the Year		**–**		576,295
Class B Subordinated Voting Shares				
Balance at the Beginning of the Year		**31,353,920**		29,906,523
Conversion from Convertible Class A Shares		**576,295**		813,705
Proceeds of Options Exercised		**283,650**		1,505,177
Repurchase of Shares		**(480,400)**		(871,485)
Balance at the End of the Year		**31,733,465**		31,353,920
Total Capital Stock	$	**31,733,465**	$	31,930,215
Contributed Surplus				
Balance at the Beginning of the Year	$	**–**	$	–
Amortization of Fair Value of Employees Stock Options (Note 13)		**33,296**		–
Balance at the End of the Year	$	**33,296**	$	–
Retained Earnings				
Balance at the Beginning of the Year	$	**62,656,120**	$	43,906,002
Dividends Paid During the Year		**(1,757,601)**		(1,341,972)
Dividends Declared During the Year		**(1,006,332)**		(502,767)
Net Income for the Year		**29,506,766**		20,594,857
Balance at the End of the Year	$	**89,398,953**	$	62,656,120

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended December 31	2003	2002
OPERATING ACTIVITIES		
Net Income for the Year	$ 29,506,766	$ 20,594,857
Adjustments to Determine Net Cash Flows Relating to Operating Activities:		
Future Income Taxes	2,121,883	1,622,299
Amortization of Capital Assets	743,257	950,595
Amortization of Securities	61,451	24,680
Amortization of Deferred Financing Costs	56,800	122,812
Amortization of Deferred Development Costs	600,000	596,648
Provision for Credit Losses	4,286,000	3,588,000
Change in Accrued Interest Receivable	(1,905,919)	(715,088)
Change in Accrued Interest Payable	15,724,301	10,572,062
Loss on Sale of Securities	1,658,198	2,309,770
Gain on Sale of Mortgage-Backed Securities	(9,949,184)	(4,389,222)
Change in Mortgage-Backed Securities Receivable	4,972,846	2,230,705
Change in Other Assets	(2,641,987)	(4,358,677)
Change in Cheques and Other Items in Transit	369,255	1,167,520
Change in Other Liabilities	9,665,174	3,244,585
Amortization of Fair Value of Employee Stock Options (Note 13)	33,296	–
Cash Provided by Operating Activities	55,302,137	37,561,546
FINANCING ACTIVITIES		
Repayment of Subordinated Secured Loan	(5,000,000)	–
Issuance of Subordinated Term Loan	5,000,000	–
Repayment of Subordiated Term Loan	(1,000,000)	–
Repayment of Senior Term Loans	–	(8,000,000)
Issuance of Term Loan	–	10,000,000
Deferred Financing Costs	(66,962)	(208,837)
Net Increase in Deposits and Borrowings	448,923,978	220,058,505
Issuance of Capital Stock	283,650	1,505,177
Repurchase of Shares	(480,400)	(871,485)
Dividends Paid	(2,260,368)	(1,825,172)
Cash Provided by Financing Activities	445,399,898	220,658,188
INVESTING ACTIVITIES		
Activity in Securities		
Purchases	(117,742,714)	(92,102,746)
Proceeds on Sales	52,060,027	44,733,312
Proceeds on Maturities	24,455,822	14,733,435
Activity in Mortgages		
Net Increase	(605,609,245)	(298,722,531)
Proceeds from Securitization of Mortgage-Backed Securities	205,584,663	91,903,930
Purchased Mortgages	(25,387,669)	
Net Increase in Personal and Credit Card Loans	(22,305,643)	(12,253,664)
Purchases of Capital Assets	(441,235)	(977,229)
Cash Used in Investing Activities	(489,385,994)	(252,685,493)
Net Increase in Cash and Cash Equivalents	11,316,041	5,534,241
Cash and Cash Equivalents at the Beginning of the Year	55,534,996	50,000,755
Cash and Cash Equivalents at the End of the Year	$ 66,851,037	$ 55,534,996
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	$ 49,379,486	$ 44,756,671
Amount of Income Taxes Paid During the Year	$ 10,853,672	$ 5,926,745

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The significant accounting policies followed by Home Capital Group Inc. (the "Company") are as follows:

A) Measurement Uncertainty

In preparing these consolidated financial statements management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

B) Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as the corporations whose operations are controlled by the Company and are corporations in which the Company owns more than 50% of the voting shares. The subsidiaries included in the consolidated financial statements are Home Trust Company ("Home Trust"), Home Capital Investment Management Incorporated, 964864 & 964865 Ontario Limited and 757902 & 757903 Ontario Inc., all of which are wholly owned.

C) Cash Resources

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at amortized cost. Interest income is recognized on an accrual basis.

D) Cheques and Other Items in Transit

Cheques and other items in transit represent uncleared settlements with other regulated financial institutions and are recorded at cost.

E) Securities

Securities are purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive and are included in the securities account. Bonds and debentures are stated at amortized cost. Common and preferred shares are stated at cost, except for retractable and convertible preferred shares, which are stated at amortized cost. If the value of securities held in the securities account has an impairment that is other than temporary, the carrying value is appropriately reduced to the net realizable value.

The full amount of gains and losses on disposal of securities and any adjustments to record an impairment in value that is other than temporary are included in gains or losses on securities.

F) Loans

Loans are carried net of the allowance for credit losses and any unearned income

Interest income is accrued as earned until such time as the loan is recognized as impaired. At that time, interest ceases to accrue and all previously accrued interest is reversed.

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 90 days. Any credit card that has a payment that is contractually 180 days in arrears is written off.

