

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 consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company. 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).

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. The Audit and Risk Management Committee is composed solely of directors who are not officers or employees of the Company.

(Signed)

Gerald M. Soloway
President and Chief Executive Officer

Toronto, Canada
February 17, 2006

(Signed)

Cathy A. Sutherland, C.A.
Vice President, Finance

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, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 17, 2006

Ernst & Young LLP (Signed)
Chartered Accountants

Consolidated Balance Sheet

As at December 31 (000's)	2005	2004
ASSETS		
Cash resources		
Deposits with regulated financial institutions	\$ 60,337	\$ 21,925
Treasury bills guaranteed by Canada	110,806	28,574
	171,143	50,499
Securities (Note 3)		
Issued or guaranteed by Canada	126,832	108,971
Issued or guaranteed by provinces	299	799
Other securities	101,611	93,296
	228,742	203,066
Loans (Note 4)		
Personal and credit card loans	116,628	79,405
Secured loans	43,565	19,718
Residential mortgages	2,583,694	2,093,802
Other mortgages	69,572	64,815
General allowance for credit losses	(16,586)	(13,611)
	2,796,873	2,244,129
Other		
Mortgage-Backed Securities receivable	(Note 5) 41,309	27,724
Capital assets	(Note 6) 4,362	2,666
Deferred development costs	(Note 7) -	1,447
Other assets	(Note 8) 42,400	38,982
	88,071	70,819
	\$ 3,284,829	\$ 2,568,513
LIABILITIES AND SHAREHOLDERS' EQUITY		
Term loan	(Note 9) \$ 10,000	\$ 10,000
Subordinated term loan	(Note 10) -	3,000
Deposits	(Note 11)	
Payable on demand	20,191	17,127
Payable on a fixed date	2,875,270	2,248,057
	2,905,461	2,278,184
Other		
Cheques and other items in transit	6,989	6,535
Other liabilities	(Note 12) 153,494	121,587
	160,483	128,122
	3,065,944	2,406,306
Commitments and contingencies	(Note 16) -	-
SHAREHOLDERS' EQUITY		
Capital stock	(Note 13) 34,272	32,468
Contributed surplus	306	178
Retained earnings	184,307	129,561
	218,885	162,207
	\$ 3,284,829	\$ 2,568,513

See accompanying notes.

On behalf of the Board:

(Signed)

Gerald M. Soloway

President and Chief Executive Officer

(Signed)

William A. Dimma

Chairman of the Board

Consolidated Statement of Income

Years ended December 31 (000's, except per share amounts)	2005	2004
Income		
Interest from loans	\$ 184,297	\$ 146,982
Dividends from securities	4,916	10,937
Other interest	9,885	4,921
	199,098	162,840
Interest expense		
Interest on deposits	95,663	76,918
Interest on term and subordinated term loans	757	850
	96,420	77,768
Net interest income	102,678	85,072
Provision for credit losses (Note 4)	3,128	4,465
	99,550	80,607
Non-interest income (loss)		
Fees and other income	21,367	16,714
Securitization gains on Mortgage-Backed Securities (Note 5)	20,935	10,625
Net realized and unrealized gain (loss) on investment securities	1,706	(3,490)
	44,008	23,849
	143,558	104,456
Non-interest expenses		
Salaries and benefits	19,974	16,459
Premises	2,370	2,455
General and administration	29,757	21,891
	52,101	40,805
Income before income taxes	91,457	63,651
Income taxes (Note 14)		
Current	27,980	18,708
Future	2,616	392
	30,596	19,100
Net income for the year	\$ 60,861	\$ 44,551
Average number of common shares outstanding (Note 13)		
Basic	33,860	33,625
Fully diluted	35,450	35,034
Income per common share (Note 13)		
Basic	\$ 1.80	\$ 1.33
Fully diluted	\$ 1.72	\$ 1.27
Dividends per common share		
Dividend	\$ 0.17	\$ 0.08

See accompanying notes.

