HOME CAPITAL
GROUP INC.

Canada's First Choice Alternative Provider of Residential First Mortgages

ANNUAL REPORT 2005

10 years of outstanding performance

and growing

Financial Highlights

10 YEARS OF Exceptional

For the years ended December 31 (000's)	2005	2004	2003
Total assets	$ **3,284,829**	2,568,513	1,897,176
Loans*	$ **2,796,873**	2,244,129	1,611,911
Deposits	$ **2,895,461**	2,265,184	1,664,103
Shareholders' equity	$ **218,885**	162,207	121,166
Revenue	$ **243,106**	186,689	144,589
Net income	$ **60,861**	44,551	29,507
Book value of common shares	$ **6.44**	4.80	3.61
Earnings per share – basic	$ **1.80**	1.33	0.88
Earnings per share – fully diluted	$ **1.72**	1.27	0.86

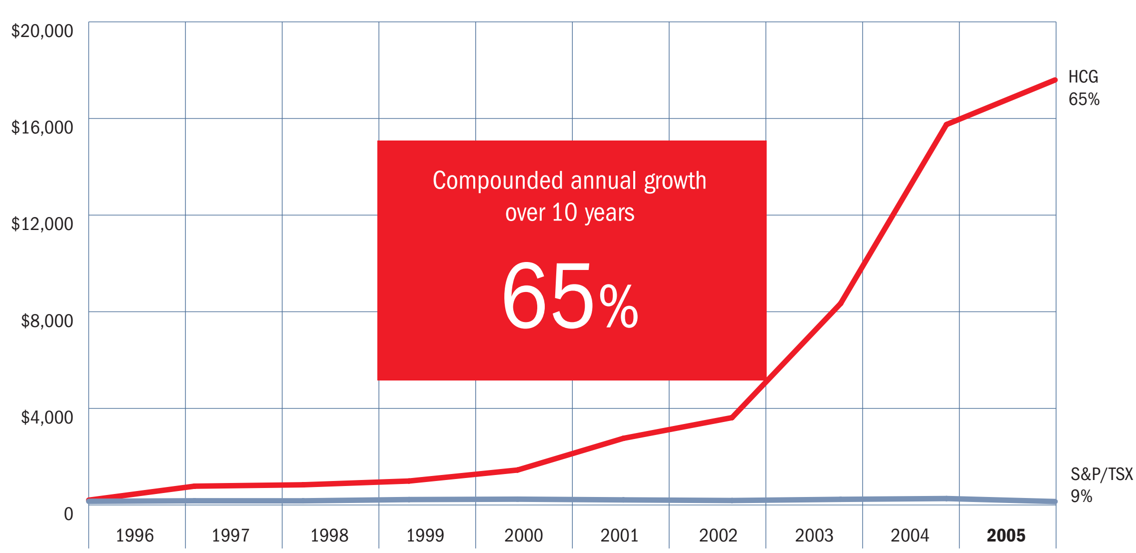
* Consolidated – Refer to Note 2 on page 37 of this 2005 Annual Report.

> Home Capital achieved **42** consecutive quarters of increased earnings

> Both earnings and fully diluted earnings per share grew by more than **20%** for **10** successive years

Ten-year cumulative total return on $100 investment

Comparison between S&P/TSX Composite Index (TSX) and Home Capital Group Inc. (HCG)
December 31, 1995–December 31, 2005



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
HCG stock price performance	$0.41	$1.63	$1.75	$2.05	$2.95	$5.58	$7.25	$16.63	$31.25	$34.75

Closing price as of December 31

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

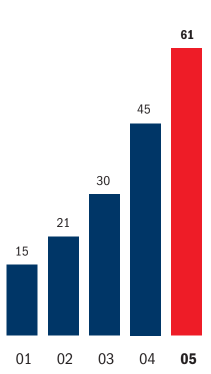
PERFORMANCE

2002	2001	2000	1999	1998	1997	1996
1,394,289	1,136,220	892,078	738,136	538,876	434,120	346,817
1,171,102	958,564	776,177	635,939	471,841	385,873	311,783
1,215,179	995,120	794,666	671,068	493,386	399,497	318,838
94,586	75,203	49,501	40,453	33,620	25,004	20,594
112,556	91,728	70,606	53,021	42,069	33,754	32,985
20,595	14,860	10,452	8,081	6,067	3,018	1,187
2.82	2.30	1.67	1.37	1.14	1.03	0.96
0.62	0.49	0.35	0.27	0.23	0.14	0.06
0.59	0.46	0.33	0.26	0.19	0.11	0.05

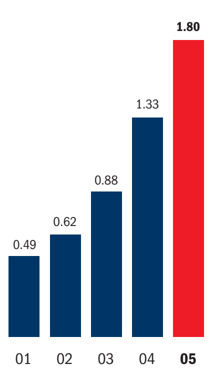
> After-tax return on equity surpassed **20%** for **8** consecutive years

> Total assets increased by **27.9%** over year-end 2004, reaching **$3.28** billion

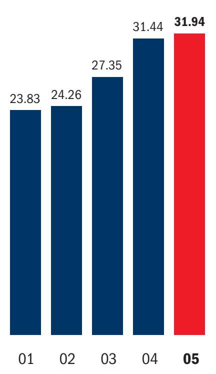
Earnings
(millions)



Earnings per share
(basic in dollars)



After-tax return on equity
(percentage)



36.6%

For the tenth year in a row, Home Capital experienced an increase in earnings in excess of 20%. The Company reported a 36.6% rise in net income over the $44.6 million attained in 2004, reaching $60.9 million for the year ended 2005.

35.3%

Home Capital exceeded 20% growth in earnings per share. Basic earnings per share rose to $1.80 at year-end 2005, a 35.3% increase over the $1.33 recorded at December 31, 2004.

31.9%

The Company surpassed 20% in after-tax return on equity for eight successive years, reaching 31.9% at December 31, 2005. Home Capital's return on equity continues to outperform the average for deposit-taking institutions.

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 adequately served by the larger, traditional financial institutions.

Why invest in Home Capital?

> Sustained above average growth and profitability

	5-year Compound Growth Rate	10-year Compound Growth Rate
Net income	42.3%	54.9%
Fully diluted EPS	39.1%	48.2%
Basic EPS	38.4%	45.9%
Combined total assets including MBS	35.8%	31.5%

A NEW LEVEL OF Performance

27.9%
growth in assets over 2004

36.6%
increase in earnings over 2004

35.4%
growth in fully diluted earnings per share over 2004

Business Profile

Home Capital Group Inc., through its operating subsidiary Home Trust Company, has developed a track record of success as Canada's leading alternative lender. Building on the demonstrated strength of its core residential mortgage lending business, the Company also offers complementary lending services, as well as highly competitive deposit investment products.

Mortgage Lending

As Canada's first choice alternative provider of residential first mortgages, Home Trust serves homeowners who typically do not meet all the lending criteria of traditional financial institutions. Through a proprietary lending approach that emphasizes independent asset appraisal and comprehensive borrower profiling, Home Trust has experienced very low delinquency and loan losses. With lending services in Ontario, Alberta, British Columbia, the Maritimes, Manitoba and Quebec, Home Trust has become the nation's leader in this large and growing market segment.

Consumer Lending

Home Trust's Equityline VISA program brings cardholders the advantages of accessing the equity they have built in their homes together with the features and convenience of a Gold VISA card. The Company also offers deposit-secured credit cards for individuals who wish to build or re-establish a positive credit history. Home Trust's Retail Credit Services provides installment financing for customers making purchases from established businesses.

Deposit Investments

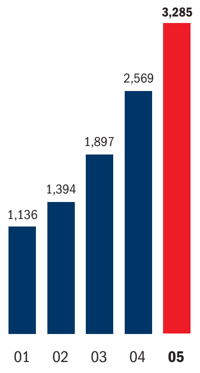
Home Trust provides a broad range of deposit investment services including Certificates of Deposit, Guaranteed Investment Certificates, Registered Retirement Savings Plans and Registered Retirement Income Funds. The Company has strong relationships with hundreds of deposit brokers and investment dealers across the country and has developed a client base through its branch offices.

Proven Results

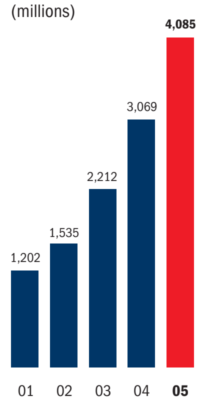
Growth

Home Capital sustained its strength in key financial measurements. The development and growth of the core mortgage business resulted in asset growth of 27.9%, or 33.1% including assets under administration, and an increase in total revenue of 30.2%.

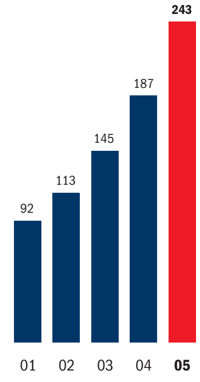
Assets
(millions)



Total assets including assets under administration
(millions)



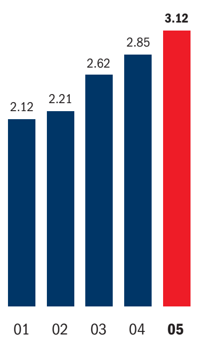
Revenue
(millions)



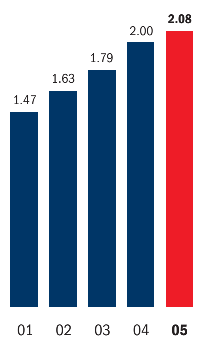
Returns

The Company maintained strong returns on assets, recording a pre-tax return on assets of 3.1% and after-tax return on assets of 2.1%, while shareholders' equity increased to $218.9 million, a 34.9% rise from the previous year.

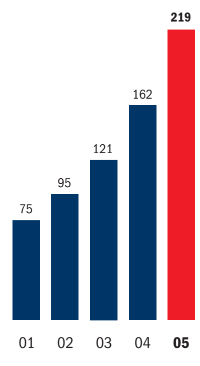
Pre-tax return on assets
(percentage)



After-tax return on assets
(percentage)



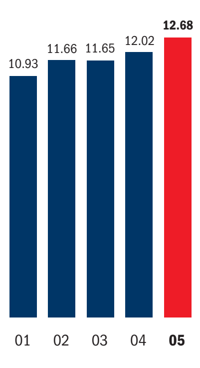
Shareholders' equity
(millions)



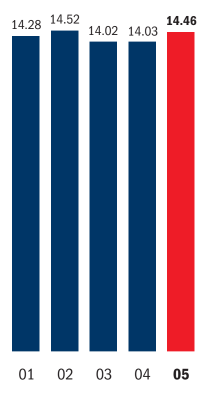
Risk

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.

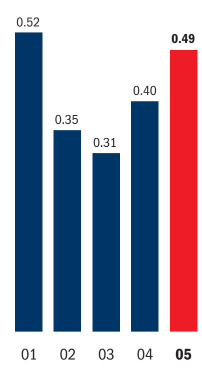
Tier 1 capital to risk-weighted assets
(percentage)



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 31.9% for the year ended December 31, 2005, representing the eighth 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

31.9%

for the year ended December 31, 2005

Earnings

Target:

20% growth in earnings

Earnings for the Company continued to reflect the strong growth experienced during 2005 with net income increasing to $60.9 million, a 36.6% increase over the $44.6 million achieved in 2004. Home Capital has now realized growth in earnings in excess of 20% for ten consecutive years.

Increase in earnings of

36.6%

over 2004

Earnings per Share

Target:

20% growth in fully diluted earnings per share

Fully diluted earnings per share rose to $1.72 at December 31, 2005, a 35.4% increase over the $1.27 recorded for 2004. This represents the tenth successive year in which Home Capital has exceeded 20% growth in fully diluted earnings per share.

Fully diluted earnings per share grew

35.4%

over 2004

Assets

Target:

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

Total assets grew to $3.28 billion by December 31, 2005, an increase of 27.9% over the $2.57 billion attained the previous year, while total assets including CMHC-insured Mortgage-Backed Securities originated and administered by the Company grew 33.1% to $4.09 billion from $3.07 billion recorded on December 31, 2004.

Total assets increased

27.9%

over year-end 2004

The Company believes that exceptional growth opportunities still exist in its underserved marketplace. Home Trust presently has less than 5% share of the market segment in which it operates and has taken the appropriate steps to accommodate continued robust growth in this niche.

A NEW LEVEL OF Growth

27.9%

Total assets increased 27.9% over the previous year, reaching $3.28 billion at year-end 2005

18.8%

Mortgage originations of $1.73 billion in 2005 were 18.8% above the $1.46 billion recorded throughout 2004

54.9%

Total credit card balances increased by 54.9% to $109.2 million in 2005 from $70.5 million at December 31, 2004

Report to Shareholders

At the beginning of 2005, Home Capital Group set out four performance objectives for the upcoming twelve months. Once again this year, the Company is pleased to report that it has substantially exceeded each and every one of these targets. This Report to Shareholders reviews our record of success in 2005, and examines our core strengths and opportunities as we look to the year ahead.

Performance: Building on Our Track Record of Success
The past year was another record year for Home Capital. During 2005 we achieved a milestone, reaching the 10th consecutive year in which the Company increased its earnings, quarter over quarter. Continuing that track record through the end of the fourth quarter, we announced the 42nd consecutive quarterly increase in earnings growth at the close of 2005. Among the key financial indicators of the Company's year-over-year momentum were:

> **Total Net Earnings** increased 36.6% ➢ The 10th consecutive year of 20%+ earnings growth.

> **Fully Diluted Earnings per Share** rose 35.4% ➢ Our 10th consecutive year of 20%+ EPS growth.

> **Return on Equity** remained strong at 31.9% ➢ Home Capital's 8th straight year of 20%+ return on equity.

> **Total Assets and Securitized Mortgages Originated and Managed by the Company** grew 33.1% ➢ Our 9th straight year of 20%+ growth.

