HOME CAPITAL GROUP INC.

Exceptional Profits and Growth

Canada's First Choice Alternative Provider of Residential First Mortgages

ANNUAL REPORT 2004

Financial Highlights

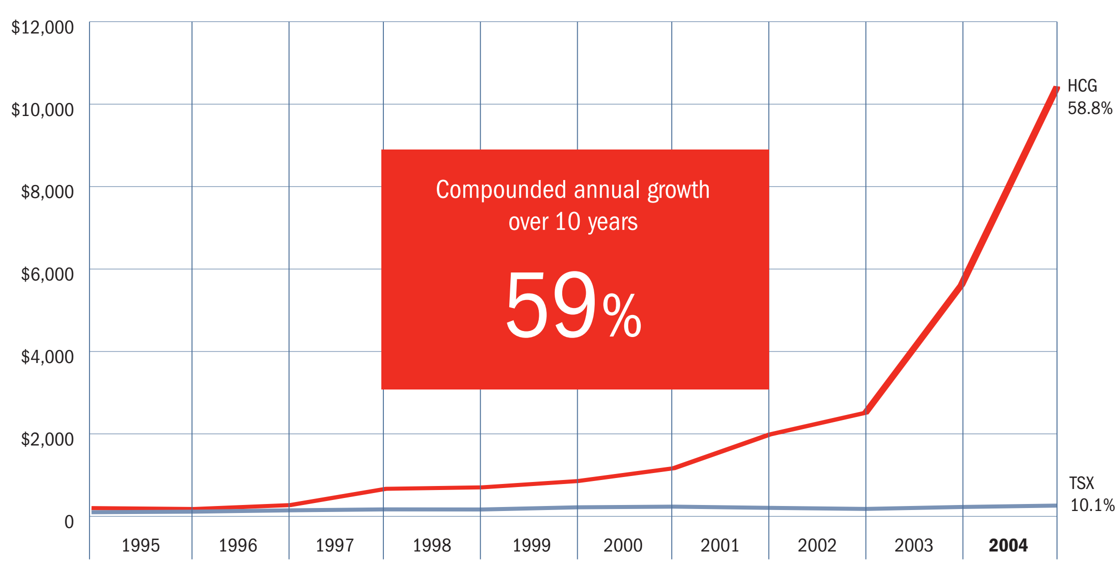
For the years ended December 31 (000's)		2004	2003	2002
Total assets	$	**2,568,513**	1,897,176	1,394,289
Loans	$	**2,224,411**	1,608,301	1,171,102
Deposits and borrowings	$	**2,265,184**	1,664,103	1,215,179
Shareholders' equity	$	**162,207**	121,166	94,586
Revenue	$	**186,689**	144,589	112,556
Net income	$	**44,551**	29,507	20,595
Book value of Common shares*	$	**4.80**	3.61	2.82
Earnings per share – basic*	$	**1.33**	0.88	0.62
Earnings per share – fully diluted*	$	**1.27**	0.86	0.59

> The Company marked 38 consecutive quarters of increased earnings

> Both earnings and fully diluted earnings per share grew by more than 20% for ninth consecutive year

Ten-year cumulative total return on $100 investment

Comparison between S&P/TSX Composite Index (TSX) and Home Capital Group Inc. (HCG)
December 31, 1994 – December 31, 2004



HCG stock price performance Closing price as of December 31	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	$0.21	$0.41	$1.63	$1.75	$2.05	$2.95	$5.58	$7.25	$16.63	$31.25

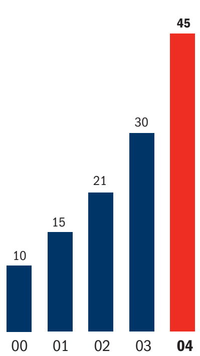
* Share prices have been restated to reflect two-for-one stock split on January 29, 2004.

2001	2000	1999	1998	1997	1996	1995
1,136,220	892,078	738,136	538,876	434,120	346,817	340,826
958,564	776,177	635,939	471,841	385,873	311,783	305,938
995,120	794,666	671,068	493,386	399,497	318,838	314,631
75,203	49,501	40,453	33,620	25,004	20,594	19,406
91,728	70,606	53,021	42,069	33,754	32,985	34,790
14,860	10,452	8,081	6,067	3,018	1,187	60
2.30	1.67	1.37	1.14	1.03	0.96	0.90
0.49	0.35	0.27	0.23	0.14	0.06	–
0.46	0.33	0.26	0.19	0.11	0.05	–

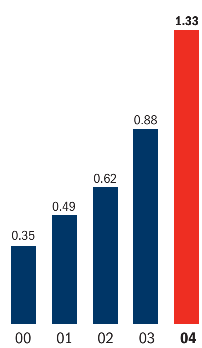
> After-tax return on equity surpassed 20% for seventh consecutive year

> Total assets increased by 35.4% over year-end 2003, reaching $2.57 billion

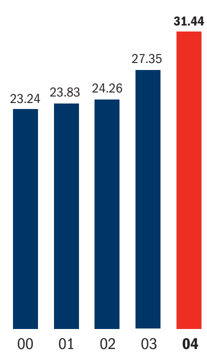
Earnings
(millions)



Earnings per share
(basic in dollars)



After-tax return on equity
(percentage)



Home Capital Group Inc. exists to benefit its shareholders through the pursuit of above average returns over the long term and with a minimum of risk. This goal is pursued through the positioning of Home Capital's wholly owned subsidiary, Home Trust Company. Home Trust's business activity is focused on unique niches in the Canadian financial marketplace, each of which generates above average returns, has below average risk and is not served by the larger, traditional financial institutions.

still growing

The Company believes that exceptional growth opportunities still exist in its underserved marketplace. Home Trust presently has less than 4% share of the market segment in which it operates and has taken the appropriate steps to accommodate continued robust growth in this niche.

Business Profile

Home Capital Group Inc. is a holding company, publicly traded on the Toronto Stock Exchange (HCG), operating through its principal subsidiary, Home Trust Company. Home Trust is a federally regulated trust company offering deposit, mortgage lending, retail credit and credit card issuing services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia and Nova Scotia.

Mortgages

As the first choice alternative provider of residential first mortgages, Home Trust has developed a strong core business by lending to borrowers who may not meet all the lending criteria of the major financial institutions. With sensible lending policies, an extensive mortgage broker network and relationships with referral institutions, Home Trust is well recognized as a leader in its market niche.

Investments

Home Trust provides deposit investment services, including Certificates of Deposit, Guaranteed Investment Certificates, Registered Retirement Savings Plans and Registered Retirement Income Funds. Offering competitive rates and personal service, Home Trust has developed an extensive client base and has working relationships with hundreds of deposit brokers and investment dealers.

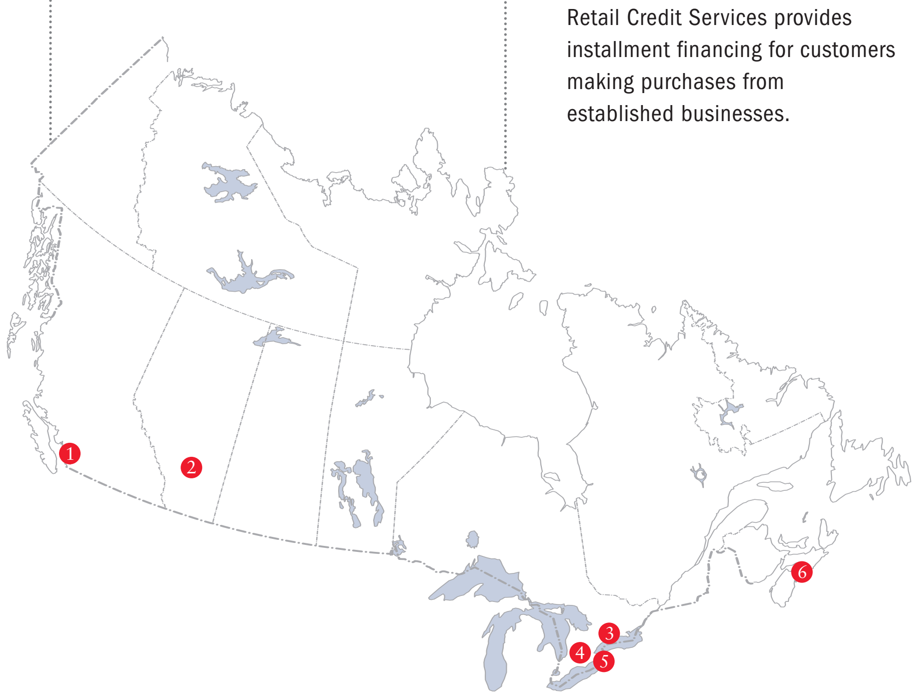
Consumer Lending

Home Trust VISA was the first credit card program in Canada designed for individuals who wish to build or reestablish their credit history through the use of a secured credit card with limits up to $10,000.

The Equity Plus VISA card enables homeowners to access between $10,000 and $150,000 of equity in their homes, combining the advantages of a line of credit with the convenience of a credit card.

Retail Credit Services provides installment financing for customers making purchases from established businesses.

HOME CAPITAL GROUP INC.



Home Trust Branches

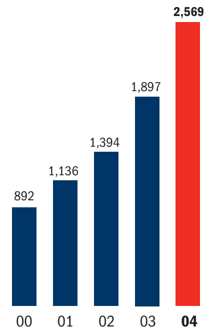
1 - Vancouver
2 - Calgary
3 - Toronto
4 - Hamilton
5 - St. Catharines
6 - Halifax

Proven Results

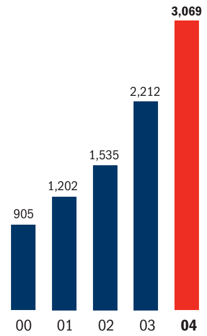
Growth

Home Capital continued to excel in key financial measurements. The development and growth of the core mortgage business resulted in asset growth, of 35.4%, or 38.7% including assets under administration, and an increase in total revenue of 29.1%.

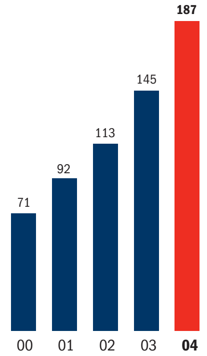
Assets
(millions)



Total assets including assets under administration
(millions)



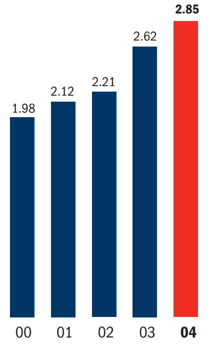
Revenue
(millions)



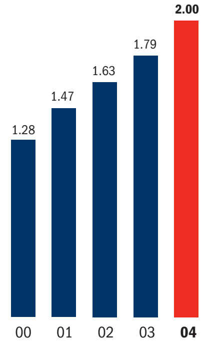
Returns

The Company maintained a solid return on assets, recording pre-tax return on assets of 2.9% and after-tax return on assets of 2.0%, while shareholders' equity increased to $162.2 million, or 33.9%, over the $121.2 million reported in 2003.

