HOME CAPITAL GROUP INC.

Annual Report 2006

Canada's First Choice

ALTERNATIVE PROVIDER OF RESIDENTIAL FIRST MORTGAGES

Five strong reasons

to invest in Home Capital

Contents

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.

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.

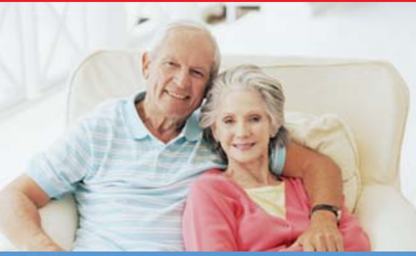
Mortgage Lending

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. By lending in Ontario, Alberta, British Columbia, Manitoba, Quebec and the Maritimes, Home Trust has become the nation's leader in this large and growing market segment.

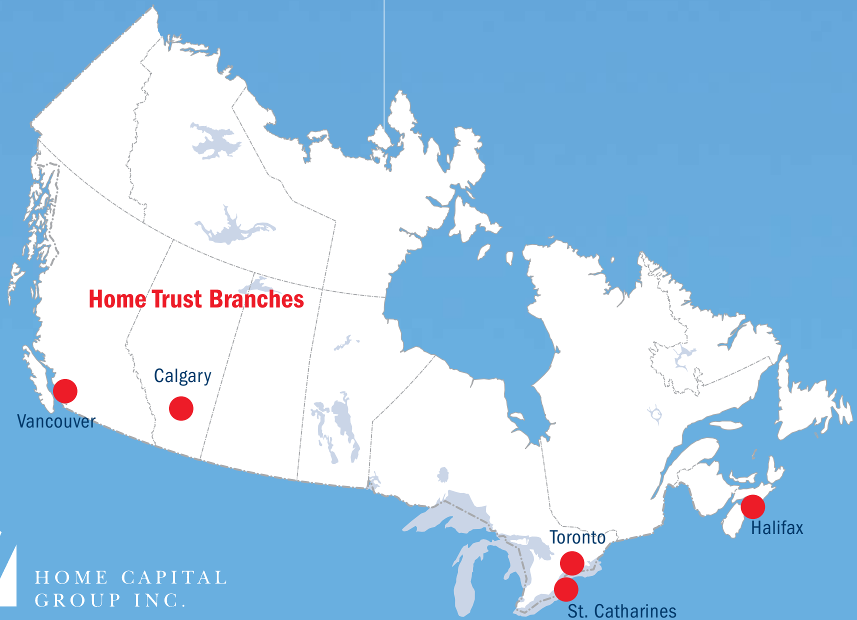
Consumer Lending

Home Trust's Equityline VISA program brings the advantages to cardholders 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 developed an extensive client base through its branch offices, and strong relationships with hundreds of deposit brokers and investment dealers across the country.



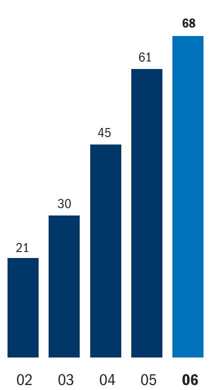
HOME CAPITAL GROUP INC.

2003	2002	2001	2000	1999	1998	1997
1,897,176	1,394,289	1,136,220	892,078	738,136	538,876	434,120
1,611,911	1,171,102	958,564	776,177	635,939	471,841	385,873
1,664,103	1,215,179	995,120	794,666	671,068	493,386	399,497
121,166	94,586	75,203	49,501	40,453	33,620	25,004
144,589	112,556	91,728	70,606	53,021	42,069	33,754
29,507	20,595	14,860	10,452	8,081	6,067	3,018
3.61	2.82	2.30	1.67	1.37	1.14	1.03
0.88	0.62	0.49	0.35	0.27	0.23	0.14
0.86	0.59	0.46	0.33	0.26	0.19	0.11

> Total assets including MBS originated and administered by the Company grew **22.6%** to **$5.01 billion**

> Outstanding balances on Equityline VISA were **$215.9 million**, up **130.8%** over 2005

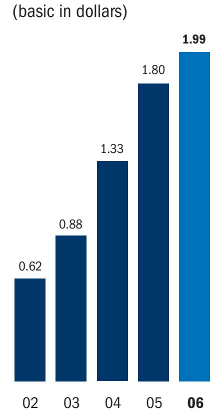
Earnings
(millions)



11.4%

Home Capital reported an 11.4% rise in net income over the $60.9 million attained in 2005, reaching $67.8 million for the year ended 2006.

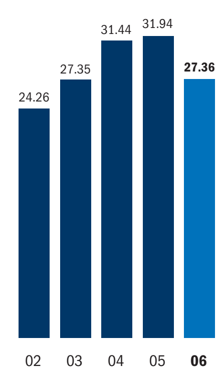
Earnings per Share
(basic in dollars)



10.6%

Basic earnings per share rose to $1.99 at year-end 2006, a 10.6% increase over the $1.80 reported at December 31, 2005.

After-tax Return on Equity
(percentage)



27.4%

Home Capital surpassed 20% after-tax return on equity for the ninth consecutive year, reaching 27.4% at December 31, 2006.

Financial Highlights

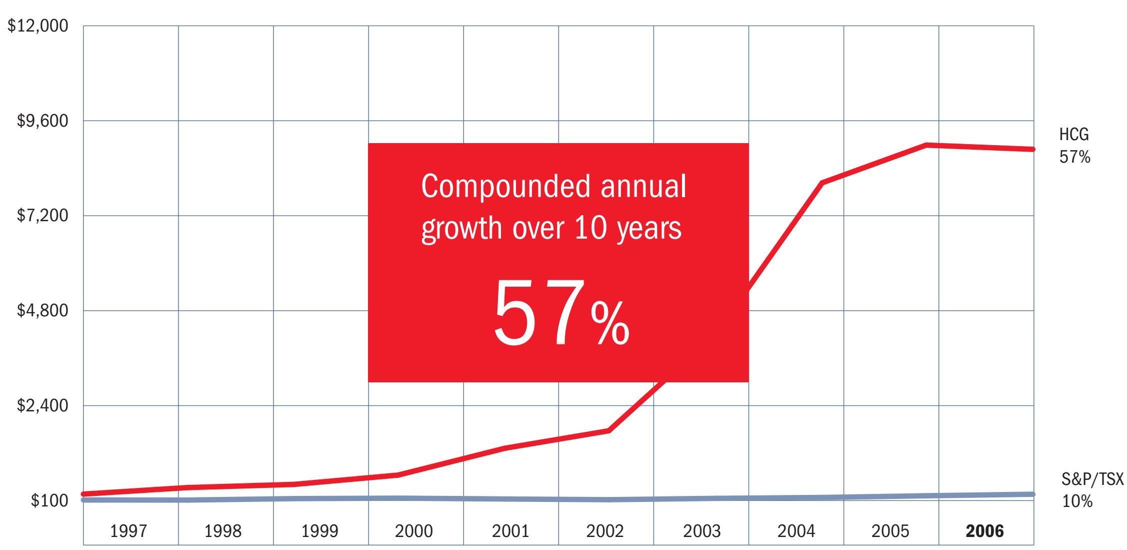
For the years ended December 31 (000's, except per share amounts)		2006	2005	2004
Total assets	$	**3,902,316**	3,284,829	2,568,513
Loans	$	**3,309,214**	2,796,873	2,244,130
Deposits	$	**3,443,640**	2,901,515	2,269,157
Shareholders' equity	$	**276,866**	218,885	162,207
Revenue	$	**291,288**	243,106	186,689
Net income	$	**67,815**	60,861	44,551
Book value of common shares	$	**8.10**	6.44	4.80
Earnings per share – basic	$	**1.99**	1.80	1.33
Earnings per share – diluted	$	**1.95**	1.72	1.27

> After-tax return on equity was **27.4%,** over **20%** for **9** consecutive years

> Earnings for 2006 grew by **11.4%** to **$67.8 million**

Ten-year Cumulative Total Return on $100 Investment

Comparison between S&P/TSX Composite Index (TSX) and Home Capital Group Inc. (HCG)
December 31, 1996–December 31, 2006



HCG stock price performance	$1.63	$1.75	$2.05	$2.95	$5.58	$7.25	$16.63	$31.25	$34.75	$34.05

Closing price as of December 31 Share prices have been restated to reflect two-for-one stock split on January 29, 2004.

Report to Shareholders

On track:
a great investment

Since the mid-1990s, Home Capital Group has delivered rapid growth and superior profitability, which have in turn led to outstanding returns for our shareholders. Although the Company's 10-year track record of quarter-over-quarter earnings growth was interrupted in the first quarter of 2006, improved conditions and operations through the rest of the year resulted in another record year for the Company. This Report to Shareholders reviews our performance over the past twelve months and discusses the Company's continuing strengths and opportunities as we look to the year ahead.

REASON 1

Positive Operating Results for 2006: a record year for Home Capital and a positive outlook for the future of the Company

Positive Operating Results for 2006

In 2006, we generated positive operating results while simultaneously positioning Home Capital to become a stronger, more competitive and increasingly valuable company going forward. Among the key financial indicators of the Company's year-over-year momentum were:

> **Return on equity** ended the year at 27.4%, Home Capital's ninth consecutive annual return on equity of 20% or more and once again an industry-leading performance.

> **Diluted earnings per share** rose by 13.4% to $1.95, and **net income** for the Company increased by 11.4% to $67.8 million, with both measures reaching the highest levels in the Company's history.

> **Total assets,** together with securitized mortgages originated and managed by the Company, grew by 22.6%, reaching $5.01 billion.

In 2006 we continued to serve our proven, core markets while building on strategically related opportunities that are diversifying the sources of our earnings and creating competitive advantages that reinforce our market positioning. We firmly believe that notwithstanding our strong track record over the past decade, the most important story that will be told about Home Capital is the one beginning now.

Diverse Products for Growing Markets

Home Capital continues to devote its market focus to the 20% of Canadians who are typically declined by traditional mortgage lenders. These borrowers, when carefully selected, can be served profitably and with lending risks adequately contained. This market segment, when measured on a national basis today, totals approximately $140 billion of residential mortgage loans – and it continues to grow more quickly than the mortgage market as a whole. The Company originated $1.98 billion of mortgages in 2006, an increase of 14.6% over the prior year. Despite our pace of growth, Home Capital has realized under 4% of this market's current potential. Therefore, we remain optimistic about the scope of the accessible market available to the Company now and in future years.

Home Trust's VISA credit card program sustained its rapid growth throughout 2006. The Company's Equityline VISA enables qualified applicants to obtain a payment card with a substantial credit limit, with residential property provided as additional collateral. In 2006, outstanding balances in this portfolio grew by 130.8%, reaching $215.9 million.

REASON

Diverse Products for Growing Markets: maintain an established, strong presence in the residential mortgage market while developing complementary businesses

REASON

3

Prudent Approach to Managing Risk: focus on broad local knowledge of our niche markets, an established network of contacts and individual assessment of each application to mitigate risk

Following considerable analysis and evaluation, late in the year Home Trust commenced a new area of business activity, namely high quality commercial mortgage lending. We have chosen to enter this business to utilize excess borrowing capacity in a low-risk manner that complements our existing skills and market reach. Consistent with Home Trust's previous approach when pursuing new opportunities, it is our intention to gradually develop this business over the next several quarters and, as we grow this business segment, we plan to build a small seasoned commercial lending group. We are optimistic that this area of lending will become a meaningful contributor to our business growth and profitability, as mortgage securitization, credit card services, and other areas that are strategically related to mortgage lending have before it.

Prudent Approaches to Managing Risks

Strong risk management has been central to Home Capital's business philosophy throughout our history. In 2006 we adhered to our practice of lending predominantly on owner-occupied residential properties, with 87.2% of our loans portfolio secured by residential first mortgages. This year, we continued to deepen our knowledge of all the geographical locations in which we operate. Home Trust's regional teams are active in Ontario, British Columbia, Alberta, Nova Scotia and New Brunswick, as well as our newer lending markets of Manitoba, Prince Edward Island, Newfoundland and Quebec. These teams have built invaluable networks of contacts that support the Company's ability to anticipate and avoid risks, as well as identify emerging opportunities in each marketplace.

In an industry increasingly characterized by a one-size-fits-all approach to lending, our underwriters continue to assess every mortgage application on an individual basis, taking a broader perspective on risk factors and thereby avoiding the drawbacks of automated scoring processes. As part of the Company's assessment process, our employees interview applicants to obtain relevant information that may be missed by credit bureau scores and conventional loan application forms. The result of this extra diligence was an impaired loans ratio of 0.68% at year-end and negligible mortgage loan write-offs throughout 2006. Finally, the continued strength of our capital ratios and the low loan-to-value position of our mortgage portfolio will enable the Company to withstand fluctuations in market conditions wherever and whenever they may arise.

REASON 4

Commitment to Cost Management and Efficiency: Home Capital is one of the lowest-cost operators in the Canadian financial services industry

Commitment to Cost Management and Efficiency

Despite our move to larger, consolidated premises in Toronto early in the year, and the requirement for various system enhancements, in 2006 the Company performed as one of the lowest-cost operators in Canada's financial services sector with an efficiency ratio (on a taxable equivalent basis) of 36.4% for the year as a whole. This compares favourably with the average efficiency ratio (on a taxable equivalent basis) of the major chartered banks at 60.8%. As we look ahead, Home Capital remains committed to its financial performance-enhancing approach to cost discipline, while simultaneously investing in the people, systems, and marketing programs that will drive future value creation.

Great Team of Employees and Business Partners

Home Capital's track record would never have been possible without the talent, experience, skills and hard work of our 350 employees. This is true not only of their work in 2006, but also of their role in creating the conditions enabling our ongoing success. Home Capital's employees are a key component of a formula that also includes the leadership of Management, the effective and proactive governance of our Board of Directors, and our collective determination to provide the highest quality service for our business partners and customers.

The Company's ongoing efforts to achieve a high level of corporate governance were acknowledged in 2006 on four occasions. Home Capital ranked in a tie for seventh place in *Canadian Business* magazine's Sixth Annual Corporate Governance rankings, placed sixth in the Corporate Knights Fifth Annual Best 50 Corporate Citizens standings, placed in a tie for thirteenth place of 204 companies in the *Report on Business* fifth annual survey of corporate governance practices at Canada's largest public companies, and received the Ontario Chamber of Commerce 2006 Outstanding Business Achievement Award for Corporate Governance.