In 2005 we continued to build on the strengths of our existing business platform, developing additional capacity that yielded positive results during the year, and expanded our ability to sustain our performance in the future. Having created a strong mortgage market presence in Ontario over the past several years, we have increased our focus on expanding our activities beyond Ontario, particularly in British Columbia, Alberta, Nova Scotia and New Brunswick. In late 2005, we also commenced operations in Manitoba and Prince Edward Island and, subsequent to year-end, in Quebec. The Company also continued to grow our complementary lines of business, in particular the Equity Plus VISA card business, which was relaunched as Equityline VISA, a VISA Gold product, subsequent to year-end.

We continued to perform as one of the lowest cost operators in the Canadian financial services industry. During the year, our efficiency ratio on a taxable equivalent basis improved to 34.9% compared to 36.4% at the end of the prior year. Looking ahead, Home Capital remains committed to its value-creating approach of disciplined expense management in all areas of the business. Simultaneously, we further strengthened our competitive position in the marketplace by enhancing our unique product offerings and delivering superior customer service.

Prudence: Central to Our Philosophy and Day-to-Day Efforts
We are confident that our strong capital position and the relatively low loan-to-value position of our portfolios will enable the Company to withstand any foreseeable economic downturn. We underwrite loans only if we are highly confident that we can recover our full exposure at any stage of the economic cycle. Further, our mortgage loans are predominantly secured by owner-occupied residential properties. Our experience, and that of other lenders, has demonstrated that residential properties occupied by their owners outperform all other forms of mortgage lending from a risk perspective. We remain focused on our core business of residential first mortgages, with 92.4% of our loan portfolio in residential first mortgages.

The Company has acquired a deep local knowledge of all the markets in which we lend. Home Trust's 20 regional lending teams each have considerable understanding of the dynamics in their area of focus, and have developed extensive networks of contacts to keep them fully up to date on any changing conditions. Our underwriters assess every application on an individual basis, taking all relevant factors into account rather than simply depending on a scoring model. They also take the time to interview applicants in order to gather relevant information that credit bureaus and conventional credit applications may not address.

People: Success Built on Superior Service
Home Capital has been fortunate to have attracted a team of 274 employees as at December 31, 2005 (compared to 228 employees the previous year) that is both highly dedicated and skilled at identifying and responding to new opportunities and challenges in the marketplace. We are grateful to our long-serving employees, as well as our newer arrivals for their service to the Company, and to our customers, business partners, and other stakeholders over the past year.

We also continue to appreciate the confidence and support of our partners in the mortgage broker community. These relationships, cultivated over many years, are central to Home Trust's ability to reach those underserved markets that are at the core of our business.

Other Developments
In November 2005, Standard & Poor's (S&P) assigned its BBB/A-2 long-term and short-term counterparty ratings to Home Trust Company and BBB-/A-3 to Home Capital Group Inc. Home Trust is the only trust company in Canada, which is not a subsidiary of a major bank, that has received an investment grade rating from Standard & Poor's. These S&P investment grade ratings, together with the Company's previously announced investment grade ratings from Fitch Ratings, will enable Home Capital and Home Trust to access the public debt market at favourable rates, if required, to help fund future growth.

During the third quarter of 2005, the Company converted the processing of its VISA program to Certegy Card Services Inc., a leading provider of credit card processing services in North America. To date, Home Trust has experienced cost savings and increased efficiency from this conversion.

The Company increased the quarterly dividend twice during the year, based on Home Capital's consistently solid performance, strong cash flow and sound balance sheet, ending 2005 with a quarterly dividend of $0.05 per share or $0.20 on an annualized basis. Subsequent to year-end, due to the Company's increased profitability, the dividend was further increased to $0.06 per share quarterly, or $0.24 annually. The Board of Directors reviews the dividend policy on a quarterly basis.

Subsequent to year-end, Home Trust's Toronto office moved to new, expanded premises and consolidated operations on two adjoining floors, nearly doubling its square footage. The Company is well positioned to accommodate the continued growth of the Ontario lending units and VISA lines of business.

The Outlook for 2006
Based on our analysis of various third-party projections, as well as our own assessment of local conditions across Canada, we anticipate that economic conditions will remain favourable for the Company in the foreseeable future. Relatively stable interest rates, rising employment and continued strong consumer confidence will likely characterize the lending landscape in 2006.

Despite our rapid business growth in recent years, the Company estimates that it has captured less than 5% of the potential target market share. Strong, untapped lending growth opportunities abound, and we are optimistic about our prospects for continued strong performance in 2006.

As we have done over the past eight years Home Capital has established several key performance targets for the year ahead. **Our objectives for 2006 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 welcome Warren K. Walker who will be standing as a nominee for election to the Board at the next Annual General Meeting. Mr. Walker brings 30 years of experience in the Canadian banking industry, most recently as Head, Global Risk Management with Scotiabank. We are very confident that his depth of knowledge and expertise will be valuable assets to the Company.

Management believes that the Company is very well positioned to capitalize on existing market opportunities and sustain its financial performance, to the benefit of all shareholders, throughout the year ahead.

(Signed)

William A. Dimma
Chairman of the Board

(Signed)

Gerald M. Soloway
President and Chief Executive Officer

A NEW LEVEL OF Profitability

35.4%

Fully diluted earnings per share increased 35.4%

the **tenth consecutive year** in which fully diluted EPS exceeded 20%

36.6%

As a result of strong growth, **earnings** rose by 36.6%

the **tenth successive year** to surpass 20% increase in year-over-year earnings

31.9%

The Company achieved **after-tax return on equity** of 31.9%

the **eighth consecutive year** of over 20% after-tax ROE

Management's Discussion and Analysis

Caution Regarding Forward-looking Statements

From time to time Home Capital Group Inc. (the "Company" or "Home Capital") makes written and verbal forward-looking statements. These statements include, but are not limited to, business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These are included in the Annual Report, reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Actual results may differ materially from results contemplated by the forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties. These risks and uncertainties include, but are not limited 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 preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time by it or on its behalf.

Taxable Equivalent Basis ("TEB")

Most banks and trust companies analyze revenue on a taxable equivalent basis 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 income received on these securities is not taxable, the rate of interest or dividend received is significantly lower than would otherwise apply to a loan or security of the same amount. The adjustment for the taxable equivalent basis of $2.8 million (2004 – $3.1 million) increases interest income. TEB does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures in other companies. Net interest income and income taxes are discussed on a TEB basis throughout this Management's Discussion and Analysis (refer to Table 3).

Regulatory Filings

The Company's continuous disclosure materials, including interim filings, annual MD&A and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's web site at www.homecapital.com, and on the Canadian Securities Administrators' web site at www.sedar.com.

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 Group Inc. for the year ended December 31, 2005. The discussion and analysis relates principally to the Company's wholly owned subsidiary, Home Trust Company ("Home Trust"), which provides residential first mortgage lending, consumer lending and deposit-taking services. This section also reviews the Company's risk management policies relating to credit, liquidity, and market and capital risks that are applicable to the Company's financial results.

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 reminded that the banks in this industry grouping have operations and asset sizes which may not be comparable to each other, or to Home Trust.

BUSINESS PROFILE AND STRATEGY

Mission

Home Capital's mission is to focus on well-defined niches in the Canadian financial marketplace, which generate above average returns, have below average risk profiles, and are not adequately served by traditional financial institutions. This mission is carried out with the objective of providing shareholders with sustainable superior returns, customers and business partners with high value and service, and employees with a positive and rewarding work environment. Home Capital achieves its mission through the following strategies:

- Ensuring business growth is focused, strategic and will enhance long-term shareholder value.
- Pursuing cost efficiencies and minimizing credit losses by maintaining tight expense controls, and ensuring strong credit risk management.
- Generating a flexible supply of funding through the Company's branches and deposit broker network.
- Enhancing marketing opportunities with the cross selling of financial services and continued lending activities outside Ontario and through mortgage broker and referral relationships.
- Maintaining the highest standards of corporate governance, and reinforcing the Company's reputation and public confidence through timely and accurate corporate communications.

Home Capital has continuously strengthened its financial performance over each of the past ten years. This track record includes such key accomplishments as recording 42 consecutive quarters of increased profitability, strong earnings and earnings per share growth, high returns on shareholders' equity, low loan losses, and strong loans and total assets growth. Home Capital's principal activity remains lending in the residential first mortgage market. The Company's residential lending activity has expanded from its base in Ontario into Alberta, British Columbia, Nova Scotia and New Brunswick in recent years, and commenced operations in Manitoba and Prince Edward Island in late 2005 and, subsequent to year-end, in Quebec.

Home Capital entered the securitization market in December 2000 with the securitization of residential mortgages, insured by Canada Mortgage and Housing Corporation ("CMHC"). Mortgage-Backed Securities ("MBS") provides additional markets for mortgage lending, as well as enhancing the efficient use of capital and providing additional sources of liquidity and fee income.

The Company entered the residential second mortgage market through a venture with Regency Finance Corp. ("Regency"). The Company acts as Regency's agent in offering second mortgage loans, utilizing the credit criteria and lending policies as set out by Regency. These mortgages are then securitized by Regency and purchased as an investment by the Company. This program was initiated in the fourth quarter of 2003, and as at December 31, 2005, these secured loans amounted to $43.6 million (2004 – $19.7 million).

Home Capital expanded its offerings with the introduction of the Home Trust VISA card in 2000. The Company's credit card line of business focuses on issuing cards with collateral equity in residential mortgages (Equityline VISA) and cash security deposits. As at December 31, 2005, authorized credit on these secured VISA products amounted to $153.7 million (2004 – $103.9 million).

The Company also provides loans to the individual clients of approved retail operations. While accelerated asset growth is not anticipated in this line of business going forward, the operation continues to be a contributor to the profitability of the Company.

2005 Performance and 2006 Objectives

The table below summarizes the Company's 2005 performance and 2006 objectives.

Table 1 – 2005 Performance and 2006 Objectives

For the years ended December 31	**2005 Actual**	2005 Objectives	**2006 Objectives**
Return on shareholders' equity (ROE)	**31.9%**	20.0%	**20.0%**
Fully diluted earnings per share	**$ 1.72**	$ 1.52	**$ 2.06**
Net income	**$ 60.9 million**	$ 53.5 million	**$ 73.0 million**
Total assets and assets under administration	**$ 4.09 billion**	$ 3.68 billion	**$ 4.90 billion**
Efficiency ratio (TEB)*	**34.9%**	36.0% to 43.0%	**38.0% to 43.0%**
Capital ratios			
Tier 1	**12.7%**	Minimum of 9.5%	**Minimum of 9.5%**
Total	**14.5%**	Minimum of 12.5%	**Minimum of 12.5%**
Credit quality (loan losses as a % of total loans)	**0.1%**	0.2% to 0.3%	**0.1% to 0.2%**

* TEB – Refer to the definition of TEB on page 8 of this 2005 Annual Report. TEB does not have a standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used in other companies.

FINANCIAL HIGHLIGHTS

Overview

The Company generated strong financial results across all areas of the business in 2005. Double-digit asset and loan growth of 27.9% and 24.6%, respectively, was achieved. Credit quality continued to be strong and loan losses remained consistently low. The Company's efficiency, or productivity, ratio declined further to 35.5%, substantially better than the industry average at 69.5%. Return on shareholders' equity reached 31.9% at year-end, once again significantly exceeding the Canadian bank average of 15.8%. The Company continues to operate with strong capital levels, as indicated by the Tier 1 capital ratio of 12.7%, which exceeds both the Canadian bank average of 10.0% and minimum regulatory requirements.

Table 2 – Key Performance Indicators

For the years ended December 31 (000's, except % and per share amounts)	**2005**	2004	2003	2002	2001
FINANCIAL PERFORMANCE MEASURES					
Net income	**$ 60,861**	$ 44,551	$ 29,507	$ 20,595	$ 14,860
Basic earnings per share	**$ 1.80**	$ 1.33	$ 0.88	$ 0.62	$ 0.49
Fully diluted earnings per share	**$ 1.72**	$ 1.27	$ 0.86	$ 0.59	$ 0.46
Return on average shareholders' equity (ROE)	**31.9%**	31.4%	27.4%	24.3%	23.8%
Return on average total assets (ROA)	**2.1%**	2.0%	1.8%	1.6%	1.5%
Net investment margin (TEB)	**3.6%**	4.0%	3.8%	3.9%	3.5%
Non-interest income to net revenue	**30.0%**	21.9%	25.4%	19.9%	19.1%
Efficiency ratio* (non-interest expense as a % of net revenue)	**35.5%**	37.5%	40.5%	44.8%	40.7%
Efficiency ratio* (TEB) (non-interest expense as a % of net TEB revenue)	**34.9%**	36.4%	38.8%	42.4%	37.7%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 3,284,829**	$ 2,568,513	$ 1,897,176	$ 1,394,289	$ 1,136,220
Cash and securities-to-total assets	**12.2%**	9.9%	12.3%	13.3%	13.2%
Tier 1 capital ratio	**12.7%**	12.0%	11.7%	11.7%	10.9%
Total capital ratio	**14.5%**	14.0%	14.0%	14.5%	14.3%
Credit quality					
Provision for loan losses as a % of gross loans	**0.1%**	0.2%	0.3%	0.3%	0.3%
Net impaired loans as a % of gross loans	**0.5%**	0.4%	0.3%	0.4%	0.5%
Allowances for loan losses as a % of gross impaired loans	**120.6%**	147.8%	191.9%	174.9%	109.0%

* Decreases in the ratio reflect improved efficiencies.

Income Statement Highlights for 2005

> Earnings for the Company reflected strong lending growth and high productivity during the 2005 fiscal year, with net income increasing to a record $60.9 million in 2005 from $44.6 million in 2004, an increase of 36.6%.

> Fully diluted earnings per share were $1.72 in 2005, compared to $1.27 last year, an increase of 35.4%. Basic earnings per share were $1.80 in 2005, an increase of 35.3% over the $1.33 result in 2004.

> Return on average shareholders' equity was 31.9% for 2005, up from 31.4% in 2004.

> Increased earnings are reflective of the growth in total revenues by $56.4 million (30.2%), while interest and non-interest expenses increased by $18.6 million, or 24.0%, and $11.3 million, or 27.7%, from 2004 levels.