Consolidated Statement of Changes in Shareholders' Equity

Years ended December 31 (000's)	2005	2004
Capital stock		
Common shares		
Balance at beginning of year	\$ 32,468	\$ 31,734
Proceeds of options exercised (Note 13)	1,804	734
Balance at end of year	\$ 34,272	\$ 32,468
Contributed surplus		
Balance at beginning of year	\$ 178	\$ 33
Amortization of fair value of employee stock options (Note 13)	237	145
Employee stock options exercised	(109)	-
Balance at end of year	\$ 306	\$ 178
Retained earnings		
Balance at beginning of year	\$ 129,561	\$ 89,399
Dividends paid	(4,414)	(3,038)
Dividends declared	(1,701)	(1,351)
Net income for the year	60,861	44,551
Balance at end of year	\$ 184,307	\$ 129,561

See accompanying notes.

Consolidated Statement of Cash Flows

Years ended December 31 (000's)	2005	2004
OPERATING ACTIVITIES		
Net income for the year	\$ 60,861	\$ 44,551
Adjustments to determine net cash flows relating to operating activities		
Future income taxes	2,616	392
Amortization of capital assets	1,350	814
Amortization of securities	(1,965)	(297)
Amortization of deferred financing costs	75	58
Amortization of deferred development costs	1,447	720
Provision for credit losses	3,128	4,465
Change in accrued interest receivable	(2,430)	(3,217)
Change in accrued interest payable	17,436	17,025
Net realized and unrealized (gain) loss on investment securities	(1,706)	3,490
Gain on sale of Mortgage-Backed Securities	(20,935)	(10,625)
Change in Mortgage-Backed Securities receivable	17,463	12,639
Change in other assets	(1,065)	(8,710)
Change in cheques and other items in transit	454	340
Change in other liabilities	11,505	12,113
Change in fair value of employee stock options (Note 13)	128	145
Cash provided by operating activities	88,362	73,903
FINANCING ACTIVITIES		
Repayment of subordinated term loan	(3,000)	(1,000)
Net increase in deposits	630,277	601,081
Issuance of capital stock	1,804	734
Dividends paid	(5,765)	(4,044)
Cash provided by financing activities	623,316	596,771
INVESTING ACTIVITIES		
Activity in securities		
Purchases	(148,742)	(88,184)
Proceeds on sales	97,823	16,123
Proceeds on maturities	28,914	31,459
Activity in mortgages		
Net increase	(924,987)	(866,145)
Proceeds from securitization of Mortgage-Backed Securities	420,643	271,232
Net increase in personal and credit card loans	(37,792)	(33,816)
Net increase in secured loans	(23,847)	(16,108)
Purchase of capital assets	(3,046)	(1,587)
Cash used in investing activities	(591,034)	(687,026)
Net increase (decrease) in cash and cash equivalents	120,644	(16,352)
Cash and cash equivalents at beginning of year	50,499	66,851
Cash and cash equivalents at end of year	\$ 171,143	\$ 50,499
Supplemental disclosure of cash flow information		
Amount of interest paid in year	\$ 78,985	\$ 60,743
Amount of income taxes paid in year	\$ 30,955	\$ 17,948

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Home Capital Group Inc. (the "Company") 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.

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian 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.

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.

The Company also consolidates variable interest entities (VIEs) when it is the primary beneficiary as detailed in Note 2.

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.

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.

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.

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.

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.

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.

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 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 any 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 quarterly to assess for other than temporary impairment.

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%.

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 were amortized over a period of four years from January 1, 2002 on a basis that followed the maturing nature of the business. As at December 31, 2005, all development costs have been written off.

Notes to the Consolidated Financial Statements

December 31, 2005

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.

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.

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 2005 and 2004.

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 17 for further information.

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 period 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.

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 pro rated on service and management's best estimate of expected health care costs.

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, 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 using management's best estimates. Refer to Note 13 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 capital stock.

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

NOTE 2 CHANGE IN ACCOUNTING POLICY

Consolidation of Variable Interest Entities

Under AcG-15, "Consolidation of Variable Interest Entities", guidance is provided for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under this standard, the Company must consolidate these entities if it is the primary beneficiary; that is, as a result of this investment, the Company is exposed to a majority of expected losses or is in a position to benefit from a majority of the returns. Under this guideline, the QSPE-HCC Trust (operating as Regency Finance Corp.) is required to be consolidated and has resulted in a reclassification of the Notes Receivable - QSPE-HCC Trust from securities to secured loans of \$43.6 million at December 31, 2005 and \$19.7 million at December 31, 2004. There was no impact to the net income or retained earnings of the Company for this consolidation.

