

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, are in accordance with Canadian generally accepted accounting principles. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement 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 ensure 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 CDIC Standards of Sound Business and Financial Practices.

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 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 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

(Signed) Cathy A. Sutherland, C.A.

Gerald M. Soloway

President and Chief Executive Officer

Cathy A. Sutherland, C.A.

Treasurer

Toronto, Canada

February 15, 2005

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, 2004 and 2003 and the consolidated statements of income, changes in shareholders' equity 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, 2004 and 2003 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 15, 2005

Consolidated Balance Sheet

As at December 31	2004	2003
In Thousands of Dollars		
ASSETS		
Cash Resources		
Deposits with Regulated Financial Institutions	\$ 21,925	\$ 30,100
Treasury Bills Guaranteed by Canada	28,574	36,751
	50,499	66,851
Securities (Note 2)		
Issued or Guaranteed by Canada	108,971	55,685
Issued or Guaranteed by Province	799	798
Other Securities	113,014	112,784
	222,784	169,267
Loans (Note 3)		
Personal and Credit Card Loans	79,405	46,619
Residential Mortgages	2,093,802	1,511,311
Other Mortgages	64,815	60,671
General Allowance for Credit Losses	(13,611)	(10,300)
	2,224,411	1,608,301
Other		
Mortgage-Backed Securities Receivable	(Note 4) 27,724	21,584
Capital Assets	(Note 5) 2,666	1,893
Deferred Development Costs	(Note 6) 1,447	2,167
Other Assets	(Note 7) 38,982	27,113
	70,819	52,757
	\$ 2,568,513	\$ 1,897,176
LIABILITIES		
Term Loan	(Note 8) \$ 10,000	\$ 10,000
Subordinated Term Loan	(Note 9) 3,000	4,000
Deposits and Borrowings	(Note 10)	
Payable on Demand	17,127	13,980
Payable on a Fixed Date	2,248,057	1,650,123
	2,278,184	1,678,103
Other		
Cheques and Other Items in Transit	6,535	6,195
Other Liabilities	(Note 11) 121,587	91,712
	128,122	97,907
Commitments and Contingencies	(Note 15) 2,406,306	1,776,010
	-	-
SHAREHOLDERS' EQUITY		
Capital Stock	(Note 12) 32,468	31,734
Contributed Surplus	178	33
Retained Earnings	129,561	89,399
	162,207	121,166
	\$ 2,568,513	\$ 1,897,176

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(signed) Gerald M. Soloway

(signed) William A. Dimma

Gerald M. Soloway
President and Chief Executive Officer

William A. Dimma
Chairman of the Board

Consolidated Statement of Income

For the Years Ended December 31	2004	2003
In Thousands of Dollars, Except Per Share Amounts		
Income		
Interest from Loans	\$ 146,982	\$ 112,842
Dividends from Securities	10,937	7,760
Other Interest	4,921	3,779
	162,840	124,381
Interest Expense		
Interest on Deposits and Borrowings	76,918	63,936
Interest on Term and Subordinated Term Loans	850	1,168
	77,768	65,104
Net Interest Income	85,072	59,277
Provision for Credit Losses (Note 3)	4,465	4,286
	80,607	54,991
Non-interest Income		
Fees and Other Income	16,714	11,917
Securitization Gains on Mortgage-Backed Securities (Note 4)	10,625	9,949
Loss on Sale of Securities	(3,490)	(1,658)
	23,849	20,208
	104,456	75,199
Non-interest Expenses		
Salaries and Staff Benefits	16,459	13,183
Premises	2,455	1,771
General and Administration	21,891	17,200
	40,805	32,154
INCOME BEFORE INCOME TAXES	63,651	43,045
Income Taxes (Note 13)		
Current	18,708	11,416
Future	392	2,122
	19,100	13,538
NET INCOME FOR THE YEAR	\$ 44,551	\$ 29,507
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic (Note 12)	33,625	33,524
Fully Diluted (Note 12)	35,034	34,446
NET INCOME PER COMMON SHARE		
Basic (Note 12)	\$ 1.33	\$ 0.88
Fully Diluted (Note 12)	\$ 1.27	\$ 0.86
DIVIDENDS PER COMMON SHARE		
Dividend	\$ 0.08	\$ 0.06

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the Years Ended December 31

2004

2003

In Thousands of Dollars

	2004	2003
Capital Stock		
Convertible Class A Shares		
Balance at the Beginning of the Year	\$ -	\$ 576
Conversion to Common Shares	-	(576)
Balance at the End of the Year	-	-
Common Shares		
Balance at the Beginning of the Year	31,734	31,354
Conversion from Convertible Class A Shares	-	576
Proceeds of Options Exercised	734	284
Repurchase of Shares	-	(480)
Balance at the End of the Year	32,468	31,734
Total Capital Stock	\$ 32,468	\$ 31,734
Contributed Surplus		
Balance at the Beginning of the Year	\$ 33	\$ -
Amortization of Fair Value of Employee Stock Options (Note 12)	145	33
Balance at the End of the Year	\$ 178	\$ 33
Retained Earnings		
Balance at the Beginning of the Year	\$ 89,399	\$ 62,656
Dividends Paid During the Year	(3,038)	(1,758)
Dividends Declared During the Year	(1,351)	(1,006)
Net Income for the Year	44,551	29,507
Balance at the End of the Year	\$ 129,561	\$ 89,399