The Outlook for 2007

Home Capital expects that the pace of business growth and profitability that the Company reported in the second half of the past year will continue throughout 2007. Consequently, we believe Home Capital is positioned to achieve or exceed each of the following key performance targets:

> 20% growth in total net earnings;
> 20% increase in diluted earnings per share;
> 20% growth in combined total assets and securitized mortgages originated and managed by Home Trust; and
> 25% return on equity.

The Board of Directors and Management wish to acknowledge and thank Dr. Harvey F. Kolodny, Professor Emeritus, Rotman School of Management, who is retiring as a director of the Company, for his considerable contribution over the years. He has been a conscientious, dedicated director and we wish him all the best for the future.

We also wish to welcome Micheline Bouchard, who served as President and CEO of Motorola Canada and ART Advanced Research Technologies and is now a member of the boards of TELUS and Citadel Group of Funds, and Kevin P. D. Smith, President and CEO, St. Joseph's Healthcare Hamilton and a member of the boards of Glendale International Corp. and Concurrent Technologies Canada, who will be standing as nominees for election to the Board of Directors at the next Annual and Special Meeting. We are confident that their broad experiences and keen insight will be valuable assets to the Company.

We look forward to delivering superior results for our shareholders as we continue building a great company in 2007. On behalf of the Board of Directors and Management, we thank you for your confidence and support.

Signed

William A. Dimma
Chairman of the Board

Signed

Gerald M. Soloway
President and Chief Executive Officer

REASON

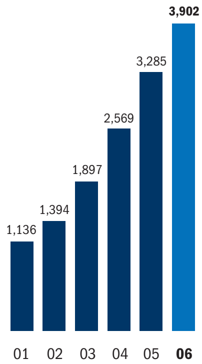
Great Team of Employees and Business Partners: the core strength of Home Capital is our talented and dedicated team of employees and business partners

Proven Results

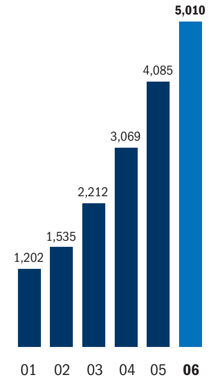
Growth

Home Capital sustained its strength in key financial measurements. The development and growth of the core mortgage portfolio, as well as complementary businesses, resulted in asset growth of 18.8%, or 22.6% including assets under administration, and an increase in total revenue of 19.8%.

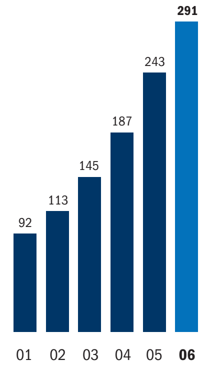
Assets
(millions)



Total assets including assets under administration
(millions)



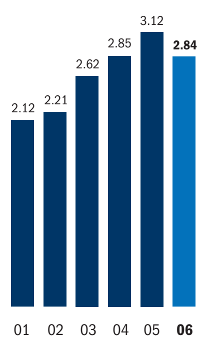
Revenue
(millions)



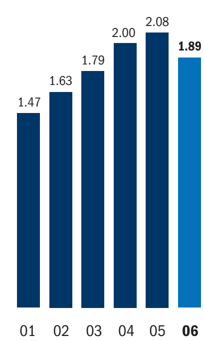
Returns

The Company recorded a pre-tax return on assets of 2.84% and an after-tax return on assets of 1.89%, while shareholders' equity increased to $276.9 million, a 26.5% rise from the previous year.

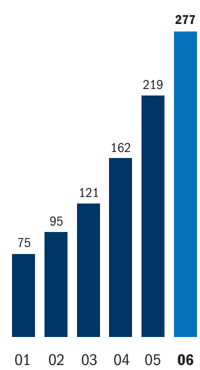
Pre-tax return on assets
(percentage)



After-tax return on assets
(percentage)



Shareholders' equity
(millions)



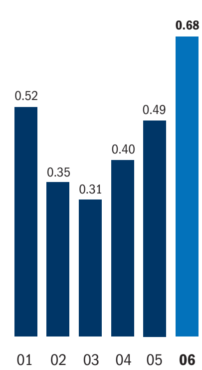
Risk

Home Capital continued to surpass all applicable regulatory and related standards. The level of impaired loans is comparable to that of large, traditional financial institutions. Home Capital's strong approach to risk management is a key component of the Company's philosophy.

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 27.4% for the year ended December 31, 2006, representing the ninth consecutive year in which the Company surpassed 20% return on equity.

After-tax return on equity

27.4%

for the year ended December 31, 2006

Earnings

Target:

20% increase in total net earnings

The Company reported net earnings of $67.8 million for the year ended December 31, 2006, representing an 11.4% increase over the $60.9 million achieved in 2005.

Increase in earnings of

11.4%

over 2005

Earnings per Share

Target:

20% increase in diluted earnings per share

Diluted earnings per share rose to $1.95 at December 31, 2006, a 13.4% increase over the $1.72 recorded for 2005.

Diluted earnings per share grew

13.4%

over 2005

Assets

Target:

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

Total assets, including CMHC-insured Mortgage-Backed Securities originated and administered by the Company, grew to $5.01 billion by December 31, 2006, an increase of 22.6% over the $4.09 billion recorded on December 31, 2005.

Total assets increased

22.6%

over 2005

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 are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking 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. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "estimate," "plan," "may" and "could" or other similar expressions. By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. 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 statements, 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 TEB to provide uniform measurement and comparisons of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. The adjustment to TEB increases income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory tax rate. The TEB adjustment of $3.0 million (2005 – $2.8 million) increases interest income. TEB does not have a standard meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used by other companies. Net interest income and income taxes are presented on a TEB basis throughout this Management's Discussion and Analysis (refer to Financial Highlights).

Regulatory Filings

The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis 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, 2006. The discussion and analysis relates principally to the Company's subsidiary, Home Trust Company ("Home Trust"), which provides residential first mortgage lending, consumer lending and deposit-taking services. 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 that 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 deposit broker network and the Company's branches;
> Enhancing marketing opportunities through the cross-selling of financial services and the continuing expansion of lending activities outside Ontario and through mortgage broker and referral relationships;
> Continuing to improve and enhance the service levels provided to new and existing clients; and
> 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 eleven years. This track record includes such key accomplishments as strong earnings and earnings per share growth, high returns on shareholders' equity, low loan losses and strong loans and total assets growth.

General Description of the Business

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, Manitoba, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Quebec. The Company commenced securitization of pools of residential mortgages, insured by Canada Mortgage and Housing Corporation ("CMHC") in December 2000. Mortgage-Backed Securities ("MBS") provide additional markets for mortgage lending, which enhance the efficient use of capital and provide additional sources of liquidity and fee income. As at December 31, 2006, the Company administered $1.11 billion in mortgages securitized through this program.

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 secured by collateral equity in residential mortgages. This product offering, Equityline VISA, experienced substantial growth in 2006, with receivables up 130.8% over 2005. As at December 31, 2006 authorized credit on these secured VISA products amounted to $294.2 million (2005 – $153.7 million). The Company also offers VISA credit cards secured by a cash deposit.

The Company entered the residential second mortgage market through a venture with Regency Finance Corp. ("Regency") commencing in late 2003. The Company acts as Regency's agent by offering second mortgage loans utilizing similar credit criteria and lending policies in place for the Company's core first mortgage operations. The mortgages are then securitized by Regency and purchased back as an investment by the Company. This program has experienced steady double-digit growth since its inception, and as at December 31, 2006, these secured loans amounted to $70.3 million (2005 – $43.6 million).

The Company also provides loans to 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.

In December 2006, the Company entered into an arrangement to provide commercial lending to an established commercial real estate lender with investment-grade funds at a loan-to-value ratio not to exceed 50%. The Company has a total commitment of $50.0 million under this program, of which $28.3 million had been advanced as of December 31, 2006. While the Company will continue to focus on its core residential mortgage lending, it is anticipated that this operation will be a positive contributor to overall profitability.

The Company's commitment to leading with best practices in corporate governance was publicly recognized in 2006 through a number of reputable citations. The Company ranked in a tie for seventh place in *Canadian Business* magazine's Sixth Annual Corporate Governance survey of nearly 300 companies, placed sixth in the Corporate Knights Fifth Annual Best 50 Corporate Citizens rankings of 291 companies surveyed, and tied for thirteenth place of 204 companies in the *Globe and Mail Report on Business* fifth annual survey of corporate governance practices at Canada's largest public companies. The Ontario Chamber of Commerce recognized the Company's ongoing efforts to achieve superior corporate governance by selecting the Company to receive the Chamber's 2006 Outstanding Business Achievement Award for Corporate Governance.

Management's Discussion and Analysis

2006 Performance and 2007 Objectives

The table below summarizes the Company's 2006 performance and 2007 objectives.

Table 1 – 2006 Performance and 2007 Objectives

For the years ended December 31 (000's except % and per share amounts)	**2006 Actual**	2006 Objectives	**2007 Objectives****
Return on shareholders' equity (ROE)	**27.4%**	20.0%	**25%**
Diluted earnings per share	**$ 1.95**	$ 2.06	**20%**
Net income	**$ 67.8 million**	$ 73.0 million	**20%**
Total assets and assets under administration	**$ 5.01 billion**	$ 4.90 billion	**20%**
Efficiency ratio (TEB)*	**36.4%**	38.0% to 43.0%	**35.0% to 39.0%**
Capital ratios			
Tier 1	**12.7%**	Minimum of 9.5%	**Minimum of 9.5%**
Total	**14.2%**	Minimum of 12.5%	**Minimum of 12.5%**
Credit quality (loan losses as a % of total loans)	**0.1%**	0.1% to 0.2%	**0.1% to 0.2%**

* TEB – Refer to the definition of TEB on page 8 of this Annual Report.

** The 2006 actual results are the base for the 2007 objectives.

FINANCIAL HIGHLIGHTS

Overview

The Company generated solid financial results across all areas of the business in 2006. For the year ended December 31, 2006, the Company reported record net income of $67.8 million, or $1.95 diluted earnings per share, up from $60.9 million, or $1.72 diluted earnings per share in 2005. Return on shareholders' equity ended the year at 27.4%, down from 31.9% achieved in 2005 though still outperforming the industry average at 21.6%. Double-digit asset and loan growth of 18.8% and 18.3%, respectively, was achieved. Credit quality continued to be strong and loan losses remained consistently low. The Company's efficiency (or productivity) ratio increased to 36.4% from 34.9% in 2005, still substantially better than the industry average at 60.8%. 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 major chartered bank average of 10.4% and the minimum regulatory requirement of 7%.

Table 2 – Key Performance Indicators

For the years ended December 31 (000's, except % and per share amounts)	**2006**	2005	2004	2003	2002
FINANCIAL PERFORMANCE MEASURES					
Net income	**$ 67,815**	$ 60,861	$ 44,551	$ 29,507	$ 20,595
Basic earnings per share	**$ 1.99**	$ 1.80	$ 1.33	$ 0.88	$ 0.62
Diluted earnings per share	**$ 1.95**	$ 1.72	$ 1.27	$ 0.86	$ 0.59
Dividends	**$ 0.27**	$ 0.17	$ 0.12	$ 0.14	$ 0.11
Return on average shareholders' equity (ROE)	**27.4%**	31.9%	31.4%	27.4%	24.3%
Return on average total assets (ROA)	**1.9%**	2.1%	2.0%	1.8%	1.6%
Net investment margin (TEB)	**3.4%**	3.5%	4.0%	3.8%	3.9%
Non-interest income to net revenue	**29.7%**	29.6%	21.9%	25.4%	19.9%
Efficiency ratio* (non-interest expense as a % of net revenue)	**37.0%**	35.5%	37.5%	40.5%	44.8%
Efficiency ratio* (TEB) (non-interest expense as a % of net TEB revenue)	**36.4%**	34.9%	36.4%	38.8%	42.4%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 3,902,316**	$ 3,284,829	$ 2,568,513	$ 1,897,176	$ 1,394,289
Cash and securities-to-total assets	**12.5%**	12.2%	9.9%	12.3%	13.3%
Tier 1 capital ratio	**12.7%**	12.7%	12.0%	11.7%	11.7%
Total capital ratio	**14.2%**	14.5%	14.0%	14.0%	14.5%
Credit quality					
Provision for loan losses as a % of gross loans	**0.1%**	0.1%	0.2%	0.3%	0.3%
Net impaired loans as a % of gross loans	**0.7%**	0.5%	0.4%	0.3%	0.4%
Allowances for loan losses as a % of gross impaired loans	**86.5%**	120.6%	147.8%	191.9%	174.9%

* Decreases in the ratio reflect improved efficiencies.

Income Statement Highlights for 2006

> Earnings for the Company reflected strong lending growth during 2006; net income increased to a record $67.8 million in 2006, up $6.9 million, or 11.4%, from $60.9 million recorded in 2005.
> Total revenues increased by $48.2 million, or 19.8%, while interest and non-interest expenses increased by $15.3 million, or 14.8%, and $10.3 million, or 19.8%, respectively, from 2005 levels.
> Diluted earnings per share increased to $1.95, up 13.4% over 2005, while basic earnings per share increased to $1.99, up 10.6% over 2005.
> Return on average shareholders' equity continued to exceed the Company's benchmark of 20% ending the year at 27.4%, down from 31.9% achieved in 2005.
> The credit quality of the loans portfolio remained strong, with a modest increase of $0.3 million in write-offs year-over-year. The provision as a percentage of gross loans remained consistent with the prior year at 0.1% as growth in the portfolio offset modest increases in write-offs and specific provisions.

Balance Sheet Highlights for 2006

> Total assets rose by $617.5 million, or 18.8%, from one year ago to reach $3.90 billion. The increase was primarily due to growth in the loans portfolio of $512.3 million, or 18.3%.
> The Company saw substantial growth in Equityline VISA receivables. At December 31, 2006, the outstanding balance was $215.9 million, a 130.8% increase over 2005.
> Cash resources and securities increased by $87.8 million, or 22.0%, over 2005.
> The Company ended the year with no external debt. The Company repaid the outstanding term loan of $10.0 million during 2006.
> Deposit liabilities increased by $542.1 million, or 18.7%, over 2005.

Outlook

The overall outlook for 2007 is for continuing strong financial performance with further market penetration anticipated in the Company's core markets of Ontario, Western Canada and the Maritimes as well as a further expansion of product offerings in Quebec with the opening of a new branch office there. The Company anticipates a steady interest rate environment and modest economic growth across the country in 2007 with no expected impact on the Company's credit quality or growth strategy.

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 this Annual Report for a definition of TEB), for comparison purposes.