NOTE 3 SECURITIES

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

(000's)						2005	2004
	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	\$ 10,295	\$ 76,112	\$ 40,425	\$ -	\$ 126,832	\$ 108,971	
Provinces	-	299	-	-	299	799	
Equity securities							
Common	11,810	-	-	-	11,810	7,642	
Fixed rate preferred	8,908	36,288	24,083	10,258	79,537	75,958	
Floating rate preferred	2,025	-	1,385	-	3,410	6,696	
Income trusts	3,565	-	-	-	3,565	-	
Mutual funds	3,289	-	-	-	3,289	3,000	
	\$ 39,892	\$ 112,699	\$ 65,893	\$ 10,258	\$ 228,742	\$ 203,066	

All securities were held in Canadian funds.

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

(000's, except %)	2005			
	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted- average Yield
Securities issued or guaranteed by				
Canada	\$ 126,832	\$ 273	\$ 127,105	3.8%
Provinces	299	4	303	4.5%
Equity securities				
Common	11,810	772	12,582	2.9%
Fixed rate preferred	79,537	3,170	82,707	5.4%
Floating rate preferred	3,410	100	3,510	4.7%
Income trusts	3,565	(60)	3,505	7.2%
Mutual funds	3,289	460	3,749	15.2%
	\$ 228,742	\$ 4,719	\$ 233,461	
				2004
(000's, except %)	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%
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%
	\$ 203,066	\$ 5,886	\$ 208,952	

Notes to the Consolidated Financial Statements

December 31, 2005

NOTE 4 LOANS

(a) Loan maturities

(000's)	2005					2004
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Book Value	Book Value
Personal and						
credit card loans	\$ 115,480	\$ 1,119	\$ 29	\$ -	\$ 116,628	\$ 79,405
Secured loans*	5,080	13,149	24,495	841	43,565	19,718
Residential mortgages	1,016,642	1,294,921	259,023	13,108	2,583,694	2,093,802
Other mortgages	21,192	28,759	17,969	1,652	69,572	64,815
	1,158,394	1,337,948	301,516	15,601	2,813,459	2,257,740
General allowance for credit losses					(16,586)	(13,611)
					\$ 2,796,873	\$ 2,244,129

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

(000's)	2005			2004		
	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Personal and						
credit card loans	\$ 322	\$ 162	\$ 160	\$ 252	\$ 204	\$ 48
Secured loans*	81	-	81	28	-	28
Residential mortgages	13,486	-	13,486	9,340	400	8,940
Other mortgages	-	-	-	-	-	-
	\$ 13,889	\$ 162	\$ 13,727	\$ 9,620	\$ 604	\$ 9,016

* Consolidated - Refer to Note 2 on page 37 of this 2005 Annual Report.

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

(000's)	2005			2004		
	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance,						
beginning of year	\$ 604	\$ 13,611	\$ 14,215	\$ 574	\$ 10,300	\$ 10,874
Provisions for credit losses	153	2,975	3,128	1,154	3,311	4,465
Write-offs	(991)	-	(991)	(1,322)	-	(1,322)
Recoveries	396	-	396	198	-	198
Balance, end of year	\$ 162	\$ 16,586	\$ 16,748	\$ 604	\$ 13,611	\$ 14,215

NOTE 5 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 other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold \$430.8 million (2004 - \$279.4 million) of mortgages receivable in securitization transactions. This 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 totaled \$44.8 million (2004 - \$30.1 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of \$1.2 million (2004 - \$0.8 million) 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, 2005 totaled \$15.1 million (2004 - \$9.4 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:

(000's)	2005	2004
Gains on sales of mortgages	\$ 19,189	\$ 11,812
Reduction in value to reflect increase in prepayment rate assumption	(1,013)	(1,522)
Amortization of retained interest and servicing liability	2,764	387
Other securitization revenues (expenses)	(5)	(52)
	\$ 20,935	\$ 10,625

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:

	2005	2004
Prepayment rate	13.51%	12.73%
Discount rate	3.67%	3.91%
Expected credit losses	N/A*	N/A*
Weighted-average life in years	2.8	3.2

* 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:

(000's, except % and number of years)	2005	2004
Carrying amount of retained interest	\$ 41,309	\$ 27,724
Weighted-average life in years	2.8	3.2
Prepayment rate	13.51%	12.73%
Impact on fair value of 10% adverse change	\$ (750)	\$ (495)
Impact on fair value of 20% adverse change	(1,484)	(977)
Residual cash flows discount rate	3.67%	3.91%
Impact on fair value of 10% adverse change	\$ (631)	\$ (498)
Impact on fair value of 20% adverse change	\$ (1,186)	\$ (953)
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:

(000's)	2005	2004
Net proceeds from new securitizations	\$ 420,643	\$ 271,232
Cash flows received on retained interests	\$ 17,469	\$ 10,927

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

	2005	
(000's)	Total Principal Amount	Principal Amount of Loans 61 or More Days Past Due
Total loans managed or securitized	\$ 3,613,643	\$ 18,386
Less mortgages securitized	800,184	1,933
Total gross loans reported on the consolidated balance sheet	\$ 2,813,459	\$ 16,453
		2004
Total loans managed or securitized	\$ 2,758,481	\$ 11,581
Less mortgages securitized	500,740	1,011
Total gross loans reported on the consolidated balance sheet	\$ 2,257,741	\$ 10,570

Notes to the Consolidated Financial Statements

December 31, 2005

NOTE 6 CAPITAL ASSETS

(000's)	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 4,322	\$ 3,270	\$ 1,052	\$ 747
Office furniture and equipment	4,298	2,074	2,224	1,488
Signs	29	27	2	2
Leasehold improvements	2,326	1,242	1,084	429
	\$ 10,975	\$ 6,613	\$ 4,362	\$ 2,666

Amortization in respect of the above-noted capital assets for the year amounted to \$1,350 (2004 - \$814).

NOTE 7 DEFERRED DEVELOPMENT COSTS

Costs incurred for development of the VISA operations are as follows:

(000's)	2005	2004
Total costs	\$ 3,364	\$ 3,364
Accumulated amortization	(3,364)	(1,917)
	\$ -	\$ 1,447

NOTE 8 OTHER ASSETS

(000's)	2005	2004
Accrued interest receivable	\$ 15,234	\$ 12,804
Goodwill	2,324	2,324
Deferred agent commissions	9,320	8,979
Other prepaid assets and deferred items	15,522	14,875
	\$ 42,400	\$ 38,982

NOTE 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 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 1%;
- (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 September 1, 2005, Canadian Western approved a 1% reduction in the interest rate. Prior to this date, the interest rate payable on the term loan was the bank's prime lending rate plus 2%.

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%.

NOTE 10 SUBORDINATED TERM LOAN

On December 12, 2002, the Company entered into an agreement with Canadian Western whereby Canadian Western provided a subordinated term loan of \$5,000,000 for a period of five years. The proceeds of this subordinated term 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 term 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 term 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 1%;
- (iii) as collateral for the subordinated term 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 December 20, 2005, the Company, with the approval of Canadian Western, repaid the final \$2,000,000 owing on the subordinated term loan. This final repayment followed the Company making its regular annual payment on July 10, 2005.

On September 1, 2005, Canadian Western approved an additional 1% reduction in the interest rate. Prior to this date, the interest rate payable on the term loan was the bank's prime lending rate plus 2.0%.

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%.

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.

NOTE 11 DEPOSITS

					2005	2004
(000's, except %)	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	\$ 20,191	\$ 1,427,996	\$ 1,053,065	\$ 362,636	\$ 2,863,888	\$ 2,242,381
Businesses	-	17,816	10,708	3,049	31,573	22,803
	\$ 20,191	\$ 1,445,812	\$ 1,063,773	\$ 365,685	\$ 2,895,461	\$ 2,265,184
Effective yield	-	3.5%	3.8%	4.0%	3.7%	3.8%

All deposits are held in Canadian funds.

NOTE 12 OTHER LIABILITIES

(000's)	2005	2004
Accrued interest payable	\$ 97,391	\$ 79,955
Income taxes payable	5,157	4,545
Dividends payable	1,701	1,351
Deferred commitment fees	9,847	8,062
Future income taxes	12,015	9,399
Other, including accounts payable and accrued liabilities*	27,383	18,275
	\$ 153,494	\$ 121,587

* The Company has recognized a liability on the consolidated balance sheet in the amount of \$221 (2004 - \$104) for the employee future benefits.

Notes to the Consolidated Financial Statements

December 31, 2005

NOTE 13 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

(000's)	Number of Shares	2005	Number of Shares	2004
Common shares*				
Balance at beginning of year	33,777	\$ 32,468	33,534	\$ 31,734
Options exercised	235	1,804	243	734
Balance at end of year	34,012	\$ 34,272	33,777	\$ 32,468

* 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.