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the Years Ended December 31	2004	2003
In Thousands of Dollars		
OPERATING ACTIVITIES		
Net Income for the Year	\$ 44,551	\$ 29,507
Adjustments to Determine Net Cash Flows Relating to Operating Activities		
Future Income Taxes	392	2,122
Amortization of Capital Assets	814	743
Amortization of Securities	(297)	62
Amortization of Deferred Financing Costs	58	57
Amortization of Deferred Development Costs	720	600
Provision for Credit Losses	4,465	4,286
Change in Accrued Interest Receivable	(3,217)	(1,906)
Change in Accrued Interest Payable	17,025	15,725
Loss on Sale of Securities	3,490	1,658
Gain on Sale of Mortgage-Backed Securities	(10,625)	(9,949)
Change in Mortgage-Backed Securities Receivable	12,639	4,973
Change in Other Assets	(8,710)	(2,642)
Change in Cheques and Other Items in Transit	340	369
Change in Other Liabilities	12,113	9,665
Amortization of Fair Value of Employee Stock Options (Note 12)	145	33
Cash Provided by Operating Activities	73,903	55,303
FINANCING ACTIVITIES		
Repayment of Subordinated Secured Loan	-	(5,000)
Issuance of Subordinated Term Loan	-	5,000
Repayment of Subordinated Term Loan	(1,000)	(1,000)
Deferred Financing Costs	-	(67)
Net Increase in Deposits and Borrowings	601,081	448,923
Issuance of Capital Stock	734	284
Repurchase of Shares	-	(480)
Dividends Paid	(4,044)	(2,261)
Cash Provided by Financing Activities	596,771	445,399
INVESTING ACTIVITIES		
Activity in Securities		
Purchases	(107,195)	(117,743)
Proceeds on Sales	15,415	52,060
Proceeds on Maturities	35,070	24,456
Activity in Mortgages		
Net Increase	(866,145)	(605,609)
Proceeds from Securitization of Mortgage-Backed Securities	271,232	205,585
Purchased Mortgages	-	(25,388)
Net Increase in Personal and Credit Card Loans	(33,816)	(22,306)
Purchases of Capital Assets	(1,587)	(441)
Cash Used in Investing Activities	(687,026)	(489,386)
Net Increase in Cash and Cash Equivalents	(16,352)	11,316
Cash and Cash Equivalents at the Beginning of the Year	66,851	55,535
Cash and Cash Equivalents at the End of the Year	\$ 50,499	\$ 66,851
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	\$ 60,743	\$ 49,379
Amount of Income Taxes Paid During the Year	\$ 17,948	\$ 10,854

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Home Capital Group Inc. have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these consolidated financial statements are summarized below. These accounting policies conform to GAAP.

A) Measurement Uncertainty

The preparation of these consolidated financial statements in accordance with GAAP 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 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 and recorded in other assets on the consolidated balance sheet.

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 Notes Receivable are stated at the amounts at which the securities were purchased. Interest earned on the Notes Receivable is reported as interest income on the consolidated income statement when collected.

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 balance that has a payment that is contractually 180 days in arrears is written off.

When loans are classified as impaired, the book value of these loans is brought back to their estimated realizable value based on the fair value of any security underlying the loan, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for loan losses.

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 recorded in other income on the consolidated statement of income over the term of the loan.

G) Allowance for Credit Losses

An allowance for credit losses is maintained at an amount which in management's opinion is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items. Allowances are mainly related to loans, but may also apply to other assets. 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 Allowances

Specific allowances, 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 Allowances

General allowances 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 general allowance, based on the historical loss experience of the previous ten years, adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. This method allows the specific allocation of the general allowance to the identified pools of loans. The unallocated general allowance reflects the assessment of potential losses on the portfolio, which are not covered by the specific allowances and the allocated general allowance. This estimate includes consideration of economic and business conditions, management's judgement and the risks related to the model.

The amount of the provision for credit losses that is charged to the consolidated statement of income is the actual net credit loss experienced 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) Loan Securitization (Mortgage-Backed Securities Receivable)

The Company periodically transfers pools of mortgages to special purpose entities or trusts, which, in turn issue securities to investors. Mortgage loan securitization is part of the Company's liquidity and capital management strategies. These transfers are accounted for as sales when the Company surrenders control of the transferred assets and receives consideration other than the beneficial interest 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 interest 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 any writedown other than a temporary impairment in value. The fair value of the retained interest 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%–45%
Signs	20%

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

For additions to computer equipment after April 1, 2004 the amortization was increased to 45%.