Impaired loans are accounted for on a basis under which a discounted cash flow approach or the fair value of any security underlying the loan, net of any costs of realization, is used to measure losses with respect to such loans.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management is reasonably assured as to the recoverability of the loan.

Loan commitment fees and origination fees are deferred and amortized to Fees and Other Income over the term of the loan.

G) Allowance for Credit Losses

An allowance for credit losses is maintained at an amount that, in management's opinion, is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items. The allowance consists of accumulated specific and general provisions, each of which is reviewed on a regular basis. The allowance is increased by these provisions, which are charged to income, and reduced by write-offs, net of recoveries. The allowance is deducted from the loans on the consolidated balance sheet.

Specific provisions, except those related to credit card loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be reasonably estimated, impairment is measured with respect to the fair market value of the underlying security. The allowance is the difference between the loan's carrying value and its estimated realizable amount. For credit card loans, specific provisions are determined using a formula method, taking into account recent loss experience.

General provisions are established to absorb probable credit losses on the aggregate exposures in each of the Company's business lines, for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon statistical analysis of past performance, level of allowance already in place and management's judgement

The amount of the Provision for Credit Losses that is charged to the consolidated statement of income is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that the Company's management considers adequate to absorb all credit-related losses in its portfolio of on- and off-balance sheet items, after charging amounts written off during the year, net of any recoveries, to the allowance for credit losses account.

H) Transfer of Receivables (Mortgage-Backed Securities Receivable)

The Company periodically sells loans receivable to special purpose entities or trusts that issue securities to investors, at which time it surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. The securitization trust has no recourse to the Company's other assets. When such sales occur, the Company retains interest-only strips and servicing responsibilities for the assets sold. Gains or losses on these transactions are recognized as income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Retained interests are stated at the original carrying amount plus interest accretion less cash received and write-down other than a temporary impairment in value. The fair value of the retained interests is estimated using discounted cash flow methodology and management's best estimates of key assumptions such as prepayment rates, average term of assets sold and other factors that influence the value of the retained interests.

Retained interests are revalued monthly to assess for other than temporary impairment.

I) Capital Assets

Capital assets, which are comprised of office furniture and equipment, computer equipment and signs, are recorded at cost and amortized over their estimated useful lives on a declining balance basis at the following annual rates:

Office Furniture and Equipment	20%
Computer Equipment	30%
Signs	20%

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

J) Deferred Development Costs

As at December 31, 2001, Home Trust completed the development stage of its VISA operations and, therefore, costs incurred to develop this line of business are being amortized over a period of four years from January 1, 2002 on a basis that will follow the maturing nature of the business.

K) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the consolidated balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency transactions are included in Other Income in the consolidated statement of income.

L) Amortization of Goodwill

The Canadian Institute of Chartered Accountants ("CICA") approved an accounting standard in 2002 that introduced an annual assessment of the recognition of goodwill and indefinite life intangible asset impairment, if any.

Goodwill is tested annually for impairment to ensure that its fair value is greater than or equal to book value. Any excess of book value over fair value must be charged to income in the period in which the impairment is determined. It is management's belief that there is no impairment of goodwill.

M) Financial Instruments

The Company has entered into short positions and forward foreign exchange contracts to manage the interest rate, prepayment and foreign exchange exposures arising from the Company's on-balance sheet positions. These instruments are accounted for as hedges as there is reasonable assurance that they will offset the applicable exposures arising from the Company's investments in loan receivables and securities.

If the hedge relationship is found to be no longer effective or if the designated hedged item matures or is sold, extinguished or terminated, the derivative is reclassified as trading. Realized and unrealized gains and losses on hedges are recorded at this time in Other Income on the consolidated statement of income.

N) Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. 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.

Future tax liabilities are included in Other Liabilities on the consolidated balance sheet.

O) Employee Future Benefits

The Company accrues its obligations under employee benefit plans, which include post-retirement plans (health costs) available only to executives of the Company. The Company has adopted the following policy: the cost of these post-retirement benefits earned by the affected employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected health care costs.

P) Stock-Based Compensation Plans

The Company has two stock-based compensation plans which are described in Notes 13 and 15.

Under the Company's Stock Option Plan, options granted after January 1, 2003 are accounted for using the fair value method as described in Note 2. With respect to options granted prior to January 1, 2003, the Company continues to apply the previous standards under which no compensation expense is recognized when stock options are granted to employees and directors and the consideration paid by the employees or directors who exercise their stock options is credited to common equity.

Under the Employee Share Purchase Plan as described in Note 15, the Company's contribution is expensed when paid.

2. CHANGE IN ACCOUNTING POLICY

Stock-Based Compensation

During the quarter ended December 31, 2003, the Company adopted the requirements of the CICA accounting standard for stock-based compensation as described in Note 13 d) on a prospective basis. For stock options granted after January 1, 2003, the fair value of these options is charged to salary expense over the option vesting period. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimate.

As at December 31, 2003, $33,296 (2002 – nil) was charged to salary expense with an offsetting credit to contributed surplus. This is related to the estimated fair value of the 170,000 stock options granted to employees during the year.