Table 3 – Net Investment Income (TEB)

For the years ended December 31 (000's except %)	**2006** Average Balance	Income/ Expense	Average Rate	**2005** Average Balance	Income/ Expense	Average Rate
Assets						
Cash and cash resources	$ 157,337	$ 3,262	2.1%	$ 110,821	$ 1,856	1.7%
Securities	286,438	12,785	4.5%	215,904	7,547	3.5%
Loans	3,053,044	225,101	7.4%	2,520,501	186,673	7.4%
Taxable equivalent adjustment*	–	2,996	–	–	2,779	–
Total earning assets	3,496,819	244,144	7.0%	2,847,226	198,855	7.0%
Other assets	96,754	–	–	79,445	–	–
Total assets	$ 3,593,573	$ 244,144	6.8%	$ 2,926,671	$ 198,855	6.8%
Liabilities and shareholders' equity						
Term and subordinated term loan	$ 5,000	$ 317	6.6%	$ 11,500	$ 757	6.6%
Deposits	3,172,577	122,232	3.9%	2,580,323	95,663	3.7%
Total interest-bearing liabilities	3,177,577	122,549	3.9%	2,591,823	96,420	3.7%
Other liabilities	168,120	–	–	144,303	–	–
Shareholders' equity	247,876	–	–	190,546	–	–
Total liabilities and shareholders' equity	$ 3,593,573	$ 122,549	3.4%	$ 2,926,671	$ 96,420	3.3%
Net investment income (taxable equivalent basis)		$ 121,595			$ 102,435	
Net investment margin (net investment income divided by average total assets)			3.4%			3.5%

* Please refer to page 8 of this Annual Report for a definition of taxable equivalent basis ("TEB").

As indicated on the preceding table, net investment income (TEB) increased in 2006 by $18.8 million, or 18.4%, over 2005. The net investment margin declined to 3.4% from 3.5% reported in the prior year.

The interest spread on new mortgage funds advanced during 2006 averaged 3.2% (3.4% in 2005). The average net interest return from the total loans portfolio was 3.5% (average loans rate 7.4%; average deposit cost 3.9%) in 2006, down slightly from 3.7% in 2005 (loans 7.4%; deposits 3.7%). Although the net investment margin decreased slightly to $650.1 million, or 22.8%, an increase in average earning assets resulted in overall growth in net interest income. At year-end, the average interest rate on mortgages was 7.2% (6.8% in 2005), with personal and credit card loans at an average rate of 10.5% (12.1% in 2005), while the average rate for deposits was 3.9% (3.7% in 2005).

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 both maintains bank balances and invests excess cash in short-term investments and bonds to ensure sufficient liquidity. 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 $10.7 million ($8.6 million in 2005) and the average short-term investment balance was $99.8 million ($85.7 million in 2005). The decrease in cash and cash resources income of $1.0 million for 2006 ($1.9 million increase in 2005) was due to a significant decline in returns from 3.8% to 2.1% despite the increase in average holdings.

Overall, average securities portfolio assets increased by $70.5 million, or 17.1%, over 2005. The average holdings of bonds increased from $117.5 million to $171.3 million during the year. Average yield on investments in bonds increased during the year from 4.0% in 2005 to 4.2% in 2006. The expanded holdings and yields from bonds resulted in an increase in bond income of $0.9 million.

Average holdings of common shares increased from $9.7 million to $11.3 million year-over-year, and average holdings of preferred shares, income trust units and mutual funds rose from $87.7 million to $106.8 million. The average return, on a taxable equivalent basis, decreased from 7.9% in 2005 to 7.3% in 2006.

Outlook for Net Investment Income

In 2007 the Company expects net interest margins to be consistent with the results achieved in 2006 based on the existing flat yield curve and expectations that key lending rates will be stable, or decline modestly, next year.

Non-interest Income

Table 4 – Non-interest Income

For the years ended December 31 (000's except %)	**2006**	2005	2004	**Growth 2006/2005**	Growth 2005/2004
Fees and other income	**$ 27,965**	$ 21,367	$ 16,714	**30.9%**	27.8%
Securitization gains on Mortgage-Backed Securities	**21,038**	20,935	10,625	**0.5%**	97.0%
Net realized and unrealized gain (loss) on investment securities	**2,210**	1,706	(3,490)	**29.5%**	148.9%
Net realized and unrealized (loss) on derivatives and short sales	**(1,073)**	(625)	–	**(71.7%)**	(100.0%)
Total non-interest income	**$ 50,140**	$ 43,383	$ 23,849	**15.6%**	81.9%

Non-interest income increased by $6.8 million, or 15.6%, over 2005, led by strong growth in fees and other income of 30.9%, while income generated from the Company's securitization activities remained relatively flat in comparison to 2005. This increase was net of $1.1 million in realized losses experienced in 2006 on interest rate swap positions. Income generated from the securities portfolio increased over 2005 as the Company realized gains on its holdings in a strong capital market.

Fees and other income generated from the loans portfolio increased by $6.6 million, or 30.9%, over 2005 as the Company experienced another strong year of growth in the loans portfolio of 18.3%. The fees are predominately generated from new mortgage lending activities; however, the credit card and personal loan operations continue to contribute strong fee revenues, which grew to $7.7 million from $6.7 million in 2005. The increase in fees experienced in 2005 in comparison to 2004 was driven by the same factors as above, when the average loans portfolio increased 30.7% in comparison to 2004. Fees generated from credit cards and personal loans also had considerable growth in 2005 over 2004, increasing by 31.4%.

Securitization revenues on Mortgage-Backed Securities increased to $21.0 million at the end of 2006, similar to the $20.9 million in 2005, as recognized under the accounting principles described in Note 1 of the Company's 2006 consolidated financial statements. This income arose from the sale of eighteen pools totaling $546.3 million of insured residential mortgages, which generated gains of $17.9 million, as compared to eleven pools sold in 2005, totaling $430.8 million and resulting in $19.2 million in gains. Despite securitizing larger pools of mortgages in 2006, the gains decreased as the Company experienced tighter average spreads, which dropped to 2.6% from 2.7% in 2005, and increased average prepayments from 9.2% in 2005 to 12.7% in 2006. This adjustment to the prepayment rate resulted from a number of pools reaching the third year of maturity of a five-year term and the borrowers exercising prepayment privileges. MBS represent a low risk (the loans are insured by the Canada Mortgage and Housing Corporation) and sustainable stream of income for the Company. For additional information on the Company's securitization activities, refer to Note 4 of the consolidated financial statements found on page 40 of this Annual Report.

In the normal course of business the Company sold certain holdings in its equity portfolio, realizing total gains of $2.2 million in 2006 ($1.7 million in 2005). 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.

Outlook for Non-interest Income

For 2007, non-interest income is expected to continue to increase due to the growth of new business in the mortgage and credit card operations. The Company implemented a revised fee schedule in late 2006 to better align our fees with service levels that will support the growth of our non-interest revenues as our loans portfolio grows. Further, we anticipate consistent spreads on our securitization activities based on an anticipated stable interest rate environment.

Non-interest Expenses

Table 5 illustrates the changes in non-interest expense components in 2006 and the two prior years.

Table 5 – Non-interest Expenses

For the years ended December 31 (000's except %)	2006	2005	2004	Growth 2006/2005	Growth 2005/2004
Salaries and employee benefits	$ 25,883	$ 19,974	$ 16,459	29.6%	21.4%
Premises and equipment					
Rent – premises	2,914	1,932	1,962	50.8%	(1.5%)
Equipment rental and repairs	604	438	493	37.7%	(11.1%)
	3,518	2,370	2,455	48.4%	(3.5%)
General and administrative					
Fees and commissions	16,025	13,686	9,259	17.1%	47.8%
Capital taxes and insurance	2,878	2,313	1,696	24.4%	36.4%
Consulting and other professional services	2,672	2,345	1,762	13.9%	33.1%
Outsourcing	2,321	2,952	3,279	(21.4%)	(10.0%)
Advertising and business development	1,858	1,108	787	67.7%	40.8%
Depreciation and amortization	1,492	2,874	1,592	(48.1%)	80.5%
Communications and travel expenses	1,267	876	746	44.6%	17.4%
Computer services	1,124	703	670	59.9%	4.9%
Stationery and publications	861	751	697	14.7%	7.8%
Other	2,532	2,149	1,403	17.8%	53.2%
	33,030	29,757	21,891	11.0%	35.9%
Total non-interest expenses	$ 62,431	$ 52,101	$ 40,805	19.8%	27.7%
Average assets	$ 3,593,573	$ 2,926,671	$ 2,232,845		
As a % of average assets	1.7%	1.8%	1.8%		
Efficiency ratio					
Net interest income	$ 118,599	$ 103,303	$ 85,072		
Other income	50,140	43,383	23,849		
Total net revenue	$ 168,739	$ 146,686	$ 108,921		
Total net revenue (TEB)	$ 171,735	$ 149,465	$ 112,059		
Efficiency ratio	37.0%	35.5%	37.5%		
Efficiency ratio (TEB)	36.4%	34.9%	36.4%		

Non-interest expenses increased to $62.4 million from $52.1 million, an increase of $10.3 million, or 19.8%. The major drivers of the increase in operating expenses in 2006 were salaries and benefits, fees and commissions, and premises expenses, offset by reductions in depreciation and amortization. During the year, the overall staff level increased to 350 employees from 274 one year ago. Increased staffing was required across all areas of the business to support the growth in the Company's operations. Fees increased in line with the volume growth in new mortgage lending, and deposit commissions increased on new deposits raised to fund the increased lending activity. Premises costs increased due to moves in early 2006 to larger offices in Toronto and St. Catharines. Offsetting these increases was a drop in depreciation and amortization as the remaining unamortized deferred development cost amount of $0.5 million was fully written off at the end of 2005. During the year, the Company brought a call centre in-house to better service its client base and realize cross-selling opportunities. As such, outsourcing costs declined in 2006 but this was offset by increased computer services to facilitate this change. The efficiency ratio was up slightly from 2005 due to the additional non-interest expenses incurred during the year to meet the growth needs of the Company. At 36.4% in 2006, the efficiency ratio is still significantly below the average of 60.8% among the major chartered banks.

Non-interest expenses increased to $52.1 million in 2005, up $11.3 million, or 27.7%, over 2004. The key drivers for the increase during 2005 were salaries and benefits, fees and commissions, and depreciation and amortization. Staffing levels increased during the year from 228 to 274 to meet the expanding needs of the business, while fees and commissions also increased due to growth in the Company's loans portfolio and deposit base which funds the loans portfolio. Depreciation and amortization increased due to the completion of the amortization of deferred development costs.

Outlook for Non-interest Expenses

The Company anticipates another year of growth in total assets, including assets under administration, which will result in corresponding increases in non-interest expenses during 2007. Despite the anticipated increases in expenses, cost discipline will continue to be a priority for the Company. The target efficiency ratio on a TEB will be in a range of 35% to 39%.

Provisions for Credit Losses

Table 6 – Provisions for Credit Losses

For the years ended December 31 (000's except %)		**2006**		2005		2004
Personal and credit card loans	**$**	**1,837**	$	937	$	1,241
Secured loans		**907**		–		–
Residential mortgages		**1,654**		2,208		3,221
Other mortgages		**–**		(17)		3
Total provision for credit losses	**$**	**4,398**	$	3,128	$	4,465
Total provision is comprised of:						
Specific	**$**	**1,340**	$	153	$	1,154
General		**3,058**		2,975		3,311
Average loans	**$**	**3,053,044**	$	2,520,501	$	1,928,021
As a % of average loans		**0.1%**		0.1%		0.2%

The provisions for credit losses increased to $4.4 million in 2006, up $1.3 million, or 40.6%, over 2005. The increase largely reflects the overall growth of the Company's loans portfolio, particularly in the Equityline VISA portfolio which grew by 130.8% from 2005, as well as the need to provide for specific loans in the various portfolios. As a percentage of the average loans portfolio, the provision remained consistent with 2005 at 0.1%. This is slightly below the 0.2% average reported by the major chartered banks. At December 31, 2006, 99.5% of the total loans portfolio was secured by way of cash deposits, mortgages or collateral mortgages.

The increase in the provision for personal and credit card loans of $0.9 million is due to the overall growth in the portfolio, as specific provisions remained low at $0.1 million. The weighting of credit card accounts secured by cash or collateral mortgages has increased from 97.8% at December 31, 2005 to 99.3% at December 31, 2006. The Company's strong focus on credit risk management has resulted in low provisions for specific credit losses in the mortgage portfolio of $0.4 million. The negligible loss experience and the lower risk levels of the residential first mortgage portfolio, which makes up 74.0% of the Company's total assets, resulted in a policy decision in the fourth quarter of 2005 to reduce the general allowance as a percentage of total assets. The result was a general allowance at December 31, 2006 of 95.1 basis points of risk-weighted assets (see Table 9 for an analysis of the Company's Risk-weighted Assets) compared to 100.5 basis points at December 31, 2005.

The provisions for credit losses were $3.1 million at December 31, 2005, or 0.1% of the average total loans portfolio, compared to $4.5 million, or 0.2% of the average total loans portfolio in 2004. The decrease from 2004 was the result of a policy decision by the Company in the fourth quarter of 2005 to reduce the general allowance as a percentage of total assets and a decline in specific provisions on the loans portfolio from $1.2 million in 2004 down to $0.1 million in 2005.

Outlook for Provisions for Credit Losses

The provisions for credit losses are expected to be between 10 and 20 basis points of average loans in 2007. Specific allowances will continue to be determined on an account-by-account basis and reviewed monthly. However, the provision for credit losses also reflects an ongoing assessment of the strength of the portfolio at any given time which will continue to be reviewed on a quarterly basis.

Taxes

The provision for income taxes in 2006 amounted to $34.1 million for an effective rate of 33.5%, compared to $30.6 million in 2005 and an effective rate of 33.5%. These effective rates are lower than the legislated federal and provincial rates primarily due to tax-exempt dividend income. The Company's tax-exempt income lowered the tax provision by $1.9 million in 2006 and $1.8 million in 2005.

Capital losses of $2.8 million ($2.8 million in 2005) 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 administration expenses amounted to $2.0 million, an increase of $0.4 million over the $1.6 million reported in 2005. Capital taxes increased as a result of the Company's higher retained equity and growth in its income tax reserves.

Note 11 to the consolidated financial statements starting on page 45 of this Annual Report offers more information about the Company's position with respect to current income taxes and provisions for income taxes.

Outlook for Taxes

The Company's effective income tax rate is expected to remain within a range of 33% to 35% in 2007, reflective of tax-exempt dividend income. Capital taxes will increase modestly with the projected growth in income for 2007 and the resulting higher retained earnings.