J) Deferred Development Costs

As at December 31, 2001, the Company 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 follows 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

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

On January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline no. 13, "Hedging Relationships" ("AcG-13") and Emerging Issues Committee Abstract no. 128, "Accounting for trading, speculative or non-hedging derivative financial instruments" ("EIC-128"). The Guideline establishes certain qualifying conditions for the use of hedge accounting, which are more stringent than previous standards. Specifically, criteria are established for the identification, designation, documentation and ongoing evaluation of the effectiveness of hedging relationships and, if necessary, discontinuance of a hedge.

If a 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 a trading instrument and, accordingly, realized and unrealized gains and losses on hedges are recorded at this time in other income on the consolidated statement of income. The Company has not entered into any hedge transactions in 2004 and 2003.

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value in other assets or liabilities, on a net basis, with changes in fair value recorded in other income on the consolidated statement of income. The Company has sold short Government of Canada bonds and these have been accounted for as a non-trading derivative. Refer to Note 16 for further information.

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 in the consolidated balance sheet.

Notes to the Consolidated Financial Statements

December 31, 2004

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 12 and 14.

Under the Company's Stock Option Plan, the fair value of options granted after January 1, 2003 is charged to salary expense over the option vesting period. The fair value of the options granted is determined using the Black-Scholes option-pricing model with management's best estimates. Refer to Note 12 for the estimates applied.

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 shares.

Under the Employee Share Purchase Plan as described in Note 14, the Company's contribution is expensed when paid.

2. SECURITIES

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

In Thousands of Dollars					2004	2003
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Securities Issued or Guaranteed by:						
Canada	\$ -	\$ 41,826	\$ 67,145	\$ -	\$ 108,971	\$ 55,685
Provinces	-	500	299	-	799	798
Other Debt Securities	-	-	-	-	-	1,193
Equity Securities						
Common	7,642	-	-	-	7,642	6,416
Fixed Rate Preferred	5,124	19,434	37,374	14,026	75,958	92,781
Floating Rate						
Preferred	4,566	2,130	-	-	6,696	8,784
Mutual Funds	3,000	-	-	-	3,000	-
Notes Receivable - QSPE-HCC Trust	3,509	4,802	10,733	674	19,718	3,610
	\$ 23,841	\$ 68,692	\$ 115,551	\$ 14,700	\$ 222,784	\$ 169,267

At December 31, 2004 all investments were held in Canadian funds.

On August 6, 2003 the Company's subsidiary, Home Trust, entered into an agreement with Regency Finance Corp. ("Regency") 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, Home Trust holds \$19.7 million (\$3.6 million - 2003) in Notes Receivable of these securitized pools of mortgages. Home Trust undertakes all non-repayment risk on these mortgages through the Notes Receivable. These securities have an average duration of 3.7 years (2.4 years - 2003) with an average yield of 9.97% (6.24% - 2003).

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

				2004
In Thousands of Dollars	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
Securities Issued or Guaranteed by:				
Canada	\$ 108,971	\$ 1,816	\$ 110,787	4.1%
Provinces	799	18	817	5.6%
Other Debt Securities	-	-	-	-
Equity Securities				
Common	7,642	509	8,151	2.7%
Fixed Rate Preferred	75,958	3,851	79,809	5.4%
Floating Rate Preferred	6,696	(562)	6,134	4.4%
Mutual Funds	3,000	254	3,254	10.6%
Notes Receivable – QSPE-HCC Trust	19,718	-	19,718	10.0%
	\$ 222,784	\$ 5,886	\$ 228,670	

				2003
In Thousands of Dollars	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
Securities Issued or Guaranteed by:				
Canada	\$ 55,685	\$ 755	\$ 56,440	4.2%
Provinces	798	30	828	5.6%
Other Debt Securities	1,193	(53)	1,140	5.3%
Equity Securities				
Common	6,416	1,527	7,943	1.7%
Fixed Rate Preferred	92,781	3,604	96,385	5.5%
Floating Rate Preferred	8,784	(303)	8,481	4.4%
Notes Receivable – QSPE-HCC Trust	3,610	-	3,610	6.2%
	\$ 169,267	\$ 5,560	\$ 174,827	

3. LOANS

A. Loan maturities:

					2004	2003
In Thousands of Dollars	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Book Value	Book Value
Personal and						
Credit Card Loans	\$ 76,232	\$ 2,588	\$ 579	\$ 6	\$ 79,405	\$ 46,619
Residential Mortgages	564,983	1,218,080	295,011	16,080	2,094,154	1,511,311
Other Mortgages	17,186	33,500	13,777	-	64,463	60,671
	658,401	1,254,168	309,367	16,086	2,238,022	1,618,601
General Allowance					(13,611)	(10,300)
Total	\$ 658,401	\$ 1,254,168	\$ 309,367	\$ 16,086	\$ 2,224,411	\$ 1,608,301