> The improvement in the efficiency ratio contributed to the strong earnings performance, with a reduction to 35.5% from 37.5% in 2004.

> The credit quality of the portfolio remained strong, with reduced write-offs year over year. Lower write-offs and declining specific provisions resulted in a decrease in the provision for credit losses as a percentage of gross loans to 0.1%, as compared to the past three years at 0.2% to 0.3%.

> Other non-interest income increased by 84.5% over the prior year's results. This was largely due to an increase in securitization revenue of $10.3 million over the results in 2004.

> The Company's periodic review of the adjusted pay-down rate (or prepayment) assumptions used in the calculation of Mortgage-Backed Securities receivables held on the consolidated balance sheet resulted in a charge of $1.0 million (2004 – $1.5 million) to securitization income on Mortgage-Backed Securities. This charge was reflective of the Company's experience in the securitized pools.

> Income tax provisions increased $11.5 million, or 60.2%, over the $19.1 million reported for the twelve months ended December 31, 2004. The 2004 results reflected a tax benefit of $2.1 million realized on the redemption of tax-advantaged preferred shares.

Balance Sheet Highlights for 2005

> Total assets increased by $716.3 million, or 27.9% ($671.3 million in 2004), from one year ago to reach $3.28 billion, primarily due to growth in the loans portfolio.

> Securities (consisting of stocks and bonds) increased by $25.7 million for the year ($37.4 million in 2004).

> The Company repaid in full the $3.0 million subordinated term loan during the year. The loan was scheduled for repayment by July 2007.

> Deposits increased by $630.3 million in 2005, or 27.8% ($601.1 million in 2004).

The overall outlook for 2006 is continued strong financial performance, with further market penetration anticipated in the Company's core markets of Ontario, Western Canada and the Maritimes. The Company anticipates gradual but moderate increases in interest rates in 2006, with no anticipated impact on the Company's credit quality or growth strategy.

Management's Discussion and Analysis

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 and dividends earned on investments and the interest paid on deposits and other liabilities to fund those assets. The net investment margin is net investment income divided by the Company's average total assets. Dividend income has been converted to a TEB (refer to page 8 of the Annual Report for a definition of TEB) for comparison purposes.

Table 3 – Net Investment Income (TEB)

		2005			2004	
For the years ended December 31 (000's, except %)	**Average Balance**	**Income/ Expense**	**Average Rate**	Average Balance	Income/ Expense	Average Rate
Assets						
Cash and cash resources	**$ 110,821**	**$ 4,232**	**3.8%**	$ 58,675	$ 2,290	3.9%
Securities	**215,904**	**10,569**	**4.9%**	184,361	13,568	4.4%
Loans	**2,520,501**	**184,297**	**7.3%**	1,928,021	146,982	7.6%
Taxable equivalent adjustment*	**–**	**2,779**	**–**	–	3,138	–
Total earning assets	**2,847,226**	**201,877**	**7.1%**	2,171,057	165,978	7.4%
Other assets	**79,445**	**–**	**–**	61,788	–	–
Total assets	**$ 2,926,671**	**$ 201,877**	**6.9%**	$ 2,232,845	$ 165,978	7.2%
Liabilities and shareholders' equity						
Term and subordinated term loan	**$ 11,500**	**$ 757**	**6.6%**	$ 13,500	$ 850	6.3%
Deposits	**2,580,322**	**95,663**	**3.7%**	1,964,644	76,918	3.9%
Total interest bearing liabilities	**2,591,822**	**96,420**	**3.7%**	1,978,144	77,768	3.9%
Other liabilities	**144,303**	**–**	**–**	113,015	–	–
Shareholders' equity	**190,546**	**–**	**–**	141,686	–	–
Total liabilities and shareholders' equity	**$ 2,926,671**	**$ 96,420**	**3.3%**	$ 2,232,845	$ 77,768	3.5%
Net investment income (taxable equivalent basis)		**$ 105,457**			$ 88,210	
Net investment margin (net investment income divided by average total assets)			**3.6%**			4.0%

* Taxable equivalent adjustment is defined as dividend income received by the Company adjusted by the current tax rate. Dividend income is non-taxable to the Company as a regulated financial institution. However, this was reduced for the year ended December 31, 2004 by the deemed dividend on the redemption of Great-West Lifeco Series 1 preferred shares ($5.4 million).

As indicated on the preceding table, net investment income, on a taxable equivalent basis, increased by $17.3 million (19.6%) in 2005 over 2004 ($25.6 million, or 40.8%, in 2004 over 2003). The net investment margin declined to 3.6% from 4.0% reported in the prior year.

The interest spread on new mortgage funds advanced during 2005 averaged 3.4% (3.6% in 2004). The average net interest return from the total loans portfolio was 3.6% in 2005 (average loans rate 7.3%; average deposit cost 3.7%), down from 3.7% in 2004 (loans 7.6%; deposits 3.9%). Although the net investment margin decreased slightly, a $676.2 million, or 31.1%, increase in average earning assets resulted in overall growth in net interest income. At year-end, the average interest rate on mortgages was 6.8% (7.1% in 2004), with personal and credit card loans at an average rate of 12.1% (14.3% in 2004), while the average rate for deposits was 3.7% (3.8% in 2004).

As part of the Company's liquidity policy requirements, a minimum of 20% of the next 100-day maturities must be invested in liquid-type investments. The Company maintains both bank balances and invests excess cash in short-term investments and bonds to comply with its liquidity policy. As the Company's operations continue to grow, the amounts required in liquid investments will also increase. During the year, the average bank balance was $8.6 million ($5.7 million in 2004) and the average short-term investment balance was $85.7 million ($42.6 million in 2004). The increase in cash and cash resources income by $1.9 million for 2005 ($0.4 million in 2004) was due to the increase in average holdings in these assets, with the yield declining slightly from 3.9% in 2004 to 3.8% in 2005.

Overall, the average securities portfolio assets increased by $31.5 million, or 17.1%, over 2004. The average holdings of bonds increased from $85.2 million to $117.5 million during the year. Average yield on the bond investments increased during the year from 3.3% in 2004 to 4.0% in 2005. During the second quarter the Company sold $68.3 million of securities guaranteed by the Government of Canada, which resulted in a recorded gain of $1.6 million, offset by a loss of $0.6 million from a short position closed on $40.0 million of Government of Canada bonds. The increased holdings and yields of the bonds resulted in an increase in bond income of $3.0 million.

Average holdings of common shares increased from $7.0 million to $9.7 million year-over-year, and average holdings of preferred shares, income trust units and mutual funds decreased from $93.6 million to $87.7 million. The average return, on a taxable equivalent basis, decreased from 14.0% in 2004 to 7.9% in 2005. During 2004 an issue of preferred shares was redeemed, which resulted in the receipt of deemed dividends of $5.4 million, resulting in a higher overall yield in 2004. Average holdings decreased and no tax-advantaged dividends were received in 2005, which resulted in a decrease of $6.0 million in dividend income, year-over-year.

In 2006, net interest margin is expected to increase in anticipation of further growth in combined assets and assets under administration.

Non-interest Income

Table 4 – Non-interest Income

For the years ended December 31 (000's, except %)		**2005**		2004		2003	**Growth 2005/2004**	Growth 2004/2003
Fees and other income	**$**	**21,367**	$	16,714	$	11,917	**27.8%**	40.3%
Securitization income on Mortgage-Backed Securities		**20,935**		10,625		9,949	**97.0%**	6.8%
Gain (loss) on sale of securities		**1,706**		(3,490)		(1,658)	**N/A**	(110.5%)
Total non-interest income	**$**	**44,008**	$	23,849	$	20,208	**84.5%**	18.0%

Non-interest income increased by $20.2 million, representing growth of 84.5% over 2004. Fees and other income increased by $4.7 million in 2005 over 2004, an increase of 27.8% (40.3% in 2004). Growth in the average loans portfolio amounted to 30.7%, which generates the majority of these fees. Fees generated by credit card operations and personal loans amounted to $6.7 million in 2005 as compared to $5.1 million in 2004. The remaining fees generated are based on new mortgage lending activity. Total mortgages advanced during 2005 were $1.73 billion, up from $1.46 billion in 2004, for an increase of 18.8%. Other fees are generated from the origination and administration of the loans portfolio.

Securitization revenues on Mortgage-Backed Securities stood at $20.9 million in 2005, up from $10.6 million in 2004 as recognized under accounting principles described in Note 1 of the Company's 2005 consolidated financial statements. This income consisted of the sale of eleven pools totaling $430.8 million of insured residential mortgages, which generated gains of $19.2 million, as compared to eleven pools sold in 2004 totaling $279.4 million for $11.8 million in gains. The interest spread recognized on the new pools issued this year was 2.7%, compared to 2.6% in 2004. This gain also includes $2.8 million in amortization of the residual retained interest and servicing liability for the year ($0.3 million in 2004), netted by a $1.0 million reduction arising from revisions to prepayment rate estimates on these pools ($1.5 million reduction in 2004). This adjustment to the prepayment rate resulted from a number of pools reaching the third year of maturity and the borrowers exercising prepayment privileges. MBS represents a low risk (the loans are insured by the Canada Mortgage and Housing Corporation) and sustainable stream of income for the Company.

In the normal course of business, the Company sold certain holdings in its equity portfolio, realizing total gains of $1.7 million. In 2004, the loss on sale of securities was the result of a 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 this class of shares at a book value of $6.7 million, and received proceeds totaling $6.3 million, $5.4 million from dividends and $0.9 million from capital, resulting in a booked loss of $5.8 million.

For 2006, non-interest income is expected to continue to grow due to the growth of new business in the mortgage and credit card operations.

Provisions for Credit Losses

Table 5 – Provisions for Credit Losses

For the years ended December 31 (000's, except %)	**2005**	2004	2003
Personal and credit card loans	**$ 937**	$ 1,241	$ 1,608
Secured loans	**–**	–	–
Residential mortgages	**2,208**	3,221	2,528
Other mortgages	**(17)**	3	150
Total provision for credit losses	**$ 3,128**	$ 4,465	$ 4,286
Average loans	**$ 2,520,501**	$ 1,928,021	$ 1,391,507
As a % of average loans	**0.1%**	0.2%	0.3%

The provisions for credit losses were $3.1 million in 2005, or 0.1%, of the average total loans portfolio, as compared to $4.5 million, or 0.2%, in 2004. This is slightly below the 0.2% average reported by the Canadian banks. At December 31, 2005, the Company had 99.6% of the total loans portfolio secured by way of cash deposits, mortgages or collateral mortgages.

The decrease in the provision for the personal and credit loans of $0.3 million is due to the reduction in losses realized on this portfolio in 2005. The weighting of credit card accounts secured by cash or collateral mortgages has increased from 95.0% at December 31, 2004 to 97.8% as at December 31, 2005. The Company's strong focus on credit risk management has resulted in no provisions for specific credit losses in the mortgage portfolio. The negligible loss experience, and the lower risk levels of the residential first mortgage portfolio, which makes up 78.7% of the Company's total assets, resulted in a policy decision in the fourth quarter of the year to reduce the general allowance as a percentage of total assets, going forward. The result was a general allowance at December 31, 2005 of 100.5 basis points of risk-rated assets (see Table 16 for risk-weighted assets) compared to 103.8 basis points at December 31, 2004. This resulted in the reduction of the provision for credit losses.

The provisions for credit losses are expected to be between 10 to 20 basis points of average loans in 2006. Specific allowances will continue to be determined on an account-by-account basis and reviewed monthly. However, the provisions for credit losses reflect an ongoing assessment of the strength of the portfolio at any given time, which will continue to be reviewed on a quarterly basis.

Non-interest Expenses

Non-interest expenses increased from $40.8 million in 2004 to $52.1 million in 2005, an increase of $11.3 million, or 27.7%. This compares to increased operating expenses of $8.6 million, or 26.9%, from 2003 to 2004. The major drivers of the increase in operating expenses in 2005 were salaries and benefits, fees and commissions, and depreciation and amortization. During the year, the overall staff level was increased from 228 to 274 employees; increased staffing was required across all areas of the business to support the growth in the Company's assets. Fees increased with the volume growth in new mortgages, and deposit commissions increased on new deposits raised to fund the increased lending activity. Depreciation and amortization increased due to the write-off of deferred development costs of $1.5 million. Table 6 illustrates the changes in non-interest expense components in 2005 and the two prior years.

The increase of $11.3 million in non-interest expenses was more than offset by the $37.8 million increase in the Company's total net revenue. This resulted in the improvement of the efficiency ratio to 35.5%, compared with 37.5% in the prior year and well below the 69.5% average among the major Canadian banks. Non-interest expenses as a percentage of average assets remained consistent at 1.8% for both 2005 and 2004.

The Company's objective is a 20% growth in total assets including assets under administration, which will result in approximate corresponding increases in non-interest expenses during 2006. Despite the anticipated increases in expenses, the Company expects that its efficiency ratio on a TEB will be maintained at less than 43%.