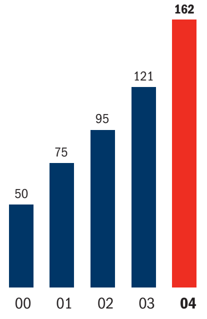
Pre-tax return on assets
(percentage)



After-tax return on assets
(percentage)



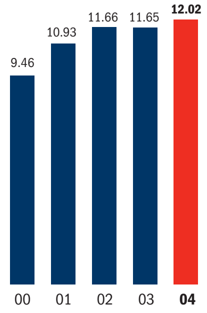
Shareholders' equity
(millions)



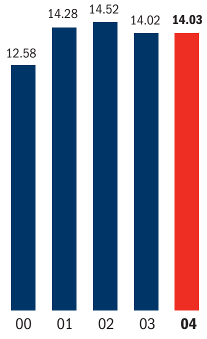
Risk

Home Capital continued to surpass all applicable regulatory and related standards. The level of impaired loans is comparable to that of larger, traditional financial institutions. The Company is well regarded for effectively managing credit risk.

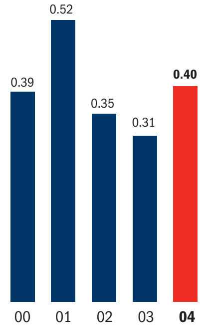
Tier 1 capital to risk-weighted assets
(percentage)



Total capital to risk-weighted assets
(percentage)



Net impaired loans of loans portfolio
(percentage)



Performance vs. Target

Return on Equity

Target: 20% return on equity

Home Capital again exceeded 20% in after-tax return on equity, reaching 31.4% at December 31, 2004, representing the seventh consecutive year in which the Company surpassed 20% ROE. Home Capital's return on equity continues to exceed the average for deposit-taking institutions.

After-tax return on equity

31.4%

at December 31, 2004

Earnings

Target: 20% increase in total net earnings

Earnings for the Company continued to reflect the strong growth experienced during 2004 with net income increasing to $44.6 million, a 51.0% increase over the $29.5 million achieved in 2003. Home Capital has now achieved growth in earnings in excess of 20% for nine consecutive years.

Increase in earnings of

51.0%

over 2003

Earnings per Share

Target: 20% increase in fully diluted earnings per share

Fully diluted earnings per share rose to $1.27 at December 31, 2004, a 47.7% increase over the $0.86 recorded at year-end 2003. This represents the ninth successive year in which Home Capital has exceeded 20% growth in fully diluted earnings per share.

Fully diluted earnings per share grew

47.7%

over year-end 2003

Assets

Target: 20% increase in combined total assets and securitized mortgages originated and managed by the Company

Total assets grew to $2.57 billion by December 31, 2004, an increase of 35.4% over the $1.90 billion attained the previous year. The Company also administers a portfolio of Mortgage-Backed Securities (MBS) originated and sold by Home Trust Company, which grew from $315.1 million at year-end 2003 to $500.7 million recorded in 2004 and is not reflected in the total assets. By including the MBS portfolio, total asset growth would stand at 38.7%.

Total assets increased

35.4%

over year-end 2003

2004 – a year of outstanding performance

Home Capital Group recorded a year marked by exceptional profit and growth in 2004, substantially exceeding all of its annual performance objectives. In addition, the Company advanced to a new stage of achievement and recognition in the marketplace. This Report to Shareholders reviews the performance highlights from the past year, and our prospects in 2005 and beyond.

Among the financial indicators of the Company's strong year-over-year performance were:

> Recording, with the completion of the fourth quarter, the 38th consecutive quarter-over-quarter increase in earnings growth.

> Reporting a 47.7% increase in fully diluted earnings per share, marking the ninth consecutive year in which such growth has exceeded 20%.

> Achieving an after-tax return on equity of 31.4%, representing the seventh straight year in which after-tax ROE has been higher than 20%.

> Increasing total net earnings by 51.0% to $44.6 million, the ninth consecutive year in which earnings have risen by more than 20%.

> Growing our combined total assets and securitized mortgages originated and managed by the Company by 38.7% to $3.07 billion.

> Providing enhanced liquidity and rewarding shareholders through such measures as effectively 'splitting' the outstanding shares in the Company, and announcing a 60% increase to the annual dividend.

Moving to new levels of performance and recognition

A number of other developments combined to make 2004 a significant year in the continuing evolution of your Company.

> Home Capital Group was added to the S&P/TSX Composite Index. Mutual funds and other financial units that track the S&P/TSX Index now hold a proportionate weighting of the Company's shares.

> The Company obtained an investment grade credit rating. Fitch Rating Agency assigned a 'BBB-' long-term senior rating and an 'F3' short-term rating to the Company and its wholly owned subsidiary, Home Trust. This rating enhances our ability to issue investment grade debt to fund future growth.

- The interest in Home Capital by the investment community expanded significantly over the course of the year. As our market capitalization crossed the $1 billion mark, investors who had previously overlooked the Company because of its size began to take a closer look. As a result, the Company is now followed by a significantly expanded number of investment professionals in both Canada and the United States. These investors recognize our achievements, have shown considerable interest in the Company and many have become new shareholders.
- The price of the Company's shares on the Toronto Stock Exchange appreciated by 88% during the year, from $16.63 at the close of 2003 to $31.25 at December 31, 2004.

Strong growth in our core and complementary businesses

The results and recognition of the past year are built on two fundamental strengths of the Company. First, we remain true to our longstanding culture marked by a prudent approach to risk management in all our policies and procedures. Second, our business strategy continues to focus on the segments of the residential mortgage market underserved by the major financial institutions and the related needs of consumers who may not meet the lending criteria of those institutions.

Building and extending our mortgage business: In 2004 we continued to build on the proven and growing residential first mortgage lending business that forms the core of our activity. During the year the value of new mortgage originations increased from $1.06 billion recorded in 2003 to $1.46 billion, an increase of 37.3%. We continued to expand the business successfully through our portfolio of CMHC–insured Mortgage-Backed Securities, which grew from $315.1 million in 2003 to $500.7 million, a 58.9% increase. The Company's significant and continuing success in its mortgage lending business is attributable to the dedication and hard work of its own personnel as well as positive relationships with a valued network of mortgage brokers across Canada.

Growing complementary businesses: The mortgage lending business is, and will remain, at the heart of the Company's strategy. At the same time, Home Capital Group has successfully entered other complementary lines of business. The secured lending products offered through these businesses complement our core offerings and provide significant opportunities for profitable growth. In 2004, they made a positive contribution to our operating results.

Our credit card program features two products: the cash-secured Home Trust VISA card, for individuals who wish to build or reestablish their credit history, and the Equity Plus VISA card, which enables qualifying homeowners to access a portion of the equity in their homes. The Retail Credit Services line of business provides installment financing for customers purchasing products from established merchants. We also continue to act as an agent for Regency Finance Corp. in offering second mortgages to qualifying homebuyers. These operations all recorded solid progress during the past year.

Sustaining and strengthening risk management practices

A strong focus on risk management and industry-leading underwriting techniques have been fundamental to Home Capital's continuing success. Net impaired loans at the end of 2004 represented 0.4% of the total portfolio, compared to 0.3% recorded the previous year, while the mortgage portfolio experienced no net losses during the past three years.

The general allowance stood at $13.6 million at December 31, 2004, representing 103.8 basis points of risk-weighted assets compared with 103.6 basis points at year-end 2003.

The Company's subsidiary, Home Trust Company, had a Tier 1 regulatory capital ratio of 12.0% at December 31, 2004 compared to 11.7% reported at the end of 2003. Total capital increased to $184.1 million at year-end from $139.5 million in 2003, and the total capital ratio remained steady year-over-year at 14.0%. Home Trust's total capital ratio is higher than the average of 13.7% achieved by the six leading Canadian banks.

The outlook for 2005

Based on our assessment of past performance, current conditions and the projections offered by various third parties, we are confident the Company will continue to benefit from a positive economic climate and interest rate environment for the foreseeable future.

The Company believes that exceptional growth opportunities still exist in its underserved marketplace. Home Trust presently has less than 4% share of the market segment in which it operates and has taken the appropriate steps to accommodate continued robust growth in this niche.

Home Capital sustained and accelerated its growth and profitability momentum throughout 2004. Your Board of Directors and management are, once again, optimistic about the Company's opportunities for strong performance in 2005.

As in past years, Home Capital has established a number of performance targets for 2005. Our objectives for this year include:

> 20% increase in total net earnings,
> 20% increase in fully diluted earnings per share,
> 20% increase in combined total assets and securitized mortgages originated and managed by the Company, and
> 20% return on equity.

The Board of Directors and management wish to acknowledge and thank both John Christodoulou and Sheila Ross, who are retiring as directors of the Company, for their significant contributions over the years. We also wish to welcome Janet Ecker (Advisor, LeDrew Laishley Reed LLP, Executive Director of the Toronto Financial Services Alliance, and a former Ontario Minister of Finance) as well as Norman Angus (Managing Director, Stuart, Lammert & Co., and formerly a principal with Lehman Brothers and UBS Warburg) who will be standing as nominees for election to the Board at the next Annual General Meeting. We are very confident that their experiences and insights will be valuable to the Company going forward.

The results of the past year and our future achievements are attributable in large part to the continuing dedication and efforts of our 228 employees, our network of mortgage brokers and our other business partners. We wish to recognize and thank them once again for their contributions to the Company and for their role in creating value for all our shareholders.

(signed) William A. Dimma

William A. Dimma
Chairman of the Board

(signed) Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer

Management's Discussion and Analysis

Caution Regarding Forward-looking Statements

Home Capital Group Inc. ("Home Capital" or the "Company") from time to time makes written and verbal forward-looking statements about business objectives, Company strategies, operations and anticipated financial results. These may be included in the Annual Reports, regulatory filings, reports to shareholders, press releases, Company presentations and other communications. These forward-looking statements are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements, principally related to global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The Company does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time.

Taxable Equivalent Basis ("TEB")

Most banks and trust companies analyze revenue on a taxable equivalent basis ("TEB") to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statement of income) includes tax-exempt income on certain securities. Since the dividends received on these securities are not taxable, the rate of tax applicable to this income is significantly lower which reduces the provision for income taxes. The TEB of $3.1 million (2003 – $3.4 million) increases the interest income and reduces the provision for income taxes. This TEB does not have a standardized meaning prescribed by generally accepted accounting principles and, therefore, may not be comparable to similar measures in other companies. Net interest income and income taxes are discussed on TEB throughout this Management's Discussion and Analysis (refer to Table 3).

The following section of the Annual Report provides management's detailed discussion and analysis of the financial condition and results of operations of Home Capital for the year ended December 31, 2004. The discussion and analysis relates principally to the Company's subsidiary, Home Trust Company ("Home Trust"), which provides residential first mortgage lending, consumer lending and deposit-taking services. It also provides a review of the Company's risk management policies relating to the credit, liquidity, and market and capital risks that are applicable to the Company's balance sheet.

Comparative performance indicators of the Canadian banking industry referred to in this document are obtained from the published results of publicly traded Schedule I banks. Readers are cautioned that the banks in this industry group have operations and asset size that may not be comparable to each other or Home Capital.

BUSINESS PROFILE AND STRATEGY

Mission

Home Capital's mission is to focus on unique niches in the Canadian financial marketplace that generate above average returns, have below average risk and are not actively serviced by the larger traditional financial institutions while providing shareholders with a profitable return, customers and brokers with value, service and stability, and employees with a positive and rewarding work environment. Home Capital will achieve this mission through the following strategies:

- Ensure growth is focused, strategic and will enhance shareholder value.
- Continued cost efficiencies, return on assets and low credit losses by maintaining tight expense control, mitigating risks and ensuring continued vigorous credit risk management.
- Continued profitability through the generation of low cost funding through the Company's deposit broker network.
- Maximizing potential opportunities with the cross selling of financial services and the further expansion into the western and eastern provinces and the national mortgage broker network.
- Maintain and reinforce the Company's reputation and public confidence through corporate communication, diligence in corporate governance practices and continued high standards in reporting and accountability.