Notes to the Consolidated Financial Statements

December 31, 2004

B. Impaired loans and the related allowance for specific credit losses are as follows:

In Thousands of Dollars	2004			2003		
	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Personal and Credit Card Loans	\$ 252	\$ 204	\$ 48	\$ 340	\$ 299	\$ 41
Residential Mortgages	9,340	400	8,940	5,150	275	4,875
Other Mortgages	-	-	-	178	-	178
	\$ 9,592	\$ 604	\$ 8,988	\$ 5,668	\$ 574	\$ 5,094

C. The following table shows the changes in the allowance for credit losses during the year:

In Thousands of Dollars	2004			2003		
	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance at the Beginning of the Year	\$ 574	\$ 10,300	\$ 10,874	\$ 383	\$ 7,556	\$ 7,939
Provisions for Credit Losses	1,154	3,311	4,465	1,542	2,744	4,286
Write-offs	(1,322)	-	(1,322)	(1,554)	-	(1,554)
Recoveries	198	-	198	203	-	203
Balance at the End of the Year	\$ 604	\$ 13,611	\$ 14,215	\$ 574	\$ 10,300	\$ 10,874

4. LOAN SECURITIZATION (MORTGAGE-BACKED SECURITIES RECEIVABLE)

The Company's subsidiary, Home Trust, securitizes residential mortgage loans and in these securitizations Home Trust retains interest-only strips and servicing responsibilities. The retained 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 the other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold \$279.4 million (\$211.8 million - 2003) of mortgages receivable in securitization transactions. Their value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions is \$30.1 million (\$20.4 million - 2003). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of \$0.8 million (\$0.6 million - 2003) included on the consolidated balance sheet. Mortgage payments, which have been collected and are payable to the National Housing Authority ("NHA") trusts as at December 31, 2004, are \$9.4 million (\$6.9 million - 2003). 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:

In Thousands of Dollars	2004		2003
Gains on Sales of Mortgages	\$ 11,812	\$	9,062
Reduction in Value to Reflect Increase in Prepayment Rate Assumption	(1,522)		(546)
Amortization of Retained Interest and Servicing Liability	387		1,078
Other Securitization Revenues (Expenses)	(52)		355
Total	\$ 10,625	\$	9,949

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:

	2004	2003
Prepayment Rate	12.73%	8.24%
Discount Rate	3.91%	4.09%
Expected Credit Losses	N/A*	N/A*
Weighted-average Life in Years	3.2	3.6

* 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:

In Thousands of Dollars	2004	2003
Carrying Amount of Retained Interest	\$ 27,724	\$ 21,584
Weighted-average Life in Years	3.2	3.6
Prepayment Rate	12.73%	8.24%
Impact on Fair Value of 10% Adverse Change	\$ (495)	\$ (206)
Impact on Fair Value of 20% Adverse Change	\$ (977)	\$ (570)
Residual Cash Flows Discount Rate	3.91%	4.09%
Impact on Fair Value of 10% Adverse Change	\$ (498)	\$ (198)
Impact on Fair Value of 20% Adverse Change	\$ (953)	\$ (620)
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:

In Thousands of Dollars	2004	2003
Net Proceeds From New Securitizations	\$ 271,232	\$ 207,566
Cash Flows Received on Retained Interests	\$ 10,927	\$ 5,781

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

In Thousands of Dollars	Total Principal Amount	Principal Amount of Loans 61 or More Days Past Due
		2004
Total Loans Managed or Securitized	\$ 2,738,762	\$ 11,552
Less Mortgages Securitized	500,740	1,011
Total Gross Loans Reported on the Consolidated Balance Sheet	\$ 2,238,022	\$ 10,541
		2003
Total Loans Managed or Securitized	\$ 1,933,732	\$ 7,068
Less Mortgages Securitized	315,131	386
Total Gross Loans Reported on the Consolidated Balance Sheet	\$ 1,618,601	\$ 6,682

5. CAPITAL ASSETS

In Thousands of Dollars	Cost	Accumulated Amortization	Net Book Value	Net Book Value
			2004	2003
Computer Equipment	\$ 3,615	\$ 2,868	\$ 747	\$ 755
Office Furniture and Equipment	3,233	1,745	1,488	818
Signs	28	26	2	3
Leasehold Improvements	1,053	624	429	317
	\$ 7,929	\$ 5,263	\$ 2,666	\$ 1,893

Amortization in respect of the above noted capital assets for the year amounted to \$814 (2003 - \$743).