Table 6 – Non-interest Expenses

For the years ended December 31 (000's, except %)	2005	2004	2003	Growth 2005/2004	Growth 2004/2003
Salaries and employee benefits	**$ 19,974**	$ 16,459	$ 13,183	**21.4%**	24.8%
Premises and equipment					
Rent – premises	**1,932**	1,962	1,453	**(1.5%)**	35.0%
Equipment rental and repairs	**438**	493	318	**(11.1%)**	55.0%
	2,370	2,455	1,771	**(3.5%)**	38.6%
General and administrative					
Advertising and business development	**1,108**	787	576	**40.8%**	36.6%
Computer services	**703**	670	640	**4.9%**	4.7%
Consulting and other professional services	**2,345**	1,762	1,806	**33.1%**	(2.4%)
Outsourcing	**2,952**	3,279	2,587	**(10.0%)**	26.8%
Fees and commissions	**13,686**	9,259	6,387	**47.8%**	45.0%
Stationery and publications	**751**	697	720	**7.8%**	(3.2%)
Capital taxes and insurance	**2,313**	1,696	1,206	**36.4%**	40.6%
Communications and travel expenses	**876**	746	667	**17.4%**	11.8%
Depreciation and amortization	**2,874**	1,592	1,400	**80.5%**	13.7%
Other	**2,149**	1,403	1,211	**53.2%**	15.9%
	29,757	21,891	17,200	**35.9%**	27.3%
Total non-interest expenses	**$ 52,101**	$ 40,805	$ 32,154	**27.7%**	26.9%
Average assets	**$ 2,926,671**	$ 2,232,845	$ 1,645,732		
As a % of average assets	**1.8%**	1.8%	2.0%		
Productivity ratio					
Net interest income	**$ 102,678**	$ 85,072	$ 59,277		
Other income	**44,008**	23,849	20,208		
Total net revenue	**$ 146,686**	$ 108,921	$ 79,485		
Total net revenue (TEB)	**$ 149,465**	$ 112,059	$ 82,859		
Efficiency ratio	**35.5%**	37.5%	40.5%		
Efficiency ratio (TEB)	**34.9%**	36.4%	38.8%		

Income Taxes

The provision for income taxes for the fiscal year 2005 amounted to $30.6 million, for an effective rate of 33.5%, compared to $19.1 million in 2004 and an effective rate of 30.0%. These effective rates are lower than the legislated federal and provincial rates due to tax-exempt dividend income. This tax-exempt income lowered the tax provision by $1.8 million in 2005 and $4.0 million in 2004.

Capital losses of $2.8 million ($2.8 million in 2004) 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.

Capital taxes reported under the general and administrative expenses amounted to $1.6 million, an increase of $0.5 million over the amount reported for 2004 ($1.1 million). Capital taxes increased as a result of the Company's higher retention of equity and growth in its income tax reserves.

Note 14 to the consolidated financial statements on page 44 of the Annual Report offers more information about the Company's condition regarding current income taxes and provisions for income taxes.

The Company's effective income tax rate is expected to remain within the range of 34% to 35% in 2006, reflective of tax-exempt dividend income. Capital taxes will increase if the Company attains its objective of a 20% growth in income for 2006.

BALANCE SHEET REVIEW

Balance Sheet Assets

The Company recorded assets of $3.28 billion on December 31, 2005 compared with $2.57 billion on December 31, 2004. This increase of $716.3 million, or 27.9%, compared with last year is primarily attributable to the growth in the core mortgage business. Total loans increased $552.7 million, or 24.6%, continuing the Company's trend of double-digit loan growth over the past nine years. This growth does not take into account the securitization of $430.8 million in mortgages during the year. Total loans, including MBS loans under administration, increased by $852.2 million or 31.1% compared to an increase of $817.8 million or 42.4% during 2004.

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

Table 7 – Balance Sheet Assets

As at December 31 (000's, except %)	**2005**	2004	2003	**Growth 2005/2004**	Growth 2004/2003
Cash resources and securities	**$ 399,885**	$ 253,565	$ 232,508	**57.7%**	9.1%
Personal loans and credit cards	**116,628**	79,405	46,619	**46.9%**	70.3%
Secured loans*	**43,565**	19,718	3,610	**120.9%**	446.2%
Residential mortgage loans	**2,583,694**	2,093,802	1,511,311	**23.4%**	38.5%
Other mortgage loans	**69,572**	64,815	60,671	**7.3%**	6.8%
General allowance	**(16,586)**	(13,611)	(10,300)	**21.9%**	32.1%
Total loans	**2,796,873**	2,244,129	1,611,911	**24.6%**	39.2%
Other assets	**88,071**	70,819	52,757	**24.4%**	34.2%
Balance sheet assets	**$ 3,284,829**	$ 2,568,513	$ 1,897,176	**27.9%**	35.4%
Cash resources and securities as a % of balance sheet assets	**12.2%**	9.9%	12.3%		
Loans as a % of balance sheets assets	**85.1%**	87.4%	85.0%		

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

Cash Resources and Securities

Total cash resources and securities amounted to $399.9 million at December 31, 2005, an increase of $146.3 million, or 57.7%, over 2004, representing 12.2% of the Company's total assets as at December 31, 2005 compared to 9.9% on the same date in 2004.

Cash resources, combined with government bonds, are recorded as part of the Company's liquid assets. Cash resources increased from $50.5 million to $171.1 million at year-end 2005. The securities portfolio, which is made up of bonds (provincial and federal governments, and corporate), common and preferred stocks, mutual funds, and income trusts, increased from $203.1 million to $228.7 million during the current year.

Bonds are purchased to form part of the Company's liquid assets while shareholders' equity is invested in other securities. The Investment Committee of the Board of Directors reviews investment transactions for compliance with investment policies, on a quarterly basis. These policies prescribe both the concentrations and types of securities in which the Company is permitted to invest.

At December 31, 2005, the preferred stock portfolio consisted of 82.0% of P1 and P2 rated stocks (88.1% in 2004). These securities are typically purchased with the intention of holding them to maturity or until market conditions make alternative investments more attractive. These securities had a surplus in market value over book value of $3.3 million at year-end, which was the same level as at December 31, 2004. For further information refer to Note 3 in the consolidated financial statements on page 37 of the Annual Report. Due to limited new issues of preferred shares, the Company invested in selected income trust units and mutual funds during 2005. The Board of Directors approved the purchase of these investments, which amount to $6.9 million at 2005 year-end.

In 2006, it is anticipated that cash resources and securities will continue to grow with the growth in total assets. 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 is expected to range from 10% to 15% of the total asset balance.

Loans Portfolio

The Company's loans portfolio consists of residential and other mortgages, personal and credit card loans, and loans which are secured by second residential mortgages. At year-end the loans portfolio stood at $2.80 billion, up from $2.24 billion at year-end 2004, an increase of 24.6%.

The Company's core business is residential first mortgage lending, which represented 92.4% of the total loans portfolio, while other mortgage loans represented 2.5% of the total loans portfolio.

All mortgages are secured by real property and other collateral, as appropriate. Growth in total mortgage assets was due to continued lending within the Company's existing service area (southern and central Ontario as well as the western and eastern provinces). Relatively low interest rates continue to make house purchases attractive for many Canadians. New housing starts in Canada decreased only slightly from 233,431 in 2004 to 225,481 in 2005, or 3.4%. The Company continues to provide mortgage financing for the purchase of new homes, the secondary homebuyers market, and for refinancing.

At year-end 2005, residential mortgage loans totaled $2.58 billion (97.4% of the total mortgage loan portfolio), as compared to $2.09 billion (97.0%) in 2004. The remaining 2.6% in 2005 (3.0% in 2004) was made up of commercial and non-residential properties, the most significant being stores with adjoined apartments, which represent 2.2% of the total mortgage loan portfolio (2.4% in 2004). Mortgages on commercial and non-residential properties increased by $4.8 million, to $69.6 million in 2005 ($4.1 million increase in 2004). This increase was largely due to an increase in stores with apartments. The security priority of the mortgage loan portfolio remained unchanged at 99.7% being first mortgages, in both 2005 and 2004.

Canada Mortgage and Housing Corporation mortgages amounted to $145.9 million at December 31, 2005 ($134.3 million – 2004), which represented 5.7% of the total mortgage loan portfolio in 2005 and 6.2% in 2004. This area of lending remains intensely competitive; however, due to the success of its Mortgage-Backed Securitization program, the Company intends to continue to operate in this area.

The Company continued its geographical expansion program 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 Company commenced business in Prince Edward Island and Manitoba in late 2005 and, subsequent to year-end, in Quebec. Mortgage lending in non-Ontario markets accounted for 23.5% of the total in 2005, up from 19.2% in 2004.

The Company continues to realize accelerated growth in mortgage lending, as illustrated by advances increasing to $1.73 billion in 2005, or 18.8%, over $1.46 billion in 2004. New mortgage loan commitments at December 31, 2005 amounted to $176.3 million, an increase of 9.6% over the $160.9 million at December 31, 2004.

On December 31, 2005, the personal loan and credit card portfolio totaled $116.6 million, or 4.2%, of the total loans portfolio, compared to $79.4 million, or 3.5%, at December 31, 2004. The personal lending line of business was established in April 2001, and the credit card operation was launched in the fourth quarter of 2000. At December 31, 2005, the personal loan portfolio declined to 5,301 accounts from 6,638 at December 31, 2004. This decrease was the result of the Company's decision to only provide loans through retailers that are well established in their respective industries. The Company will maintain and service existing accounts with these retailers. The Company does not anticipate significant additional market penetration through this operation. The credit card operation ended the year with 24,815 accounts and contractual commitments of $158.7 million compared to 25,637 accounts and $109.9 million at December 31, 2004. Contractual commitments with cardholders to extend credit up to established credit limits represent the maximum potential credit risk, assuming that the credit limit amount is fully utilized, the client defaults, and collection efforts are unsuccessful. However, the mix of this credit card portfolio has changed due to the discontinuance of unsecured products and the launch of the Equity Plus VISA product in 2002, subsequently renamed Equityline VISA in January 2006. At year-end, secured and collateralized credit card accounts amounted to 97.8% of outstanding balances, as compared to 95.0% at the end of December 2004.

On August 6, 2003, the Company entered into an agreement with Regency Finance Corp., trustee for QSPE-HCC Trust, to be Regency's agent for underwriting and servicing second mortgage loans in accordance with criteria as set out by Regency. Once these loans are funded by Regency, 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 $32.8 million ($19.0 million in 2004) were advanced and the Company purchased $32.6 million ($19.0 million in 2004) in Notes Receivable from the trust. The Company effectively undertakes all non-repayment risk on these mortgage loans through the Notes Receivable. In 2005 the $43.6 million in these securities had an average yield of 7.8% (10.0% in 2004). The second mortgages securing the Notes Receivable were all underwritten utilizing credit criteria and lending policies as set out by Regency. As of December 31, 2005, only three mortgages were in arrears over 90 days for a total of $81,000 ($28,000 in 2004) with no losses anticipated as a result of these arrears.

It is anticipated that the internal rate of growth in the mortgage portfolio will closely match the anticipated growth in the Company's total assets for 2006. It is projected that provinces other than Ontario will account for 25% to 30% of new business in 2006. The credit card portfolio is expected to grow at a rate of approximately 35% to 70% over the 2005 balance, largely as a result of the Equityline VISA product.

Credit Quality

As indicated in Table 8, gross impaired loans totaled $13.9 million at December 31, 2005, an increase of $4.3 million from 2004. The total allowance for credit losses increased by $2.6 million to $16.8 million at December 31, 2005 from the $14.2 million at December 31, 2004. The total dollar volume of impaired loans is expected to fluctuate over time. However, the Company anticipates that the currently impaired mortgages totaling $13.5 million will not result in any loan losses. Over the past four years the Company has not realized any net losses on the mortgage loans portfolio.

Growth in the Company's loans portfolio has increased the number of accounts the Company services, as well as the total dollar volume. The number of impaired loan accounts at December 31, 2005 is 0.9% of total loan accounts, compared to 1.2% at December 2004.

Continued strength in the Canadian economy, the secured and collateralized character of the loans portfolio, and the Company's strong focus on effective risk management have all contributed to low losses in the loans portfolio. The absolute dollar amount of loan losses has increased due to the significant growth in the total loans portfolio in recent years. The Company remains confident that there will be no adverse change in this trend within the portfolio, with this view reflected in a reduced general allowance as a percentage of total loans.

Impaired loans are summarized as follows:

Table 8 – Impaired Loans

As at December 31 (000's, except %)	**2005**		2004		2003	
	Gross	**Net**	Gross	Net	Gross	Net
Personal and credit card loans	**$ 322**	**$ 160**	$ 252	$ 48	$ 340	$ 41
Secured loans*	**81**	**81**	28	28	–	–
Residential mortgage loans	**13,486**	**13,486**	9,340	8,940	5,150	4,875
Other mortgage loans	**–**	**–**	–	–	178	178
Impaired loans	**$ 13,889**	**$ 13,727**	$ 9,620	$ 9,016	$ 5,668	$ 5,094
Total gross loans	**$ 2,813,621**		$ 2,258,344		$ 1,622,785	
Net impaired loans as a % of gross loans		**0.49%**		0.40%		0.31%
Total allowance for loan arrears		**$ 16,748**		$ 14,215		$ 10,874
Total allowance as a % of gross loans		**0.60%**		0.63%		0.67%
Total allowance as a % of gross impaired loans		**120.6%**		147.8%		191.8%

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

The Company expects some increase in the absolute dollar amount of impaired loans in 2006, principally as a result of growth in the loans portfolio. However, the Company believes that impaired loans will remain similar to the percentage levels experienced over the last two years as impaired loans are subsequently resolved.

Table 9 – Allocation of Allowance for Credit Losses

As at December 31 (000's)	2005 Opening Balance	Write-offs, Net of (Recoveries)	Provision for Credit Losses	**2005 Ending Balance**
Specific provisions				
Personal loans and credit cards	$ 204	$ 611	$ 569	**$ 162**
Secured loans*	–	–	–	**–**
Residential mortgage loans	400	(16)	(416)	**–**
Other mortgage loans	–	–	–	**–**
	604	595	153	**162**
General allowance	13,611	–	2,975	**16,586**
Total allowance for credit losses	$ 14,215	$ 595	$ 3,128	**$ 16,748**

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

The allowance for credit losses has been established to cover both identified and unidentified potential losses in the loans portfolio, and is comprised of $0.2 million in specific allowances and $16.6 million in a general allowance for credit risk. No specific losses are expected for mortgage and secured loans for the year ended December 2005. For the personal and credit card loans, the specific provisions are made up of total classes of these loans with specific losses identified by class. The general allowance for credit losses is established for potential future losses in the portfolio which are unknown to Management and which are not currently identifiable on a loan-by-loan basis. The Company's total allowance represented 60 basis points of gross outstanding loans (63 basis points in 2004) and 100.5 basis points of the Company's risk-weighted assets as at December 2005 (103.8 basis points in 2004).