BALANCE SHEET REVIEW

Overview

The Company recorded assets of $3.90 billion at December 31, 2006 compared with $3.28 billion at December 31, 2005. This increase of $617.5 million, or 18.8%, over 2005 was primarily attributable to the growth in the core mortgage business. Total loans increased $512.3 million, or 18.3%, continuing the Company's trend of double-digit loan growth over the past ten years. Taking into consideration the Company's growth in the off-balance sheet securitization program of $307.4 million, the total growth in loans and MBS loans under administration increased $819.7 million over 2005. Deposit liabilities as at December 31, 2006 reached $3.44 billion, a $542.1 million, or 18.7%, increase over 2005 in response to the funding requirements to support the loan growth of 18.3% year-over-year. As at December 31, 2006, the Company no longer had external debt as the outstanding term loan of $10.0 million was repaid.

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

Table 7 – Balance Sheet Accounts

As at December 31 (000's, except %)	2006	2005	2004	Growth 2006/2005	Growth 2005/2004
Cash resources and securities	$ 487,665	$ 399,885	$ 253,565	22.0%	57.7%
Personal and credit card loans	237,037	116,628	79,405	103.2%	46.9%
Secured loans	70,250	43,565	19,718	61.3%	120.9%
Residential mortgage loans	2,885,806	2,583,694	2,093,802	11.7%	23.4%
Other mortgage loans	135,765	69,572	64,815	94.6%	7.3%
General allowance	(19,644)	(16,586)	(13,611)	18.4%	21.9%
Net loans	3,309,214	2,796,873	2,244,129	18.3%	24.6%
Other assets	105,437	88,071	70,819	19.7%	24.4%
Balance sheet assets	$ 3,902,316	$ 3,284,829	$ 2,568,513	18.8%	27.9%
Subordinated and term loan	$ –	$ 10,000	$ 13,000	(100.0%)	(23.1%)
Deposits	$ 3,443,640	$ 2,901,515	$ 2,269,157	18.7%	27.9%
Other liabilities	$ 181,810	$ 154,429	$ 124,149	17.7%	24.4%
Shareholders' equity	$ 276,866	$ 218,885	$ 162,207	26.5%	34.9%
Cash resources and securities as a % of balance sheet assets	12.5%	12.2%	9.9%		
Loans as a % of balance sheets assets	84.8%	85.1%	87.4%		

Cash Resources and Securities

Total cash resources and securities increased by $87.8 million, or 22.0%, to end the year at $487.7 million. This represented 12.5% of the Company's total assets as at December 31, 2006 compared to 12.2% at December 31, 2005. This growth was generated from excess deposit funds and income generated from the business.

Cash resources, combined with government bonds, are recorded as part of the Company's liquid assets. Cash resources decreased from $171.1 million recorded in 2005 to $143.5 million as the Company shifted its portfolio to higher yielding instruments. The securities portfolio, which is made up of bonds (provincial and federal government issues, and corporate), common and preferred stocks, income trust units and mutual funds, increased $115.4 million, or 50.5%, to end the year at $344.1 million.

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, 2006 the preferred stock portfolio consisted of 85.6% of P1 and P2 rated stocks (82.0% in 2005). These securities are typically purchased with the intention of holding them to maturity or until market conditions make alternate investments more attractive. These securities had a surplus in market value over book value of $3.0 million at year-end, down slightly from a surplus of $3.3 million at December 31, 2005. As a result of the limited availability of new preferred share issues, the Company invested in selected income trust units during 2006. At December 31, 2006, this amounted to $13.4 million with a deficit in market value over book value of $1.3 million. For further information refer to Note 2 in the consolidated financial statements on page 38 of this Annual Report.

Outlook for Cash Resources and Securities

In 2007, cash resources and securities will continue to increase with the growth in total assets. Asset growth will expand the Company's need for additional liquid assets. This growth of cash resources and securities is expected to range from 10% to 15% of total assets.

Loans Portfolio

The Company's loans portfolio consists of residential and other mortgages, personal and credit card loans, and loans secured by second residential mortgages. At December 31, 2006 the loans portfolio amounted to $3.31 billion, up $512.3 million, or 18.3%, over the $2.80 billion recorded at December 31, 2005.

The Company's core business is residential mortgage lending, which represented 87.2% of the total loans portfolio, while other mortgage loans represented 4.1% of the portfolio.

All mortgages are secured by real property. Growth in total mortgage assets resulted from 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 increased slightly from 225,481 in 2005 to 227,900 in 2006, or 1.1%. The Company continues to provide mortgage financing for the purchase of new homes, the secondary homebuyers market and refinancing.

At December 31, 2006, residential mortgage loans totaled $2.89 billion (95.5% of the total mortgage loan portfolio), as compared to $2.58 billion (97.4% of the total mortgage loan portfolio) in 2005. The remaining 4.5% (2.6% in 2005) was made up of commercial and non-residential properties, the most significant being stores with adjoined apartments, which represented 3.1% of the total mortgage loan portfolio (2.2% of the total mortgage loan portfolio in 2005). Mortgages on commercial and non-residential properties increased significantly in 2006 by $66.2 million, or 95.1%, over 2005. This increase was largely due to an increase in stores with apartments of $34.0 million and a new commercial mortgage facility in the amount of $28.3 million. The security priority of the mortgage loan portfolio remained unchanged with 99.7% being first mortgages in both 2006 and 2005.

Canada Mortgage and Housing Corporation mortgages amounted to $145.1 million at December 31, 2006 ($148.1 million in 2005), which represented 4.4% of the total mortgage loan portfolio in 2006 and 5.3% in 2005. 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, through previous geographical expansion initiatives, competes in regional markets across Canada. The Company received regulatory approval to do business in the province of Quebec in 2006 and has experienced modest growth in this market. New mortgage lending in non-Ontario markets accounted for 39.0% of the total in 2006, up from 23.5% in 2005. Of this growth in non-Ontario markets, the Company has seen positive growth in all regions and in particular in the western provinces.

The Company continues to realize accelerated mortgage lending growth with advances increasing to $1.98 billion in 2006, or 14.5% over the $1.73 billion in 2005. New mortgage loan commitments at December 31, 2006 amounted to $201.8 million, an increase of 14.5% over the $176.3 million at December 31, 2005. The Company often refinances mortgage loans for existing clients as their loans mature, with refinances totaling $698.7 million during 2006.

At December 31, 2006, the personal loan and credit card portfolio totaled $237.0 million, an increase of $120.4 million, or 103.2%, over the $116.6 million recorded at December 31, 2005. The credit card operation ended the year with 24,236 accounts and contractual commitments of $296.6 million compared to 24,815 accounts and $158.7 million of commitments at December 31, 2005. Contractual commitments with cardholders to extend credit up to established credit limits represents 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 December 31, 2006, secured and collateralized credit card accounts amounted to 99.3% of outstanding balances, as compared to 97.8% at the end of December 2005. At December 31, 2006, the personal loan portfolio declined to 4,730 accounts from 5,301 at December 31, 2005. This decrease was the result of the Company's decision to only provide loans through retailers that are well established in their respective industries.

In 2003, the Company entered into an agreement with Regency Finance Corp., trustee for QSPE-HCC Trust (the "Trust"), to act as the agent for underwriting and servicing second mortgage loans. Once these mortgages are funded, the trustee securitizes the 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 $45.5 million were advanced in 2006 ($32.8 million in 2005), and the Company purchased $43.8 million ($32.6 million in 2005) in Notes Receivable from the Trust. The Company effectively undertakes all non-repayment risk on these mortgage loans through the Notes Receivable. For the twelve-month period ended December 31, 2006 these securities had an average yield of 6.7% (7.8% in 2005). The second mortgages securing the Notes Receivable were all underwritten in accordance with lending criteria as set out by Regency Finance Corp. As of December 31, 2006 seven mortgages were in arrears over 90 days for a total of $0.3 million, compared to $0.1 million at December 31, 2005, with minimal losses anticipated as a result of these arrears.

Outlook for Loans Portfolio

It is anticipated that the internal rate of growth in the Company's mortgage portfolio will closely match the anticipated growth in the Company's total assets for 2007. The Company will continue to diversify its geographical presence where it is projected that provinces other than Ontario will account for 20% to 30% of new business in 2007. The credit card portfolio is expected to have another strong year of growth as the Company continues its marketing initiatives and cross-selling efforts. We anticipate a growth rate of approximately 35% to 50% over the 2006 balance on the strength of the Equityline VISA product.

Deposits

Table 8 provides a breakdown of the specific types of deposits customers hold through Home Trust.

Table 8 – Deposits

For the years ended December 31 (000's except %)	**2006**	2005	2004	**Growth 2006/2005**	Growth 2005/2004
Payable on demand					
Savings	**$ 6**	$ 9	$ 9	**(33.3%)**	–
Real estate tax accounts	**27,865**	26,236	21,091	**6.2%**	24.4%
	27,871	26,245	21,100	**6.2%**	24.4%
Payable on a fixed date					
Short-term certificates and savings	**72,639**	78,136	62,290	**(7.0%)**	25.4%
VISA card security deposits	**19,849**	21,501	18,377	**(7.7%)**	17.0%
Guaranteed investment certificates	**3,121,030**	2,555,555	1,975,008	**22.1%**	29.4%
Registered retirement savings plans	**132,861**	145,336	129,036	**(8.6%)**	12.6%
Registered retirement income funds	**69,390**	74,742	63,346	**(7.2%)**	18.0%
	3,415,769	2,875,270	2,248,057	**18.8%**	27.9%
Total	**$ 3,443,640**	$ 2,901,515	$ 2,269,157	**18.7%**	27.9%

Deposits increased by $542.1 million, or 18.7%, in 2006 in order to fund the growth in the loans portfolio of $512.3 million. Deposits are generated through the Company's branch locations and the deposit agent network. The agent network provides the Company with access to very significant sources of potential deposits. The cost of accessing this network is the commission paid on deposits. The Company has concluded that commission expenditures are considerably more cost-effective than increasing the number of Company-owned branches as a means of accessing additional deposits. The Company also has contractual agreements with certain major chartered banks to offer Home Trust deposit products to their customers. In 2006, 85.4% of new deposits were raised through the agent network, compared to 77.1% in 2005. The cost of commissions amounts to 25 basis points of funds deposited, on an annualized basis.

Outlook for Deposits

The Company will continue to source deposits from the public through diversified channels and will expand the deposit agent network through agreements with additional brokers that satisfy the Company's selection criteria. The rate of growth of the deposit portfolio is expected to mirror the growth in the Company's loans portfolio as deposits will be the primary source to fund this growth. Effectively managing liabilities, and the resulting liquidity needs, will remain a key objective for the Company.

Other Assets and Liabilities

Other assets increased by $17.4 million, or 19.7%, to end the year at $105.4 million. These assets consist of Mortgage-Backed Securities receivable, accrued interest receivable, deferred finders fees, agent commissions, capital assets, goodwill and other prepaid assets. Mortgage-Backed Securities receivable, composed of residual interest spreads on the pools of securitized mortgages, accounted for $51.0 million of other assets. For a further discussion on Mortgage-Backed Securities receivable, refer to the Off-balance Sheet Arrangements section or Note 4 of the Consolidated Financial Statements found on page 40 of this Annual Report. The other significant components are variable in nature and will grow as the interest-earning asset base continues to expand.

Other liabilities increased by $27.4 million, or 17.7%, over 2005. The growth in the Company's deposits increased the interest payable, while accelerated lending activities resulted in increased deferred commitment fees, and the overall growth in business operations increased accounts payable.

Shareholders' Equity

Total shareholders' equity increased $58.0 million, or 26.5%, over the prior year on strong earnings of $67.8 million, which was offset by dividend distributions of $10.6 million, adjustments for stock-based compensation activities and the repurchase of capital stock by the Company under the Normal Course Issuer Bid. Strong earnings resulted in a return on shareholders' equity of 27.4%, compared to 31.9% in 2005. This return on equity, when combined with the $0.27 per Common share dividend paid or payable in fiscal 2006 ($0.17 per Common share in 2005), is illustrative of the Company's continued commitment to enhancing shareholder value.

FINANCIAL CONDITION

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 generating 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 return to investors. The Audit and Risk Management Committee and the Board of Directors review compliance with the policy on a quarterly basis.

Risk-weighted Assets

Risk-weighted assets are determined by applying the Office of the Superintendent of Financial Institutions Canada ("OSFI") prescribed rules to on-balance sheet and off-balance sheet exposures. Based on the deemed credit risk of each type of asset, a weighting of 0% to 100% is assigned. Over the year, risk-weighted assets increased by $415.9 million largely due to strong growth in conventional mortgages and other assets.

Table 9 provides a further breakdown of risk-weighted assets.

Table 9 – Risk-weighted Assets (RWA)
(Based only on the subsidiary Home Trust Company)

As at December 31 (000's, except %)	**2006** Balance Sheet Amount	**2006** Risk Weighting*	**2006** Risk-weighted Amount	2005 Balance Sheet Amount	2005 Risk Weighting*	2005 Risk-weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	**$ 454,882**	**0%**	**$ –**	$ 386,378	0%	$ –
Claims on banks and municipal governments	**42,619**	**20%**	**8,524**	57,313	20%	11,463
Conventional mortgages on owner-occupied residences	**2,721,918**	**50%**	**1,360,959**	2,421,013	50%	1,210,506
Other assets	**679,040**	**100%**	**679,040**	414,304	100%	414,304
General allowance (limited to 0.875% of RWA)	**17,925**	**100%**	**17,925**	14,317	100%	14,317
Total assets	**$ 3,916,384**		**$ 2,066,448**	$ 3,293,325		$ 1,650,590
Off-balance sheet financial instruments						
Loan commitments	**276,411**	**0%**	**–**	225,769	0%	–
Total	**$ 4,192,795**		**$ 2,066,448**	$ 3,519,094		$ 1,650,590

* Calculated using guidelines issued by OSFI.

Capital Structure and Regulatory Ratios

There are two capital measures addressed by the Company's capital management policy. These are the asset to capital multiple and the risk-based capital ratio (BIS ratio). Both ratios are reported quarterly to the Board of Directors and in periodic public reporting.

Capital adequacy for Canadian banks and trust companies is governed by OSFI requirements. 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. 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 10 below analyzes both the Company's asset to capital multiple and the risk-based capital ratio.