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6. DEFERRED DEVELOPMENT COSTS

Costs incurred for development of the VISA operations:

In Thousands of Dollars	2004	2003
Total Costs	\$ 3,364	\$ 3,364
Accumulated Amortization	(1,917)	(1,197)
	\$ 1,447	\$ 2,167

7. OTHER ASSETS

In Thousands of Dollars	2004	2003
Accrued Interest Receivable	\$ 12,804	\$ 9,587
Goodwill	2,324	2,324
Deferred Agent Commissions	8,979	6,290
Other Prepaid Assets and Deferred Items	14,875	8,912
	\$ 38,982	\$ 27,113

8. 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 and 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 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 at the bank's prime lending rate plus 2%;
- 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 February 11, 2004, Canadian Western approved a reduction in the interest rate. Prior to March 1, 2004 the interest rate payable on the term loan was the bank's prime lending rate plus 3.0%.

9. 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 were 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 outstanding principal shall be repaid in yearly installments of \$1,000,000 commencing on July 10, 2005 for a period of two years. The balance 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 at the bank's prime lending rate plus 2%;
- 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 8.

On February 11, 2004, Canadian Western approved a reduction in the interest rate. Prior to March 1, 2004 the interest rate payable on the subordinated term loan was the bank's prime lending rate plus 4.0%.

10. DEPOSITS AND BORROWINGS

In Thousands of Dollars	Payable on a Fixed Date				2004	2003
	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	\$ 17,127	\$ 788,673	\$ 1,018,827	\$ 417,754	\$ 2,242,381	\$ 1,643,275
Businesses	-	9,195	10,130	3,478	22,803	20,828
	\$ 17,127	\$ 797,868	\$ 1,028,957	\$ 421,232	\$ 2,265,184	\$ 1,664,103
Effective Yield	3.0%	3.3%	4.0%	4.1%	3.8%	4.2%

11. OTHER LIABILITIES

In Thousands of Dollars	2004	2003
Accrued Interest Payable	\$ 79,955	\$ 62,930
Income Taxes Payable	4,545	1,908
Dividends Payable	1,351	1,006
Deferred Commitment Fees	8,062	4,571
Future Income Taxes	9,399	9,007
Other, Including Accounts Payable and Accrued Liabilities*	18,275	12,290
	\$ 121,587	\$ 91,712

* The Company has recognized a liability on the consolidated balance sheet in the amount of \$104 (2003 - \$99) for the employee future benefits.

12. CAPITAL STOCK

A. Authorized

An unlimited number of Common 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.

B. Issued

In Thousands of Dollars and Thousands of Shares	Number of Shares	2004	Number of Shares	2003
Convertible Class A shares				
Balance at the Beginning of the Year	-	\$ -	2,508	\$ 576
Conversion to Common Shares*	-	-	(2,508)	(576)
Balance at the End of the Year	-	\$ -	-	\$ -
Common Shares*				
Balance at the Beginning of the Year	33,534	\$ 31,734	31,009	\$ 31,354
Conversion From Convertible Class A Shares	-	-	2,508	576
Options Exercised	243	734	79	284
Normal Course Issuer Bid	-	-	(62)	(480)
Balance at the End of the Year	33,777	32,468	33,534	31,734
Total Capital Stock		\$ 32,468		\$ 31,734

* On May 13, 2004, the shareholders of the Company approved a special resolution authorizing the reclassification of its issued and outstanding Class B subordinated voting shares as "Common shares," and eliminating all other authorized but unissued classes of Common shares. Previously, 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. 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 the Class A shares into the same number of single-vote Class B subordinated voting shares.

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C. Normal Course Issuer Bid

On October 19, 1998, the Company filed a Normal Course Issuer Bid, which allows it to purchase over a 12-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. On October 20, 2004, the Board of Directors elected not to renew the Normal Course Issuer Bid.

During the year, no Common shares were purchased (2003 – 62,400). The cost of the Common shares purchased in 2003 has been reduced by the average per share amount on the transaction date, which amounted to \$480,400.

D. Stock Options

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

In Thousands Except Exercise Price	2004		2003	
	Number of Options	Weighted-average Exercise Price	Number of Options	Weighted-average Exercise Price
Outstanding at the Beginning of the Year	1,501	\$ 6.31	1,427	\$ 5.69
Issued	120	26.16	170	10.56
Exercised	(243)	3.02	(79)	3.59
Cancelled	(5)	6.76	(17)	8.93
Outstanding at the End of the Year	1,373	\$ 8.62	1,501	\$ 6.31
Exercisable at the End of the Year	944	\$ 6.64	651	\$ 4.61
Weighted-average Term to Maturity		3.7 years		4.3 years