3. SECURITIES

An analysis of securities at carrying value by type and maturity is as follows:

	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	2003 Total Book Value	2002 Total Book Value
Securities Issued or Guaranteed by:						
Canada	$ –	$ 15,552,157	$ 40,133,059	$ –	**$ 55,685,216**	$ 12,559,449
Provinces	–	499,882	298,416	–	**798,298**	6,197,648
Other Debt Securities	–	–	1,193,160	–	**1,193,160**	1,191,107
Equity Securities						
Common	6,415,968	–	–	–	**6,415,968**	6,307,772
Fixed Rate Preferred	19,410,347	20,027,310	32,858,558	20,484,296	**92,780,511**	87,893,159
Floating Rate Preferred	2,975,200	4,678,607	1,130,000	–	**8,783,807**	12,856,647
Mutual Funds	–	–	–	–	**–**	2,754,260
Note Receivable – QSPE-HCC Trust	–	–	2,334,713	1,275,586	**3,610,299**	–
	$ 28,801,515	$ 40,757,956	$ 77,947,906	$ 21,759,882	**$169,267,259**	$ 129,760,042

At December 31, 2003, all investments were held in Canadian funds.

On August 6, 2003, Home Trust entered into an agreement with Regency Finance Corp. as trustee for QSPE-HCC Trust to be Regency's agent to recommend and service second mortgage loans. Once these loans have been funded, the trustee securitizes these mortgage loans and sells them as a securitized pool at par value with a committed interest rate of 6.0% with participation in any surplus proceeds after all expenses are paid. Under this program, second mortgage loans of $3.7 million were advanced and Home Trust purchased $3.6 million in Notes Receivable of these securitized pools. Home Trust undertakes all non-repayment risk on these loans through the Notes Receivable. These securities have an average duration of 2.4 years with an average yield of 6.24%.

At December 31, 2002, fixed rate preferred shares included $5.0 million of a Canadian security payable in United States currency that was translated to $8.4 million at December 31, 2002 in Canadian currency. Refer to Note 18 for forward exchange contract to hedge this security.

An analysis of securities at fair value and weighted-average yields is as follows:

2003	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-Average Yield
Securities Issued or Guaranteed by:				
Canada	**$ 55,685,216**	**$ 754,874**	**$ 56,440,090**	**4.2%**
Provinces	**798,298**	**29,672**	**827,970**	**5.6%**
Other Debt Securities	**1,193,160**	**(52,760)**	**1,140,400**	**5.3%**
Equity Securities				
Common	**6,415,968**	**1,527,064**	**7,943,032**	**1.7%**
Fixed Rate Preferred	**92,780,511**	**3,603,680**	**96,384,191**	**5.5%**
Floating Rate Preferred	**8,783,807**	**(302,489)**	**8,481,318**	**4.4%**
Note Receivable – QSPE-HCC Trust	**3,610,299**	**–**	**3,610,299**	**6.2%**
	$169,267,259	**$ 5,560,041**	**$174,827,300**	

				2002
	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-Average Yield
Securities Issued or Guaranteed by:				
Canada	$ 12,559,449	$ 222,683	$ 12,782,132	4.5%
Provinces	6,197,648	103,477	6,301,125	5.4%
Other Debt Securities	1,191,107	(122,107)	1,069,000	5.3%
Equity Securities				
Common	6,307,772	(410,110)	5,897,662	1.5%
Fixed Rate Preferred	87,893,159	278,579	88,171,738	5.7%
Floating Rate Preferred	12,856,647	(2,005,872)	10,850,775	4.5%
Mutual Funds	2,754,260	(89,932)	2,664,328	4.6%
	$ 129,760,042	$ (2,023,282)	$ 127,736,760	

4. LOANS

a) Loan maturities:

					2003	2002
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Book Value	Book Value
Personal and Credit Card Loans	$ 41,740,737	$ 3,454,439	$ 1,423,498	$ –	**$ 46,618,674**	$ 25,251,930
Residential Mortgages	328,196,975	872,831,827	294,200,008	16,082,583	**1,511,311,393**	1,116,647,294
Other Mortgages	14,774,465	34,806,415	11,090,052	–	**60,670,932**	36,758,286
	384,712,177	911,092,681	306,713,558	16,082,583	**1,618,600,999**	1,178,657,510
General Allowance					**(10,299,600)**	(7,555,880)
Total	$ 384,712,177	$ 911,092,681	$ 306,713,558	$ 16,082,583	**$ 1,608,301,399**	$ 1,171,101,630

b) Impaired loans and the related allowance for specific credit losses are as follows:

			2003			2002
	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Personal and Credit Card Loans	**$ 340,060**	**$ 299,003**	**$ 41,057**	$ 369,920	$ 369,920	$ –
Residential Mortgages	**5,149,864**	**275,000**	**4,874,864**	4,168,213	13,000	4,155,213
Other Mortgages	**177,639**	**–**	**177,639**	–	–	–
	$ 5,667,563	**$ 574,003**	**$ 5,093,560**	$ 4,538,133	$ 382,920	$ 4,155,213

c) The following table shows the changes in the allowance for credit losses during the year:

	2003			2002		
	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance at the Beginning of the Year	**$ 382,920**	**$ 7,555,880**	**$ 7,938,800**	$ 536,155	$ 5,517,376	$ 6,053,531
Provisions for Credit Losses	**1,542,280**	**2,743,720**	**4,286,000**	1,549,496	2,038,504	3,588,000
Write-offs	**(1,554,223)**	**–**	**(1,554,223)**	(1,898,625)	–	(1,898,625)
Recoveries	**203,026**	**–**	**203,026**	195,894	–	195,894
Balance at the End of the Year	**$ 574,003**	**$ 10,299,600**	**$ 10,873,603**	$ 382,920	$ 7,555,880	$ 7,938,800