The Company continually improved its financial performance over each of the past 10 years. This history includes many accomplishments such as 38 consecutive quarters of increased profitability, strong earnings growth, lower loan losses and a loan portfolio that reached the $2.0 billion mark this year. Home Capital's primary strategy continues to focus on lending in the residential mortgage market, which has expanded from the Ontario market into the Alberta, British Columbia, Nova Scotia and New Brunswick markets, thereby increasing the lending base of the Company.

Home Capital expanded its financial services with the introduction of the Home Trust VISA card. Since receiving its general membership in VISA Canada in May of 2000, the Company has focused its strategy on providing secured VISA cards to existing customers of the Company and new customers who could not qualify with other financial institutions. Cash deposits or collateral equity in residential mortgages secures these VISA credit cards and as of December 31, 2004 authorized credit amounted to $103.9 million.

Through its Retail Credit Services line of business, the Company provides individual loans to retail businesses for their clients. This operation continues to be a contributor to the profitability of the Company; however, the growth is not expected to match the growth of the VISA operation as these loans are only provided to established long-term retail outlets on an individually approved basis.

In December 2000, Home Capital entered the securitization market with the securitization of residential mortgages, insured with Canada Mortgage and Housing Corporation ("CMHC"). This provides additional markets for mortgage lending that the Company had not utilized in the past and further sources for liquidity and capital management and other income.

2004 Performance and 2005 Objectives

The table below summarizes the Company's 2004 performance and 2005 objectives.

Table 1 – 2004 Performance and 2005 Objectives

For the years ended December 31	**2004 Actual**	2004 Objectives	**2005 Objectives**
Return on shareholders' equity (ROE)	**31.4%**	20.0%	**20.0%**
Fully diluted earnings per share	**$ 1.27**	$ 1.03	**$ 1.52**
Net income	**$ 44.6 million**	$ 35.4 million	**$ 53.5 million**
Total assets and assets under administration	**$ 3.07 billion**	$ 2.65 billion	**$ 3.68 billion**
New Objectives for 2005			
Efficiency ratio (TEB)	**36.4%**	–	**36.0% to 43.0%**
Capital ratios			
Tier 1	**12.0%**	–	**Minimum of 9.5%**
Total	**14.0%**	–	**Minimum of 12.0%**
Credit quality (provision for loan losses as a % of total loans)	**0.2%**	–	**0.2% to 0.3%**

Critical Accounting Estimates

The significant accounting polices are outlined in Note 1 to the consolidated financial statements on page 32 of the Annual Report. The following policies are critical, since they refer to material amounts and require management to make estimates that, by their very nature, involve uncertainties.

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Allowance for Credit Losses

The allowance for credit losses reflects management's estimate of losses related to the loan portfolios at the balance sheet date. In assessing existing credit losses, management must rely on estimates and exercise judgement in matters in which the ultimate outcome is unknown. These matters include economic and business factors and specific losses with respect to individual borrowers. Changes in circumstances may cause future assessments of credit risk to be significantly different from current assessments and may require an increase or decrease in the allowance for credit losses. These changes could have a major impact on the provision for credit losses, which may be difficult to quantify. This uncertainty is captured within the general allowance for credit losses. At December 31, 2004, the Company's total allowance for credit losses was $14.2 million ($10.9 million in 2003), which included specific allowances of $0.6 million ($0.6 million in 2003) and general allowances of $13.6 million ($10.3 million in 2003). Additional information on the allowance for credit losses can be found in Note 1G) to the consolidated financial statements and the discussion of credit quality beginning on page 17 of this Management's Discussion and Analysis.

Securitization

Securitization is a process by which financial assets, which consist of government-guaranteed mortgage loans of the Company, are transformed into securities and sold to investors. When the Company surrenders control over the mortgage loans sold, and receives a consideration other than the beneficial interest in the transferred assets, this transaction is recorded as a sale. The determination of the initial gain depends on the value attributed to the retained interests, which is the Mortgage-Backed Securities receivable. Since quoted market prices are not available for this retained interest, the Company estimates the fair value based on the present value of estimated future cash flows. As a result, estimates and assumptions could have a material impact on results. Also, retained interests must be reviewed on an ongoing basis for changes in the estimates and assumptions. For further information on this refer to Note 4 of the consolidated financial statements on page 37 of this Annual Report and the section on off-balance sheet arrangements on page 20 of this Management's Discussion and Analysis.

Income Tax

Future income tax assets and liabilities reflect management's estimate of the value of temporary differences. The determination of the asset or liability value is based on assumptions related to the results of operations of future periods, timing of reversals of temporary differences and tax rates anticipated on the date of reversals. The use of different assumptions may produce significantly different results, especially if federal or provincial governments introduce changes to budgets that were previously announced.

Contingencies – Litigation

The Company will accrue a potential loss if it considers that the loss is probable and can be reasonably estimated based on available information. To estimate this loss, the Company consults external legal advisors who act in its defence. The Company analyzes the potential outcomes and considerations are given to the strategies related to litigation and settlements. Final settlements of litigious cases may necessitate significant changes to amounts recorded.

FINANCIAL HIGHLIGHTS

Overview

The Company continued with strong financial results in 2004. Asset and loan growth of 35.4% and 38.3%, respectively, was achieved. Credit quality remained strong and loan losses remained consistently low year over year. The efficiency ratio declined to 37.5% thereby remaining better than the industry average at 67.0%. Return on shareholders' equity reached 31.4% at year-end, again exceeding the Canadian bank average of 18.3%. The Company continues to operate with strong capital levels as shown by the Tier 1 capital ratio of 12.0%, which exceeds the Canadian bank average of 10.4%.

Table 2 – Key Performance Indicators

For the years ended December 31 (000's)	**2004**	2003	2002	2001	2000
FINANCIAL PERFORMANCE MEASURES					
Net income	**$ 44,551**	$ 29,507	$ 20,595	$ 14,860	$ 10,452
Basic earnings per share*	**$ 1.33**	$ 0.88	$ 0.62	$ 0.49	$ 0.35
Return on average shareholders' equity (ROE)	**31.4%**	27.4%	24.3%	23.8%	23.2%
Return on average total assets (ROA)	**2.0%**	1.8%	1.6%	1.5%	1.3%
Net investment margin (TEB)**	**4.0%**	3.8%	3.9%	3.5%	3.2%
Non-interest income to net revenue	**21.9%**	25.4%	19.9%	19.1%	17.9%
Efficiency ratio***	**37.5%**	40.5%	44.8%	40.7%	40.9%
Efficiency ratio (TEB)** (non-interest expense as a % of net revenue)	**36.4%**	38.8%	42.4%	37.7%	38.0%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 2,568,513**	$ 1,897,176	$ 1,394,289	$ 1,136,220	$ 892,078
Cash and securities-to-total assets	**10.6%**	12.4%	13.3%	13.2%	11.3%
Tier 1 capital ratio	**12.0%**	11.7%	11.7%	10.9%	9.5%
Total capital ratio	**14.0%**	14.0%	14.5%	14.3%	12.6%
Credit quality					
Provision for loan losses as a % of total loans	**0.2%**	0.3%	0.3%	0.3%	0.2%
Net impaired loans as a % of total loans	**0.4%**	0.3%	0.4%	0.5%	0.4%
Allowances for loan losses as a % of gross impaired loans	**148.2%**	191.9%	174.9%	109.0%	137.0%

* After giving effect to the stock dividend described in Note 12 to the consolidated financial statements.
** Refer to page 8 of the Annual Report for a discussion of TEB.
*** A decrease in the ratio reflects improved efficiency.

Income Statement Highlights for 2004

> Earnings for the Company continued to reflect strong growth during the 2004 fiscal year, with net income increasing to a record $44.6 million in 2004 from $29.5 million in 2003, an increase of 51.0%. This earnings growth translated to an increase in return on average shareholders' equity to 31.4% for the 2004 fiscal year from 27.4% in 2003.
> This increase reflects the growth in total revenues of $42.1 million (29.1%) while total expenses only increased $21.5 million (21.2%) over the 12 months of 2003.
> The credit quality of the portfolio remained strong with the provision for credit losses as a percentage of total loans at 0.2% as compared to the last three years at 0.3%.
> The efficiency ratio reflected the strong performance with a reduction to 37.5% from 40.5% in 2003.
> Fully diluted earnings per share were $1.27 in 2004, compared to $0.86 last year, an increase of 47.7%. Basic earnings per share were $1.33 in 2004, an increase of 51.1% over the $0.88 result in 2003.
> The 2004 results reflect a tax benefit realized of $2.1 million on the redemption of tax advantage preferred shares in which the Company had an investment; whereas, 2003 had a similar tax benefit of $0.8 million.
> In the ongoing review of the estimates used for the calculation of the Mortgage-Backed Securities receivable held on the consolidated balance sheet the Company adjusted the pay-down rate (or prepayment assumptions), which resulted in a charge of $1.5 million to securitization income on Mortgage-Backed Securities. This charge was reflective of the Company's recent experience in the securitized pools.

Balance Sheet Highlights for 2004

> Total assets increased by $671.3 million, or 35.4% from one year ago to reach $2.57 billion ($502.9 million in 2003), primarily due to the growth in the loan portfolio of $616.1 million, or 38.3% ($437.2 million in 2003).
> Securities (consisting of stocks and bonds) increased by $53.5 million for the year, or 31.6% ($39.5 million in 2003).
> Deposits and borrowings increased by $601.1 million in 2004, or 36.1% ($448.9 million in 2003).

The overall outlook for 2005 is continued strong financial performance with further market penetration anticipated in the western and eastern provinces. The Company will continue to expand the resources used to generate our loans and deposits. The Company is anticipating gradual and moderate increases in interest rates over the next year; however, overall they are not expected to have a negative impact on the Company's credit quality or growth strategy. Objectives established for 2005 include net income growth of 20% and asset growth of 20%.

EARNINGS REVIEW

Net Investment Income

An analysis of net investment income and net investment margin is presented in the following table. Net investment income is the difference between income earned on investments and the interest paid on deposits to fund those assets. The net investment margin is the net investment income divided by the Company's average total assets. The dividend income has been converted to a TEB (refer to page 8 of the Annual Report for a discussion of TEB) for comparison purposes.

Table 3 – Net Investment Income

	2004			2003		
For the years ended December 31 (000's)	**Average Balance**	**Income/ Expense**	**Average Rate**	Average Balance	Income/ Expense	Average Rate
Assets						
Cash and cash resources	**$ 58,675**	**$ 2,290**	**3.9%**	$ 61,193	$ 1,933	3.2%
Securities	**196,026**	**13,568**	**4.2%**	149,514	9,606	5.0%
Loans	**1,916,356**	**146,982**	**7.7%**	1,389,701	112,842	8.1%
Taxable equivalent adjustment*	**–**	**3,138**	**–**	–	3,374	–
Total earning assets	**2,171,057**	**165,978**	**7.4%**	1,600,408	127,755	7.8%
Other assets	**61,788**	**–**	**–**	45,324	–	–
Total assets	**$ 2,232,845**	**$ 165,978**	**7.2%**	$ 1,645,732	$ 127,755	7.6%
Liabilities and shareholders' equity						
Term and subordinated term loans	**$ 13,500**	**$ 850**	**6.3%**	$ 14,500	$ 1,168	8.1%
Deposits and borrowings	**1,964,644**	**76,918**	**3.9%**	1,439,641	63,936	4.4%
Total interest bearing liabilities	**1,978,144**	**77,768**	**3.9%**	1,454,141	65,104	4.5%
Other liabilities	**113,015**	**–**	**–**	83,715	–	–
Shareholders' equity	**141,686**	**–**	**–**	107,876	–	–
Total liabilities and shareholders' equity	**$ 2,232,845**	**$ 77,768**	**3.5%**	$ 1,645,732	$ 65,104	4.0%
Net investment income (taxable equivalent basis)		**$ 88,210**			$ 62,651	
Net investment margin (net investment income divided by average total assets)			**4.0%**			3.8%

* Taxable equivalent basis ("TEB") is defined as the dividend income received by the Company times the current tax rate of 36.12% for 2004 and 36.62% for 2003. Dividend income is non-taxable to the Company. However, this has been reduced for the year ended December 31, 2004 by the deemed dividend income on the redemption of the Great-West Lifeco Inc., Series 1 Preferred shares ($5.4 million). In 2003, the adjustment did not include the deemed dividend income on the redemption of the Royal Bank Series K and the Desjardins Laurentian Financial Preferred shares ($1.9 million).