Table 10 – Capital Structure and Regulatory Ratios at Year-end
(Based only on the subsidiary Home Trust Company)

As at December 31 (000's, except % and multiples)	**2006**	2005	2004	**Growth 2006/2005**	Growth 2005/2004
Tier 1 capital					
Capital stock	**$ 23,497**	$ 23,497	$ 23,497	**–**	–
Contributed surplus	**951**	951	951	**–**	–
Retained earnings	**236,938**	184,944	133,275	**28.1%**	38.8%
Total Tier 1 capital	**261,386**	209,392	157,723	**24.8%**	32.8%
Tier 2 capital					
General allowance for credit losses (limited to 0.875% of RWA)	**17,925**	14,317	11,380	**25.2%**	25.8%
Subordinated debentures	**15,000**	15,000	15,000	**–**	–
Total Tier 2 capital	**32,925**	29,317	26,380	**12.3%**	11.1%
Total regulatory capital	**$ 294,311**	$ 238,709	$ 184,103	**23.3%**	29.7%
Regulatory capital to risk-weighted assets					
Tier 1 capital	**12.7%**	12.7%	12.0%		
Tier 2 capital	**1.6%**	1.8%	2.0%		
Total regulatory capital ratio	**14.2%**	14.5%	14.0%		
Assets to regulatory capital multiple	**13.3**	13.8	14.0		

Home Trust's BIS ratio declined slightly to 14.2% in 2006 from 14.5% in 2005. Tier 1 capital remained the same as in 2005 at 12.7%, and up from 12.0% recorded in 2004. This was attributable to income of $65.6 million for the year generated by Home Trust, offset by $13.7 million in dividend payments to the Company. Tier 2 capital increased by $3.6 million due to an increase in the allowable portion of the general allowance from $14.3 million in 2005 to $17.9 million at the end of 2006. Both ratios are well in excess of the levels prescribed by OSFI, being 10% for total capital and 7% for Tier 1 capital.

At December 31, 2006, the asset to capital multiple was 13.3 times, which remained below the maximum permitted by OSFI at 17.5 times, compared to 13.8 times as at December 31, 2005.

Share Repurchase Program

In August 2006, the Company filed a new Normal Course Issuer Bid through the Toronto Stock Exchange for the repurchase of a maximum of 2.6 million Common shares. The Company believes that, from time to time, the market price of its Common shares does not fully reflect the value of its business and its future business and, as such, at times the repurchase of shares may represent an appropriate and desirable use of its capital.

During fiscal 2006, the Company repurchased 32,000 Common shares for $0.9 million under the Normal Course Issuer Bid.

Basel II Capital Accord

The final Basel II Framework was issued by the Basel Committee on Banking Supervision in June 2004 and will come into effect in November 2007. The framework expands on the existing one pillar approach to three, namely the minimum capital requirements, a prudent monitoring framework and financial disclosure. The new framework is designed to more closely align regulatory capital requirements with underlying risk by introducing substantive changes in the treatment of credit risk as well as an explicit new capital charge for operational risk.

Under the new framework there are several acceptable approaches recognizing the varying sufficiency of members' existing systems. The Company is presently implementing the Basel II Framework for evaluating credit risk and operational risk using the Standard Approach to credit risk and the Basic Indicator Approach for operational risk.

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 utilized off-balance sheet financial instruments during 2006. During this period the Company entered into economic hedge swap transactions with a major financial institution. The Company can utilize interest rate swaps to hedge the economic fair value exposure of movements in interest rates between the time that the mortgages are committed to be sold under asset securitization and the time the mortgages are actually sold. These mortgages qualify for government insurance. The intent of the swap is to have fair value movements in the swap be effective in offsetting the fair value movements in the pool of mortgages over the period in which the fixed rate pool may be exposed to movements in the variable interest rate, generally 60 to 150 days. The interest rate swaps referred to as "pay-fixed interest rate swaps" are structured such that the Company agrees to pay a fixed rate as designated in the swap and receives the floating rate as designated in the swap. During the year, the Company purchased notional $230 million of forward interest rate swap contracts, all of which were unwound by the fourth quarter of 2006, realizing a cumulative loss of $1.1 million. The Company has no outstanding hedging positions at December 31, 2006. For further information, refer to Note 14 of the consolidated financial statements on page 47 of this Annual Report.

The Company's prior hedging program utilized the short-selling 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. This program realized $0.6 million of cumulative losses in 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 mortgage 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 retained interests and any impairment in value is charged against income, if applicable. The Company continues to administer all the securitized assets after these sales. As at December 31, 2006, outstanding securitized mortgage loans administered amounted to $1.11 billion ($800.2 million at December 31, 2005) and retained interests of $51.0 million ($41.3 million at December 31, 2005). For additional information refer to Note 4 of the consolidated financial statements on page 40 of this 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 $201.8 million at December 31, 2006 compared to $176.3 million at December 31, 2005. These commitments remain open for various dates through January 2008. As at December 31, 2006, unutilized and available credit card lines amounted to $66.8 million compared to $49.5 million as of December 31, 2005.

Credit Ratings

Table 11 presents the credit ratings established by two rating agencies for the Company, and its subsidiary Home Trust. These credit ratings would permit the Company to obtain institutional debt financing should the need arise for additional capital. At this time the Company does not require such financing and thus these ratings have had no impact on the Company's financing costs to date.

Table 11 – 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

Outlook for Capital Management

The Company expects to remain well-capitalized throughout 2007. One of the Company's core 2007 objectives is to enhance shareholder value by targeting a minimum of 25% return on shareholders' equity supplemented with increasing dividends.

OPERATING SEGMENT REVIEW

The following table summarizes the performance of the Company's operating segments. For more detailed information, refer to Note 17 of the consolidated financial statements on page 51 of this Annual Report.

Table 12 – Summary of Operating Segments

For the years ended December 31 (000's except %)	**2006**				2005			
	Mortgage Lending*	**Consumer Lending****	**Other*****	**Total**	Mortgage Lending*	Consumer Lending**	Other***	Total
Total revenue	**$ 244,126**	**$ 27,565**	**$ 19,597**	**$ 291,288**	$ 206,101	$ 19,695	$ 17,310	$ 243,106
as a percentage	**83.8%**	**9.5%**	**6.7%**		84.8%	8.1%	7.1%	
Net income	**$ 50,449**	**$ 10,143**	**$ 7,223**	**$ 67,815**	$ 47,652	$ 6,126	$ 7,083	$ 60,861
as a percentage	**74.4%**	**15.0%**	**10.6%**		78.3%	10.1%	11.6%	
Efficiency ratio (TEB)	**37.7%**	**22.0%**	**43.3%**	**36.4%**	33.9%	38.0%	37.9%	34.9%
Net interest margin (TEB)	**2.9%**	**8.2%**	**4.9%**	**3.4%**	3.1%	10.2%	5.6%	3.5%
Average assets	**$ 3,006,651**	**$ 184,267**	**$ 402,656**	**$ 3,593,573**	$ 2,511,208	$ 101,496	$ 313,968	$ 2,926,671

* 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 2006, the contribution of the operating segments to the Company's net income was 74.4% from Mortgage Lending including secured loans, 15.0% from Consumer Lending and 10.6% from Other. The Other segment includes dividend income, which is tax-advantaged for the Company; therefore, tax provisions in this segment are correspondingly reduced by the tax-reduced dividend income.

The Mortgage Lending segment continues to be the most significant contributor to the Company's financial results although it decreased to 74.4% in 2006 from 78.3% last year. The mortgage segment continues to operate on a productive basis although the efficiency ratio (TEB) rose to 37.7% for 2006, up from 33.9% in 2005. The mortgage segment experienced enhanced capacity as full-time employees were hired during the year to manage increased lending activity and asset growth, causing the efficiency ratio to increase due to a lag-time in new employees reaching full productivity. This business segment recorded average assets of $3.01 billion in 2006, representing 83.7% of total average assets, 19.7% higher than the $2.51 billion average mortgage assets recorded in 2005.

The Consumer Lending segment experienced a strong year of growth, continuing a trend of increased financial contribution to the Company overall. Equityline VISA receivables amounted to $215.9 million at December 31, 2006, compared to $93.5 million at December 31, 2005, comprising 94.0% (85.6% at December 31, 2005) of the total credit card receivable balance of $229.8 million ($109.2 million at December 31, 2005). These receivables bear an average interest rate of 10.2% (11.3% in 2005) on outstanding balances. Consumer lending contributed 15.0% to net income in 2006, up from 10.1% in 2005. This was realized through increased revenues and improved operating efficiencies during the year. The efficiency ratio (TEB) for consumer lending decreased to 22.0% in 2006, a significant improvement from the 38.0% recorded at the end of 2005.

The Other segment contributed 10.6% to net income during 2006, compared to 11.6% in 2005. The efficiency ratio (TEB) increased to 43.3% from 37.9% in 2005 as the result of increased corporate operating costs due to the Company's office space expansion in Toronto and St. Catharines and increased staffing to manage growth.

Outlook for Operating Segments

The Company's mortgage lending segment will remain the leading contributor to the Company's earnings in 2007; however, anticipated growth in Equityline VISA will continue to diversify the Company's overall earnings sources.

RISK MANAGEMENT

Effective risk management, which is central to the Company's ability to remain financially sound and profitable, includes identifying, assessing, managing and monitoring all forms of risk. The Company, like other financial institutions, is exposed to factors that could adversely affect its business, financial condition or operating results, and which may also influence an investor to buy, hold or sell the Company's shares. Many of the risk factors are beyond the Company's control.

Senior Management is responsible for establishing the framework for identifying risks and developing appropriate risk management policies and practices to address those risks. The Board of Directors, either directly or through its committees, reviews and approves the key policies and implements specific reporting procedures that enable it to monitor ongoing compliance over significant risk areas. Internal audit also plays a key role in the Company's risk management framework as a reliable system has been established for monitoring the effectiveness of controls in place across the various business segments of the Company. Regulatory and statutory requirements also form an integral part of the Company's overall risk management framework.

With respect to corporate governance, the Board of Directors has the ultimate responsibility to ensure, as far as is reasonably possible, that the overall risk tolerance is consistent with the Company's strategies and objectives. The Board of Directors has defined roles and responsibilities, with each function delegated to specific members of Management to coordinate, monitor and report back to the Board of Directors.

Credit Risk

Credit risk management is the oversight of credit risks 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 applications for credit are 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 any mortgages that exceed $1.0 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 87.2% of the balance at December 31, 2006 compared to 92.4% at December 31, 2005. Owner-occupied single-family dwellings primarily secure these loans. 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.

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 4.1% of the total loans portfolio at December 31, 2006, compared to 2.5% at December 31, 2005, and Management continues to monitor these loans on a regular basis. Most new mortgages under this property type are stores with adjoining apartments. Stores with apartments make up 3.1% of the other mortgage types compared to 2.2% at December 31, 2005. It is the Company's intention to continue to concentrate its core mortgage lending activities on residential properties.

Secured loans represented 2.1% of the total loans portfolio at December 31, 2006, compared to 1.6% at December 31, 2005, and are secured by second mortgages over 75% of the loan to value on residential properties. These loans are subject to similar credit and lending criteria that are used under the Company's first mortgage program.

Personal loans and credit cards represented 7.2% of the total loans portfolio at December 31, 2006, compared to 4.2% at December 31, 2005, with $228.2 million, or 99.3%, of the credit cards secured either by deposits held by the Company or collateral equity in residential property, compared to $106.9 million, or 97.8%, at December 31, 2005.

Impaired loans are summarized as follows:

Table 13 – Impaired Loans

As at December 31 (000's, except %)	**2006**		2005		2004	
	Gross	**Net***	Gross	Net*	Gross	Net*
Personal and credit card loans	**$ 1,118**	**$ 970**	$ 322	$ 160	$ 252	$ 48
Secured loans	**258**	**150**	81	81	28	28
Residential mortgage loans	**21,521**	**21,135**	13,486	13,486	9,340	8,940
Other mortgage loans	**548**	**548**	–	–	–	–
Impaired loans	**$ 23,445**	**$ 22,803**	$ 13,889	$ 13,727	$ 9,620	$ 9,016
Total gross loans	**$ 3,329,500**		$ 2,813,621		$ 2,258,344	
Net impaired loans as a % of gross loans		**0.68%**		0.49%		0.40%
Total allowance for loan arrears		**$ 20,286**		$ 16,748		$ 14,215
Total allowance as a % of gross loans		**0.61%**		0.60%		0.63%
Total allowance as a % of gross impaired loans		**86.5%**		120.6%		147.8%

* Impaired loans are net of specific provisions as shown on Table 14 – Allocation of Allowance for Credit Losses.

As indicated in Table 13, gross impaired loans totaled $23.4 million at December 31, 2006, an increase of $9.6 million from 2005. The total allowance for credit losses increased by $3.5 million to reach $20.3 million at December 31, 2006, up from $16.8 million recorded at December 31, 2005. The total dollar volume of impaired loans is expected to fluctuate over time. However, the Company anticipates that the currently impaired mortgages totaling $21.5 million will not result in any significant loan losses. Over the past four years, the Company has realized insignificant 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, 2006 was 1.1% of total loan accounts, compared to 0.9% at December 31, 2005.

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

Table 14 shows the change in the allocations of allowances for credit losses categorized for specific provisions and to the general allowance for credit risk.

Table 14 – Allocation of Allowance for Credit Losses

As at December 31 (000's)	2006 Opening Balance	Write-offs, Net of (Recoveries)	Provision for Credit Losses	**2006 Ending Balance**
Specific provisions				
Personal loans and credit cards	$ 162	$ 647	$ 633	**$ 148**
Secured Loans	–	78	186	**108**
Residential mortgage loans	–	135	521	**386**
Other mortgage loans	–	–	–	**–**
	162	860	1,340	**642**
General allowance	16,586	–	3,058	**19,644**
Total allowance for credit losses	$ 16,748	$ 860	$ 4,398	**$ 20,286**

The allowance for credit losses has been established to cover both identified and unidentified losses in the loans portfolio and as at December 31, 2006 was comprised of $0.6 million in specific allowances and $19.6 million in general allowances for credit risk. Specific allowances represent the amounts on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amounts. The general allowance for credit losses is established for losses in the portfolio, which are unknown to Management and are not currently identifiable on a loan-by-loan basis. At December 31, 2006, the Company's total allowance represented 61 basis points of gross outstanding loans (60 basis points at December 31, 2005) and 98.2 basis points of the Company's risk-weighted assets (101.5 basis points at December 31, 2005).

The Company has developed a methodology to support testing the sufficiency of the general allowance, which includes individual risk ratings based on metrics including asset quality, borrowers' creditworthiness, economic conditions in the location of the secured asset and past loss experience. The Company's past loss experience on mortgages has amounted to 0.03% per annum over the past fifteen years, 0.01% for the past ten years and 0.001% for the past five years. Further, the Company has security provided by either a mortgage, collateral mortgage or cash deposit on 99.8% of the loans portfolio. Based on this methodology, prior years' loss experience, the mix of the loans portfolio and lending criteria, 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, and as these factors change, enhancements in how the Company supports the testing of the adequacy of the general allowance will evolve.