5. MORTGAGE-BACKED SECURITIES RECEIVABLE

During the year, Home Trust securitized residential mortgage loans, and in all the securitizations, Home Trust retained servicing responsibilities and subordinated interests. Home Trust does not receive an explicit servicing fee for its servicing responsibilities. The subordinated interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to Home Trust's other assets for failure of debtors to pay when due. During the year, Home Trust sold $211.8 million (2002 – $94.9 million) of mortgages receivable in securitization transactions. In these transactions, Home Trust retained servicing responsibilities and the interest-only strip. Their value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization trust recorded on the consolidated balance sheet for securitization transactions is $20.4 million (2002 – $9.7 million). Home Trust has a servicing liability of $0.6 million (2002 – $0.2 million) included on the consolidated balance sheet. Mortgage payments that have been collected and are payable to the National Housing Act ("NHA") trusts as at December 31, 2003 are $6.9 million (2002 – $2.7 million). There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

The impact of securitizations on the consolidated statement of income for the years ended December 31 is as follows:

	2003	2002
Gains on Sales of Mortgages	**$ 9,062,555**	$ 3,705,807
Reduction in Value to Reflect Increase in Prepayment Rate Assumption	**(546,299)**	–
Amortization of Retained Interest	**1,078,252**	617,555
Other Securitization Revenues	**354,676**	65,860
Total	**$ 9,949,184**	$ 4,389,222

The following table provides quantitative information about key assumptions in measuring retained interests at the date of securitization of residential mortgages during the years ended December 31:

	2003	2002
Prepayment Rate	**8.24%**	7.00%
Discount Rate	**4.09%**	4.78%
Expected Credit Losses	**N/A***	N/A*
Weighted Average Life in Years	**3.6**	3.5

* Not applicable as these mortgages are all government guaranteed.

At December 31, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions for fixed rate mortgages are as follows:

	2003	2002
Carrying Amount of Retained Interest	**$ 21,583,484**	$ 10,375,022
Weighted Average Life in Years	**3.6**	3.5
Prepayment Rate	**8.24%**	7.00%
Impact on Fair Value of 10% Adverse Change	**$ (206,000)**	$ (18,000)
Impact on Fair Value of 20% Adverse Change	**$ (570,000)**	$ (25,700)
Residual Cash Flows Discount Rate	**4.09%**	4.78%
Impact on Fair Value of 10% Adverse Change	**$ (198,000)**	$ (14,000)
Impact on Fair Value of 20% Adverse Change	**$ (620,000)**	$ (56,000)
Expected Credit Losses	**N/A***	N/A*

*Not applicable as these mortgages are all government guaranteed.

The table below summarizes certain cash flows received from the securitization trusts:

	2003	2002
Net Proceeds From New Securitizations	**$ 207,566,058**	$ 90,852,564
Cash Flows Received on Retained Interests	**$ 5,781,326**	$ 2,955,670

The table below summarizes quantitative information about the Company's loan assets:

	Total Principal Amount	Principal Amount of Loans 61 or More Days Past Due
2003		
Total Loans Managed or Securitized	**$ 1,933,731,631**	$ 7,068,564
Less Mortgages Securitized	**315,130,632**	386,496
Total Gross Loans Reported on the Consolidated Balance Sheet	**$ 1,618,600,999**	$ 6,682,068
2002		
Total Loans Managed or Securitized	$ 1,319,298,196	$ 5,669,907
Less Mortgages Securitized	140,640,686	104,458
Total Gross Loans Reported on the Consolidated Balance Sheet	$ 1,178,657,510	$ 5,565,449

6. CAPITAL ASSETS

		2003		2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Equipment	**$ 3,247,069**	**$ 2,492,227**	**$ 754,842**	$ 883,963
Office Furniture and Equipment	**2,307,786**	**1,489,396**	**818,390**	970,437
Signs	**28,422**	**25,659**	**2,763**	3,454
Leasehold Improvements	**759,289**	**442,500**	**316,789**	336,952
	$ 6,342,566	**$ 4,449,782**	**$ 1,892,784**	$ 2,194,806

Amortization in respect of the above-noted capital assets for the year amounted to $743,257 (2002 – $950,595).

7. DEFERRED DEVELOPMENT COSTS

In May 2000, Home Trust was approved to offer VISA cards in Canada. Home Trust entered into agreements to process the credit cards, statements and collections. As at December 31, 2001, the VISA project was completed and effective January 1, 2002, the Company began amortizing the deferred costs to the consolidated statement of income.

Costs incurred for development VISA operations	2003	2002
Balance at the Beginning of the Year	**$ 3,363,715**	$ 3,363,715
Accumulated Amortization	**(1,196,648)**	(596,648)
Balance at the End of the Year	**$ 2,167,067**	$ 2,767,067

8. OTHER ASSETS

	2003	2002
Accrued Interest Receivable	**$ 9,587,257**	$ 7,681,338
Goodwill	**2,323,914**	2,323,914
Deferred Agent Commissions	**6,290,486**	5,162,462
Other Prepaid Assets and Deferred Items	**8,911,418**	7,387,293
	$ 27,113,075	$ 22,555,007

9. TERM LOAN

On June 18, 2002, the Company entered into an agreement with Canadian Western Bank ("Canadian Western") whereby Canadian Western provided a term loan of $10,000,000 for a period of five years. The proceeds of this term loan were received on July 10, 2002, and used to repay the $8,000,000 senior term loan with Penfund Capital (No. 1) Limited ("Penfund"); the remaining $2,000,000 was used to purchase 1,000,000 common shares in the subsidiary, Home Trust.