The Company has developed a methodology to support testing of the sufficiency of the general allowance which includes individual risk ratings based on statistics including asset quality, borrowers' creditworthiness, economic conditions in the location of the secured asset, and past loss experience. Based on this methodology, prior years' loss experience, the mix of the loan portfolio (99.6% secured by either a mortgage, collateral mortgage or cash deposit) and lending criteria, the Company made a policy decision to reduce and maintain the general allowance at 100 basis points of risk-weighted assets. The Company still believes that it has more than adequate coverage in the event of unforeseen exposures. The Company continues to monitor the general allowance closely, considering changes in the economy, interest rate fluctuations, and conditions in housing markets.

The Company anticipates an increase in the absolute amount of the general allowance during 2006 due to growth in the loans portfolio. The specific allowance will fluctuate as impaired loans arise and then are subsequently resolved. The Company anticipates that the provision for credit losses expensed to the income statement will remain below 15 basis points of the total loans portfolio.

Other Assets and Liabilities

Other assets increased by 24.4% from $70.8 million at December 31, 2004 to $88.1 million at December 2005. These assets consist of Mortgage-Backed Securities receivable, capital assets, accrued interest receivable, goodwill, and deferred and prepaid assets. Mortgage-Backed Securities receivable is composed of residual interest spreads on the pools of securitized mortgages. This asset increased by $13.6 million over December 2004 as a result of the issuance of $430.8 million in securitized pools during 2005, less the amortization of the older pools. Accrued interest receivable, deferred agent commissions and other prepaid assets all increased, corresponding to the growth in both mortgage loans and deposits. Deferred development costs related to credit card operations decreased by $1.5 million year-over-year due to the completed amortization of this asset in accordance with the Company's accounting policies.

Other liabilities totaled $160.5 million at the end of 2005 compared to $128.1 million on December 31, 2004. The growth in the Company's deposits increased the interest payable, while accelerated lending activities resulted in an increase in deferred commitment fees, and the overall growth in business operations increased accounts payable.

Deposits

Deposits increased by $630.3 million, or 27.8%, in 2005, compared to an increase of $601.1 million, or 36.1%, in 2004.

Table 10 – Deposits

For the years ended December 31 (000's, except %)	**2005**	2004	2003	**Increase 2005/2004**	Increase 2004/2003
Payable on demand					
Savings	**$ 9**	$ 9	$ 351	**–%**	(97.4)%
Real estate tax accounts	**20,182**	17,118	13,629	**17.9%**	25.6%
	20,191	17,127	13,980	**17.9%**	22.5%
Payable on a fixed date					
Short-term certificates and savings	**78,136**	62,290	73,004	**25.4%**	(14.7)%
VISA card security deposits	**21,501**	18,377	13,660	**17.0%**	34.5%
Guaranteed investment certificates	**2,555,555**	1,975,008	1,402,955	**29.4%**	40.8%
Registered retirement savings plans	**145,336**	129,036	114,536	**12.6%**	12.7%
Registered retirement income funds	**74,742**	63,346	45,968	**18.0%**	37.8%
	2,875,270	2,248,057	1,650,123	**27.9%**	36.2%
Total	**$ 2,895,461**	$ 2,265,184	$ 1,664,103	**27.8%**	36.1%

Increased deposits ($630.3 million) funded all of the net increase in the loans portfolio ($552.7 million). Deposits are generated through the Company's branch locations and the deposit agent network. The agent network provides the Company with access to a very significant volume of potential deposits. The cost of accessing this network is the commission paid on deposits. It is the Company's conclusion that commission expenditures are considerably more cost effective than increasing the number of Company-owned branches. In 2005, 77.1% of new deposits were raised through the agent network compared to 83.1% in 2004. The cost of commission amounts to 25 basis points, on an annualized basis.

In October 2005, RBC Dominion Securities and the Company signed an agreement to offer Home Trust's deposit products to RBC Dominion Securities customers. The Company has agreements in place with more than 180 other deposit brokers who offer Home Trust Company's deposits to their clients.

The Company will continue to source deposits from the public through diversified channels, and will expand the agent network through agreements with additional deposit brokers that meet the Company's selection criteria.

Shareholders' Equity

Capital stock and contributed surpluses increased by $1.9 million, the result of $1.7 million received on the exercise of stock options. In 2004 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 2005. As options under the stock-based compensation are exercised, capital stock is adjusted by the amount of the fair value of the option with an offsetting debit to contributed surplus, amounting to $0.1 million in 2005. The change in capital stock and contributed surplus, combined with an increase in retained earnings of $54.8 million ($40.2 million in 2004) from the current year's net income ($60.9 million), net of dividends paid and declared ($6.1 million), contributed to an increase in total assets during the year. The increased earnings contributed to the increase in the return on shareholders' equity to 31.9% over 31.4% in 2004. This return on equity, when combined with the $0.17 per Common share dividend paid or payable during 2005, is illustrative of the Company's continued commitment to enhancing shareholder value. Subsequent to the year-end, the Board of Directors announced an increase in the dividends payable by 20% from $0.05 to $0.06 per Common share on a quarterly basis.

One of the Company's core objectives is to enhance shareholder value, by targeting a minimum of 20% return on shareholders' equity for the year ended 2006 and through consistent dividends.

Off-balance Sheet Arrangements

In its normal course of business, the Company conducts transactions that involve certain off-balance sheet arrangements. Off-balance sheet items include financial instruments and entities established for capital management purposes.

The Company had entered into financial instruments at the end of 2004 that consisted of the short sales of Government of Canada bonds. These short sales were to provide an economic hedge against future originations and funding of insured mortgages in the Company's assets that were then to be securitized at a later date. These securitizations have coupon rates that are set based on five-year Government of Canada bonds. As at December 31, 2004, the Company had sold short $40.0 million in Government of Canada 4.25% bonds that mature September 1, 2009. This position was closed during 2005, resulting in a loss of $0.6 million for the year ended December 2005. For further information refer to Note 17 of the consolidated financial statements on page 46 of this 2005 Annual Report. The Company has not entered into any off-balance sheet financial transactions for the year ended December 31, 2005.

The Company uses special purpose entities to securitize insured residential mortgage loans for liquidity funding and capital management purposes. These transactions consist of the transfer of these loans to the special purpose entity, managed by a Canadian trust company, in exchange for cash. When the assets are sold, the Company retains 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 the securitized assets after these sales. As at December 31, 2005, outstanding securitized mortgage loans administered amounted to $800.2 million ($500.7 million at December 2004) and retained interests of $41.3 million ($27.7 million in 2004). For additional information refer to Note 5 of the consolidated financial statements on page 38 of this 2005 Annual Report.

In the normal course of business the Company offers certain credit instruments to meet the financial needs of its customers. Outstanding commitments for future advances on mortgages amounted to $176.3 million at December 31, 2005 compared to $160.9 million at December 2004. These commitments remain open until January 2007. As at December 31, 2005, unutilized and available credit card lines amounted to $49.5 million compared to $39.4 million in December 2004.

Contractual Obligations

The following table presents a summary of the Company's principal contractual obligations as at December 31, 2005 that are due within the next five years and thereafter.

Table 11 – Contractual Obligations

As at December 31 (000's)	2006	2007	2008	2009	2010	Thereafter	**Total**
Deposits	$1,466,003	$ 670,930	$ 392,843	$ 273,609	$ 92,076	$ –	**$2,895,461**
Term loan	–	10,000	–	–	–	–	**10,000**
Commitments under leases	1,409	1,502	1,471	1,160	1,105	5,784	**12,431**
Total	$1,467,412	$ 682,432	$ 394,314	$ 274,769	$ 93,181	$ 5,784	**$2,917,892**

In the normal course of its activities, the Company enters into various types of contractual agreements. The main obligations result from the issuance of debt instruments, which include deposits written with individuals and businesses to finance the Company's lending activities. The Company is bound by loan agreements signed with Canadian Western Bank, as disclosed in Notes 9 and 10 of these consolidated financial statements. In the fourth quarter of 2005, the Company repaid $2.0 million of the subordinated term loan prior to its due date. The maturity date of this loan is in July 2007. The Company is also bound by certain lease contracts that it has signed. The Company ensures that sufficient cash resources are available to meet these contractual obligations when they become due.

Credit Ratings

Table 12 presents the Company's and its subsidiary Home Trust's credit ratings as established by rating agencies. These credit ratings would allow the Company to obtain institutional debt financing should the need arise for additional capital. At this time the Company has limited requirements for such financing and thus these ratings have had no impact on the Company's financing costs to date.

Table 12 – Credit Ratings

	Home Capital Group Inc.		Home Trust Company	
	Standard & Poor's	Fitch Rating	Standard & Poor's	Fitch Rating
Long-term rating	BBB-	BBB-	BBB	BBB-
Short-term rating	A-3	F3	A-2	F3
Outlook	Stable	Stable	Stable	Stable

OPERATING SEGMENT REVIEW

The following table summarizes the operating segments of the Company. For more detailed information, refer to Note 21 of the consolidated financial statements on page 50 of this Annual Report.

Table 13 – Summary of Operating Segments

For the years ended December 31 (000's, except %)

	2005				2004			
	Mortgage Lending*	**Consumer Lending****	**Other*****	**Total**	Mortgage Lending*	Consumer Lending**	Other***	Total
Total revenue	**$ 206,726**	**$ 19,695**	**$ 16,685**	**$ 243,106**	$ 159,667	$ 14,652	$ 12,370	$ 186,689
as a percentage	**85.0%**	**8.1%**	**6.9%**		85.5%	7.9%	6.6%	
Net income	**$ 48,277**	**$ 6,126**	**$ 6,458**	**$ 60,861**	$ 35,881	$ 3,441	$ 5,229	$ 44,551
as a percentage	**79.3%**	**10.1%**	**10.6%**		80.6%	7.7%	11.7%	
Efficiency ratio (TEB)	**33.7%**	**38.0%**	**39.1%**	**34.9%**	32.4%	48.8%	48.7%	36.4%
Net interest margin (TEB)	**3.1%**	**10.2%**	**5.4%**	**3.6%**	3.3%	12.0%	6.8%	4.0%
Average assets	**$2,511,207**	**$ 101,496**	**$ 313,968**	**$2,926,671**	$1,901,760	$ 65,751	$ 265,334	$2,232,845

* Mortgage Lending – Includes mortgage lending, securitization of government-insured mortgages and secured loans.

** Consumer Lending – Includes credit cards and individual loans to customers of retail businesses.

*** Other – Includes treasury and security investments and corporate activities.

For the year ended 2005, the contribution of the operating segments to the Company's net income was 79.3% from Mortgage Lending including secured loans, 10.1% from Consumer Lending, and 10.6% from Other. The Other segment also includes dividend income, which is tax advantaged for the Company and, therefore, tax provisions in this segment are correspondingly reduced by the tax reduced dividend income.

The Mortgage Lending segment continued to be the most significant contributor to the Company's financial results, decreasing slightly to 79.3% in 2005 from 80.6% last year. The mortgage segment continues to operate on a highly productive basis, with an efficiency ratio (TEB) at 33.7% for 2005, up slightly from 32.4% in 2004. This business segment recorded average assets of $2.51 billion in 2005, representing 85.8% of total average assets and 32.0% higher than the $1.90 billion average mortgage assets recorded in 2004.

Consumer Lending increased its business activities and financial contribution. The Equityline VISA receivable amounted to $93.5 million at December 31, 2005 ($55.5 million in 2004), which comprises 85.6% (78.7% in 2004) of the total credit card receivable balance of $109.2 million ($70.5 million in 2004). These receivables bear an average interest rate of 11.3% (11.8% in 2004) on unpaid balances. Consumer Lending contributed 10.1% to net income in 2005, approximately 31.2% more than the 7.7% contribution in 2004. This was realized through increased total line of business revenues and improved operating efficiencies realized during the year. The efficiency ratio (TEB) for Consumer Lending decreased to 38.0% in 2005, a significant improvement from the 48.8% recorded in 2004.

The Other segment contributed 10.6% to net income during 2005, down from 11.7% in 2004. The efficiency ratio (TEB) improved to 39.1% for 2005, down from 48.7% realized for the year ended December 2004.

The Company's mortgage segment will continue to be the major contributor to the earnings of the Company in 2006, remaining relatively consistent with the 2005 contribution. However, anticipated growth in Equityline VISA year-over-year will increase its contribution to Company earnings.

BUSINESS AND FINANCIAL PRACTICES

Home Trust, the 100% 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"). Each year since 1995, Home Trust has conducted a self-assessment review to ensure that the Company is managed in a sound and prudent manner with respect to such matters as liquidity management, capital management, credit risk management, interest rate risk, operational risk and litigation risk.

Liquidity Risk

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

The Company's liquidity management framework includes a liquidity management policy relating to several key elements, such as the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by Senior Management, and quarterly reporting to the Audit and Risk Management Committee of the Board of Directors. The Company manages liquidity using a model developed by Standard and Poor's, which considers two stress scenarios. In the "immediate" scenario, the Company experiences unforeseen withdrawals and a lack of new deposits over a period of one month. In the "ongoing" scenario, the situation is similarly stressful but is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet the potential and certain obligations for a period of one year beyond the time frame of the scenario. These scenarios require the Company to make assumptions regarding the probable behaviour and timing of cash flows for each type of asset and liability. The Company's liquidity ratio is the total of liquid assets, adjusted by the estimates in each scenario, divided by the adjusted liabilities. The Company has established a policy limit of 120% under both scenarios, and at year-end, liquid assets amounted to 153% (159% – 2004) under the immediate scenario, and 196% (248% – 2004) under the ongoing scenario.

The Company holds sufficient liquid assets in the form of cash bank deposits, treasury bills, bankers' acceptances, government bonds and debentures to comply with its policy. On December 31, 2005, liquid assets amounted to $286.9 million, compared to $152.2 million at December 2004. See Table 14 below for information on liquid assets.