(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. On October 20, 2004, the Board of Directors (the "Board") elected not to renew the Normal Course Issuer Bid.

During the year, no Common shares were purchased (2004 - nil). The cost of the Common shares would have been reduced by the average per share amount on the transaction date, which amounted to nil in 2005 (2004 - nil).

(d) Stock Options

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

(000's, except exercise price and number of years)	2005		2004	
	Number of Options	Weighted- average Exercise Price	Number of Options	Weighted- average Exercise Price
Outstanding at beginning of year	1,373	\$ 8.62	1,501	\$ 6.31
Issued	218	35.03	120	26.16
Exercised	(235)	7.23	(243)	3.02
Cancelled	(84)	25.00	(5)	6.76
Outstanding at end of year	1,272	\$ 12.32	1,373	\$ 8.62
Exercisable at year-end	1,003	\$ 7.31	944	\$ 6.64
Weighted-average term to maturity in years		3.1		3.7

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 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 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, 2005, 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	25,000	25,000	\$ 4.69	07/25/2006
	200,000	200,000	6.76	03/06/2007
	22,500	22,500	7.75	06/18/2007
	265,000	265,000	7.15	12/05/2009
	512,500	512,500		
Employees	40,000	40,000	4.69	07/25/2006
	202,000	202,000	6.76	03/06/2007
	130,000	130,000	7.15	12/05/2009
	155,000	115,000	10.56	07/23/2010
	15,000	3,750	26.16*	03/10/2011
	57,500	-	34.55**	02/14/2010
	10,000	-	34.53**	04/26/2010
	150,000	-	35.25**	12/06/2010
	759,500	490,750		
	1,272,000	1,003,250	\$ 7.31	

* 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, 2005, one level of the performance criteria had not been met. As a result, 25% of these contingently assumable options have not been included in the computation of fully diluted income per Common share.

** In 2005, the Company granted certain employees the right to receive stock options of 57,500, 10,000 and 150,000 if certain performance criteria were met. As at December 31, 2005, the performance criteria had not been met. As a result, the contingently assumable options have not been included in the computation of fully diluted income per Common 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 two-year period ended December 31, 2005 was \$5.93 for the December 2005 issue, \$6.97 for the April 2005 issue, \$7.01 for the January 2005 issue and \$4.85 for the March 2004 issue.

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

	December 2005	April 2005	January 2005	March 2004
Expected dividend yield	4.50%	3.00%	3.00%	3.00%
Expected share price volatility	26.30%	28.80%	29.10%	28.30%
Risk-free rate of return	3.90%	3.55%	3.54%	3.53%
Expected period until exercise in years	4.2	4.0	4.0	4.1

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 capital stock. Employee compensation expense increased by \$236,718 (2004 - \$144,472) and net income decreased by the same amount.

Notes to the Consolidated Financial Statements

December 31, 2005

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 capital stock. The restatement of net income and income per Common 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:

	2005	2004
Pro forma net income (in thousands)	\$ 60,504	\$ 44,190
Pro forma income per Common share – basic	\$ 1.79	\$ 1.32
Pro forma income per Common share – diluted	\$ 1.71	\$ 1.27

(e) Income per Common Share

Basic income per Common share is determined as net income for the year divided by the average number of Common shares outstanding of 33,860,077 (33,624,905 – 2004).

Diluted income per Common share is determined as net income for the year divided by the average number of Common shares outstanding of 33,860,077 (33,624,905 – 2004) plus the stock options potentially exercisable as determined under the treasury stock method of 1,589,834 (1,408,900 – 2004) for a total of 35,449,911 (35,033,805 – 2004) diluted Common shares.

NOTE 14 INCOME TAXES

Components of the provision for income taxes are as follows:

(000's)	2005	2004
Current income taxes		
Federal	\$ 17,976	\$ 11,538
Provincial	10,004	7,170
	27,980	18,708
Future income taxes		
Federal	1,361	(10)
Provincial	1,255	402
	2,616	392
	\$ 30,596	\$ 19,100

Reconciliation of income taxes is as follows:

(000's)	2005	2004
Income before income taxes	\$ 91,457	\$ 63,651
Income taxes at statutory combined federal and provincial income tax rates	\$ 33,012	\$ 22,991
Increase (decrease) in income tax rates resulting from:		
Tax-exempt income	(1,775)	(4,299)
Non-deductible expenses	156	92
Other	(797)	316
	\$ 30,596	\$ 19,100

The combined federal and provincial income tax rate varies each year according to changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statement of income is different from the combined federal and provincial income tax rate of 36.12% (2004 – 36.12%).