The terms of the loan are as follows:

i) the outstanding principal shall be repaid in yearly installments of $1,000,000 commencing on July 10, 2003 for a period of four years. The balance of the loan, together with all accrued and unpaid interest, is due and payable in full on July 10, 2007;

ii) interest is payable per annum equal to the bank's prime lending rate plus 3%;

iii) as collateral for the term loan, the Company has provided a demand note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Home Trust and an assignment of $10,000,000 of the subordinated notes issued by Home Trust.

On July 30, 2003, the Loan Agreement with Canadian Western dated July 10, 2002 was amended. Canadian Western acknowledged and agreed that the annual principal installments of $1,000,000 will be applied to reduce the principal of the subordinated term loan rather than the term loan as noted in i) above.

On February 11, 2004, Canadian Western approved a reduction in the interest rate. Effective March 1, 2004, the interest rate payable on the term loan will be reduced to the bank's prime lending rate plus 2.0%.

10. SUBORDINATED TERM LOAN

On December 12, 2002, the Company entered into an agreement with Canadian Western whereby Canadian Western provided a subordinated secured loan of $5,000,000 for a period of five years. The proceeds of this subordinated secured loan was received on January 23, 2003 and used to repay the $5,000,000 subordinated secured loan owed to Surrey Metro Savings Credit Union.

The terms of the subordinated secured loan are as follows:

i) the principal of the subordinated secured loan, together with all accrued and unpaid interest is due and payable in full on July 10, 2007;

ii) interest is payable per annum equal to the bank's prime lending rate plus 4%;

iii) as collateral for the subordinated secured loan, the Company has provided a promissory note, a general security agreement, subject only to permitted encumbrances not exceeding $10,000,000 and security granted by the Company in favour of the first security to Canadian Western, a secondary pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of $5,000,000 in subordinated notes issued by Home Trust.

On July 30, 2003, the Loan Agreement with Canadian Western dated July 10, 2002 was amended. Canadian Western acknowledged and agreed that the annual principal installments of $1,000,000 will be applied to reduce the principal of this subordinated term loan rather than the term loan as described in Note 9.

On February 11, 2004, Canadian Western approved a reduction in the interest rate. Effective March 1, 2004, the interest rate payable on the subordinated term loan will be reduced to the bank's prime lending rate plus 2.0%.

11. DEPOSITS AND BORROWINGS

	Payable on Demand	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	2003 Total	2002 Total
		Payable on a Fixed Date				
Individuals	$ 13,979,959	$ 617,949,483	$ 705,053,479	$ 306,292,296	**$ 1,643,275,217**	$ 1,199,727,255
Businesses	–	9,239,155	7,917,023	3,671,762	**20,827,940**	15,451,924
	$ 13,979,959	$ 627,188,638	$ 712,970,502	$ 309,964,058	**$ 1,664,103,157**	$ 1,215,179,179

All deposits are held in Canadian funds.

12. OTHER LIABILITIES

	2003	2002
Accrued Interest Payable	**$ 62,930,199**	$ 47,205,898
Income Taxes Payable	**1,907,798**	437,624
Dividends Payable	**1,006,332**	502,767
Deferred Commitment Fees	**4,570,978**	2,309,699
Future Income Taxes (Note 14)	**9,006,403**	6,884,520
Other, Including Accounts Payable and Accrued Liabilities	**12,290,330**	6,356,609
	$ 91,712,040	$ 63,697,117

The Company has recognized a liability on the consolidated balance sheet in the amount of $98,628 (2002 – $91,500) for the employee future benefits.

13. CAPITAL STOCK

a) Authorized

An unlimited number of convertible Class A shares.
An unlimited number of Class B subordinated voting shares.
An unlimited number of Class C non-voting shares.
An unlimited number of preferred shares, issuable in series, to be designated as senior preferred shares.
An unlimited number of preferred shares, issuable in series, to be designated as junior preferred shares.

The convertible Class A shares have five votes each. These shares are convertible at any time into Class B subordinated voting shares on the basis of one Class B subordinated voting share for each convertible Class A share. In all other respects, these Class A shares rank pari-passu with Class B subordinated voting shares.

b) Issued

	Number of Shares	2003	Number of Shares	2002
Convertible Class A shares				
Balance at the Beginning of the Year	**2,508,334**	**$ 576,295**	6,050,000	$ 1,390,000
Conversion to Class B Subordinated Voting Shares	**(2,508,334)**	**(576,295)**	(3,541,666)	(813,705)
Balance at the End of the Year	**–**	**$ –**	2,508,334	$ 576,295
Class B Subordinated Voting Shares				
Balance at the Beginning of the Year	**31,009,456**	**$ 31,353,920**	26,645,220	$ 29,906,523
Conversion From Convertible Class A Shares	**2,508,334**	**576,295**	3,541,666	813,705
Options Exercised	**79,000**	**283,650**	952,570	1,505,177
Normal Course Issuer Bid	**(62,400)**	**(480,400)**	(130,000)	(871,485)
Balance at the End of the Year	**33,534,390**	**$ 31,733,465**	31,009,456	$ 31,353,920
Total Capital Stock		**$ 31,733,465**		$ 31,930,215

On January 7, 2004, the Company declared a stock dividend that would pay to the holders of Class B subordinated voting shares a dividend payable in Class B shares of the Company at the rate of one Class B share for each Class B share held (refer to Note 19). Under the requirements of the CICA accounting standards for capital stock, all stock has been restated to reflect the stock dividend for the current and prior year.

On May 27, 2003, a share conversion took place that eliminated the issued balance of the convertible Class A shares. The holders of the Company's convertible Class A shares converted the remaining 2,508,334 of Class A shares into the same number of single-vote Class B subordinated voting shares.