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 policy relating to several key elements, such as the minimum levels of liquid assets to be held at all times, the composition of liquid assets to be maintained by type, 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 & Poor's, which considers two stress scenarios. In the "immediate" scenario, the Company experiences unforeseen levels of deposit 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. Under 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 probable behaviour and the 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 no less than 120% under both scenarios, and at year-end liquid assets amounted to 162% (196% as at December 31, 2005) under the immediate scenario, and 132% (153% as at December 31, 2005) under the ongoing scenario. The decline in both ratios from the prior year is primarily due to clients moving to shorter-term deposit products. The Company continues to monitor its liquidity under these scenarios and will take appropriate actions should the need arise.

The Company holds sufficient liquid assets in the form of cash bank deposits, treasury bills, banker's acceptances, government bonds and debentures to comply with its policy. On December 31, 2006, liquid assets amounted to $339.0 million compared to $286.9 million at December 31, 2005. The Company maintained liquid assets as a percentage of 100-day liabilities at an average of 41.3% during 2006 compared to 46.4% for 2005. See Table 15 below for more information on liquid assets.

Table 15 – Liquid Assets
(Based only on the subsidiary Home Trust Company)

As at December 31 (000's, except %)	2006	2005	2004	Growth 2006/2005	Growth 2005/2004
Cash and deposits with regulated financial institutions	**$ 29,287**	$ 48,313	$ 11,646	**(39.4%)**	314.8%
Government of Canada treasury bills	**99,862**	110,806	28,574	**(9.9%)**	287.8%
Government of Canada and provincial bonds (at market value)	**209,857**	127,777	111,953	**64.2%**	14.1%
Total liquid assets	**$ 339,006**	$ 286,896	$ 152,173	**18.2%**	88.5%
Total liabilities maturing within 100 days	**$ 631,850**	$ 486,811	$ 348,756	**29.8%**	39.6%
Total assets	**3,898,458**	3,279,008	2,564,946	**18.9%**	27.8%
Total liabilities	**3,637,072**	3,069,616	2,407,223	**18.5%**	27.5%
Liquid assets as a % of 100-day liabilities	**53.7%**	58.9%	43.6%		
Liquid assets as a % of total assets	**8.7%**	8.7%	5.9%		
Liquid assets as a % of total liabilities	**9.3%**	9.3%	6.3%		

The following table presents a summary of the Company's principal contractual obligations as at December 31, 2006 that are due within the next five years and thereafter.

Table 16 – Contractual Obligations

As at December 31 (000's)	2007	2008	2009	2010	2011	Thereafter	Total
Deposits	$2,087,693	$ 741,818	$ 411,801	$ 139,854	$ 62,474	$ –	**$ 3,443,640**
Commitments under leases	1,723	1,623	1,194	1,105	1,177	4,607	**11,429**
Total	$2,089,416	$ 743,441	$ 412,995	$ 140,959	$ 63,651	$ 4,607	**$ 3,455,069**

In the normal course of its business, the Company enters into various types of contractual agreements. The most significant obligations result from the issuance of debt instruments, which include deposits from individuals and businesses to finance its lending activities. The Company ensures that sufficient cash resources are available to meet these contractual obligations when they become due.

The Company also has outstanding commitments for future advances on mortgages and unutilized and available credit on its credit card products. Refer to the Off-balance Sheet Arrangements section on page 21 of this Annual Report for a description of these commitments.

The Company repaid the $10.0 million term loan held with Canadian Western Bank by the end of the third quarter of 2006. As at December 31, 2006, the Company had no external debt.

Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company actively manages interest rate risk through a number of techniques. These include the matching of asset and liability terms and modelling techniques that measure changes to the portfolios and the impact that interest rate changes would have on earning capacity. The interest rate sensitivity position as at December 31, 2006 is shown in Note 15 to 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 15, the effective net interest rate spread between assets and liabilities is 3.3% (3.2% in 2005), after the adjustments as noted above are made. This table illustrates that the Company has a deficient cumulative dollar gap up to one year of $441.4 million (liabilities and off-balance sheet items exceed total assets) compared to a deficiency of $280.6 million at December 31, 2005. The deficiency in the cumulative gap reverts to a surplus during the one- to three-year timeframe for the current period, slightly longer than conditions at December 31, 2005. The Company's objective is to closely match interest-sensitive assets and liabilities. The cumulative gap in the three-year and longer 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 relationship between changes in interest rates and the present value of the Company's equity. Standards have been established whereby all major decisions regarding assets or liabilities must be assessed to determine their effect on matching.

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, 2006, immediate and sustained 100 and 200 basis point increases in rates would decrease the economic value of shareholders' equity by $0.5 million and $0.9 million, respectively ($0.6 million and $1.1 million at December 31, 2005) over the next twelve months.

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 impacts 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. While operational risks cannot be completely eliminated, the Company has taken proactive steps to mitigate these risks. The financial measure of operational risk is actual losses incurred. No material losses occurred as a result of operational risks in either 2006 or 2005.

Key strategies instituted to minimize and manage operational risks include:

- A knowledgeable and experienced Management team that is committed to complying with the Company's risk management policies;
- Establishment of whistleblower and employee code of conduct processes;
- The adoption of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Framework for internal control assessment and the Control Objectives for Information and Related Technology ("COBIT") 4.0 Framework for IT governance;
- Regular Management meetings, which are made up of senior and supervisory Management personnel from all of the Company's business areas, are chaired by the President and Chief Executive Officer of the Company and include 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 with the Company's policies by its independent internal audit team; and
- Continuous review and upgrades of systems and procedures, including updated and tested procedures and contingency plans for disaster recovery and business continuity.

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

Securities Portfolio Risk

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

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

- The first limit is that total investments in P1 and P2 rated preferred shares will not exceed 200% of regulatory capital. As at December 31, 2006, these were maintained at 33.1% of regulatory capital (30.9% at December 31, 2005).
- 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 above, and managed funds in common shares will not exceed 50% of regulatory capital. As at December 31, 2006, these types of investments accounted for 13.6% of regulatory capital (13.5% at December 31, 2005).
- The third limit is that the Company's total investment in "interest in real estate" (as defined in the Act) will not exceed 20% of regulatory capital. As of December 31, 2006 and 2005, 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 federal or provincial governments will not exceed 50% of regulatory capital. As at both December 31, 2006 and 2005, no investments were held in such bonds or debentures.
- The fifth limit is that no more than 10% of the total value of the securities portfolio may be invested in any one company or group of related companies, unless approved by the Board of Directors. At year-end, the largest holding in a group of related companies was 8.7% (7.7% at December 31, 2005).
- The sixth established limit is that no investment that exceeds 5% of regulatory capital (in 2006 this equalled $14.7 million) may be made by the Company without the prior approval of the Chairman of the Investment Committee. No investments were made above this limit.

Reputational Risk

Reputational risk is the possibility that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in the organization, resulting in a loss of business, legal action or increased regulatory oversight.

Reputational risks can arise from a number of factors and primarily occur in connection with regulatory, legal, and operational risks. Operational failures and non-compliance with laws and regulations could have a significant reputational impact on the Company. Failure to effectively manage reputational risk could result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's growth objectives.

Reputational risk is managed through the Company's corporate governance practices, code of conduct and risk management framework. It is the responsibility of all employees to conduct themselves in a professional manner in accordance with the Company's code of conduct. All employees and Directors are required to annually reconfirm their understanding and compliance with the code of conduct.

Regulatory and Legal Risk

Regulatory risk is the risk of a negative impact on the business activities, earnings, capital sufficiency, regulatory relationships or reputation as a result of failure to adhere to or comply with regulations or ethical standards. Legal risk is the risk of non-compliance with legal requirements, including effectiveness in preventing or handling legal claims against the Company.

The financial services industry in Canada is heavily regulated with high standards expected in all of the Company's business dealings. As a result, the Company is exposed to regulatory risks in practically all of its activities. Failure to meet regulatory requirements not only poses a risk of regulatory constraints but also puts the reputation of the Company at risk.

Proactive management of regulatory risk is carried out through an entity-wide regulatory risk framework called the Legislative Compliance Management Framework ("LCM"). The Compliance department is responsible for LCM and, as such, is responsible for managing day-to-day regulatory risks. The Compliance department receives additional support from in-house counsel and internal audit as required.

Internal and external counsel work closely with the business units to identify areas of potential legal risk, to draft and negotiate legal agreements to manage those risks, to provide advice on the performance of legal obligations under agreements and manage litigation matters as they arise.

Other Risks

Other risks that may have an impact on the future operations of the Company include general industry and Company specific factors. General industry factors include, but are not limited to, the general competitive conditions in the market the Company operates in, reliance on customer and counterparty information in making lending decisions and certain environmental risks. Company specific factors include, but are not limited to, the risk of not executing strategic plans, potential adverse changes in accounting standards and accounting policies and estimates, the inability to retain or attract skilled employees and certain economic dependencies particularly on information technology systems. These factors could have an adverse affect on the future operating results of the Company. The Company cautions that these risk factors along with those discussed in more detail above and in the Annual Information Form are not exhaustive.

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 earnings trends, return on shareholders' equity, and earnings per share. Total revenues have continued to rise on strong growth in the Company's income-producing assets, and cost-containment efforts resulted in an efficiency ratio (TEB) of 32.9% in the fourth quarter of 2006. Annualized provisions remained consistent despite an upward trend in net impaired loans as a percentage of gross loans. The Company has not experienced any significant write-offs as a result of impaired loans and believes it is adequately provisioned.

Table 17 – Quarterly Financial Highlights

(000's, except % and per share amounts)	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Net interest income (TEB)	$ 33,238	$ 30,922	$ 29,410	$ 28,025	$ 28,050	$ 27,018	$ 27,038	$ 23,976
Less TEB adjustment	841	764	740	651	708	682	675	714
Net interest income per financial statements	32,397	30,158	28,670	27,374	27,342	26,336	26,363	23,262
Non-interest income	16,665	10,718	13,011	9,746	11,153	11,840	9,906	10,484
Total revenues	83,246	72,928	70,707	64,407	64,803	62,763	59,630	55,910
Net income	20,518	16,618	16,496	14,183	16,881	15,766	14,638	13,576
Return on shareholders' equity	30.5%	26.2%	27.6%	25.2%	31.9%	32.1%	32.2%	32.2%
Return on average total assets	2.2%	1.8%	1.9%	1.7%	2.1%	2.1%	2.1%	2.1%
Earnings per Common share								
Basic	$ 0.60	$ 0.49	$ 0.48	$ 0.42	$ 0.50	$ 0.47	$ 0.43	$ 0.40
Diluted	0.59	0.48	0.47	0.41	0.47	0.45	0.41	0.39
Book value per share	8.10	7.62	7.22	6.79	6.44	6.00	5.57	5.17
Efficiency ratio (TEB)	32.9%	38.6%	36.0%	38.9%	33.8%	35.2%	35.2%	35.3%
Efficiency ratio	33.4%	39.3%	36.7%	39.6%	34.4%	35.9%	35.9%	36.0%
Tier 1 capital ratio*	12.7%	12.5%	12.7%	12.9%	12.7%	12.6%	12.3%	12.2%
Total capital ratio*	14.2%	14.1%	14.4%	14.6%	14.5%	14.5%	14.2%	14.2%
Net impaired loans as a % of gross loans	0.68%	0.56%	0.54%	0.51%	0.49%	0.50%	0.52%	0.44%
Annualized provision as a % of gross loans	0.1%	0.1%	0.1%	0.1%	0.0%	0.2%	0.2%	0.2%

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

Net income was $20.5 million in the fourth quarter of 2006, a $3.6 million, or 21.5%, increase over the $16.9 million recorded in the comparable quarter of 2005. The growth in earnings is attributable to a number of factors as the Company experienced strong growth in all business lines. Total interest income was $66.6 million for the three months ended December 31, 2006, up from the $53.7 million recorded in the comparable quarter of 2005. This was attributable to a strong growth in income earning assets of 18.8%.

Non-interest income was $16.7 million for the quarter ended December 31, 2006, representing a $5.5 million, or 49.4%, increase over the comparable quarter in 2005, driven by growth in fees and other income of $4.5 million. The Company securitized a total of $130.7 million in insured residential mortgages in the fourth quarter of 2006, down from $139.9 million securitized in the fourth quarter of 2005. Although the amount securitized during the quarter was down, the Company achieved an excess spread at 3.1% in comparison to 2.7% in 2005, resulting in improved gains of $0.8 million compared to the comparable prior period.

Non-interest expenses increased by $3.1 million, or 23.7%, over the comparable quarter in 2005. The rise in 2006 over 2005 non-interest expenses related primarily to salary and benefits for increased staffing levels year-over-year. The Company ended the quarter with 350 employees, up from the 274 employed at the end of 2005. Increased expenses during the fourth quarter of 2006 were more than offset by revenue growth, which resulted in an improvement in the efficiency ratio to 33.4% versus 34.4% in the fourth quarter of 2005.

Provisions for credit losses increased by $1.2 million over the fourth quarter of 2005 to end the year at $1.3 million. The Company ended the year with a general allowance for credit losses at 95.1 basis points of risk-weighted assets on an annualized basis, down from 100.5 over the comparable quarter in 2005.

Total assets as at December 31, 2006 reached $3.90 billion, up $153.1 million, or 4.1%, over the September 30, 2006 asset balance of $3.75 billion. During the fourth quarter of 2006, growth in the loans portfolio of $113.4 million, or 3.6%, was the primary driver for total asset growth over the September 30, 2006 balance.

The rise in liabilities over September 30, 2006 resulted primarily from increased deposits of $130.8 million. Increased deposit liabilities funded all of the loans portfolio growth during the fourth quarter of 2006.

Shareholders' equity rose to $276.9 million, an increase of $16.2 million, or 6.2%, over the $260.7 million reported at September 30, 2006. This growth was internally generated from net income for the three months of $20.5 million, less $3.7 million for dividends paid or payable to shareholders. The remaining $0.6 million was from proceeds received on the exercise of Company share options and the fair value adjustments on stock options, offset by the repurchase of capital stock through the Normal Course Issuer Bid. Return on equity for the quarter was 30.5%, compared to 26.2% for the third quarter of 2006, and 31.9% for the fourth quarter of 2005. At December 31, 2006 the book value per Common share was $8.10 compared to $7.62 at September 30, 2006 and $6.44 one year ago.

For further information and details, refer to the Company's fourth quarter report filed on SEDAR, at www.sedar.com, and the Company's web site at www.homecapital.com, dated February 14, 2007.