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 Common shares that may be issued is 2,936,668 representing approximately 8.9% of the aggregate number of Class A shares and Common 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 Common 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 ten 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 Common shares reserved for issuance for all purposes under the Plan shall be increased to 5,356,198 Common shares. The number of Common 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, 2004, stock options outstanding to acquire Common shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price per Share	Expiry Date
Options Granted to:				
Directors	40,000	40,000	\$ 4.69	07/25/2006
	200,000	150,000	6.76***	03/06/2007
	30,000	30,000	7.75	06/18/2007
	265,000	198,750	7.15***	12/05/2009
	535,000	418,750		
Employees	96,000	96,000	2.88	10/20/2005
	50,000	50,000	4.69	07/25/2006
	281,750	201,750	6.76***	03/06/2007
	130,000	97,500	7.15***	12/05/2009
	160,000	80,000	10.56**	07/23/2010
	120,000	-	26.16*	03/10/2011
	837,750	525,250		
Total	1,372,750	944,000	\$ 6.64	

* In 2004, the Company granted certain employees the right to receive stock options of 120,000 if certain performance criteria were met. As at December 31, 2004 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 2003, the Company granted certain employees the right to receive stock options of 160,000 if certain performance criteria were met. As at December 31, 2004 two levels of the performance criteria had been met. As a result, 50% of these contingently assumable options have 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 at December 31, 2004, three levels of the performance criteria had been met. As a result, 75% of these contingently assumable options have been included in the computation of diluted earnings per share.

Fair Value Compensation of Stock Options

The Company 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 three-year period ended December 31, 2004 was \$4.85 for the March 2004 issue, \$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:

	March 2004	July 2003	March 2002	December 2002
Expected Dividend Yield	3.00%	3.85%	3.85%	3.85%
Expected Share Price Volatility	28.30%	28.80%	28.70%	34.40%
Risk-free Rate of Return	3.53%	3.50%	4.38%	4.25%
Expected Period Until Exercise	4.1 years	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 determines the fair value of stock options on their grant date and records 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 \$144,472 (2003 - \$33,296) and net income decreased by \$92,289 (2003 - \$21,103) in fiscal 2004 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 of net income and earnings per share if the Company had recorded compensation expense in the current and prior year based on the fair value of 2002 outstanding options is as follows:

	2004	2003
Pro-forma Net Income (in Thousands)	\$ 44,320	\$ 29,278
Pro-forma Earnings per Share - Basic	\$ 1.32	\$ 0.87
Pro-forma Earnings per Share - Diluted	\$ 1.27	\$ 0.85

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E. Earnings per Common Share

Basic earnings per Common share is determined as net income for the year divided by the average number of Common shares outstanding of 33,624,905.

Fully diluted earnings per Common share is determined as net income for the year divided by the average number of Common shares outstanding of 33,624,905 plus the stock options potentially exercisable as determined under the treasury stock method of 1,408,900 for a total of 35,033,805 fully diluted shares.

13. INCOME TAXES

Components of income tax expense:

In Thousands of Dollars	2004	2003
Current Income Taxes		
Federal	\$ 11,538	\$ 7,205
Provincial	7,170	4,211
	18,708	11,416
Future Income Taxes		
Federal	(10)	1,027
Provincial	402	1,095
	392	2,122
	\$ 19,100	\$ 13,538

Reconciliation of income taxes:

In Thousands of Dollars	2004	2003
Income Before Income Taxes	\$ 63,651	\$ 43,045
Income Taxes at Statutory Combined Federal and Provincial Income Tax Rates	\$ 22,991	\$ 15,763
Increase (Decrease) in Income Taxes at Statutory Income Tax Rates Resulting From:		
Tax-exempt Income	(4,299)	(2,842)
Non-deductible Expenses	92	27
Future Tax Rate Changes	-	472
Other	316	118
	\$ 19,100	\$ 13,538

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 36.12% (2003 - 36.62%).

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 increased 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 in 2003.

Sources of future income tax balances:

In Thousands of Dollars	2004	2003
Future Income Tax Liabilities		
Deferred Agent Commissions and Other Charges	\$ 6,566	\$ 4,854
Mortgage-Backed Securities Receivable	10,208	6,944
Deferred Development Costs	523	782
	17,297	12,580
Future Income Tax Assets		
Allowance for Credit Losses	3,463	393
Mark-to-Market Adjustments on Securities	1,523	1,530
Deferred Commitment Fees	2,912	1,651
	7,898	3,574
Net Future Income Tax Liability	\$ 9,399	\$ 9,006

14. 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 Common shares. The Company matches 50% of the employee's contribution amount. All contributions are used by the Plan's trustee to purchase the Common shares during each pay period in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totalled \$226,042 for 2004 (2003 - \$185,009).

15. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Contractual obligations in respect of operating leases as at December 31, 2004 are as follows:

In Thousands of Dollars	
2005	\$ 1,146
2006	1,085
2007	1,007
2008	980
2009	827
2010 and Thereafter	4,836
	\$ 9,881

In Thousands of Dollars	2004	2003
Rent Paid During the Year	\$ 1,962	\$ 1,452

Credit Commitments

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to \$160,892,093 as at December 31, 2004 (2003 - \$116,792,110). The commitments remain open for various dates until November 2005 for 2004 and April 2005 for 2003. The average rate on mortgage commitments is 7.19% (2003 - 7.16%).