On January 25, 2002, a share conversion took place that reduced the issued balance of the convertible Class A shares. The holders of the Company's convertible Class A shares converted 3,541,666 of this class into the same number of single-vote Class B subordinated voting shares.

c) Normal Course Issuer Bid

On October 19, 1998, the Company filed a Normal Course Issuer Bid, which allows it to purchase over a twelve-month period up to the greater of (i) 5% of the issued and outstanding shares on October 19, 1998, or (ii) 10% of the public float outstanding on October 19, 1998. This was renewed on October 27, 2003, for a further twelve-month period. This renewal allows the Company to purchase up to 5% (or 1,675,960 shares) of the outstanding Class B subordinated voting shares outstanding on October 31, 2003, over this twelve-month period.

During the year, 62,400 shares were purchased (2002 – 130,000). The cost of the shares was reduced by the average per share amount on the transaction date, which amounted to $480,400 (2002 – $871,485).

d) Stock Options

The details and changes in the issued and outstanding options are as follows:

	2003		2002	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at the Beginning of the Year	**1,427,000**	**$ 5.69**	1,469,570	$ 2.04
Issued	**170,000**	**10.56**	990,000	6.95
Exercised	**(79,000)**	**3.59**	(952,570)	1.58
Cancelled	**(17,500)**	**8.93**	(80,000)	3.12
Outstanding at the End of the Year	**1,500,500**	**$ 6.31**	1,427,000	$ 5.69
Exercisable at the End of the Year	**650,500**	**$ 4.61**	243,500	$ 3.30

The Company's stock option plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective May 29, 2002, to conform the Plan to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. Under the amended Plan, the maximum number of Class B subordinated voting shares that may be issued under the Plan as amended is 2,936,668, representing approximately 8.9% of the aggregate number of Class A shares and Class B subordinated voting shares, which were issued and outstanding on April 19, 2002. The exercise price of the options shall be fixed by the Board of Directors (the "Board") at the time of issuance at the "market price" of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted-average price at which the Class B shares of the Company have traded on the Toronto Stock Exchange during the two trading days immediately preceding the date on which the option is approved by the Board. The period of exercise of any option will not extend beyond a period of 10 years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant will be determined in each case by the Board.

The Company amended and restated the Plan effective as of the record date of the stock dividend on January 21, 2004. The maximum aggregate number of Class B shares reserved for issuance for all purposes under the Plan shall be increased to 5,356,198 Class B shares. The number of Class B shares subject to each unexercised option under the Plan shall be increased twofold and the exercise price shall be decreased by 50%.

As at December 31, 2003, stock options outstanding to acquire Class B subordinated voting shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price Per Share	Expiry Date
Options Granted to:				
Directors	25,000	25,000	$ 2.17	04/21/2004
	30,000	30,000	1.97	05/26/2004
	28,000	28,000	2.00	10/20/2004
	20,000	20,000	1.90	03/23/2005
	40,000	40,000	4.69	07/25/2006
	200,000	50,000	6.76	03/06/2007
	30,000	30,000	7.75 **	06/18/2007
	265,000	66,250	7.15 **	12/05/2009
	638,000	289,250		
Employees	25,000	25,000	$ 2.17	04/21/2004
	149,000	149,000	2.88	10/20/2005
	26,000	26,000	3.03	12/04/2005
	50,000	50,000	4.69	07/25/2006
	322,500	78,750	6.76 **	03/06/2007
	130,000	32,500	7.15 **	12/05/2009
	160,000	–	10.56 *	07/23/2010
	862,500	361,250		
Total	1,500,500	650,500	$ 4.61	

* The Company granted certain employees the right to receive stock options of 170,000 if certain performance criteria were met. As at December 31, 2003, the performance criteria had not been met. As a result, the contingently assumable options have not been included in the computation of diluted earnings per share.

** In 2002 the Company granted certain employees and directors the right to receive stock options of 545,000 and 395,000 if certain performance criteria were met. As of March 31, 2003, the first level of the performance criteria had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted earnings per share.

Fair Value Compensation of Stock Options

The Company has determined the fair value of options granted using the Black-Scholes option-pricing model. The weighted-average fair value of the options granted during the years ended December 31, 2003 and 2002 was $3.57 for the July 2003 issue, $2.67 for the March 2002 issue and $3.71 for the December 2002 issue.

The following weighted-average assumptions were used to determine the fair value of the options on the date of grant.

	July 2003	March 2002	December 2002
Expected Dividend Yield	**3.85%**	3.85%	3.85%
Expected Share Price Volatility	**28.80%**	28.70%	34.40%
Risk-free Rate of Return	**3.50%**	4.38%	4.25%
Expected Period Until Exercise	**4.3 years**	4.0 years	7.0 years

During the quarter ended December 31, 2003, the Company changed the accounting for stock options granted on or after that date. Under the new policy, the Company determined the fair value of stock options on their grant date and recorded this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in share capital. Employee compensation expense increased by $33,296 and net income decreased by $21,103 in fiscal 2003 as a result of this change in accounting policy.

The Company will not record any compensation expense for stock options granted in prior years. When these stock options are exercised, the Company will include the amount of proceeds in share capital.

The restatement on net income and earnings per share if the compensation expense had been recorded in the current and prior year based on the fair value of 2002 outstanding options is as follows:

		2003		2002
Pro-forma Net Income (in Thousands)	$	**29,278**	$	20,411
Pro-forma Earnings per Share – Basic	$	**0.87**	$	0.62
Pro-forma Earnings per Share – Diluted	$	**0.85**	$	0.59

e) Net Income per Share

Net income per share is determined as net income for the year divided by the average number of convertible Class A and Class B subordinated voting shares outstanding.