Table 14 – Liquid Assets
(Based Only on the Subsidiary Home Trust Company)

As at December 31 (000's, except %)	**2005**	2004	2003	**Growth 2005/2004**	Growth 2004/2003
Cash and deposits with regulated financial institutions	**$ 48,297**	$ 11,646	$ 23,514	**$ 36,651**	$ (11,868)
Government of Canada treasury bills	**110,822**	28,574	36,751	**82,248**	(8,177)
Government of Canada and provincial bonds	**127,777**	111,953	57,453	**15,824**	54,500
Total liquid assets	**$ 286,896**	$ 152,173	$ 117,718	**$ 134,723**	$ 34,455
Total liabilities maturing within 100 days	**$ 486,811**	$ 348,756	$ 357,626	**$ 138,055**	$ (8,870)
Total assets	**3,279,008**	2,564,946	1,891,654	**714,062**	673,292
Total liabilities	**3,069,616**	2,407,223	1,775,819	**662,393**	631,404
Liquid assets as a % of 100-day liabilities	**58.9%**	43.6%	32.9%		
Liquid assets as a % of total assets	**8.7%**	5.9%	6.2%		
Liquid assets as a % of total liabilities	**9.3%**	6.3%	6.6%		

The Company maintained liquid assets as a percentage of 100-day liabilities at an average of 46.4% during 2005, compared to 35.3% in 2004.

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 modeling techniques that measure changes to the portfolios and the impact that interest rate changes would have on their earning capacity. The interest rate sensitivity position as at December 31, 2005 is shown under Note 18 in the consolidated financial statements. 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 indicated in the table under Note 18, the effective net interest rate spread between assets and liabilities is 3.2% (3.6% in 2004), after the adjustments as noted above are made. The cumulative dollar gap, including off-balance sheet items, at the end of twelve months was $300.8 million of liabilities exceeding assets, compared to a deficiency of $259.2 million in 2004. Within a one- to three-year term this deficiency is corrected, with a reported surplus of $159.3 million compared to a $151.6 surplus for the same period of 2004. The Company's objective is to closely match interest-sensitive assets and liabilities. The cumulative gap in the three-plus year range is essentially 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 relationships between changes in interest rates and the present value of the Company's equity. Standards have been established whereby each major decision regarding assets or liabilities must be assessed to determine their compliance.

The Company's interest rate sensitivity model includes assessing the impact of a 100 basis point (1%) and 200 basis point (2%) change in interest rates, and the effect this would have on shareholders' equity. At December 31, 2005, immediate and sustained 100 and 200 basis point increases in rates would decrease the economic value of shareholders' equity by $0.6 million and $1.1 million, respectively ($0.5 million and $1.0 million at December 31, 2004) over the next twelve months. It would be realized during the subsequent 48 months as deposits roll over, because the mortgages that these deposits fund are locked in for periods ranging from two to five years.

Securities Portfolio Management

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

The Company has set out six limitations to ensure that the objectives, as defined in the Company's investment policy, are met.

> The first limit is that total investments in P1 and P2 rated preferred shares will not exceed 200% of the regulatory capital. As at December 31, 2005, these were maintained at 30.9% of the regulatory capital (41.5% in 2004).

> 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 under the first limit, and managed funds in common shares will not exceed 50% of regulatory capital. As at December 31, 2005, these types of investments accounted for 13.5% of the regulatory capital (11.0% in 2004).

> The third limit is 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, 2005 and 2004, the Company had no interests in real estate.

> The fourth limit is that the Company's total investment in bonds and debentures that are not guaranteed by the federal or provincial governments will not exceed 50% of regulatory capital. As at both December 31, 2005 and 2004, no investments were held in other bonds or debentures.

> 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 in a group of related companies was 7.7% (11.6% in 2004).

> The sixth established limit is that no investment that exceeds 5% of the regulatory capital (in 2005 this equals $11.9 million) may be made by the Company without the prior approval of the Chairman of the Investment Committee. No investments were made over this limit, and therefore no approval was required by the Chairman of the Investment Committee.

Credit Risk Management

Credit risk management is the oversight of credit risk associated with the total loans portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour their 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 upon the amount of the loan. In addition, the Chairman of the Audit and Risk Management Committee must approve all mortgages that exceed $0.75 million. The Audit and Risk Management Committee and the Board of Directors review compliance with credit risk requirements on a quarterly basis.

Residential first mortgage loans represent the largest component of the total loans portfolio, comprising 92.4% at December 31, 2005 compared to 93.3% at December 31, 2004. These loans are primarily secured by single family dwellings which are owner occupied. Under the Company's lending criteria all mortgage loans are considered individually under a rating process by which the level of lending risk is determined. This risk rating considers the following factors: asset quality, borrowers' creditworthiness, property location and payment history.

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

The Company's industrial, commercial and other non-residential property types represented 2.5% of the total loans portfolio at December 31, 2005 (2.9% in 2004), and Management continues to monitor these properties on a regular basis. Most new mortgages under to this property type are in the form of stores with adjoining apartments. Stores with apartments make up 2.2% of the other mortgage types (2.4% in 2004). It is the Company's intention to continue to concentrate its core mortgage lending activities on residential properties.

Secured loans represented 1.6% of the total loans portfolio at December 31, 2005 (0.9% in 2004) and are secured by second mortgages on residential property with up to 85% of the loan to value on the property. These loans are subject to credit and lending criteria as set out by Regency.

Personal loans and credit cards represented 4.2% of the total loans portfolio at December 31, 2005 (3.5% in 2004), and $106.9 million, or 97.8%, of the credit cards are secured by either deposits held by the Company or collateral equity in residential property ($67.0 million, or 95.0%, in 2004). In the fourth quarter of 2001, the Company discontinued offering unsecured credit cards and intends to continue to only offer credit cards secured by deposits and collateral mortgage equity.

Capital Management

Capital is a key factor in assessing the safety and soundness of a financial institution. A strong capital position assists the Company 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 regulatory capital requirements are met while also providing a sufficient return to investors. The Audit and Risk Management Committee and the Board of Directors review the policy for compliance on a quarterly basis.

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

Table 15 – Capital Structure and Regulatory Ratios at Year-end (Based Only on the Subsidiary Home Trust Company)

As at December 31 (000's, except %)	**2005**	2004	2003	**Growth 2005/2004**	Growth 2004/2003
Tier 1 capital					
Capital stock	**$ 23,497**	$ 23,497	$ 20,497	**$ –**	$ 3,000
Contributed surplus	**951**	951	951	**–**	–
Retained earnings	**184,944**	133,275	94,387	**51,669**	38,888
Total Tier 1 capital	**209,392**	157,723	115,835	**51,669**	41,888
Tier 2 capital					
General allowance for credit losses (limited to 0.875% of RWA)	**14,317**	11,380	8,627	**2,937**	2,753
Subordinated debentures	**15,000**	15,000	15,000	**–**	–
Total Tier 2 capital	**29,317**	26,380	23,627	**2,937**	2,753
Total regulatory capital	**$ 238,709**	$ 184,103	$ 139,462	**$ 54,606**	**$** 44,641
Assets to regulatory capital multiple	**13.8**	14.0	13.6		
Regulatory capital to risk-weighted assets					
Tier 1 capital	**12.7%**	12.0%	11.7%		
Tier 2 capital	**1.8%**	2.0%	2.3%		
Total regulatory capital ratio	**14.5%**	14.0%	14.0%		

Table 16 – Risk-weighted Assets (RWA)
(Based Only on the Subsidiary Home Trust Company)

As at December 31 (000's, except %)	**2005** Balance Sheet Amount	Risk-weighting	Risk-weighted Amount	2004 Balance Sheet Amount	Risk-weighting	Risk-weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	**$ 386,378**	**0%**	**$ –**	$ 273,550	0%	$ –
Claims on banks and municipal governments	**57,313**	**20%**	**11,463**	21,819	20%	4,364
Conventional mortgages on owner-occupied residences	**2,421,013**	**50%**	**1,210,506**	1,946,802	50%	973,401
Other assets	**414,304**	**100%**	**414,304**	322,775	100%	322,775
General allowance (limited to 0.875% of RWA)	**14,317**	**100%**	**14,317**	11,380	100%	11,380
Total assets	**$ 3,293,325**		**$ 1,650,590**	$ 2,576,326		$ 1,311,920
Off-balance sheet financial instruments						
Loan commitments	**225,769**	**0%**	**–**	163,126	0%	–
Financial instruments	**–**	**0%**	**–**	190	0%	–
Total	**$ 3,519,094**		**$ 1,650,590**	$ 2,739,642		$ 1,311,920

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 15 shows the asset to capital ratio.

On November 23, 2001, Home Trust was granted 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 $14.3 million in the Tier 2 capital ($11.4 million in 2004), which has the effect of improving the capital ratio to 14.5% from 13.7% 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 improved from 14.0% in 2004 to 14.5% in 2005. Tier 1 capital increased from 12.0% for 2004 to 12.7% in 2005. This was attributable to income for the year of $59.1 million generated by Home Trust, offset by $7.4 million in dividend payments to the Company. The majority of the increase in risk-weighted assets was due to the increase in owner-occupied residences, which are rated at a 50% risk level. The Tier 2 capital increased by $2.9 million due to the increase in the allowable portion of the general allowance from $11.4 million in 2004 to $14.3 million at the end of 2005. Both ratios are well in excess of the levels prescribed by OSFI, being 10% for total capital and 7% for Tier 1 capital.

The Company expects to remain well capitalized in 2006 with the anticipated increase in income and the growth in the loan portfolio correspondingly increasing the general allowance.

Operational Risk

Operational risk, which is inherent in all business activities, is the potential for loss as a result of external events, human error or inadequacy, or the failure of processes, procedures or controls. The impact may include financial loss, loss of reputation, loss of competitive position, or regulatory penalties. The Company is exposed to operational risks not only from internal business activities, but also from activities that are outsourced. The financial measure of operational risk is actual losses incurred. No material losses occurred as a result of operational risks in 2005 or 2004.

Strategies instituted to minimize and manage operational risk include:

> a knowledgeable and experienced management team that is committed to complying with the risk management policies;
> regular management meetings, which are made up of senior and supervisory management personnel from all of the Company's business areas, chaired by the President and Chief Executive Officer of the Company, and including all individuals responsible for the development and recommendation of policies and procedures regarding day-to-day operations of the Company;
> communication of effective risk management to all levels of staff through training and policy implementation;
> regular review and testing for compliance of the Company's policies by an independent audit team;
> continuous review and upgrades of systems and procedures, including updated and tested procedures and contingency plans for disaster recovery and business continuity.

The Company maintains appropriate insurance coverage through a financial institution bond policy.

Litigation Risk

It is highly probable that litigation, particularly class action litigation, will increase in Canada as a result of changes to Canadian securities laws. Litigation risk is inherent in each of the Company's business lines. To mitigate this risk, the Company continuously monitors and reviews processes and procedures.

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 in earnings, return on equity and assets, as well as positive efficiency trends and strong capital ratios. The annualized provision was reduced in the fourth quarter due to the Company's decision to reduce the annualized percentage for the general allowance, which is based on the risk-weighted assets. Refer to page 23 of this 2005 Annual Report for discussion on credit risk.

Table 17 – Quarterly Financial Highlights

(000's, except per share amounts and %)			2005					2004
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Net interest income (TEB)	**$ 28,163**	**$ 27,262**	**$ 26,203**	**$ 23,829**	$ 28,426	$ 21,363	$ 19,786	$ 18,635
Less TEB adjustment	**708**	**682**	**675**	**714**	694	726	754	964
Net interest income per financial statements	**27,455**	**26,580**	**25,528**	**23,115**	27,732	20,637	19,032	17,671
Non-interest income	**11,040**	**11,596**	**10,741**	**10,631**	1,535	7,913	7,157	7,244
Total revenues	**64,803**	**62,763**	**59,630**	**55,910**	50,804	48,555	44,558	42,772
Net income	**16,881**	**15,766**	**14,638**	**13,576**	12,271	11,550	10,700	10,030
Return on common shareholders' equity	**31.9%**	**32.1%**	**32.2%**	**32.2%**	31.3%	31.7%	31.6%	31.9%
Return on average total assets	**2.1%**	**2.1%**	**2.1%**	**2.1%**	2.0%	2.0%	2.1%	2.1%
Earnings per common share								
Basic	**$ 0.50**	**$ 0.47**	**$ 0.43**	**$ 0.40**	$ 0.37	$ 0.34	$ 0.32	$ 0.30
Fully diluted	**0.47**	**0.45**	**0.41**	**0.39**	0.35	0.33	0.30	0.29
Book value per common share	**6.44**	**6.00**	**5.57**	**5.17**	4.80	4.48	4.17	3.88
Efficiency ratio (TEB)	**33.8%**	**35.2%**	**35.2%**	**35.3%**	40.0%	33.8%	35.7%	36.0%
Efficiency ratio	**34.4%**	**35.9%**	**35.9%**	**36.0%**	41.0%	34.6%	36.7%	37.4%
Tier 1 capital ratio*	**12.7%**	**12.6%**	**12.3%**	**12.2%**	12.0%	11.8%	11.9%	12.0%
Total capital ratio*	**14.5%**	**14.5%**	**14.2%**	**14.2%**	14.0%	13.9%	14.1%	14.3%
Net impaired loans % of gross loans	**0.5%**	**0.5%**	**0.5%**	**0.4%**	0.4%	0.3%	0.3%	0.3%
Annualized provision % of gross loans	**0.0%**	**0.2%**	**0.2%**	**0.2%**	0.2%	0.2%	0.2%	0.2%

* These figures related to the Company's operating subsidiary, Home Trust Company.

Net income was $16.9 million in the fourth quarter of 2005 compared with $12.3 million during the fourth quarter of 2004. The latest period marked the Company's 42nd consecutive quarter of increased profitability. The growth in earnings is attributable to a number of factors. Total interest and dividend income was $53.8 million for the three months ended December 31, 2005, as compared to $49.3 million for December 31, 2004. A 24.6% increase in the Company's loan assets year-over-year was a key factor contributing to the growth in interest income. Net interest income for the fourth quarter was $27.5 million, a decrease of 1.0% from the $27.7 million during the same period of 2004. This slight decline was related to a special item in the fourth quarter of 2004, when a deemed dividend was received on a preferred share redemption of $5.4 million for the quarter. There were no deemed dividends received by the Company in 2005.