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 collection efforts are unsuccessful. At December 31, 2004, these contractual commitments in aggregate were \$109,905,825 (2003 - \$51,975,261). 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. Secured credit cards have spending limits restricted by collateral held by the Company.

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Directors' and Officers' Indemnification

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.

16. FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates. The Company has entered into futures, which are future commitments to purchase or deliver a financial instrument on a specified date at a specified price. Foreign exchange forward contracts are commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

The following terms are used in the derivatives table below: "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; "current replacement cost" represents the cost of replacing the contract which has a positive fair value using current market rates; "credit equivalent amount" 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, 2004 and 2003.

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

	2004				
	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk- weighted Balance	Fair Market Value
In Thousands of Dollars					
Over-the-Counter Contract					
Interest Rate Contracts					
Option Written - Short Sale					
Due Within One Year	\$ 41,353	\$ 190	\$ 190	\$ -	\$ 41,543
2003					
	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk- weighted Balance	Fair Market Value
In Thousands of Dollars					
Over-the-Counter Contract					
Interest Rate Contracts					
Option Written - Short Sale					
Due Within One Year	\$ 40,728	\$ 407	\$ 407	\$ -	\$ 41,135

17. INTEREST RATE SENSITIVITY

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest sensitive assets and liabilities. The following table shows the gap position at December 31 for selected period intervals. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date as a result of a mortgage becoming impaired and for off-balance sheet commitments.

2004

In Thousands of Dollars	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 Year to 3 Years	Over 3 Years	Non- interest Sensitive	Total
Assets								
Cash Resources	\$ 15,225	\$ 35,274	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,499
Weighted-average Interest Rate	1.0%	2.3%	-	-	-	-	-	1.9%
Securities	6,696	10,642	2,638	5,995	66,562	130,251	-	222,784
Weighted-average Interest Rate	4.4%	4.3%	6.1%	8.3%	4.8%	5.2%	-	5.1%
Loans	-	141,796	121,839	385,778	1,254,168	325,454	(4,624)	2,224,411
Weighted-average Interest Rate	-	11.0%	7.3%	7.4%	7.2%	7.0%	-	7.4%
Other Assets	-	-	-	-	-	-	70,819	70,819
Weighted-average Interest Rate	-	-	-	-	-	-	-	-
Total	\$ 21,921	\$ 187,712	\$ 124,477	\$ 391,773	\$ 1,320,730	\$ 455,705	\$ 66,195	\$ 2,568,513
Weighted-average Interest Rate	2.1%	9.0%	7.3%	7.4%	7.0%	6.5%	-	6.9%
Liabilities and Shareholders' Equity								
Term Loan and Subordinated								
Term Loan	\$ 13,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,000
Weighted-average Interest Rate	6.3%	-	-	-	-	-	-	6.3%
Deposits Payable on Demand	-	17,127	-	-	-	-	-	17,127
Weighted-average Interest Rate	-	-	-	-	-	-	-	-
Deposits Payable on a Fixed Date	-	142,269	240,456	415,143	1,028,957	421,232	-	2,248,057
Weighted-average Interest Rate	-	3.3%	3.3%	3.5%	4.0%	4.1%	-	3.8%
Other Liabilities	-	-	-	-	-	-	128,122	128,122
Weighted-average Interest Rate	-	-	-	-	-	-	-	-
Shareholders' Equity	-	-	-	-	-	-	162,207	162,207
Weighted-average Interest Rate	-	-	-	-	-	-	-	-
Total	\$ 13,000	\$ 159,396	\$ 240,456	\$ 415,143	\$ 1,028,957	\$ 421,232	\$ 290,329	\$ 2,568,513
Weighted-average Interest Rate	6.3%	3.0%	3.3%	3.5%	4.0%	4.1%	-	3.3%
	\$ 8,921	\$ 28,316	\$ (115,979)	\$ (23,370)	\$ 291,773	\$ 34,473	\$ (224,134)	3.6%
Off-balance Sheet Items	-	(137,144)	(13,428)	(6,471)	118,935	38,108	-	-
Weighted-average Interest Rate	-	6.9%	6.7%	7.0%	7.0%	6.5%	-	-
Interest Rate Sensitivity Gap	\$ 8,921	\$ (108,828)	\$ (129,407)	\$ (29,841)	\$ 410,708	\$ 72,581	\$ (224,134)	-
Cumulative Gap	\$ 8,921	\$ (99,907)	\$ (229,314)	\$ (259,155)	\$ 151,553	\$ 224,134	\$ -	-