As indicated in the preceding table, the net investment income, on a taxable equivalent basis, increased by $25.6 million (40.8%) in 2004 over 2003 ($13.6 million or 27.8% in 2003 over 2002). This resulted in an increase in the net investment margin to 4.0% in 2004 from 3.8% in 2003.

The spread on new funds advanced maintained an average of better than 3.6% during 2004 (3.5% in 2003). The average net interest return was 3.8% in 2004 (loans 7.7%, deposits 3.9%) up from 3.7% in 2003 (loans 8.1%, deposits 4.4%). The interest spread increase, combined with the 38.3% increase in the loan portfolio, resulted in the overall improvement to net interest income. At year-end, the average interest rate on mortgages was 7.1% (7.5% in 2003), with personal and credit card loans at an average rate of 14.3% (16.2% in 2003), while the rate for deposits was 3.8% (4.2% in 2003).

As part of the Company's liquidity policy requirements, a minimum of 20% of the next 100-day maturities must be invested in a liquid type investment. The Company both maintains a bank balance and invests excess cash in short-term investments and bonds to fulfill the liquidity policy requirement. As the Company continues to grow, the amount required to be in the form of liquid investments will also increase. During the year, the average bank balance was $5.7 million ($4.6 million in 2003) and the average short-term investment balance was $42.6 million ($56.3 million in 2003). The increase in the short-term investment income by $0.4 million at year-end ($0.6 million in 2003) was due to the increase in the average yield on the investments from 3.2% in 2003 to 3.9% in 2004.

Overall the securities portfolio increased $53.5 million, or 31.6%, over 2003. This increase was due to the increases in the bond portfolio of $52.1 million and in the Notes Receivable held in QSPE-HCC Trust of $16.1 million. These increases were offset by the decrease in the equity securities portfolio of $14.7 million. The average holdings of bonds increased during the year from $36.6 million in 2003 to $85.2 million. The average yield on the bond investments decreased during the year from 5.0% in 2003 to 3.3% in 2004. However, even though the average yield dropped, the increased holdings of bonds resulted in an increase in the bond income of $0.8 million.

The average holdings of Common shares increased from $6.4 million to $7.0 million, and the average holdings of Preferred shares decreased from $102.5 million to $93.6 million. The average return, on a taxable equivalent basis, increased from 10.9% in 2003 to 14.0% in 2004. During the year an issue of Preferred shares was redeemed, which resulted in the receipt of deemed dividends of $5.4 million. In 2003 deemed dividends totalled $1.9 million. These were not taken into account in the calculation of the TEB on the stock portfolio. Average holdings decreased; however, the combination of increasing yields and the increase in the tax advantage dividends received resulted in the increase of $3.2 million of dividend income year-over-year.

In 2005, net interest margin is expected to increase moderately in response to the increase in the targeted asset growth of 20%.

Non-interest Income

Table 4 – Non-interest Income

For the years ended December 31 (000's)	**2004**	2003	2002	**Growth 2004/2003**	Growth 2003/2002
Fees and other income	**$ 16,714**	$ 11,917	$ 9,287	**40.3%**	28.3%
Securitization income on Mortgage-Backed Securities	**10,625**	9,949	4,389	**6.8%**	126.7%
Loss on sale of securities	**(3,490)**	(1,658)	(2,310)	**(110.5%)**	28.2%
Total non-interest income	**$ 23,849**	$ 20,208	$ 11,366	**18.0%**	77.8%

Non-interest income increased $3.6 million, an increase of 18.0% over 2003. Fees and other income increased from $11.9 million in 2003 to $16.7 million in 2004, an increase of 40.3% (28.3% in 2003). In 2004 fees generated by credit cards and personal loans amounted to $5.1 million as compared to $3.8 million in fee income for 2003. The remaining fees generated are based on new mortgage activity. Total mortgages advanced during 2004 were $1.46 billion, up from $1.06 billion in 2003, an increase of 37.3%. Other fees are generated from the origination and administration of the loan portfolio.

Securitization revenue on Mortgage-Backed Securities stood at $10.6 million in 2004, up from the $9.9 million recognized in 2003 as recorded under accounting principles described in Note 1H) of the Company's 2004 consolidated financial statements. This income consisted of the sale of 11 pools totalling $279.4 million of insured residential mortgages, which generated gains of $11.8 million as compared to 11 pools in 2003 totalling $211.8 million for $9.1 million in gains. This gain also includes $0.3 million of amortization of the residual retained interest and servicing liability for the year ($1.3 million in 2003), netted by a $1.5 million reduction arising from revisions in prepayment rate estimates on these pools ($0.5 million in 2003). This adjustment to the prepayment rate was the result of a number of pools reaching the third year of maturity and the mortgagors exercising their prepayment privileges. This is a minimal risk (insured by CMHC) stream of income for the Company. The Company intends to continue offering this product line. Securitization contributes to liquidity and to diversification of funding sources.

The loss on sale of securities was the result of the redemption of Great-West Lifeco Inc., Series 1 Preferred shares where the redemption price was allocated between proceeds of disposition and a deemed dividend. The Company held these shares at a book value of $6.7 million and with proceeds totalling $6.3 million, $5.4 million for dividends and $0.9 million for capital resulting in a book loss of $5.8 million. In 2003, preferred shares with the same tax advantage were redeemed and a book loss of $2.2 million was recorded. The Company does not expect to receive any further tax advantage dividends in 2005.

For 2005, non-interest income is expected to continue to grow due to the addition of new business in the mortgage and credit card operations and the ongoing administration of the increased size of the portfolio.

Provision for Credit Losses

Table 5 – Provision for Credit Losses

For the years ended December 31 (000's)	**2004**	2003	2002
Personal loans and credit cards	**$ 1,241**	$ 1,608	$ 1,990
Residential mortgages	**3,221**	2,528	1,593
Other mortgages	**3**	150	5
Total provision for credit losses	**$ 4,465**	$ 4,286	$ 3,588
Average loans	**$ 1,916,356**	$ 1,389,701	$ 1,064,833
As a % of average loans	**0.2%**	0.3%	0.3%

The provision for credit losses was $4.5 million in 2004 or 0.2% of the average loan portfolio, as compared to $4.3 million or 0.3% in 2003.

The decrease in the provision for the personal and credit loans of $0.4 million is due to the reduction in losses experienced on this portfolio in 2004. The mix of the credit card portfolio has changed from 85.6% of secured cards at December 31, 2003 to 95.0% at December 31, 2004. The Company's strong focus on risk management has resulted in no losses in the mortgage portfolio over the past three years. This increase in the provision for credit losses on the mortgage portfolio was due to growth in the mortgage loan portfolio of 37.3% and the internal commitment of the Company to maintain conservative reserve levels. This is illustrated by maintaining the general allowance above 100 basis points of risk-weighted assets (see Table 15 for risk-weighted assets). This increased from 103.6 basis points at the end of 2003 to 103.8 basis points at December 31, 2004.

Overall the reduced loss experience and continued strong credit quality of the loan portfolio resulted in a decrease in the provision as a percentage of average loans.

The provision for credit losses is expected to be consistent at approximately 20 to 30 basis points of average loans in 2005.

Non-interest Expenses

Non-interest expenses increased from $32.2 million in 2003 to $40.8 million in 2004, an increase of $8.6 million, or 26.9%. This compares to an increase in operating expenses of $6.6 million or 25.4% from 2002 to 2003. The major components of the increase in operating expenses in 2004 are salaries and benefits, premises and equipment, commissions on deposit certificates, mortgage referral fees and outsourcing. During the year, the overall staff was increased from 191 to 228 individuals. Additions were made in loan administration positions to accommodate the Company's continued growth and in the VISA operation to support the growth in the Home Trust Equity Plus VISA line of business. Other factors contributing to the increase in operating expenses include premises rental requirements to accommodate the additional staff, fees on the volume growth in new mortgages, outsourcing expenses in the VISA operations due to larger volumes and increased commissions paid for additional deposits. The increase of $8.6 million was offset by the $29.4 million increase in the Company's total net revenue. Table 6 illustrates the changes in non-interest expenses from 2002 through 2004.

The operating expenditures were tightly controlled which resulted in a smaller increase in the operating expenses compared to the increase in total net revenue. This resulted in the improvement of the efficiency ratio to 37.5%, compared to 40.5% in the prior year and still well below the 67.0% average of the major Canadian banks. Non-interest expenses as a percentage of average assets declined from 2.0% in 2003 to 1.8% in 2004.

The continued growth in the total assets of the Company will translate into increases in the non-interest expenses for 2005. The Company anticipates 20% growth in total assets including assets under administration, which will result in a moderate and controlled increase in non-interest expenses. The efficiency ratio on a TEB will be maintained at 43% or less.

Table 6 – Non-interest Expenses

For the years ended December 31 (000's)	**2004**	2003	2002	**Growth 2004/2003**	Growth 2003/2002
Salaries and employee benefits	**$ 16,459**	$ 13,183	$ 10,310	**24.8%**	27.9%
Premises and equipment					
Rent – premises	**1,962**	1,453	1,032	**35.0%**	40.8%
Equipment rental and repairs	**493**	318	285	**55.0%**	11.9%
	2,455	1,771	1,317	**38.6%**	34.5%
General and administrative					
Advertising and business development	**787**	576	389	**36.6%**	48.1%
Computer services	**670**	640	618	**4.7%**	3.6%
Consulting and other professional services	**1,762**	1,806	1,252	**(2.4%)**	44.2%
Outsourcing	**3,279**	2,587	3,123	**26.8%**	(17.2%)
Fees and commissions	**9,259**	6,387	3,771	**45.0%**	69.4%
Stationery and publications	**697**	720	595	**(3.2%)**	21.0%
Capital taxes and insurance	**1,696**	1,206	1,043	**40.6%**	15.6%
Communications and travel expenses	**746**	667	551	**11.8%**	21.1%
Depreciation and amortization	**1,592**	1,400	1,547	**13.7%**	(9.5%)
Other	**1,403**	1,211	1,124	**15.9%**	7.7%
	21,891	17,200	14,013	**27.3%**	22.7%
Total non-interest expenses	**$ 40,805**	$ 32,154	$ 25,640	**26.9%**	25.4%
Average assets	**$ 2,232,845**	$ 1,645,732	$ 1,265,254		
As a % of average assets	**1.8%**	2.0%	2.0%		
Productivity ratio					
Net interest income	**$ 85,072**	$ 59,277	$ 45,862		
Other income	**23,849**	20,208	11,366		
Total net revenue	**$ 108,921**	$ 79,485	$ 57,228		
Total net revenue (TEB)	**$ 112,059**	$ 82,859	$ 60,405		
Efficiency ratio	**37.5%**	40.5%	44.8%		
Efficiency ratio (TEB)	**36.4%**	38.8%	42.4%		

Income Taxes

The provision for income taxes for the fiscal year 2004 amounted to $19.1 million for an effective rate of 30.0% compared to $13.5 million in 2003 with an effective rate of 31.5%. This effective rate is lower than the legislative federal and provincial rates due to tax-exempt dividend income that reduced the tax provision by $4.0 million in 2004 and $2.8 million in 2003. On November 24, 2003 the Ontario government tabled a bill that reverses the previously proposed corporate tax reductions. Effective January 1, 2004 and going forward, the general corporate rate for Ontario has increased to 14.0% from the 2003 tax rate of 12.5%. As a result of this legislative change, the Company recognized an increase of $0.8 million in the future income tax provision for the Ontario changes for the year ended December 31, 2003.