14. INCOME TAXES

Components of income tax expense:

		2003		2002
Current Income Taxes				
Federal	$	**7,204,598**	$	3,924,020
Provincial		**4,211,179**		1,857,784
		11,415,777		5,781,804
Future Income Taxes				
Federal		**1,027,294**		1,132,284
Provincial		**1,094,589**		490,015
		2,121,883		1,622,299
	$	**13,537,660**	$	7,404,103

Reconciliation of income taxes:

		2003		2002
Income Before Income Taxes	$	**43,044,426**	$	27,998,960
Income Taxes at Statutory Combined Federal and Provincial Tax Rate	$	**15,762,869**	$	10,813,199
Increase (Decrease) from Statutory Income Tax Rate Resulting from:				
Tax-exempt Income		**(2,841,563)**		(2,946,908)
Non-deductible Expenses		**26,641**		23,834
Future Tax Rate Changes		**472,019**		(327,138)
Other		**117,694**		(158,884)
	$	**13,537,660**	$	7,404,103

The combined federal and provincial income tax rate varies each year according to changes in the statutory rates imposed by the federal and provincial governments. The effective rates of income tax in the consolidated statement of income are different from the combined federal and provincial income tax rate of 36.62% (2002 – 38.62%).

On November 24, 2003, the Ontario government tabled a bill that reverses the previously proposed corporate tax rate reductions. Effective January 1, 2004, and going forward, the general rate of Ontario corporate tax will increase to 14.0% from the 2003 tax rate of 12.5%. The federal income tax rate reductions remain unchanged. As a result of this legislative change, the Company recognized an increase of $761,227 in the future income tax provision.

Sources of future income tax balances:

	2003	2002
Future Income Tax Liabilities		
Deferred Agent Commissions and Other Charges	$ **4,853,868**	$ 3,209,014
Market-to-Market Adjustments on Securities	**–**	680,984
Mortgage-Backed Securities Receivable	**6,943,829**	3,108,218
Deferred Development Costs	**782,745**	934,900
	12,580,442	7,933,116
Future Income Tax Assets		
Allowance for Credit Losses	**392,754**	268,226
Market-to-Market Adjustments on Securities	**1,530,247**	–
Deferred Commitment Fees	**1,651,038**	780,370
	3,574,039	1,048,596
Net Future Income Tax Liability	$ **9,006,403**	$ 6,884,520

15. EMPLOYEE SHARE PURCHASE PLAN

Effective January 1, 2001, qualifying employees of Home Trust have the ability to purchase shares in the Company. Under the Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their annual base earnings withheld to purchase Class B subordinated voting shares. Home Trust matches 50% of the employee's contribution amount. All contributions are used by the Plan's trustee to purchase the Class B subordinated voting shares during each pay period in the open market. Home Trust's contributions are fully vested immediately. Home Trust's contributions are expensed as paid and totalled $185,009 for 2003 (2002 – $137,889).

16. LEASE COMMITMENTS

Contractual obligations in respect of operating leases as at December 31, 2003, are as follows:

2004	$ 1,140,830
2005	941,194
2006	515,803
2007	464,167
2008	461,824
2009 and thereafter	77,940
	$ 3,601,758

	2003	2002
Rent Paid During the Year	$ **1,452,466**	$ 1,031,779

17. CREDIT COMMITMENTS

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to $116,792,110 as at December 31, 2003 (2002 – $98,910,816). The commitments remain open until April 2005 for 2003 and November 2003 for 2002. The average rate on mortgage commitments is 7.16% (2002 – 7.57%).

The Company has contractual commitments to extend credit to its clients for its credit card products. The contractual commitment for this product represents the maximum potential credit risk, assuming the contractual amount is fully utilized and the client defaults and collections efforts are unsuccessful. At December 31, 2003, these contractual commitments in aggregate were $51,975,261 (2002 – $26,447,619). These amounts are not fully drawn by the Company's customers; and therefore, these amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments. Since secured credit cards have spending limits restricted by collateral held by the Company, unused credit availability is not included in the foregoing contractual commitments.

The Company indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors and officers at the request of the Company. The nature of this indemnification prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay to third parties. Management believes that the likelihood that the Company would incur a significant liability under these indemnifications is remote. The Company has purchased directors and officers liability insurance.

18. FINANCIAL INSTRUMENTS

The table below provides an analysis of the Company's derivative portfolio and related credit exposure:

2003

	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-Weighted Balance	Fair Market Value
Over-the-Counter Contract					
Interest Rate Contracts					
Option Written					
Due Within One Year	**$ 40,728,499**	**$ 406,750**	**$ 406,750**	**$ –**	**$ 41,135,249**

2002

	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-Weighted Balance	Fair Market Value
Foreign Exchange Contract					
Forward Contract					
Due Within One Year	$ 8,284,000	$ 245,000	$ 328,000	$ 164,000	$ 8,529,000

The following terms are used in the derivatives table above: *notional amount* represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract; *replacement cost* represents the cost of replacing the contract which has a positive fair value using current market rates; *credit risk equivalent* represents the total replacement cost and the potential future credit exposure, if the counterparty defaults; *risk-weighted balance* represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by the Office of the Superintendent of Financial Institutions Canada, and *fair market value* represents the notional amount plus the current replacement cost at December 31, 2003 and 2002.