Provisions for credit losses decreased by $1.4 million for the fourth quarter to $0.1 million. This decrease is related to the Company's decision to maintain the general allowance for credit losses at 100 basis points on an annualized basis of risk-weighted assets and the reduction of specifics on the mortgage portfolio. The Company has $2.58 billion, or 78.7%, of its total assets in residential first mortgages and has not experienced any net losses over the past four years in the mortgage portfolio.

Non-interest income was $11.0 million for the quarter ended December 31, 2005, which represented an increase over the $1.5 million reported for the quarter ended December 31, 2004. The Company securitized a total of $139.9 million in insured residential mortgages in the fourth quarter of 2005 compared to $67.9 million in the fourth quarter of 2004, resulting in almost double the income gained. Also, in the fourth quarter of 2004 the Company adjusted the unscheduled prepayment rate on the retained interests (referred to as Mortgage-Backed Securities receivable) which resulted in a decrease of $1.5 million to the gain reported in the income statement, along with the loss of $5.8 million recorded on the preferred share redemption.

Non-interest expenses increased by $1.3 million to $13.3 million in the fourth quarter of 2005 over $12.0 million reported for the three months ended December 2004. The increase in 2005 over 2004 non-interest expenses was related to an increased employee count, as well as growth in variable expenses including referral fees, commission and insurance expenses which related to higher overall business volumes. Increased expenses during the fourth quarter of 2005 were more than offset by revenue growth, which resulted in a continued low efficiency ratio during the fourth quarter of 34.4% versus 41.0% in the fourth quarter of 2004.

Total assets as at December 31, 2005 reached $3.28 billion, up by $259.3 million, or 8.6%, over the September 2005 asset balance of $3.03 billion. During the fourth quarter of 2005, growth in the loans portfolio of $113.1 million, or 4.2%, contributed to approximately half of the total asset growth over the September 30, 2005 balance.

The rise in liabilities over September 30, 2005 resulted from increased deposits of $240.6 million. Increased deposit liabilities funded all of the loans portfolio growth for the fourth quarter of 2005. Also, in the fourth quarter the Company repaid the subordinated term loan in the amount of $2.0 million. The additional cash resources in the fourth quarter allowed for this early repayment.

Shareholders' equity rose to $218.9 million, an increase of $15.0 million, or 7.3%, over $203.9 million reported at September 30, 2005. This growth was internally generated from net income for the three months of $16.9 million, less $2.0 million for dividends payable to shareholders. The remaining $0.1 million was from proceeds received on the exercise of Company share options. Return on equity for the quarter was 31.9%, compared to 32.1% for the third quarter of 2005 and 31.3% for the fourth quarter of 2004. At December 31, 2005 the book value per common share was $6.44 compared to $6.00 at September 30, 2005 and $4.80 one year ago.

For further information and details refer to the Company's fourth quarter report filed on SEDAR dated February 14, 2006.

ACCOUNTING POLICIES AND ESTIMATES

Significant Accounting Estimates and Critical Accounting Policies

The significant accounting polices are outlined in Note 1 to the consolidated financial statements starting on page 34 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 Canadian generally accepted accounting policies 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.

(i) Allowance for Credit Losses

The allowance for credit losses reflects Management's estimate of potential losses related to the loans portfolio at the balance sheet date. In assessing existing credit losses, Management must rely on estimates and exercise judgement regarding 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 than 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, 2005, the Company's total allowance for credit losses was $16.8 million ($14.2 million in 2004), which included specific allowances of $0.2 million ($0.6 million in 2004) and general allowances of $16.6 million ($13.6 million in 2004). Additional information on the allowance for credit losses can be found in Note 1 to the consolidated financial statements and the discussion of credit quality beginning on page 17 of this Management's Discussion and Analysis.

(ii) Securitization

Securitization is a process by which financial assets, including government-guaranteed mortgage loans of the Company, are converted into securities and sold to investors. When the Company surrenders control over the mortgage loans sold, and receives consideration other than 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, referred to as 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 5 of the consolidated financial statements on page 38 of this Annual Report and the section on Off-balance Sheet Arrangements on page 20 of this Management's Discussion and Analysis.

(iii) Income Tax

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

(iv) Contingencies – Litigation

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

Changes in Accounting Policies

The following summarizes changes in accounting policies in 2005. For further information, refer to Note 2 of the consolidated financial statements on page 37 of this Annual Report.

(i) Consolidation of Variable Interest Entities

In the third quarter of 2005, the Company adopted AcG-15, "Consolidation of Variable Interest Entities". AcG-15 provides guidance for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. The initial adoption of this guideline did not have a material impact on these consolidated financial statements. Under these rules, the Company was required to consolidate the QSPE-HCC Trust (operating as Regency Finance Corp.) securitized investments. This required the reclassification from the Securities asset category to the Loans asset category, referred to as Secured Loans. There was no impact on the Company's income statement for this year or for prior years.

Future Changes in Accounting Policies

The Canadian Institute of Chartered Accountants ("CICA") has issued three new accounting standards on financial instruments, hedges and comprehensive income that will require the Company to account for most of the investment securities and any derivative financial instruments at fair value. The Company will adopt the new rules on October 1, 2006, at which time the Company will re-measure certain investment securities and any financial instruments at fair value and any adjustment required will be reported as a new section of shareholders' equity called comprehensive income. The impact of recording these assets and liabilities at fair value will be recognized in opening equity. The Company cannot currently determine the impact that these rules will have on the consolidated financial statements, as this will depend on the fair value of those financial instruments at the time of adoption.

UPDATED SHARE INFORMATION

As at February 28, 2006, the Company had 34,086,640 Common shares outstanding. In addition, director and employee stock options that have been issued amount to 1,272,000 (1,372,750 in 2004) of which 1,003,250 are exercisable as at year-end 2005 (944,000 in 2004).

On December 6, 2005, the Company declared a cash dividend of $0.05 per Common share, payable March 1, 2006 to shareholders of record at the close of business on February 15, 2006. Additionally, on February 13, 2006 the Board of Directors increased the quarterly dividend by 20% from $0.05 per Common share to $0.06 per Common share, payable June 1, 2006 to shareholders of record at the close of business on May 15, 2006.

CONTROLS AND PROCEDURES REGARDING FINANCIAL INFORMATION

An evaluation was carried out of the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109. Management has ensured that there are disclosure controls and procedures which provide reasonable assurance that material information relating to the Company is disclosed on a timely basis, particularly information relevant to the period in which annual filings are being prepared. Management believes these disclosure controls and procedures were effective for the year ended December 31, 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 consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of Management with appropriate consideration as to materiality. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

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

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

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

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

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

The Board of Directors is responsible for reviewing and approving the financial statements and Management's Discussion and Analysis of results of operations and financial condition appearing in the Annual Report. It oversees the manner in which Management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit and Risk Management Committee. The Audit and Risk Management Committee is composed solely of directors who are not officers or employees of the Company.

(Signed)

Gerald M. Soloway
President and Chief Executive Officer

(Signed)

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

Toronto, Canada
February 17, 2006

Auditors' Report

To the Shareholders of
Home Capital Group Inc.

We have audited the consolidated balance sheets of **Home Capital Group Inc.** as at December 31, 2005 and 2004 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 17, 2006

Ernst & Young LLP (Signed)
Chartered Accountants

Consolidated Balance Sheet

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

See accompanying notes.

On behalf of the Board:

(Signed)

Gerald M. Soloway
President and Chief Executive Officer

(Signed)

William A. Dimma
Chairman of the Board

Consolidated Statement of Income

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

See accompanying notes.

Consolidated Statement of Changes in Shareholders' Equity

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

See accompanying notes.

Consolidated Statement of Cash Flows

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

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries, after the elimination of intercompany transactions and balances.

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

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

Cash Resources

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

Cheques and Other Items in Transit

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

Securities

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

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

Loans

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

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

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

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

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

Loan commitment fees and origination fees are deferred and amortized to fees and recorded in other income on the consolidated statement of income over the term of the loan.

Allowance for Credit Losses

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

Specific Allowances

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

General Allowances

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

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

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

Loan Securitization (Mortgage-Backed Securities Receivable)

The Company periodically transfers pools of mortgages to special purpose entities or trusts which, in turn, issue securities to investors. Mortgage loan securitization is part of the Company's liquidity and capital management strategies. These transfers are accounted for as sales when the Company surrenders control of the transferred assets and receives consideration other than the beneficial interest in the transferred assets. The securitization trust has no recourse to the Company's other assets.

When such sales occur, the Company retains interest-only strips and servicing responsibilities for the assets sold. Gains or losses on these transactions are recognized as income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Retained interests are stated at the original carrying amount plus interest accretion less cash received and any write-down other than a temporary impairment in value. The fair value of the retained interests is estimated using discounted cash flow methodology and management's best estimates of key assumptions such as prepayment rates, average term of assets sold and other factors that influence the value of the retained interests.

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

Capital Assets

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

Office furniture and equipment	20%
Computer equipment	30%–45%
Signs	20%

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

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

Deferred Development Costs

As at December 31, 2001, the Company completed the development stage of its VISA operations and, therefore, costs incurred to develop this line of business were amortized over a period of four years from January 1, 2002 on a basis that followed the maturing nature of the business. As at December 31, 2005, all development costs have been written off.

Translation of Foreign Currencies

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

Goodwill

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

Financial Instruments

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

If a hedge relationship is found to be no longer effective or if the designated hedged item matures or is sold, extinguished or terminated, the derivative is reclassified as a trading instrument and, accordingly, realized and unrealized gains and losses on hedges are recorded at this time in other income on the consolidated statement of income. The Company has not entered into any hedge transactions in 2005 and 2004.

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value in other assets or liabilities, on a net basis, with changes in fair value recorded in other income on the consolidated statement of income. The Company has sold short Government of Canada bonds and these have been accounted for as a non-trading derivative. Refer to Note 17 for further information.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the period in which those temporary differences are expected to be recovered or settled.

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

Employee Future Benefits

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

Stock-based Compensation Plans

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

Under the Company's Stock Option Plan, the fair value of options granted after January 1, 2003 is charged to salary expense over the option vesting period. The fair value of the options granted is determined using the Black-Scholes option pricing model using management's best estimates. Refer to Note 13 for the estimates applied.

With respect to options granted prior to January 1, 2003, the Company continues to apply the previous standards under which no compensation expense is recognized when stock options are granted to employees and directors and the consideration paid by the employees or directors who exercise their stock options is credited to capital stock.

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

NOTE 2 CHANGE IN ACCOUNTING POLICY

Consolidation of Variable Interest Entities

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

NOTE 3 SECURITIES

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

(000's)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	**2005 Total Book Value**	2004 Total Book Value
Securities issued or guaranteed by						
Canada	$ 10,295	$ 76,112	$ 40,425	$ –	**$ 126,832**	$ 108,971
Provinces	–	299	–	–	**299**	799
Equity securities						
Common	11,810	–	–	–	**11,810**	7,642
Fixed rate preferred	8,908	36,288	24,083	10,258	**79,537**	75,958
Floating rate preferred	2,025	–	1,385	–	**3,410**	6,696
Income trusts	3,565	–	–	–	**3,565**	–
Mutual funds	3,289	–	–	–	**3,289**	3,000
	$ 39,892	$ 112,699	$ 65,893	$ 10,258	**$ 228,742**	$ 203,066

All securities were held in Canadian funds.

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

2005

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

2004

(000's, except %)	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
Securities issued or guaranteed by				
Canada	$ 108,971	$ 1,816	$ 110,787	4.1%
Provinces	799	18	817	5.6%
Equity securities				
Common	7,642	509	8,151	2.7%
Fixed rate preferred	75,958	3,851	79,809	5.4%
Floating rate preferred	6,696	(562)	6,134	4.4%
Mutual funds	3,000	254	3,254	10.6%
	$ 203,066	$ 5,886	$ 208,952	

NOTE 4 LOANS

(a) Loan maturities

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

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

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

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

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

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

NOTE 5 LOAN SECURITIZATION (MORTGAGE-BACKED SECURITIES RECEIVABLE)

The Company's subsidiary, Home Trust, securitizes residential mortgage loans, and in these securitizations Home Trust retains interest-only strips and servicing responsibilities. The retained interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold $430.8 million (2004 – $279.4 million) of mortgages receivable in securitization transactions. This value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions totaled $44.8 million (2004 – $30.1 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of $1.2 million (2004 – $0.8 million) included on the consolidated balance sheet. Mortgage payments, which have been collected and are payable to the National Housing Authority ("NHA") trusts, as at December 31, 2005 totaled $15.1 million (2004 – $9.4 million). There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

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

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

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

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

* Not applicable as these mortgages are all government-guaranteed.

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

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

* Not applicable as these mortgages are all government-guaranteed.

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

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

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

		2005
(000's)	**Total Principal Amount**	**Principal Amount of Loans 61 or More Days Past Due**
Total loans managed or securitized	**$ 3,613,643**	**$ 18,386**
Less mortgages securitized	**800,184**	**1,933**
Total gross loans reported on the consolidated balance sheet	**$ 2,813,459**	**$ 16,453**

(000's)		2004
Total loans managed or securitized	$ 2,758,481	$ 11,581
Less mortgages securitized	500,740	1,011
Total gross loans reported on the consolidated balance sheet	$ 2,257,741	$ 10,570

NOTE 6 CAPITAL ASSETS

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

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

NOTE 7 DEFERRED DEVELOPMENT COSTS

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

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

NOTE 8 OTHER ASSETS

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

NOTE 9 TERM LOAN

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

The terms of the loan are as follows:

(i) the balance of the loan, together with all accrued and unpaid interest, is due and payable in full on July 10, 2007;
(ii) interest is payable at the bank's prime lending rate plus 1%;
(iii) as collateral for the term loan, the Company has provided a demand note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of $10,000,000 of the subordinated notes issued by Home Trust.

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

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

NOTE 10 SUBORDINATED TERM LOAN

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

The terms of the subordinated term loan are as follows:

(i) the outstanding principal shall be repaid in yearly installments of $1,000,000 commencing on July 10, 2005 for a period of two years. The balance of the subordinated term loan, together with all accrued and unpaid interest, is due and payable in full on July 10, 2007;
(ii) interest is payable at the bank's prime lending rate plus 1%;
(iii) as collateral for the subordinated term loan, the Company has provided a promissory note, a general security agreement, subject only to permitted encumbrances not exceeding $10,000,000 and security granted by the Company in favour of the first security to Canadian Western, a secondary pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of $5,000,000 in subordinated notes issued by Home Trust.