Capital losses of $3.2 million are available to reduce capital gains in future years and have no expiry date. The tax benefit of these capital losses has not been recognized.

Note 13 to the consolidated financial statements on page 43 of the Annual Report offers more information about the Company's condition related to income taxes and provisions for income taxes.

The effective tax rate is anticipated to remain within the range of 32% to 34% in 2005, which reflects the tax-exempt income. The Company does not anticipate any additional tax advantage for preferred share redemptions and, therefore, the effective tax rate is expected to increase over the prior years.

BALANCE SHEET REVIEW

Balance Sheet Assets

The Company posted assets of $2.57 billion on December 31, 2004 compared with $1.90 billion on December 31, 2003. This increase of $671.3 million or 35.4% compared with last year is primarily attributable to the growth in the core mortgage business. This does not take into account the securitization of the mortgages of $279.4 million during the year. Total loans, including loans under administration, increased by $801.7 million or 41.7%, compared to an increase of $611.7 million or 46.6% in 2003.

Table 7 presents additional information on changes in balance sheet assets.

Table 7 – Balance Sheet Assets

As at December 31 (000's)	**2004**	2003	2002	**Growth 2004/2003**	Growth 2003/2002
Cash resources and securities	**$ 273,283**	$ 236,118	$ 185,295	**15.7%**	27.4%
Personal loans and credit cards	**79,405**	46,619	25,252	**70.3%**	84.6%
Residential mortgage loans	**2,093,802**	1,511,311	1,116,648	**38.5%**	35.3%
Other mortgage loans	**64,815**	60,671	36,758	**6.8%**	65.1%
General allowance	**(13,611)**	(10,300)	(7,556)	**32.1%**	36.3%
Total loans	**2,224,411**	1,608,301	1,171,102	**38.3%**	37.3%
Other assets	**70,819**	52,757	37,892	**34.2%**	39.2%
Balance sheet assets	**$ 2,568,513**	$ 1,897,176	$ 1,394,289	**35.4%**	36.1%
Cash resources and securities as a % of balance sheet assets	**10.6%**	12.4%	13.3%		
Loans as a % of balance sheet assets	**86.6%**	84.8%	84.0%		

Cash Resources and Securities

Total cash resources and securities amounted to $273.3 million at December 31, 2004, an increase of $37.2 million (15.7%) over 2003, and represents 10.6% of the Company's total assets at December 31, 2004 as compared to 12.4% at December 31, 2003.

Cash resources decreased from $66.9 million in 2003 to $50.5 million at December 31, 2004. These instruments, together with government bonds, are included as part of the Company's liquid assets. The securities portfolio which is made up of bonds (provincial and federal governments and corporate), Common and Preferred stocks, mutual funds and notes in securitized assets increased from $169.2 million to $222.8 million during the current year.

Bonds are purchased to form part of the Company's liquid assets while other securities are essentially the investment of the Company's shareholders' equity. The Investment Committee of the Board of Directors reviews and approves compliance with investment policies and transactions on a quarterly basis. The policies define the size and type of securities in which the Company is permitted to invest.

At December 31, 2004, the Preferred stock portfolio consisted of 88.8% of P1 and P2 rated stocks (85.8% in 2003). These securities are purchased with the original intention of holding them to maturity or until market conditions make alternative investments more attractive. These securities have a surplus of market value over book value of $3.3 million at year-end unchanged from $3.3 million at December 31, 2003. For further information refer to Note 2 in the consolidated financial statements on page 35 of the Annual Report.

On August 6, 2003 the Company entered into an agreement with Regency Finance Corp. as Trustee for QSPE-HCC Trust to be Regency's agent for recommending and servicing second mortgage loans. The Company also provides a revolving line of credit for the funding of these loans. Once these loans are funded, the trustee securitizes these mortgage loans and sells them at par value with a committed interest rate and participation in any surplus funds after all expenses have been paid. Under this program, second mortgage loans of $19.0 million ($3.7 million in 2003) were advanced and the Company purchased $19.0 million ($3.6 million in 2003) in Notes Receivable from the trust. The Company undertakes all non-repayment risk on these mortgage loans through the Notes Receivable. The $19.7 million in these securities have an average yield to date of 10.0% (6.2% in 2003). The underlying credit qualities of these mortgages that secure the Notes have been subject to the Company's stringent underwriting policies. As of December 31, 2004 only one mortgage was in arrears over 90 days for a total of $28,000 and no losses are anticipated on this mortgage.

For 2005, cash resources and securities will continue to grow with the growth in assets. The asset growth will increase the need for liquid assets, and excess funds will be invested in the securities portfolio when not required for the loan growth. This growth of cash resources and securities will range from 10% to 15% over the 2004 balance.

Loan Portfolio

The Company's loan portfolio consists of residential and other mortgages and personal and credit cards loans. At year-end the loan portfolio stood at $2.22 billion, up from $1.61 billion at year-end 2003, an increase of 38.3%.

The Company's core business is residential mortgage loans, which represented 94.1% of the total loan portfolio, while other mortgage loans represented 2.9% of the total loan portfolio.

All mortgages are secured by real property and other types of collateral where appropriate. The growth in the size of the mortgage portfolio is due to the continued lending within its existing service area (all of central and southern Ontario and western and eastern Canada). In addition, continued low interest rates make house purchases attractive. New housing starts in Canada increased from 218,400 in 2003 to 233,431 in 2004, an increase of 6.9%, and CMHC stated that 2004 new housing starts were at a 17-year high. The Company's primary strategy continues to be that of the alternative lender to major financial institutions in the residential first mortgage market.

At year-end 2004, residential mortgage loans totalled $2.09 billion (97.0% of the total mortgage loan portfolio), as compared to $1.51 billion (96.1% in 2003). The remaining 3.0% in 2004 (3.9% in 2003) was made up of commercial and non-residential properties, the most significant being stores combined with apartments, which represented 2.4% of the total mortgage loan portfolio (2.7% in 2003). The mortgages on commercial and non-residential properties increased by $4.1 million to $64.8 million in 2004 ($23.9 million increase in 2003). This increase was largely due to the increase in the stores combined with apartments, which contains a partial residential mix. The increase in the commercial and non-residential portfolio in 2003 was due to a $25.4 million mortgage portfolio purchased from the Bank of Nova Scotia. This portfolio was comprised of 94.1% of commercial and non-residential mortgages. The Company did not purchase any mortgage portfolios in the current year.

The security priority of the mortgage loan portfolio remained relatively unchanged at 99.7% of the portfolio being first mortgages in 2004, compared to the 99.6% in 2003.

CMHC mortgages amounted to $134.3 million at December 31, 2004 ($80.0 million at December 31, 2003), which represented 6.2% of the total mortgage loan portfolio in 2004 and 5.1% in 2003. This area of lending remains intensely competitive; however, due to the success of the Mortgage-Backed Securities program, the Company will continue to lend in this area.

The Company's principal market is Ontario but it also lends in Alberta and British Columbia. The Company continued its expansion by opening a branch in Halifax, Nova Scotia, in the fourth quarter of 2002, which provides access to the Nova Scotia and New Brunswick markets. The mortgage loan portfolio in the western and eastern provinces accounted for 19.2% of the 2004 volume, up from 9.9% in 2003.

The Company continues to realize growth in the mortgage loan portfolio as illustrated by advances increasing to $1.46 billion in 2004 or 37.3% over $1.06 billion in 2003. Mortgage loan commitments at December 31, 2004 amounted to $160.9 million, an increase of 37.8% over $116.8 million at December 31, 2003.

On December 31, 2004 the personal loan and credit card portfolio totalled $79.4 million or 3.6% of the total loan portfolio compared to $46.6 million or 2.9% at December 31, 2003. The personal loan line was established in April 2001 and the credit card operation was launched in the last quarter of 2000. At December 31, 2004 the personal loan portfolio declined to 6,638 accounts from the 7,739 at December 31, 2003. This decrease was the result of the Company's decision to only provide loans to those retailers that are well established in the industry. The Company will maintain and service the accounts with these retailers. The Company does not anticipate additional market penetration in the Retail Credit Services operation. The credit card operation ended the year with 25,637 accounts with contractual commitments of $109.9 million compared to 23,872 accounts and $52.0 million at December 31, 2003. The contractual commitments to extend credit to its clients for credit card products represent the maximum potential credit risk, assuming the contract amount is fully utilized and the client defaults and collections efforts are unsuccessful. However, the mix of this credit card portfolio has changed due to the discontinuance of the unsecured portfolio and the launch of the Equity Plus VISA product. At year-end, secured loans amounted to 95.0% of the credit card balances, as compared to 85.6% at the end of December 2003.

It is anticipated that the internal rate of growth in the mortgage portfolio will closely match the anticipated growth in the total assets for 2005. It is projected that provinces other than Ontario will account for 20% to 25% of the new business in 2005. The credit card portfolio will continue to grow at a rate approximately equal to the 2004 growth, largely as a result of the Equity Plus VISA product.

Credit Quality

As shown in Table 8, gross impaired loans totalled $9.6 million at December 31, 2004, an increase of $3.9 million from December 31, 2003. The total allowance for credit losses increased $3.3 million to $14.2 million at December 31, 2004 from $10.9 million at December 31, 2003. The total dollar amount of the impaired loan portfolio is expected to fluctuate over time; however, the Company is of the view that current impaired mortgage loans will not have losses in excess of the $0.4 million specific provision at December 31, 2004. Over the past three years, the Company has not realized any losses on the mortgage loan portfolio.

The Company's growth in the loan portfolio has increased the number of accounts the Company is servicing, and the number of impaired loans at December 31, 2004 is only 1.2% of the total loans held compared to 1.4% impaired at December 31, 2003.

The improvement in the economy in Canada, the residential nature of the loan portfolio and the Company's strong focus on risk management have contributed to reduced losses in the loan portfolio. However, the dollar amount of gross loans has increased largely due to the significant growth in the loan portfolio over the past years.

Impaired loans are summarized as follows:

Table 8 – Impaired Loans

As at December 31 (000's)	**2004**		2003		2002	
	Gross	**Net**	Gross	Net	Gross	Net
Personal loans and credit cards	**$ 252**	**$ 48**	$ 340	$ 41	$ 370	$ –
Residential mortgage loans	**9,340**	**8,940**	5,150	4,875	4,168	4,155
Other mortgage loans	**–**	**–**	178	178	–	–
Impaired loans	**$ 9,592**	**$ 8,988**	$ 5,668	$ 5,094	$ 4,538	$ 4,155
Total gross loans		**$ 2,238,626**		$ 1,619,175		$ 1,179,040
Net impaired loans as a % of gross loans		**0.4%**		0.3%		0.4%
Total allowance for loan arrears		**$ 14,215**		$ 10,874		$ 7,939
Total general allowance as a % of gross loans		**0.6%**		0.6%		0.6%
Total allowance as a % of gross impaired loans		**148.2%**		191.8%		174.9%

The Company continues to expect fluctuations in the impaired loans in 2005 as a result of the increasing size of the loan portfolio. However, the Company believes that impaired loans will remain within the levels experienced over the past years as loans become impaired and subsequently resolved.