19. SUBSEQUENT EVENT

On January 7, 2004, the Company declared a stock dividend that would pay to the holders of Class B subordinated voting shares a dividend payable in Class B shares of the Company at the rate of one Class B share for each Class B share held. This dividend was paid on January 29, 2004 to shareholders of record at the close of business on January 21, 2004.

The directors have fixed the aggregate consideration for the Class B shares payable as a stock dividend at $1.00, and directed the sum of $1.00 to be transferred from the retained earnings of the Company to the stated capital account maintained for the Class B shares.

The following table illustrates the pre-stock dividend information for the earnings per share and book value for the years ended December 31, 2003 and 2002.

	2003	2002
Net Income	**$ 29,506,766**	$ 20,594,857
Net Income per Class A and Class B shares		
Basic	**$ 1.76**	$ 1.25
Fully Diluted	**$ 1.71**	$ 1.19
Average Number of Class A and Class B Shares Outstanding		
Basic	**16,761,980**	16,510,353
Fully Diluted	**17,223,110**	17,311,953
Total Number of Class A and Class B Shares	**16,767,195**	16,758,895
Book Value per Share	**$ 7.23**	$ 5.64

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments, both on- and off-balance sheet, of which the valuation methods and assumptions are described below. The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Company's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

			2003			2002
($ thousands)	Book Value	Fair Value	Fair Value Over/(Under) Book Value	Book Value	Fair Value	Fair Value Over/(Under) Book Value
Assets						
Cash Resources	**$ 66,851**	**$ 66,851**	**$ –**	$ 55,535	$ 55,535	$ –
Securities	**169,267**	**174,827**	**5,560**	129,760	127,737	(2,023)
Loans	**1,608,301**	**1,670,480**	**62,179**	1,171,102	1,229,149	58,047
Other	**52,756**	**53,905**	**1,149**	37,892	38,370	478
Liabilities						
Term Loan	**10,000**	**10,000**	**–**	10,000	10,000	–
Subordinated Term Loan	**4,000**	**4,000**	**–**	5,000	5,000	–
Deposits and Borrowings	**1,664,103**	**1,708,192**	**44,089**	1,215,179	1,238,694	23,515
Other	**97,907**	**97,907**	**–**	69,523	69,523	–
Off-Balance Sheet Financial Instruments						
Credit Commitments	**$ 133,043**	**$ 136,452**	**$ 3,409**	$ 108,493	$ 112,456	$ 3,963
Financial Instrument Liability	**40,728**	**41,135**	**407**	8,284	8,529	245

The following methods and assumptions were used to estimate the fair values of both on- and off-balance sheet financial instruments:

- cash resources, other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature
- securities are assumed to approximate to their market values as provided in Note 3
- fair value of loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks
- other assets have been adjusted for the fair value of the Mortgage-Backed Securities
- book value of the term loan approximates its fair value
- book value of the subordinated term loan approximates its fair value
- fair value of deposits payable on demand approximates their carrying values, fixed rate deposits are determined by discounting the contractual cash flows using the market interest rates currently offered for deposits with similar terms and risks
- fair value of credit commitments is determined by discounting the expected future cash flows of the credit commitments at market rates for loans with similar terms and credit risks
- financial instruments are assumed to approximate to the market value as provided in Note 18

21. RISK MANAGEMENT

As part of the Company's risk management practices, the risks that are significant to the business are identified, monitored and controlled. These risks include credit risk, liquidity risk, market risk and operational risk. The nature of these risks and how they are managed is provided in the commentary on pages 21 to 26 of Management's Discussion and Analysis of operations and financial condition.

Information on specific measures of risk, including the allowance for credit losses, derivative financial instruments, interest rate sensitivity and fair value of financial instruments, are included in the notes to the consolidated financial statements.

22. EARNINGS BY BUSINESS SEGMENT

The following charts detail the earnings of the Company by business segment:

				2003
	Mortgage Business	Consumer Lending Retail Services and Credit Cards	Other**	Total
Net Interest Income	$ 43,888,675	$ 5,017,481	$ 10,370,786	$ 59,276,942
Provisions for Credit Losses	(3,020,270)	(1,265,730)	–	(4,286,000)
Fees and Other Income	8,072,230	3,844,458	389	11,917,077
(Loss) Gain on Sale of Securities and Mortgage-Backed Securities	9,949,184	–	(1,658,198)	8,290,986
Non-Interest Expense	(21,126,773)	(5,742,030)	(5,285,776)	(32,154,579)
Net Income (Loss) Before Provison for Income Taxes	37,763,046	1,854,179	3,427,201	43,044,426
Provision for Income Taxes	11,603,761	679,000	1,254,899	13,537,660
Net Income (Loss)	$ 26,159,285	$ 1,175,179	$ 2,172,302	$ 29,506,766

2002				
	Mortgage Business	Consumer Lending Retail Services and Credit Cards	Other**	Total
Net Interest Income	$ 33,295,180	$ 3,653,045	$ 8,913,676	$ 45,861,901
Provisions for Credit Losses	(1,660,910)	(1,927,090)	–	(3,588,000)
Fees and Other Income	5,990,209	3,296,126	–	9,286,335
(Loss) Gain on Sale of Securities and Mortgage-Backed Securities	4,389,222	–	(2,309,770)	2,079,452
Non-Interest Expense	(15,812,751)	(5,442,591)	(4,385,386)	(25,640,728)
Net Income (Loss) Before Provison for Income Taxes	26,200,950	(420,510)	2,218,520	27,998,960
Provision for Income Taxes	6,709,712	(162,401)	856,792	7,404,103
Net Income (Loss)	19,491,238	(258,109)	1,361,728	20,594,857

** Other – includes other investments and corporate activities.