ACCOUNTING STANDARDS AND POLICIES

Significant Accounting Estimates and Critical Accounting Policies

The significant accounting polices are outlined in Note 1 to the consolidated financial statements starting on page 36 of this 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 substantial impact on the provisions for credit losses, which may be difficult to quantify. This uncertainty is captured within the general allowance for credit losses. At December 31, 2006 the Company's total allowance for credit losses was $20.3 million ($16.8 million at December 31, 2005), which included specific allowances of $0.6 million ($0.2 million at December 31, 2005) and general allowances of $19.6 million ($16.6 million at December 31, 2005). Additional information on the allowance for credit losses can be found in Note 1 to the consolidated financial statements and the discussion of credit risk management beginning on page 23 of this Management's Discussion and Analysis.

ii) Securitization

Securitization is a process by which certain financial assets of the Company, including government-guaranteed mortgage loans, 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, refer to Note 4 of the consolidated financial statements on page 40 of this Annual Report, which presents a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The section on Off-balance Sheet Arrangements on page 21 of this Management's Discussion and Analysis provides further information on these transactions.

iii) Income Tax

Future income tax assets and liabilities reflect Management's estimates 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 to budget items that were previously announced. For further information on income tax expenses, refer to Note 11 to the consolidated financial statements starting on page 45 of this Annual Report.

iv) Contingencies – Litigation

The Company will accrue a potential litigation loss if it considers the loss to be probable and the size can be reasonably projected 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. Actual outcomes in litigious cases may necessitate significant changes to the amounts accrued, if any.

Changes in Accounting Policies

The Company did not adopt any new significant accounting policies during the year for the purposes of preparing these consolidated financial statements.

Future Accounting and Reporting Changes

Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") has issued new accounting standards: CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income, which came into effect for the Company as of January 1, 2007.

Financial assets will be classified as loans and receivables, held to maturity, available for sale, or held for trading. Financial liabilities will be classified as held for trading or other financial liabilities. Initially, all financial assets and financial liabilities will be recorded at fair value on the consolidated balance sheets, except those assets classified as loans and receivables or held to maturity and other liabilities, which will be measured at amortized cost. Subsequent measurements will be determined based on the classification of each financial asset and financial liability. Loans and receivables, and assets that are held to maturity as well as other financial liabilities will be accounted for at amortized cost using the effective interest method. Held for trading assets and liabilities will be accounted for at fair value, with realized and unrealized gains and losses reported through the consolidated statements of income. Available for sale assets will be measured at fair value with unrealized gains and losses recognized through other comprehensive income.

Other comprehensive income will be a new component of shareholders' equity and a new statement, entitled statement of comprehensive income, will be added to the Company's primary financial statements. Comprehensive income is composed of the Company's net income and other comprehensive income. Other comprehensive income will include, on a net of tax basis, unrealized gains and losses on available for sale securities. Prior period financial statements will not be restated for these new accounting standards.

The impact of these new standards on the Company's consolidated financial statements has not yet been determined as it will be dependent on the Company's outstanding positions and their fair values at the time of implementation.

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants plans to converge Canadian GAAP for public companies with International Financial Reporting Standards ("IFRS") over a transition period that is expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.

Controls and Procedures

Management is responsible for the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, Management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and the Management's Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations.

In 2005, a disclosure policy was formulated to provide a framework for the information disclosure process with regard to interim and annual filings, including all other reports filed or submitted to securities administrators. The policy's purpose is to identify material information and validate the related reporting prior to submission to the securities administrators. The Disclosure Committee, which was established in 2005, is responsible for ensuring compliance with the policy and meets at least quarterly or as otherwise required. The members of the Disclosure Committee review the main documents to be filed with regulatory authorities to ensure all significant information regarding the Company's operating activities is communicated in a timely manner.

During 2006, the Company undertook the documentation and assessment of internal controls over financial reporting, leading to the regulatory certification of the annual filing as required under Multilateral Instrument 52-109. The certification project team has documented and assessed the design of internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles. This evaluation was conducted in accordance with criteria established in Internal Control – Integrated Framework, issued by COSO and COBIT, an IT governance framework. Through this process, Management made a material change in internal controls over financial reporting in the fourth quarter to improve documentation and efficiency standards on its primary operating system regarding access and change management which could have an effect on data integrity. Although a material misstatement could have occurred prior to the change, no such misstatement occurred, as Management believes certain manual compensating controls were operating effectively. Management believes these changes will improve the operating effectiveness and efficiencies by reducing the need for manual compensating controls and provide a secure framework to meet the growth requirements of the Company.

As of December 31, 2006, an evaluation was carried out on the effectiveness of the Company's disclosure controls and procedures. As an outcome of the evaluation, the President and Chief Executive Officer and the Vice President, Finance certify that the design and operating effectiveness of those disclosure controls and procedures were effective. Also at December 31, 2006, an evaluation was carried out on the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the President and Chief Executive Officer and the Vice President, Finance certify that the design of internal controls over financial reporting was effective.

UPDATED SHARE INFORMATION

As at March 1, 2007, the Company had 34,492,140 Common shares outstanding. In addition, Director and employee stock options that have been issued amount to 1,137,500 (1,272,000 in 2005) of which 581,875 were exercisable (1,003,250 in 2005).

This Management's Discussion and Analysis is dated March 1, 2007.

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 16, 2007

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, 2006 and 2005 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, 2006 and 2005 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 16, 2007

Signed - Ernst & Young LLP

Chartered Accountants

Consolidated Balance Sheets

As at December 31 (000's)		2006	2005
ASSETS			
Cash resources			
Deposits with regulated financial institutions		$ 43,701	$ 60,337
Treasury bills guaranteed by Canada		99,830	110,806
		143,531	171,143
Securities	(Note 2)		
Issued or guaranteed by Canada		208,980	126,832
Issued or guaranteed by provinces		299	299
Other securities		134,855	101,611
		344,134	228,742
Loans	(Note 3)		
Personal and credit card loans		237,037	116,628
Secured loans		70,250	43,565
Residential mortgages		2,885,806	2,583,694
Other mortgages		135,765	69,572
General allowance for credit losses		(19,644)	(16,586)
		3,309,214	2,796,873
Other			
Mortgage-Backed Securities receivable	(Note 4)	50,963	41,309
Capital assets	(Note 5)	4,691	4,362
Other assets	(Note 6)	49,783	42,400
		105,437	88,071
		$ 3,902,316	$ 3,284,829
LIABILITIES AND SHAREHOLDERS' EQUITY			
Term loan	(Note 7)	$ –	$ 10,000
Deposits	(Note 8)		
Payable on demand		27,871	26,245
Payable on a fixed date		3,415,769	2,875,270
		3,443,640	2,911,515
Other			
Cheques and other items in transit		2,655	6,989
Other liabilities	(Note 9)	179,155	147,440
		181,810	154,429
		3,625,450	3,065,944
Commitments and contingencies	(Note 13)	–	–
SHAREHOLDERS' EQUITY			
Capital stock	(Note 10)	34,551	34,272
Contributed surplus		783	306
Retained earnings		241,532	184,307
		276,866	218,885
		$ 3,902,316	$ 3,284,829

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 Statements of Income

Years ended December 31 (000's, except per share amounts)		2006	2005
Income			
Interest from loans		$ 225,101	$ 186,673
Dividends from securities		5,589	4,916
Other interest		10,458	8,134
		241,148	199,723
Interest expense			
Interest on deposits		122,232	95,663
Interest on term and subordinated term loans		317	757
		122,549	96,420
Net interest income		118,599	103,303
Provision for credit losses	(Note 3)	4,398	3,128
		114,201	100,175
Non-interest income			
Fees and other income		27,965	21,367
Securitization gains on Mortgage-Backed Securities	(Note 4)	21,038	20,935
Net realized and unrealized gain on investment securities		2,210	1,706
Net realized and unrealized (loss) on derivatives and short sales		(1,073)	(625)
		50,140	43,383
		164,341	143,558
Non-interest expenses			
Salaries and benefits		25,883	19,974
Premises		3,518	2,370
General and administration		33,030	29,757
		62,431	52,101
Income before income taxes		101,910	91,457
Income taxes	(Note 11)		
Current		32,789	27,980
Future		1,306	2,616
		34,095	30,596
Net income for the year		$ 67,815	$ 60,861
Average number of Common shares outstanding	(Note 10)		
Basic		34,131	33,860
Diluted		34,801	35,450
Net income per Common share	(Note 10)		
Basic		$ 1.99	$ 1.80
Diluted		$ 1.95	$ 1.72

See accompanying notes.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31 (000's)			**2006**		2005
Capital stock					
Common shares					
Balance at beginning of year		**$**	**34,272**	$	32,468
Proceeds of options exercised	(Note 10)		**1,197**		1,804
Repurchase of shares			**(918)**		–
Balance at end of year		**$**	**34,551**	$	34,272
Contributed surplus					
Balance at beginning of year		**$**	**306**	$	178
Amortization of fair value of employee stock options	(Note 10)		**495**		237
Employee stock options exercised			**(18)**		(109)
Balance at end of year		**$**	**783**	$	306
Retained earnings					
Balance at beginning of year		**$**	**184,307**	$	129,561
Dividends paid			**(7,514)**		(4,414)
Dividends declared			**(3,076)**		(1,701)
Net income for the year			**67,815**		60,861
Balance at end of year		**$**	**241,532**	$	184,307

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31 (000's)		2006	2005
OPERATING ACTIVITIES			
Net income for the year		$ **67,815**	$ 60,861
Adjustments to determine net cash flows relating to operating activities			
Future income taxes		**718**	2,616
Amortization of capital assets		**1,429**	1,350
Amortization of securities		**(596)**	(1,965)
Amortization of deferred financing costs		**63**	75
Amortization of deferred development costs		**–**	1,447
Exercise of employee stock options		**(18)**	(109)
Provision for credit losses		**4,398**	3,128
Change in accrued interest receivable		**(3,812)**	(2,430)
Change in accrued interest payable		**14,529**	17,436
Net (gain) realized and unrealized on investment securities		**(2,210)**	(1,706)
Loss realized and unrealized on derivatives and short sales		**1,073**	625
Securitization gains on Mortgage-Backed Securities		**(21,038)**	(20,935)
Change in other assets		**(4,707)**	(1,065)
Change in cheques and other items in transit		**(4,334)**	454
Change in other liabilities		**15,093**	4,826
Amortization of fair value of employee stock options	(Note 10)	**495**	237
Cash provided by operating activities		**68,898**	64,845
FINANCING ACTIVITIES			
Repayment of term loan		**(10,000)**	–
Repayment of subordinated term loan		**–**	(3,000)
Net increase in deposits		**542,125**	636,331
Issuance of capital stock		**1,197**	1,804
Normal Course Issuer Bid		**(918)**	–
Dividends paid		**(9,215)**	(5,765)
Cash provided by financing activities		**523,189**	629,370
INVESTING ACTIVITIES			
Activity in securities			
Purchases		**(220,089)**	(148,742)
Proceeds on sales		**32,862**	97,823
Proceeds on maturities		**74,641**	28,914
Activity in mortgages			
Net increase		**(915,093)**	(924,987)
Proceeds from securitization of Mortgage-Backed Securities		**532,730**	420,643
Change in Mortgage-Backed Securities receivable		**24,920**	17,463
Net increase in personal and credit card loans		**(121,041)**	(37,792)
Net increase in secured loans		**(26,871)**	(23,847)
Proceeds from leasehold inducements		**1,009**	–
Purchase of capital assets		**(2,767)**	(3,046)
Cash used in investing activities		**(619,699)**	(573,571)
Net increase (decrease) in cash and cash equivalents		**(27,612)**	120,644
Cash and cash equivalents beginning of year		**171,143**	50,499
Cash and cash equivalents end of year		$ **143,531**	$ 171,143
Supplemental disclosure of cash flow information			
Amount of interest paid in year		$ **108,020**	$ 78,985
Amount of income taxes paid in year		$ **37,324**	$ 30,955

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2006 and 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 when it is the primary beneficiary. 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, if 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 consolidated and its assets are reported as secured loans on the balance sheet.

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 and 964865 Ontario Limited, all of which are wholly owned.

Cash Resources

For the purposes of the consolidated statements 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 in earnings on an accrual basis and, to the extent not received at year-end, recorded as a receivable in other assets on the consolidated balance sheets.

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. An Equityline VISA credit card is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 120 days. All other credit card balances that have payments contractually 180 days in arrears are 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 statements 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. 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 sheets.

Specific Allowances

Specific allowances are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans and Equityline VISA credit cards, 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 secured and unsecured credit cards, specific provisions are provided for arrears over 120 days.

General Allowances

General allowances are established to absorb potential 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, adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. 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 statements 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 for an other than 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.

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 statements 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.

Derivative Financial Instruments

During 2006 and 2005, the Company did not designate any non-trading derivatives for hedge accounting. Non-trading derivatives entered into 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 statements of income.

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 bases. 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 sheets.

Employee Future Benefits

The Company accrues its obligations under employee benefit plans, which include post-retirement plans (health costs). 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 10 and 12.

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 10 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 at the grant date 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 12, the Company's contribution is expensed when paid.

NOTE 2 SECURITIES

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

					2006	2005
(000's)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Securities issued or guaranteed by						
Canada	$ 14,102	$ 122,077	$ 72,801	$ –	$ 208,980	$ 126,832
Provinces	–	299	–	–	299	299
Equity securities						
Common	11,080	–	–	–	11,080	11,810
Fixed rate preferred	20,997	40,721	26,864	12,275	100,857	79,537
Floating rate preferred	3,745	–	1,955	–	5,700	3,410
Income trusts	13,388	–	–	–	13,388	3,565
Mutual funds	3,830	–	–	–	3,830	3,289
	$ 67,142	$ 163,097	$ 101,620	$ 12,275	$ 344,134	$ 228,742

All securities are denominated in Canadian dollars.