Table 9 – Allocation of Allowance for Credit Losses

As at December 31 (000's)	2004 Opening Balance	Write-offs, Net of Recoveries	Provision for Credit Losses	**2004 Ending Balance**
Specific provisions				
Personal loans and credit cards	$ 299	$ 1,124	$ 1,029	**$ 204**
Residential mortgage loans	275	–	125	**400**
Other mortgage loans	–	–	–	**–**
	574	1,124	1,154	**604**
General allowance	10,300	–	3,311	**13,611**
Total allowance for credit losses	$ 10,874	$ 1,124	$ 4,465	**$ 14,215**

The allowance for credit losses has been established to cover both identified and unidentified losses in the loan portfolio and comprises $0.6 million in specific allowances and $13.6 million in the general allowance for credit risk. The specific allowance for the mortgage loans is the total of losses on identified impaired mortgage loans that was required to reduce the carrying value of the mortgages. For the personal loans and the credit cards, the specific provisions are made up of total classes of these loans with a specific loss identified by class. The general allowance for credit losses is established for potential future losses inherent in the portfolio and unknown to management, and is not currently identifiable on a loan-by-loan basis. This general allowance represented 61 basis points of the gross outstanding loans (64 basis points in 2003) and 103.8 basis points of the Company's risk-weighted assets (103.6 basis points in 2003).

The Company has developed a methodology to support the testing of the general allowance, which includes statistics consisting of the asset quality, the borrower's credit worthiness and economic location. The general allowance is anticipated to increase with the increase in the loan portfolio; no increase was required from adopting the new valuation methodology.

The Company anticipates growth in the general allowance during 2005 due to the growth anticipated in the loan portfolio. The specific allowance will fluctuate as impaired loans arise and then are subsequently resolved. The Company anticipates the provision for credit losses expensed to the income statement to remain at 25 to 30 basis points of the total loan portfolio.

Other Assets and Liabilities

Other assets increased by 34.2% from $52.8 million at December 31, 2003 to $70.8 million at December 31, 2004. These assets consist of the Mortgage-Backed Securities receivable, capital assets, deferred development costs, accrued interest receivable, goodwill and deferred and prepaid assets. The items that contributed to the $18.1 million increase in other assets were all in relation to the growth of the assets of the Company. Mortgage-Backed Securities receivable increased $6.1 million over December 31, 2003 as the result of the issuance of $279.4 million in securitized pools during 2004 less the amortization of the older pools. Accrued interest receivable, deferred agent commission and other prepaid assets all increased in relation to the increase in the mortgage loans and deposits and borrowings portfolio.

Other liabilities totalled $128.1 million at the end of 2004, compared to $97.9 million on December 31, 2003. The growth in the Company's deposits and borrowings increased the interest payable, increased mortgages resulted in an increase in the deferred commitment fees, and the growth in business activity increased the accounts payable.

Deposits and Borrowings

Deposits and other borrowings increased by $601.1 million (or 36.1%) in 2004, compared to an increase of $448.9 million (or 36.9%) in 2003.

Table 10 – Deposits and Borrowings

As at December 31 (000's)	**2004**	2003	2002	**% Increase 2004/2003**	% Increase 2003/2002
Payable on demand					
Savings	**$ 9**	$ 351	$ 366	**(97.4)**	(4.1)
Real estate tax accounts	**17,118**	13,629	11,841	**25.6**	15.1
	17,127	13,980	12,207	**22.5**	14.5
Payable on a fixed date					
Short-term certificates and savings	**62,290**	73,004	67,217	**(14.7)**	8.6
VISA card security deposits	**18,377**	13,660	9,720	**34.5**	40.5
Guaranteed investment certificates	**1,975,008**	1,402,955	989,066	**40.8**	41.8
Registered retirement savings plans	**129,036**	114,536	106,038	**12.7**	8.0
Registered retirement income funds	**63,346**	45,968	30,931	**37.8**	48.6
	2,248,057	1,650,123	1,202,972	**36.2**	37.2
Total	**$ 2,265,184**	$ 1,664,103	$ 1,215,179	**36.1**	36.9

The increase in deposits and borrowings ($601.1 million) funded most of the net increase in the loan portfolio ($616.1 million). Deposits are generated through the Company branches and the deposit broker network. This network provides the Company with access to millions of deposits on a daily basis. The commission paid on deposits funds the cost of using the deposit broker network. The Company feels that the commission cost is far more efficient than increasing the number of branches. In 2004, 83.1% of new deposits were raised through the deposit broker network, compared to 78.9% in 2003. The cost of commissions amounts to 25 basis points per $1,000 investment on an annualized basis.

The Company will continue to expand the deposit broker network through the acceptance of additional deposit brokers who meet the Company's selection criteria.

Shareholders' Equity

Capital stock and contributed surplus increased by $0.9 million, the result of $0.7 million received on the exercise of stock options. Further, last year the Company changed its accounting policy for stock-based compensation. This policy has the effect of recording a compensation expense for stock options with an offsetting credit to contributed surplus, which amounted to $0.2 million in 2004. As options are exercised the capital stock will be adjusted by the exercise price. The change to the capital stock and contributed surplus combined with an increase in retained earnings of $40.2 million ($26.7 million in 2003) from the current year's net income ($44.6 million), net of dividends paid and declared ($4.4 million), contributed funds to increase the asset base during the year. This increase in earnings contributed to the increase in the return on shareholders' equity to 31.4% over the 27.4% in 2003. This return is significantly higher than the Canadian bank average of 18.3%. This return on equity combined with the $0.12 per Common share paid or payable for the year ended December 31, 2004 illustrates the Company's commitment to shareholder value. Subsequent to year-end, the Board of Directors announced an increase in the dividends payable to $0.16 per Common share for the 12 months of 2005.

The Company objective is to maintain the return on shareholders' equity at 20% for 2005.

Off-balance Sheet Arrangements

The Company has not entered into any financial derivatives for hedging purposes this year. The Company has, however, entered into financial instruments during the year that consist of the short sale of Government of Canada bonds. These short sales were to provide an economic hedge against future originating and funding of insured mortgages that are to be securitized at a later date. These securitizations have coupon rates that are set based on the five-year Government of Canada bond rates. At December 31, 2004, the Company has sold short $40.0 million in Government of Canada 4.25% bonds that mature September 1, 2009. This transaction resulted in a $0.2 million unrealized loss which has been netted against other interest income. For further information refer to Note 16 of the consolidated financial statements on page 45 of the Annual Report.

The Company uses special purpose entities to securitize insured residential mortgage loans for liquidity funding and capital management purposes. This transaction consists of the transfer of these loans to the special purpose entity, a Canadian trust company, in exchange for cash. When the assets are sold, the Company retains the rights to certain excess interest spreads and servicing liabilities, which constitute retained interests. The Company periodically reviews the value of the retained interest and any permanent impairment in value is charged to income, if applicable. The Company continues to administer all securitized assets after the sales. As of December 31, 2004, outstanding securitized mortgage loans administered amounted to $500.7 million ($315.1 million in 2003) and retained interests of $27.7 million ($21.6 million in 2003). For additional information refer to Note 4 of the consolidated financial statements on page 37 of the Annual Report.

In the normal course of business, the Company offers certain credit instruments as a means of meeting the financial needs of its customers. Outstanding commitments for future advances on mortgages amounted to $160.9 million at December 31, 2004, compared to $116.8 million at December 31, 2003. These commitments remain open for various dates until November 2005 for this year. As of December 31, 2004 unutilized credit card balances amounted to $39.4 million compared to $16.3 million at December 31, 2003.

Contractual Obligations

The following table presents a summary of the principal contractual obligations as at December 31, 2004 that are due within the next five years and thereafter.

Table 11 – Contractual Obligations

As at December 31 (000's)	2005	2006	2007	2008	2009	Thereafter	**Total**
Deposits and borrowings	$ 814,995	$ 631,006	$ 397,951	$ 188,501	$ 232,731	$ –	**$2,265,184**
Term loan	–	–	10,000	–	–	–	**10,000**
Subordinated term loan	1,000	1,000	1,000	–	–	–	**3,000**
Commitments under leases	1,146	1,085	1,007	980	827	4,836	**9,881**
Total	$ 817,141	$ 633,091	$ 409,958	$ 189,481	$ 233,558	$ 4,836	**$2,288,065**

In the normal course of its activities, the Company concludes various types of contractual agreements. The main obligations result from the issuance of debt instruments that include deposits and borrowings written with individuals and businesses, intended to finance the Company's activities. The Company is bound by loan agreements signed with Canadian Western Bank, as disclosed in Notes 8 and 9 of the consolidated financial statements. The Company is also bound by the lease contracts it signs. The Company ensures that sufficient cash resources and other assets are available to meet these contractual obligations.

OPERATING SEGMENT REVIEW

The following table summarizes the operating segments of the Company. For more detailed information refer to Note 20 of the consolidated financial statements on page 48 of the Annual Report.

Table 12 – Summary of Operating Segments

For the years ended December 31 (000's)	**2004**				2003			
	Mortgage Business	**Consumer Lending***	**Other****	**Total**	Mortgage Business	Consumer Lending*	Other**	Total
Total revenue	**$ 159,667**	**$ 14,652**	**$ 12,370**	**$ 186,689**	$ 124,913	$ 9,795	$ 9,881	$ 144,589
as a %	**85.5%**	**7.9%**	**6.6%**		86.4%	6.8%	6.8%	
Net income	**$ 35,881**	**$ 3,441**	**$ 5,229**	**$ 44,551**	$ 26,159	$ 1,175	$ 2,173	$ 29,507
as a %	**80.6%**	**7.7%**	**11.7%**		88.6%	4.0%	7.4%	
Efficiency ratio	**32.4%**	**48.8%**	**61.9%**	**37.5%**	34.1%	64.8%	60.7%	40.5%

* Consumer Lending – includes credit cards and personal loans.

** Other – includes other investments, dividend income and corporate activities.

For the year ended December 31, 2004, the contribution of the operating segments to the Company's net income was 80.6% for mortgages, 7.7% for consumer lending, which consists of personal loans and credit cards, and 11.7% for other, which is investments and corporate activities. The other segment includes dividend income, which is a tax advantage for the Company and, therefore, tax provisions in this segment are reduced by the tax reduced dividend income.

The mortgage segment continues to be the major contributor to the financial operations, which stood at 80.6% in 2004 compared to 88.6% in 2003. This was due to the growth in the consumer lending segment and the dividend benefit realized in the other segment. The mortgage segment continued to make a positive contribution to the efficiency ratio at 32.4% for 2004, down from 34.1% in 2003.

The consumer lending segment, which consists of credit cards and personal loans, increased its activities and contribution principally due to the increase in the Equity Plus VISA product. The Equity Plus VISA receivable amounted to $55.5 million at December 31, 2004, which comprises 78.7% of the total credit card receivable balance of $70.5 million, bearing an average interest rate of 11.8% on unpaid balances. The consumer lending segment contributed 7.7% to net income for the year ended December 31, 2004, compared to 4.0% in 2003. This was realized by increased total revenues and increased operating efficiencies during the year. The efficiency ratio for the consumer lending segment decreased to 48.8% in 2004, a significant improvement from 64.8% realized in 2003.