2003

In Thousands of Dollars	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 Year to 3 Years	Over 3 Years	Non- interest Sensitive	Total
Assets								
	\$ 36,484	\$ 133,948	\$ 80,616	\$ 231,431	\$ 945,772	\$ 421,374	\$ 47,551	\$ 1,897,176
Weighted-average Interest Rate	2.3%	7.9%	8.1%	7.8%	7.4%	6.8%	-	7.1%
Liabilities and								
Shareholders' Equity	\$ 14,000	\$ 191,758	\$ 177,294	\$ 272,116	\$ 712,971	\$ 309,964	\$ 219,073	\$ 1,897,176
Weighted-average Interest Rate	8.0%	3.3%	3.9%	3.7%	4.4%	4.5%	-	3.7%
	\$ 22,484	\$ (57,810)	\$ (96,678)	\$ (40,685)	\$ 232,801	\$ 111,410	\$ (171,522)	3.4%
Off-balance Sheet Items	-	(99,881)	(9,272)	(3,852)	38,584	74,421	-	-
Weighted-average Interest Rate	-	7.1%	7.0%	7.0%	7.2%	7.0%	-	-
Interest Rate Sensitivity Gap	\$ 22,484	\$ (157,691)	\$ (105,950)	\$ (44,537)	\$ 271,385	\$ 185,831	\$ (171,522)	-
Cumulative Gap	\$ 22,484	\$ (135,207)	\$ (241,157)	\$ (285,694)	\$ (14,309)	\$ 171,522	\$ -	-

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18. 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.

In Thousands of Dollars	2004			2003		
	Book Value	Fair Value	Fair Value Over/(Under) Book Value	Book Value	Fair Value	Fair Value Over/(Under) Book Value
Assets						
Cash Resources	\$ 50,499	\$ 50,499	\$ -	\$ 66,851	\$ 66,851	\$ -
Securities	222,784	228,670	5,886	169,267	174,827	5,560
Loans	2,224,411	2,318,368	93,957	1,608,301	1,670,480	62,179
Other	70,819	70,021	(798)	52,757	53,906	1,149
Liabilities						
Term Loan	10,000	10,000	-	10,000	10,000	-
Subordinated Term Loan	3,000	3,000	-	4,000	4,000	-
Deposits and Borrowings	2,265,184	2,363,484	98,300	1,664,103	1,708,192	44,089
Other	128,122	128,122	-	97,907	97,907	-
Off-balance Sheet						
Financial Instruments						
Credit Commitments	\$ 163,126	\$ 168,396	\$ 5,270	\$ 133,043	\$ 136,452	\$ 3,409
Financial Instrument Liability	41,353	41,543	190	40,728	41,135	407

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 their market values as provided in Note 2.
- > 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 their market values as provided in Note 16.

19. 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 25 of Management's Discussion and Analysis.

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

20. EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two operations - mortgage lending and consumer lending. The mortgage operation consists of mortgage lending, securitization of government insured mortgages and the Regency administration as described in Note 2. The consumer lending operation consists of the credit cards and the individual loans to customers of retail businesses. The other category includes treasury and security investments.

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

	2004			
In Thousands of Dollars	Mortgage Business	Consumer Lending - Retail Services and Credit Cards	Other*	Total
Net Interest Income	\$ 62,183	\$ 7,881	\$ 15,008	\$ 85,072
Provisions for Credit Losses	(3,225)	(1,240)	-	(4,465)
Fees and Other Income	11,652	5,061	1	16,714
(Loss) Gain on Sale of Securities and Mortgage-Backed Securities	10,625	-	(3,490)	7,135
Non-interest Expense	(27,355)	(6,315)	(7,135)	(40,805)
Net Income (Loss) Before Provision for Income Taxes	53,880	5,387	4,384	63,651
Provision for Income Taxes	17,999	1,946	(845)	19,100
Net Income	\$ 35,881	\$ 3,441	\$ 5,229	\$ 44,551
Total Assets	\$ 2,180,729	\$ 81,918	\$ 305,866	\$ 2,568,513

	2003			
In Thousands of Dollars	Mortgage Business	Consumer Lending - Retail Services and Credit Cards	Other*	Total
Net Interest Income	\$ 43,889	\$ 5,017	\$ 10,371	\$ 59,277
Provisions for Credit Losses	(3,020)	(1,266)	-	(4,286)
Fees and Other Income	8,072	3,845	-	11,917
(Loss) Gain on Sale of Securities and Mortgage-Backed Securities	9,949	-	(1,658)	8,291
Non-interest Expense	(21,127)	(5,742)	(5,285)	(32,154)
Net Income (Loss) Before Provision for Income Taxes	37,763	1,854	3,428	43,045
Provision for Income Taxes	11,604	679	1,255	13,538
Net Income	\$ 26,159	\$ 1,175	\$ 2,173	\$ 29,507
Total Assets	\$ 1,599,244	\$ 49,584	\$ 248,348	\$ 1,897,176

* Other - includes other investments and corporate activities.