Sources of future income tax assets and liabilities are as follows:

(000's)	2005	2004
Future income tax liabilities		
Deferred agent commissions and other charges	\$ 6,621	\$ 6,566
Mortgage-Backed Securities receivable	15,508	10,208
Deferred development costs	-	523
	22,129	17,297
Future income tax assets		
Allowance for credit losses	5,081	3,463
Mark-to-market adjustments on securities	1,462	1,523
Deferred commitment fees	3,571	2,912
	10,114	7,898
Net future income tax liability	\$ 12,015	\$ 9,399

NOTE 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 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 totaled \$280,299 for 2005 (2004 - \$226,042).

NOTE 16 COMMITMENTS AND CONTINGENCIES

Lease Commitments

Contractual obligations in respect of operating leases as at December 31, 2005 are as follows:

(000's)	
2006	\$ 1,409
2007	1,502
2008	1,471
2009	1,160
2010	1,105
2011 and thereafter	5,784
	\$ 12,431

(000's)	2005	2004
Rent paid	\$ 1,932	\$ 1,962

Credit Commitments

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to \$176,307,655 as at December 31, 2005 (2004 - \$160,892,093). The commitments remain open for various dates until January 2007 for 2005 and November 2005 for 2004. The average rate on mortgage commitments is 6.78% (2004 - 7.19%).

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, 2005, these contractual commitments in aggregate were \$158,692,723 (2004 - \$109,905,825). 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.

Notes to the Consolidated Financial Statements

December 31, 2005

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.

NOTE 17 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.

The Company has not entered into any off-balance sheet financial derivative transactions as at December 31, 2005.

The table below provides an analysis of the Company's derivative portfolio and related credit exposure as at December 31 2004:

	2004				
(000's)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk- weighted Balance	Fair Market Value
Over-the-counter contract					
Interest rate contracts					
Option written - short sale					
Due within one year	\$ 41,353	\$ 190	\$ 190	\$ -	\$ 41,543

NOTE 18 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.

								2005
(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash resources	\$ 51,337	\$ 110,806	\$ -	\$ 9,000	\$ -	\$ -	\$ -	\$ 171,143
Weighted-average interest rate	1.8%	3.1%	-	3.0%	-	-	-	2.7%
Securities	-	26,747	3,270	9,875	112,699	76,151	-	228,742
Weighted-average interest rate	-	5.7%	4.9%	3.7%	4.1%	4.4%	-	4.4%
Loans	-	223,341	210,339	698,046	1,337,948	317,117	10,082	2,796,873
Weighted-average interest rate	-	9.3%	7.1%	6.8%	6.9%	6.6%	-	7.0%
Other assets	-	-	-	-	-	-	88,071	88,071
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 51,337	\$ 360,894	\$ 213,609	\$ 716,921	\$ 1,450,647	\$ 393,268	\$ 98,153	\$ 3,284,829
Weighted-average interest rate	1.8%	7.1%	7.1%	6.7%	6.7%	6.1%	-	6.4%
Liabilities and shareholders' equity								
Term loan and subordinated								
term loan	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Weighted-average interest rate	6.0%	-	-	-	-	-	-	6.0%
Deposits payable on demand	-	20,191	-	-	-	-	-	20,191
Weighted-average interest rate	-	-	-	-	-	-	-	-
Deposits payable on a fixed date	-	228,475	355,277	862,060	1,063,773	365,685	-	2,875,270
Weighted-average interest rate	-	3.4%	3.5%	3.5%	3.8%	4.0%	-	3.7%
Other liabilities	-	-	-	-	-	-	160,483	160,483
Weighted-average interest rate	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	218,885	218,885
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 10,000	\$ 248,666	\$ 355,277	\$ 862,060	\$ 1,063,773	\$ 365,685	\$ 379,368	\$ 3,284,829
Weighted-average interest rate	6.0%	3.1%	3.5%	3.5%	3.8%	4.0%	-	3.2%
Off-balance sheet items	\$ 41,337	\$ 112,228	\$ (141,668)	\$ (145,139)	\$ 386,874	\$ 27,583	\$ (281,215)	3.2%
Weighted-average interest rate	-	(150,935)	(11,780)	(4,854)	73,205	94,364	-	-
Interest rate sensitivity gap	\$ 41,337	\$ (38,707)	\$ (153,448)	\$ (149,993)	\$ 460,079	\$ 121,947	\$ (281,215)	-
Cumulative gap	\$ 41,337	\$ 2,630	\$ (150,818)	\$ (300,811)	\$ 159,268	\$ 281,215	\$ -	-