The Company's mortgage segment will continue to be the major contributor to the earnings of the Company, at 75% to 80% of the total earnings. However, the growth anticipated in the Equity Plus VISA product of 20.0% year-over-year should result in an increase of almost double the earnings of this segment in 2005.

BUSINESS AND FINANCIAL PRACTICES

Home Trust, the wholly owned subsidiary of the Company, is regulated under the Trust and Loan Companies Act (Canada) and is a member of the Canada Deposit Insurance Corporation ("CDIC"). Since 1995, Home Trust has conducted a self-assessment review and reporting program associated with the CDIC Standards of Sound Business and Financial Practices. These standards are to ensure that institutions are managed in a sound and prudent manner and refer to such subjects as liquidity management, capital management, credit risk management and internal control. The Board of Directors of Home Trust reviews compliance with these standards on a regular basis. All of the following business and financial practices relate to Home Trust Company.

Liquidity Risk

The objective of liquidity management and funding management is the ability of the Company to generate or obtain sufficient cash or its equivalents in a timely manner and at a reasonable price to meet its commitments (both on- and off-balance sheet) as they fall due.

The Company's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times, the composition of the type of liquid asset to be maintained, a daily monitoring of the liquidity position by senior management and quarterly reporting to the Audit and Risk Management Committee and the Board of Directors. Also, the Company has a set minimum requirement for liquid assets using two assumptions, the first being the "going concern" scenario and the second a specific Company disruption. This requires the Company to make assumptions regarding the probable behaviour of the timing of cash flows for each type of asset and liability. These assumptions are made on a conservative basis, assigning later dates to cash inflows and earlier dates to cash outflows. The Company has set a policy limit of 120% under both scenarios and at year-end these amounted to 159% (166% for 2003) under the going concern and 248% (237% for 2003) under specific Company disruption.

The Company holds sufficient liquid assets in the form of cash bank deposits, treasury bills, bankers' acceptance, government bonds and debentures. On December 31, 2004 liquid assets amounted to $152.2 million compared to $117.7 million at December 31, 2003. See Table 13 for information on liquid assets.

Table 13 – Liquid Assets
(Based only on the subsidiary Home Trust Company)

As at December 31 (000's)	2004	2003	2002	Growth 2004/2003	Growth 2003/2002
Cash and deposits with regulated financial institutions	$ 11,646	$ 23,514	$ 16,927	$ (11,868)	$ 6,587
Government of Canada treasury bills	28,574	36,751	30,955	(8,177)	5,796
Government of Canada and provincial bonds	111,953	57,453	19,142	54,500	38,311
Total liquid assets	$ 152,173	$ 117,718	$ 67,024	$ 34,455	$ 50,694
Total liabilities maturing within 100 days	$ 348,756	$ 357,626	$ 202,718	$ (8,870)	$ 154,908
Total assets	2,564,946	1,891,654	1,378,149	673,292	513,505
Total liabilities	2,407,223	1,775,819	1,299,066	631,404	476,753
Liquid assets as a % of 100-day liabilities	43.6%	32.9%	33.1%		
Liquid assets as a % of total assets	5.9%	6.2%	4.8%		
Liquid assets as a % of total liabilities	6.3%	6.6%	5.2%		

Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company actively manages interest rate risk by employing a number of techniques. These include the matching of asset and liability terms and modelling techniques that measure changes in the portfolios and the impact interest rate changes will have on the Company's earning capacity. The interest rate sensitivity position as at December 31, 2004 is shown under Note 17 in the consolidated financial statements. However, this table represents only a position in time, and the gap represents the difference between assets and liabilities in each maturity category. 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 hedging positions.

As illustrated by the schedule, the effective net interest rate spread between assets and liabilities is 3.6% (3.4% in 2003), after the adjustments as noted above. The cumulative dollar gap, including off-balance sheet items, at the end of 12 months was $259.2 million of liabilities exceeding assets compared to a deficiency of $285.7 million in 2003. Within the one- to three-year term this deficiency is corrected with a reported surplus of $151.6 million; for this same period in 2003, a deficiency of $14.3 million was reported. The Company's objective is to closely match interest-sensitive assets and liabilities. The cumulative gap in the three-plus year range is basically offset by shareholders' equity.

In addition to the matching of assets and liabilities, the Company also employs an interest rate risk sensitivity model that measures the relationship between changes in interest rates and the present value of equity. Standards have been established whereby each major asset or liability decision must be assessed to determine standards compliance.

The interest rate sensitivity model includes assessing the impact of a 100 basis point (1%) change in interest rates and the effect this has on shareholders' equity. At December 31, 2004, an immediate and sustained 100 basis point increase in rates would decrease the economic value of shareholders' equity by $2.0 million ($5.3 million at December 31, 2003). However, the economic loss would not appear in the income statement within 12 months. It would be realized during the subsequent 48 months as deposits roll over, as the mortgages that these deposits are funding are locked in for periods of two to five years.

Securities Portfolio Management

It is the practice of management to manage the securities portfolio and exposure to position risk.

The Investment Committee meets on a quarterly basis to review the status of the portfolio, review transactions during the past quarter, ensure compliance under the Trust and Loan Companies Act (Canada) and determine compliance with the Company's investment policy.

The Company has set out six limits to maintain the objectives as defined in the Company's investment policy:

> The first limit is that total investments in P1 and P2 rated Preferred shares will not exceed 200% of regulatory capital. As at December 31, 2004, this was maintained at 41.5% of the total portfolio (67.6% in 2003).

> The second limit is that the Company's total investment in Common shares, income trusts or other structured products, mutual funds or similar products, Preferred shares that do not qualify in the first limit and managed funds in Common shares will not exceed 35% of regulatory capital. As at December 31, 2004 these types of investments accounted for 11.0% of the portfolio (11.2% in 2003).

> The third limit is that the Company's total investment in "interest in real estate" (as defined in the Act) will not exceed 20% of regulatory capital. As of December 31, 2004 and 2003 the Company had no interest in real estate.

> The fourth limit is that the Company's total investment in other bonds and debentures that are not guaranteed by the federal or provincial governments will not exceed 50% of regulatory capital. As of December 31, 2004 no investments were held in other bonds or debentures (0.9% in 2003).

> The fifth limit is that no more than 10% of the total value of the portfolio of investments may be invested in any one company or group of related companies, unless approved by the Board of Directors. At year-end, the maximum holding of a group of related companies was 11.6% (7.5% in 2003). The Board of Directors approved this holding at over 10% due to the stability and conservatism this group of related companies has in its industry.

> The sixth limit established is that no investment that exceeds 5% of regulatory capital (for 2004 equals $5.5 million) may be made by the Company without prior approval of the Chairman of the Investment Committee. All investments of $5.5 million or greater were approved by the Chairman of the Investment Committee.

Credit Risk Management

Credit risk management is the management of the credit risk associated with the total loan portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour the financial or contractual obligations to the Company. Senior management and the Audit and Risk Management Committee of the Board of Directors undertake extensive reviews of credit policies and lending practices. The Company's policy is that credit is approved by different levels of senior management based on the amount of the loan. In addition, the Chairman of the Audit and Risk Management Committee must approve all mortgages that exceed $500,000. The Audit and Risk Management Committee and the Board of Directors review quarterly the compliance with credit risk requirements.

Residential mortgage loans represent the largest component of the total loan portfolio, comprising 94.1% at December 31, 2004, compared to 94.0% at December 31, 2003. These loans are secured primarily by single family dwellings, which are owner occupied. Under the lending criteria, all mortgage loans are considered individually under a rating process and the level of risk is determined.

Properly qualified independent third-party appraisers appraise all properties. These appraisals are reviewed by both the underwriter and credit manager for completion, content and accuracy. In addition, either in-house personnel or a person designated by the Company inspects each property to confirm value and marketability.

The Company's industrial, commercial and other non-residential property types represented 2.9% of the total loan portfolio at December 31, 2004 (3.8% in 2003), and management continues to monitor these properties on a regular basis. Last year the non-residential portfolio increased due to the purchase of a $25.4 million portfolio from the Bank of Nova Scotia, of which 94.1% was non-residential. It is the Company's intention to continue to concentrate on its core business of lending on residential properties.

Personal loans and credit cards represented 3.6% of the total loan portfolio at December 31, 2004 (2.9% in 2003), and $67.0 million or 95.0% of the credit cards are secured by either deposits held by the Company or equity in residential property ($30.6 million or 85.6% in 2003). In the last quarter of 2001, the Company discontinued offering an unsecured credit card product and intends to continue to offer only credit cards secured by deposits or residential equity.

Capital Management

Capital is a key factor in assessing the safety and soundness of a financial institution. Capital assists in promoting confidence among depositors, creditors, regulators and shareholders. The Company's Capital Management Policy governs the quantity and quality of capital held. The objective of the policy is to ensure that the regulatory capital requirements are met while providing a sufficient return to investors. The Audit and Risk Management Committee and the Board of Directors review compliance with the policy quarterly.

Two capital standards are addressed in the Company policy: asset to capital multiple and the risk-based capital ratio (BIS ratio). Both ratios are reported quarterly to the Board of Directors.

Table 14 – Capital Structure and Regulatory Ratios at Year-end (Based Only on the Subsidiary Home Trust Company)

As at December 31 (000's)	2004	2003	Growth 2004/2003
Tier 1 capital			
Capital stock	**$ 23,497**	$ 20,497	$ 3,000
Contributed surplus	**951**	951	–
Retained earnings	**133,275**	94,387	38,888
Total Tier 1	**157,723**	115,835	41,888
Tier 2 capital			
General allowance for credit loss (limited to 0.875% of RWA)	**11,380**	8,627	2,753
Subordinated debentures	**15,000**	15,000	–
Total Tier 2	**26,380**	23,627	2,753
Total regulatory capital	**$ 184,103**	$ 139,462	$ 44,641
Assets to regulatory capital multiple	**14.0**	13.6	
Regulatory capital to risk-weighted assets			
Tier 1 capital	**12.0%**	11.7%	
Tier 2 capital	**2.0%**	2.3%	
Total regulatory capital ratio	**14.0%**	14.0%	

Table 15 – Risk-weighted Assets (RWA) (Based Only on the Subsidiary Home Trust Company)

	2004			2003		
As at December 31 (000's)	**Balance Sheet Amount**	**Risk-weighted**	**Risk-weighted Amount**	Balance Sheet Amount	Risk-weighted	Risk-weighted Amount
Cash and claims on or guaranteed by federal and provincial governments (including CMHC-insured mortgages)	**$ 273,550**	**0%**	**$ –**	$ 173,558	0%	$ –
Claims on banks and municipal governments	**21,819**	**20%**	**4,364**	29,712	20%	5,942
Conventional mortgages on owner-occupied residences	**1,946,802**	**50%**	**973,401**	1,416,875	50%	708,438
Other assets	**322,775**	**100%**	**322,775**	271,509	100%	271,509
General allowance (limited to 0.875% of RWA)	**11,380**	**100%**	**11,380**	8,627	100%	8,627
Total assets	**$ 2,576,326**		**$ 1,311,920**	$ 1,900,281		$ 994,516
Off-balance sheet financial instruments						
Loan commitments	**163,126**	**0%**	**–**	118,157	0%	–
Financial instruments	**190**	**0%**	**–**	–	0%	–
Total	**$ 2,739,642**		**$ 1,311,920**	$ 2,018,438		$ 994,516

Asset to Capital Ratio

As Home Trust, the wholly owned subsidiary of the Company, is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited by Home Trust's permitted asset to capital multiple. This is defined as the ratio of regulatory capital to the total assets of Home Trust. Home Trust's maximum asset to regulatory capital ratio is currently authorized at 17.5 times its capital and reserves. Table 14 shows the asset to capital ratio.