On December 20, 2005, the Company, with the approval of Canadian Western, repaid the final $2,000,000 owing on the subordinated term loan. This final repayment followed the Company making its regular annual payment on July 10, 2005.

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

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

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

NOTE 11 DEPOSITS

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

All deposits are held in Canadian funds.

NOTE 12 OTHER LIABILITIES

(000's)		**2005**	2004
Accrued interest payable		**$ 97,391**	$ 79,955
Income taxes payable		**5,157**	4,545
Dividends payable		**1,701**	1,351
Deferred commitment fees		**9,847**	8,062
Future income taxes	(Note 14)	**12,015**	9,399
Other, including accounts payable and accrued liabilities*		**27,383**	18,275
		$ 153,494	$ 121,587

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

NOTE 13 CAPITAL STOCK

(a) Authorized

An unlimited number of Common shares.*
An unlimited number of Preferred shares, issuable in series, to be designated as Senior Preferred shares.
An unlimited number of Preferred shares, issuable in series, to be designated as Junior Preferred shares.

(b) Issued

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

* On May 13, 2004, the shareholders of the Company approved a special resolution authorizing the reclassification of its issued and outstanding Class B subordinated voting shares as Common shares, and eliminating all other authorized but unissued classes of Common shares. Previously on January 7, 2004, the Company declared a stock dividend that would pay to the holders of Class B subordinated voting shares a dividend payable in Class B shares of the Company at the rate of one Class B share for each Class B share held. Under the requirements of the CICA accounting standards for capital stock, all stock has been restated to reflect the stock dividend for the current and prior year. On May 27, 2003, a share conversion took place that eliminated the issued balance of the convertible Class A shares. The holders of the Company's convertible Class A shares converted the remaining 2,508,334 of the Class A shares into the same number of single-vote Class B subordinated voting shares.

(c) Normal Course Issuer Bid

On October 19, 1998, the Company filed a Normal Course Issuer Bid, which allows it to purchase over a twelve-month period up to the greater of (i) 5% of the issued and outstanding shares on October 19, 1998, or (ii) 10% of the public float outstanding on October 19, 1998. On October 20, 2004, the Board of Directors (the "Board") elected not to renew the Normal Course Issuer Bid.

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

(d) Stock Options

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

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

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

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

As at December 31, 2005, stock options outstanding to acquire Common shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price per Share	Expiry Date
Options granted to				
Directors	25,000	25,000	$ 4.69	07/25/2006
	200,000	200,000	6.76	03/06/2007
	22,500	22,500	7.75	06/18/2007
	265,000	265,000	7.15	12/05/2009
	512,500	512,500		
Employees	40,000	40,000	4.69	07/25/2006
	202,000	202,000	6.76	03/06/2007
	130,000	130,000	7.15	12/05/2009
	155,000	115,000	10.56	07/23/2010
	15,000	3,750	26.16*	03/10/2011
	57,500	–	34.55**	02/14/2010
	10,000	–	34.53**	04/26/2010
	150,000	–	35.25**	12/06/2010
	759,500	490,750		
	1,272,000	**1,003,250**	**$ 7.31**	

* In 2004, the Company granted certain employees the right to receive stock options of 120,000 if certain performance criteria were met. As at December 31, 2005, one level of the performance criteria had not been met. As a result, 25% of these contingently assumable options have not been included in the computation of fully diluted income per Common share.

** In 2005, the Company granted certain employees the right to receive stock options of 57,500, 10,000 and 150,000 if certain performance criteria were met. As at December 31, 2005, the performance criteria had not been met. As a result, the contingently assumable options have not been included in the computation of fully diluted income per Common share.

Fair Value Compensation of Stock Options

The Company determined the fair value of options granted using the Black-Scholes option pricing model. The weighted-average fair value of the options granted during the two-year period ended December 31, 2005 was $5.93 for the December 2005 issue, $6.97 for the April 2005 issue, $7.01 for the January 2005 issue and $4.85 for the March 2004 issue.

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

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

During the quarter ended December 31, 2003, the Company changed the accounting for stock options granted on or after that date. Under the new policy, the Company determines the fair value of stock options on their grant date and records this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in capital stock. Employee compensation expense increased by $236,718 (2004 – $144,472) and net income decreased by the same amount.

The Company will not record any compensation expense for stock options granted in prior years. When these stock options are exercised, the Company will include the amount of proceeds in capital stock. The restatement of net income and income per Common share if the Company had recorded compensation expense in the current and prior year based on the fair value of 2002 outstanding options is as follows:

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

(e) Income per Common Share

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

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

NOTE 14 INCOME TAXES

Components of the provision for income taxes are as follows:

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

Reconciliation of income taxes is as follows:

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

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

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

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

NOTE 15 EMPLOYEE SHARE PURCHASE PLAN

Effective January 1, 2001, qualifying employees of Home Trust have the ability to purchase shares in the Company. Under the Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their annual base earnings withheld to purchase Common shares. The Company matches 50% of the employee's contribution amount. All contributions are used by the Plan's trustee to purchase the Common shares during each pay period in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totaled $280,299 for 2005 (2004 – $226,042).

NOTE 16 COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

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

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

Credit Commitments

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

The Company has contractual commitments to extend credit to its clients for its credit card products. The contractual commitment for this product represents the maximum potential credit risk, assuming the contractual amount is fully utilized and the client defaults and collection efforts are unsuccessful. At December 31, 2005, these contractual commitments in aggregate were $158,692,723 (2004 – $109,905,825). These amounts are not fully drawn by the Company's customers and, therefore, these amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments. Secured credit cards have spending limits restricted by collateral held by the Company.

Directors' and Officers' Indemnification

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

NOTE 17 FINANCIAL INSTRUMENTS

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

The following terms are used in the derivatives table below: "notional amount" represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract; "current replacement cost" represents the cost of replacing the contract which has a positive fair value using current market rates; "credit equivalent amount" represents the total replacement cost and the potential future credit exposure, if the counterparty defaults; "risk-weighted balance" represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by the Office of the Superintendent of Financial Institutions Canada; and "fair market value" represents the notional amount plus the current replacement cost at December 31, 2004.

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

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

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

NOTE 18 INTEREST RATE SENSITIVITY

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

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

								2005
(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	**Total**
Assets								
Cash resources	$ 51,337	$ 110,806	$ –	$ 9,000	$ –	$ –	$ –	**$ 171,143**
Weighted-average interest rate	1.8%	3.1%	–	3.0%	–	–	–	**2.7%**
Securities	–	26,747	3,270	9,875	112,699	76,151	–	**228,742**
Weighted-average interest rate	–	5.7%	4.9%	3.7%	4.1%	4.4%	–	**4.4%**
Loans	–	223,341	210,339	698,046	1,337,948	317,117	10,082	**2,796,873**
Weighted-average interest rate	–	9.3%	7.1%	6.8%	6.9%	6.6%	–	**7.0%**
Other assets	–	–	–	–	–	–	88,071	**88,071**
Weighted-average interest rate	–	–	–	–	–	–	–	**–**
Total	$ 51,337	$ 360,894	$ 213,609	$ 716,921	$1,450,647	$ 393,268	$ 98,153	**$3,284,829**
Weighted-average interest rate	1.8%	7.1%	7.1%	6.7%	6. 7%	6.1%	–	**6.4%**
Liabilities and shareholders' equity								
Term loan and subordinated term loan	$ 10,000	$ –	$ –	$ –	$ –	$ –	$ –	**$ 10,000**
Weighted-average interest rate	6.0%	–	–	–	–	–	–	**6.0%**
Deposits payable on demand	–	20,191	–	–	–	–	–	**20,191**
Weighted-average interest rate	–	–	–	–	–	–	–	**–**
Deposits payable on a fixed date	–	228,475	355,277	862,060	1,063,773	365,685	–	**2,875,270**
Weighted-average interest rate	–	3.4%	3.5%	3.5%	3.8%	4.0%	–	**3.7%**
Other liabilities	–	–	–	–	–	–	160,483	**160,483**
Weighted-average interest rate	–	–	–	–	–	–	–	**–**
Shareholders' equity	–	–	–	–	–	–	218,885	**218,885**
Weighted-average interest rate	–	–	–	–	–	–	–	**–**
Total	$ 10,000	$ 248,666	$ 355,277	$ 862,060	$1,063,773	$ 365,685	$ 379,368	**$3,284,829**
Weighted-average interest rate	6.0%	3.1%	3.5%	3.5%	3.8%	4.0%	–	**3.2%**
	$ 41,337	$ 112,228	$ (141,668)	$ (145,139)	$ 386,874	$ 27,583	$ (281,215)	**3.2%**
Off-balance sheet items	–	(150,935)	(11,780)	(4,854)	73,205	94,364	–	**–**
Weighted-average interest rate	–	6.7%	6.1%	6.3%	6.9%	6.6%	–	**–**
Interest rate sensitivity gap	$ 41,337	$ (38,707)	$ (153,448)	$ (149,993)	$ 460,079	$ 121,947	$ (281,215)	
Cumulative gap	$ 41,337	$ 2,630	$ (150,818)	$ (300,811)	$ 159,268	$ 281,215	$ –	

Notes to the Consolidated Financial Statements

December 31, 2005

								2004
(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash resources	$ 15,225	$ 35,274	$ –	$ –	$ –	$ –	$ –	$ 50,499
Weighted-average interest rate	1.0%	2.3%	–	–	–	–	–	1.9%
Securities	6,696	10,642	2,638	2,486	61,760	118,844	–	203,066
Weighted-average interest rate	4.4%	4.3%	6.1%	5.8%	4.4%	4.8%	–	4.7%
Loans	–	141,796	121,839	389,287	1,258,970	336,861	(4,624)	2,244,129
Weighted-average interest rate	–	11.0%	7.3%	7.4%	7.2%	7.1%	–	7.5%
Other assets	–	–	–	–	–	–	70,819	70,819
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 21,921	$ 187,712	$ 124,477	$ 391,773	$1,320,730	$ 455,705	$ 66,195	$2,568,513
Weighted-average interest rate	2.1%	9.0%	7.3%	7.4%	7.0%	6.5%	–	6.9%
Liabilities and shareholders' equity								
Term loan and subordinated term loan	$ 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	$ –	

NOTE 19 FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments, both on- and off-balance sheet, of which the valuation methods and assumptions are described below.

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

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

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

> Cash resources, other assets and other liabilities are assumed to approximate their carrying values due to their short-term nature.
> Securities are assumed to approximate their market values as provided in Note 3.
> Fair value of loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.
> Other assets have been adjusted for the fair value of the Mortgage-Backed Securities.
> Book value of the term loan approximates its fair value.
> Book value of the subordinated term loan approximates its fair value.
> Fair value of deposits payable on demand approximates their carrying value; fixed rate deposits are determined by discounting the contractual cash flows using the market interest rates currently offered for deposits with similar terms and risks.
> Fair value of credit commitments is determined by discounting the expected future cash flows of the credit commitments at market rates for loans with similar terms and credit risks.
> Financial instruments are assumed to approximate their market values as provided in Note 17.

NOTE 20 RISK MANAGEMENT

As part of the Company's risk management practices, the risks that are significant to the business are identified, monitored and controlled. These risks include credit risk, liquidity risk, market risk and operational risk. The nature of these risks and how they are managed is provided in the commentary on pages 22 to 26 of Management's Discussion and Analysis.

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

NOTE 21 EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two operations – Mortgage Lending and Consumer Lending. The Mortgage Lending operation consists of mortgage lending, securitization of government insured mortgages and the secured loans as described in Note 2. The Consumer Lending operation consists of the credit cards and the individual loans to customers of retail businesses. The Other category includes treasury and security investments and corporate activities.

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

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

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

Corporate Directory

Home Capital Group Inc.

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Chairman of the Board and Corporate Director
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Port Colborne, Ontario

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

Investment Committee
Harvey F. Kolodny
Chairman

Human Resources and Compensation Committee
William A. Dimma
Chairman

Executive Committee
William A. Dimma
Chairman

Corporate Governance and Nominating Committee
William A. Dimma
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.
Vice President Finance

Sharron I. Hatton
Corporate Secretary

Chris Ahlvik
Vice President Corporate Counsel

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 guidelines published 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 at 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 10, 2006 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.

Corporate Directory

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William A. Dimma
Janet L. Ecker

Harvey F. Kolodny
Nick Kyprianou
John M. E. Marsh

Robert A. Mitchell
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

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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
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Stock Listing

Toronto Stock Exchange
Ticker Symbol: HCG

Capital Stock

As at December 31, 2005, there were 34,011,640 Common shares outstanding

For Shareholder Information, Please Contact:

Chris Ahlvik
Vice President
Corporate Counsel
Home Capital Group Inc.
Suite 2300
145 King Street West
Toronto, Ontario M5H 1J8
Tel: 416-360-4663
1-800-990-7881
Fax: 416-363-7611
1-888-470-2092

For more information, visit us at
www.homecapital.com
www.hometrust.ca

DESIGN: BRYAN MILLS GROUP, TORONTO WWW.BRYANMILLS.COM

Did you know?

> $1,000 invested in Home Capital in 1995 would be worth $175,894.92 today.

> The Company's total assets, including CMHC-insured Mortgage-Backed Securities under administration, exceeded the $4 billion mark in 2005.

> Mortgage write-offs have averaged 0.04% for the past 15 years, 0.02% for the past 10 years and 0.001% for the past five years per annum on the average balance of the mortgage portfolio.

> Home Capital Group and Home Trust Company have received investment grade ratings from Standard & Poor's and Fitch Ratings.

> Home Capital has increased its quarterly dividend eight times since establishing dividend payments in 1999.

> Home Trust Company currently has over 300 employees in six offices across Canada who speak 29 languages to better serve our customers.

HOME CAPITAL GROUP INC.

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Toronto, Ontario M5H 1J8
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