Notes to the Consolidated Financial Statements

December 31, 2005

								2004
(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 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	2,486	61,760	118,844	-	203,066
Weighted-average interest rate	4.4%	4.3%	6.1%	5.8%	4.4%	4.8%	-	4.7%
Loans	-	141,796	121,839	389,287	1,258,970	336,861	(4,624)	2,244,129
Weighted-average interest rate	-	11.0%	7.3%	7.4%	7.2%	7.1%	-	7.5%
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								
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%
Off-balance sheet items	\$ 8,921	\$ 28,316	\$ (115,979)	\$ (23,370)	\$ 291,773	\$ 34,473	\$ (224,134)	3.6%
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	\$ -	

NOTE 19 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.

(000's)	2005			2004		
	Book Value	Fair Value	Fair Value Over/(Under) Book Value	Book Value	Fair Value	Fair Value Over/(Under) Book Value
Assets						
Cash resources	\$ 171,143	\$ 171,143	\$ -	\$ 50,499	\$ 50,499	\$ -
Securities	228,742	233,461	4,719	203,066	208,952	5,886
Loans	2,796,873	2,859,292	62,419	2,244,129	2,341,287	97,158
Other	88,071	88,824	753	70,819	70,021	(798)
Liabilities						
Term loan	10,000	10,000	-	10,000	10,000	-
Subordinated term loan	-	-	-	3,000	3,000	-
Deposits	2,895,461	2,975,629	80,168	2,265,184	2,363,484	98,300
Other	160,483	160,483	-	128,122	128,122	-
Off-balance sheet financial instruments						
Credit commitments	\$ 225,769	\$ 230,164	\$ 4,395	\$ 200,272	\$ 207,177	\$ 6,905
Financial instrument liability	-	-	-	41,353	41,543	190

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 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 value; 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 17.

Notes to the Consolidated Financial Statements

December 31, 2005

NOTE 20 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 22 to 26 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.

NOTE 21 EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two operations – Mortgage Lending and Consumer Lending. The Mortgage Lending operation consists of mortgage lending, securitization of government insured mortgages and the secured loans 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 and corporate activities.

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

	2005			
(000's)	Mortgage Lending	Consumer Lending – Retail Services and Credit Cards	Other	Total
Net interest income	\$ 78,248	\$ 10,319	\$ 14,111	\$ 102,678
Provision for credit losses	(2,191)	(937)	-	(3,128)
Fees and other income	14,586	6,669	112	21,367
Gain (loss) on securities and Mortgage-Backed Securities	20,935	-	1,706	22,641
Non-interest expenses	(38,321)	(6,461)	(7,319)	(52,101)
Income before income taxes	73,257	9,590	8,610	91,457
Provision for income taxes	24,980	3,464	2,152	30,596
Net income	\$ 48,277	\$ 6,126	\$ 6,458	\$ 60,861
Total assets	\$ 2,821,874	\$ 121,074	\$ 341,881	\$ 3,284,829

	2004			
(000's)	Mortgage Lending	Consumer Lending – Retail Services and Credit Cards	Other	Total
Net interest income	\$ 62,183	\$ 7,881	\$ 15,008	\$ 85,072
Provision for credit losses	(3,225)	(1,240)	-	(4,465)
Fees and other income	11,652	5,061	1	16,714
Gain (loss) on sale of securities and Mortgage-Backed Securities	10,625	-	(3,490)	7,135
Non-interest expenses	(27,355)	(6,315)	(7,135)	(40,805)
Income before income taxes	53,880	5,387	4,384	63,651
Provision for (recovery of) income taxes	17,999	1,946	(845)	19,100
Net income	\$ 35,881	\$ 3,441	\$ 5,229	\$ 44,551
Total assets	\$ 2,200,540	\$ 81,918	\$ 286,055	\$ 2,568,513