On November 23, 2001 Home Trust was given approval to include its general allowance in the calculation of regulatory capital to the extent of 0.875% of risk-weighted assets in Tier 2 capital. This inclusion of the allowance amounts to $11.4 million in the Tier 2 capital ($8.6 million in 2003), which has the effect of improving the capital ratio to 14.0 from 14.9 without the general allowance.

Risk-based Capital Ratio (BIS Ratio)

Capital adequacy for Canadian banks and trust companies is governed by the requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI"). These requirements are consistent with the published framework to measure the adequacy of capital for international banks issued by the Bank for International Settlements ("BIS"), referred to as the BIS ratio. Under these standards there are two components of capital. Tier 1 consists primarily of shareholders' equity and non-cumulative Preferred shares. Tier 2 consists primarily of subordinated debentures, cumulative Preferred shares and the general allowance.

Home Trust's total BIS ratio remained unchanged at 14.0% in 2004 and 2003. The Tier 1 capital increased from 11.7% for 2003 to 12.0% in 2004. This was attributable to the income generated by Home Trust for the year of $40.9 million, offset by $2.0 million in dividend payments to the Company. The majority of the increase in the risk-weighted assets was due to the increase in owner-occupied residences rated at a 50% risk. The Tier 2 capital increased by $2.8 million due to the increase in the allowable portion of the general allowance from $8.6 million in 2003 to $11.4 million at the end of 2004. The inclusion of the general allowance improved the total capital from 13.3% to the 14.0% reported in 2004. Both ratios are well in excess of the levels defined by OSFI, 10% for total capital and 7% for Tier 1 capital.

The Company expects to remain well capitalized in 2005 with the anticipated increase in income, and the growth in the loan portfolio will increase the general allowance.

Internal Control

The Company maintains a governance and control framework to ensure that its operations are efficient and effective, that the financial reporting is reliable and that the Company complies with all applicable laws and regulations. To this end, written policies and procedures relating to the Company's business activities are in place and are reviewed no less than annually by the Board of Directors. In addition, external auditors and government regulators review the internal controls.

The Company has an internal auditor accountable directly to the Chairman of the Audit and Risk Management Committee who examines and reports on the effectiveness of internal controls and related matters. The internal auditor's role complements the external audit functions and, to this end, the internal auditor communicates throughout the year with both the external auditors and government regulators.

The Company has established a compliance function responsible for business and employee conduct and legislative compliance that reports to the Company's Conduct Review Committee.

SUMMARY OF QUARTERLY RESULTS

The financial results for each of the last eight quarters are summarized in the following table. The table illustrates the Company's consistent growth quarter over quarter.

Table 16 – Quarterly Financial Highlights

In thousands of dollars, except per share amounts and percentages				**2004**				2003
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Net interest income (TEB)*	**$ 28,426**	**$ 21,363**	**$ 19,786**	**$ 18,635**	$ 17,556	$ 15,763	$ 15,986	$ 13,346
Less TEB adjustment	**694**	**726**	**754**	**964**	822	815	930	807
Net interest income per financial statements	**27,732**	**20,637**	**19,032**	**17,671**	16,734	14,948	15,056	12,539
Non-interest income	**1,535**	**7,913**	**7,157**	**7,244**	7,273	5,607	2,600	4,728
Total revenues	**50,804**	**48,555**	**44,558**	**42,772**	41,656	37,153	33,533	32,247
Net income	**12,271**	**11,550**	**10,700**	**10,030**	8,736	7,885	6,864	6,022
Return on common shareholders' equity	**31.3%**	**31.7%**	**31.6%**	**31.9%**	29.8%	28.8%	26.7%	24.8%
Return on average total assets	**2.0%**	**2.0%**	**2.1%**	**2.1%**	1.9%	1.9%	1.8%	1.7%
Earnings per common share								
Basic	**$ 0.37**	**$ 0.34**	**$ 0.32**	**$ 0.30**	$ 0.26	$ 0.24	$ 0.20	$ 0.18
Fully diluted	**$ 0.35**	**$ 0.33**	**$ 0.30**	**$ 0.29**	$ 0.25	$ 0.23	$ 0.20	$ 0.18
Book value per common share	**$ 4.80**	**$ 4.48**	**$ 4.17**	**$ 3.88**	$ 3.61	$ 3.38	$ 3.16	$ 2.98
Efficiency ratio (TEB)*	**40.0%**	**33.8%**	**35.7%**	**36.0%**	35.0%	37.4%	42.4%	41.9%
Efficiency ratio	**41.0%**	**34.6%**	**36.7%**	**37.4%**	36.2%	38.9%	44.6%	43.9%
Tier 1 capital ratio**	**12.0%**	**11.8%**	**11.9%**	**12.0%**	11.7%	11.7%	11.9%	11.4%
Total capital ratio**	**14.0%**	**13.9%**	**14.1%**	**14.3%**	14.0%	14.2%	14.6%	14.1%
Net impaired loans % of gross loans	**0.4%**	**0.3%**	**0.3%**	**0.3%**	0.3%	0.3%	0.3%	0.4%
Annualized provision % of gross loans	**0.2%**	**0.2%**	**0.2%**	**0.2%**	0.3%	0.3%	0.2%	0.4%

* TEB – taxable equivalent basis: see definition on page 8 of the Annual Report.
** These figures are related to the Company's operating subsidiary, Home Trust Company.

UPDATED SHARE INFORMATION

As at December 31, 2004, the Company had 33,777,140 Common shares outstanding. In addition, director and employee stock options that have been issued amount to 1,372,750 (1,500,500 in 2003), of which 944,000 are exercisable as of year-end (650,500 in 2003).

On January 25, 2005, the Company declared a quarterly cash dividend of $0.04 per Common share. This represents an increase of 33.3% from the $0.03 quarterly dividend declared the previous quarter. This increase is attributable to the Company's consistent record of strong results and earnings growth, as well as a solid balance sheet. The first dividend is payable March 1, 2005 to shareholders of record at the close of business on February 15, 2005.

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

Gerald M. Soloway
President and Chief Executive Officer

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

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
		2,406,306	1,776,010
Commitments and Contingencies	(Note 15)	**–**	–
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			
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.

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	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	**2004 Total Book Value**	2003 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:

In Thousands of Dollars	Book Value	Unrealized Gain (Loss)	Estimated Market Value	**2004** 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**	

In Thousands of Dollars	Book Value	Unrealized Gain (Loss)	Estimated Market Value	2003 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:

In Thousands of Dollars	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	**2004** Book Value	2003 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

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

In Thousands of Dollars	2004 Gross Amount	2004 Specific Provisions	2004 Carrying Amount	2003 Gross Amount	2003 Specific Provisions	2003 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 Specific Allowance	2004 General Allowance for Credit Risk	2004 Total	2003 Specific Allowance	2003 General Allowance for Credit Risk	2003 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

			2004	2003
In Thousands of Dollars	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
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).

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 Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	2004 Total	2003 Total
		Payable on a Fixed Date				
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	(Note 13)	**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.

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** Number of Options	**2004** Weighted-average Exercise Price	2003 Number of Options	2003 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

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 dividend 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.

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
In Thousands of Dollars	**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**

					2003
In Thousands of Dollars	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	$ 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	$ –	

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.

			2004			2003
In Thousands of Dollars	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.

Home Capital Group Inc.

Directors

William A. Dimma[1,3,4,5]
Chairman of the Board and Corporate Director
Toronto, Ontario

John M. Christodoulou[1,2]
Chairman and Chief Executive Officer
Guardian Capital Group Ltd.
Toronto, Ontario

Hon. William G. Davis[1,3,4,5] **P.C., C.C., Q.C.**
Counsel
Torys LLP
Toronto, Ontario

Harvey F. Kolodny[1,2,5]
Professor Emeritus
Rotman School of Management
University of Toronto
Toronto, Ontario

John M. E. Marsh[3,4]
Corporate Director
Port Colborne, Ontario

Robert A. Mitchell, C.A.[1,4*,5]
Corporate Director
Oakville, Ontario

Sheila L. Ross[3]
Partner
Highland Partners
Toronto, Ontario

Gerald M. Soloway[2,4]
President and Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario

(1) Member of the Audit and Risk Management Committee
(2) Member of the Investment Committee
(3) Member of the Human Resources and Compensation Committee
(4) Member of the Executive Committee
(5) Member of the Corporate Governance and Nominating Committee
* ex officio

Committees

Audit and Risk Management Committee
Robert A. Mitchell, C.A.
Chairman

Human Resources and Compensation Committee
Sheila L. Ross
Chairman

Executive Committee
William A. Dimma
Chairman

Corporate Governance and Nominating Committee
William A. Dimma
Chairman

Investment Committee
Harvey F. Kolodny
Chairman

Officers

Gerald M. Soloway
President and Chief Executive Officer

W. Roy Vincent
Senior Vice President and Chief Operating Officer

Nick Kyprianou
Senior Vice President

Brian R. Mosko
Senior Vice President

Cathy A. Sutherland, C.A.
Treasurer

Sharron I. Hatton
Corporate Secretary

Corporate Governance

Home Capital recognizes the importance of strong and effective corporate governance. As a publicly traded company, Home Capital has governance practices consistent with the corporate governance guidelines set out by the Toronto Stock Exchange and that are compliant with applicable rules adopted by the Canadian Securities Administrators. The Board of Directors of Home Capital ensures that appropriate structures and procedures are in place so that it can independently and effectively oversee the Company's operations with the objective of enhancing shareholder value.

For a complete statement of Home Capital's corporate governance practices, please refer to the Company's Management Information Circular, the details of which are also posted on the Company's web site www.homecapital.com.

Annual Meeting Notice

The Annual Meeting of Shareholders of Home Capital Group Inc. will be held at the Design Exchange, Trading Floor, Second Floor, 234 Bay Street, Toronto, Ontario, on Wednesday, May 11, 2005 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

Home Trust Company

Directors

Hon. William G. Davis
P.C., C.C., Q.C.
Chairman of the Board

William A. Dimma
Harvey F. Kolodny

Nick Kyprianou
John M. E. Marsh
Robert A. Mitchell

Sheila L. Ross
Gerald M. Soloway
W. Roy Vincent

Officers

Gerald M. Soloway
President and Chief Executive Officer

W. Roy Vincent
Senior Vice President and Chief Operating Officer

Nick Kyprianou
Senior Vice President

Brian R. Mosko
Senior Vice President

Cathy A. Sutherland, C.A.
Treasurer

Sharron I. Hatton
Corporate Secretary

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Brad Hamilton
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Managers, Mortgages

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Pierre Lafleur
Bobby Ramgoolam
Agostino Tuzi
Managers, Mortgages

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National Manager, Sales and Marketing

Albert Collu
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Scott Congdon
Jeff Ayer
Regional Managers, Mortgages

Corporate Directory

Memberships

Canada Deposit Insurance Corporation

Charter General Member VISA Canada Association

Trust Companies Association of Canada

Auditors

Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Banker

Bank of Montreal
St. Catharines, Ontario

Transfer Agent

Computershare
Investor Services Inc.
100 University Avenue
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Tel: 1-800-564-6253
Fax: 416-263-9394

Stock Listing

Toronto Stock Exchange
ticker symbol: HCG

Capital Stock

As at December 31, 2004, there were 33,777,140 Common shares outstanding

For shareholder information, please contact:

Sharron I. Hatton
Corporate Secretary

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