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

(000's, except %)	Total Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
				2006
Securities issued or guaranteed by				
Canada	**$ 208,980**	**$ (105)**	**$ 208,875**	**4.2%**
Provinces	**299**	**2**	**301**	**4.5%**
Equity securities				
Common	**11,080**	**414**	**11,494**	**2.5%**
Fixed rate preferred	**100,857**	**3,162**	**104,019**	**5.2%**
Floating rate preferred	**5,700**	**222**	**5,922**	**6.6%**
Income trusts	**13,388**	**(1,309)**	**12,079**	**6.8%**
Mutual funds	**3,830**	**81**	**3,911**	**4.0%**
	$ 344,134	**$ 2,467**	**$ 346,601**	

(000's, except %)	Total Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
				2005
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	

NOTE 3 LOANS

(a) Loan maturities

(000's)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2006 Total Book Value	2005 Total Book Value
Personal and credit card loans	**$ 236,781**	**$ 256**	**$ –**	**$ –**	**$ 237,037**	$ 116,628
Secured loans	**4,308**	**37,870**	**27,266**	**806**	**70,250**	43,565
Residential mortgages	**1,340,253**	**1,285,846**	**241,022**	**18,685**	**2,885,806**	2,583,694
Other mortgages	**47,800**	**62,152**	**25,175**	**638**	**135,765**	69,572
	$ 1,629,142	**$ 1,386,124**	**$ 293,463**	**$ 20,129**	**$ 3,328,858**	$ 2,813,459
General allowance for credit losses					**(19,644)**	(16,586)
					$ 3,309,214	$ 2,796,873

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

(000's)	2006 Gross Amount	2006 Specific Provisions	2006 Carrying Amount	2005 Gross Amount	2005 Specific Provisions	2005 Carrying Amount
Personal and credit card loans	**$ 1,118**	**$ 148**	**$ 970**	$ 322	$ 162	$ 160
Secured loans	**258**	**108**	**150**	81	–	81
Residential mortgages	**21,521**	**386**	**21,135**	13,486	–	13,486
Other mortgages	**548**	**–**	**548**	–	–	–
	$ 23,445	**$ 642**	**$ 22,803**	$ 13,889	$ 162	$ 13,727

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

	2006			2005		
(000's)	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance, beginning of year	**$ 162**	**$ 16,586**	**$ 16,748**	$ 604	$ 13,611	$ 14,215
Provisions for credit losses	**1,340**	**3,058**	**4,398**	153	2,975	3,128
Write-offs	**(1,154)**	**–**	**(1,154)**	(991)	–	(991)
Recoveries	**294**	**–**	**294**	396	–	396
Balance, end of year	**$ 642**	**$ 19,644**	**$ 20,286**	$ 162	$ 16,586	$ 16,748

NOTE 4 LOAN SECURITIZATION (MORTGAGE-BACKED SECURITIES RECEIVABLE)

The Company's subsidiary Home Trust securitizes residential mortgage loans, and in these securitizations Home Trust retains interest-only strips and servicing responsibilities. The retained interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold $546.3 million (2005 – $430.8 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 sheets for securitization transactions totaled $55.0 million (2005 – $44.8 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of $1.4 million (2005 – $1.2 million) included on the consolidated balance sheets. Mortgage payments, which have been collected and are payable to the National Housing Authority ("NHA") trusts, as at December 31, 2006, totaled $28.0 million (2005 – $15.1 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 statements of income for the years ended December 31 is as follows:

(000's)	2006	2005
Gains on sales of mortgages	**$ 17,914**	$ 19,189
Reduction in value to reflect increase in prepayment rate assumption	**(710)**	(1,013)
Change in retained interest and servicing liability	**4,046**	2,764
Other securitization revenues (expenses)	**(212)**	(5)
	$ 21,038	$ 20,935

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:

	2006	2005
Prepayment rate	**14.61%**	13.51%
Discount rate	**3.86%**	3.67%
Expected credit losses	**N/A***	N/A*
Weighted-average life in years	**2.6**	2.8

* 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 are as follows:

(000's, except % and number of years)	2006	2005
Carrying amount of retained interest	**$ 50,963**	$ 41,309
Weighted-average life in years	**2.6**	2.8
Prepayment rate	**14.61%**	13.51%
Impact on fair value of 10% adverse change	**$ (941)**	$ (750)
Impact on fair value of 20% adverse change	**(1,863)**	(1,484)
Residual cash flows discount rate	**3.86%**	3.67%
Impact on fair value of 10% adverse change	**$ (1,204)**	$ (631)
Impact on fair value of 20% adverse change	**(2,502)**	(1,186)
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)	**2006**	2005
Net proceeds from new securitizations	**$ 532,730**	$ 420,643
Cash flows received on retained interests	**25,132**	17,469

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

		2006
(000's)	**Total Principal Amount**	**Principal Amount of Loans 61 or More Days Past Due**
Total loans managed or securitized	**$ 4,436,420**	**$ 29,561**
Less mortgages securitized	**1,107,562**	**2,720**
Total gross loans reported on the consolidated balance sheets	**$ 3,328,858**	**$ 26,841**

		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 sheets	$ 2,813,459	$ 16,453

NOTE 5 CAPITAL ASSETS

			2006	2005
(000's)	**Cost**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer equipment	**$ 5,161**	**$ 3,913**	**$ 1,248**	$ 1,052
Office furniture and equipment	**5,502**	**2,640**	**2,862**	2,224
Signs	**29**	**27**	**2**	2
Leasehold improvements	**2,041**	**1,462**	**579**	1,084
	$ 12,733	**$ 8,042**	**$ 4,691**	$ 4,362

Amortization in respect of the above-noted capital assets for the year amounted to $1,429 (2005 – $1,350).

NOTE 6 OTHER ASSETS

(000's)	**2006**	2005
Accrued interest receivable	**$ 19,046**	$ 15,234
Goodwill	**2,324**	2,324
Deferred agent commissions	**9,198**	9,320
Other prepaid assets and deferred items	**19,215**	15,522
	$ 49,783	$ 42,400

NOTE 7 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 $10.0 million for a period of five years.

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% from September 1, 2005 and plus 2% prior to this date;
[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 $10.0 million of the subordinated notes issued by Home Trust.

On May 15, 2006 and August 14, 2006, the Company, with the approval of Canadian Western, repaid the $10.0 million balance owing with equal payments of $5.0 million.

NOTE 8 DEPOSITS

					2006	2005
(000's except %)	**Payable on Demand**	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Total**	Total
Individuals	**$ 27,871**	**$ 2,038,710**	**$ 1,145,424**	**$ 200,437**	**$ 3,412,442**	$ 2,869,942
Businesses	**–**	**21,112**	**8,195**	**1,891**	**31,198**	31,573
	$ 27,871	**$ 2,059,822**	**$ 1,153,619**	**$ 202,328**	**$ 3,443,640**	$ 2,901,515
Effective yield	**–**	**4.0%**	**4.1%**	**4.1%**	**4.0%**	3.7%

All deposits are denominated in Canadian dollars.

NOTE 9 OTHER LIABILITIES

(000's)		**2006**	2005
Accrued interest payable		**$ 111,920**	$ 97,391
Income taxes payable		**3,788**	5,157
Dividends payable		**3,076**	1,701
Deferred commitment fees		**12,213**	9,847
Future income taxes	(Note 11)	**12,733**	12,015
Other, including accounts payable and accrued liabilities*		**35,425**	21,329
		$ 179,155	$ 147,440

* The Company has recognized a liability on the consolidated balance sheets in the amount of $196 (2005 – $221) for the employee future benefits.

NOTE 10 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		2006	Number of Shares		2005
Common shares						
Balance at beginning of year	**34,012**	**$**	**34,272**	33,777	$	32,468
Options exercised	**186**		**1,197**	235		1,804
Repurchase of shares	**(32)**		**(918)**	–		–
Balance at end of year	**34,166**	**$**	**34,551**	34,012	$	34,272

(c) Normal Course Issuer Bid

On July 27, 2006, the Company filed a Normal Course Issuer Bid which allows it to purchase, over a twelve-month period beginning August 1, 2006, up to 10% of the public float outstanding on July 26, 2006.

During the year, 32,000 Common shares were purchased (2005 – nil). The cost of the Common shares was reduced by the average per share amount on the transaction date, which amounted to $0.9 million in 2006 (2005 – nil).

(d) Stock Options

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

			2006			2005
(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	**1,272**	**$**	**12.32**	1,373	$	8.62
Issued	**210**		**28.99**	218		35.03
Exercised	**(186)**		**6.34**	(235)		7.23
Cancelled	**(30)**		**34.78**	(84)		25.00
Outstanding at end of year	**1,266**	**$**	**15.43**	1,272	$	12.32
Exercisable at year-end	**910**	**$**	**9.25**	1,003	$	7.31
Weighted-average term to maturity in years			**2.7**			3.1

The Company's Stock Option Plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective May 29, 2002 to conform the Plan to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. Under the amended Plan, the maximum number of Common shares that may be issued is 2,936,668, representing approximately 8.9% of the aggregate number of Class A shares and Common shares that 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.

As at December 31, 2006, 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	200,000	200,000	$ 6.76	03/06/2007
	10,000	10,000	7.75	06/18/2007
	265,000	265,000	7.15	12/05/2009
	475,000	475,000		
Employees	118,500	118,500	$ 6.76	03/06/2007
	115,000	115,000	7.15	12/05/2009
	145,000	145,000	10.56	07/23/2010
	15,000	7,500	26.16	03/10/2011
	37,500	9,375	34.55*	02/14/2010
	10,000	2,500	34.53*	04/26/2010
	140,000	35,000	35.25*	12/06/2010
	10,000	2,500	42.02**	03/03/2011
	30,000	–	31.20**	07/26/2011
	115,000	–	27.89**	10/25/2011
	55,000	–	27.71**	12/01/2011
	791,000	435,375		
	1,266,000	**910,375**	**$ 9.25**	

* 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, 2006, one level of the performance criteria had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted income per Common share.

** In 2006, the Company granted certain employees the right to receive stock options of 10,000, 30,000, 115,000 and 55,000 if certain performance criteria were met. As at December 31, 2006, one level of the performance criteria for the 10,000 options had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted income per Common share. For the remaining three sets of options issued, the performance criteria had not been met. As a result, the contingently assumable options have not been included in the computation of diluted income per Common share.

Fair Value Compensation of Stock Options

The Company determines the fair value of options granted using the Black-Scholes option pricing model. The weighted-average fair value of the options granted during the year ended December 31, 2006 was $8.12 for the December 2006 issue, $6.98 for the October 2006 issue, $7.88 for the July 2006 issue and $10.35 for the March 2006 issue. The weighted-average fair value of the options granted during the year ended December 31, 2005 was $5.93 for the December 2005 issue, $6.97 for the April 2005 issue and $7.01 for the January 2005 issue.

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

	December 2006	**October 2006**	**July 2006**	**March 2006**
Expected dividend yield	**0.78%**	**0.78%**	**0.72%**	**0.66%**
Expected share price volatility	**26.80%**	**26.40%**	**27.10%**	**24.90%**
Risk-free rate of return	**3.75%**	**4.09%**	**4.22%**	**4.08%**
Expected period until exercise in years	**4.3**	**4.0**	**4.0**	**4.0**

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

For options granted after January 1, 2003 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 $0.5 million (2005 – $0.2 million) and net income decreased by the same amount.

The Company will not record any compensation expense for stock options granted prior to January 1, 2003. When these stock options are exercised, the Company will include the amount of proceeds in capital stock. If the Company had recorded compensation expense for such options based on their fair value, the pro forma effect on net income and income per share would have been as follows:

(000's, except per share amounts)		2006		2005
Pro forma net income	$	67,610	$	60,504
Pro forma income per Common share – basic	$	1.98	$	1.79
Pro forma income per Common share – diluted	$	1.94	$	1.71

(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 34,130,515 (2005 – 33,860,077).

Diluted income per Common share is determined as net income for the year divided by the average number of Common shares outstanding of 34,130,515 (2005 – 33,860,077) plus the stock options potentially exercisable as determined under the treasury stock method of 670,516 (2005 – 1,589,834) for a total of 34,801,031 (2005 – 35,449,911) diluted Common shares.

NOTE 11 INCOME TAXES

Components of the provision for income taxes are as follows:

(000's)		2006		2005
Current income taxes				
Federal	$	20,096	$	17,976
Provincial		12,693		10,004
		32,789		27,980
Future income taxes				
Federal		800		1,361
Provincial		506		1,255
		1,306		2,616
	$	34,095	$	30,596

Reconciliation of income taxes is as follows:

(000's)		2006		2005
Income before income taxes	$	101,910	$	91,457
Income taxes at statutory combined federal and provincial income tax rate	$	36,790	$	33,012
Increase (decrease) in income tax rates resulting from:				
Tax-exempt income		(1,913)		(1,775)
Non-deductible expenses		292		156
Other		(1,074)		(797)
	$	34,095	$	30,596

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 statements of income is different from the combined federal and provincial income tax rate of 36.12% (2005 – 36.12%).

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

(000's)	2006	2005
Future income tax liabilities		
Deferred agent commissions and other charges	**$ 6,251**	$ 6,621
Mortgage-Backed Securities receivable	**17,995**	15,508
	24,246	22,129
Future income tax assets		
Allowance for credit losses	**6,028**	5,081
Mark-to-market adjustments on securities	**1,216**	1,462
Deferred commitment fees	**4,269**	3,571
	11,513	10,114
Net future income tax liability	**$ 12,733**	$ 12,015

NOTE 12 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 trustee of the Employee Share Purchase Plan 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 $317,155 for 2006 (2005 – $280,299).

NOTE 13 COMMITMENTS AND CONTINGENCIES

Lease Commitments

Contractual obligations in respect of operating leases as at December 31, 2006 are as follows:

(000's)	
2007	$ 1,723
2008	1,623
2009	1,194
2010	1,105
2011	1,177
2012 and thereafter	4,607
	$ 11,429

(000's)	2006	2005
Rent paid	**$ 2,914**	$ 1,932

Credit Commitments

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to $201,842,313 as at December 31, 2006 (2005 – $176,307,655). The commitments remain open for various dates until January 2008 for 2006 and January 2007 for 2005. The average rate on mortgage commitments is 7.29% (2005 – 6.78%).

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, 2006, these contractual commitments in aggregate were $296,647,964 (2005 – $158,692,723). 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 14 DERIVATIVE 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 economic hedge swap transactions.

During the year the Company entered into interest rate swaps to hedge the economic fair value exposure of movements in interest rates between the time that mortgages are committed to be sold under asset securitzation and the time the mortgages are actually sold. The intent of the swap is to have fair value movements in the swap be effective in offsetting the fair value movements in the pool of mortgages over the period in which the fixed rate pool may be exposed to movements in the variable interest rate, generally 60 to 150 days. The interest rate swaps, referred to as "pay-fixed interest rate swaps", are structured such that the Company agrees to pay a fixed rate (designated in the swap) and receives the floating rate (designated in the swap). These transactions did not qualify for hedge accounting under the Accounting Guideline 13 – Hedging Relationships and therefore were accounted for on a mark-to-market basis, with changes in the fair value of the swap being recognized in income.

At December 31, 2006 and 2005, the Company had no open positions in interest rate swap contracts as these contracts were unwound during the respective year.

NOTE 15 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.

								2006
(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	$ 30,401	$ 99,830	$ –	$ 13,300	$ –	$ –	$ –	$ 143,531
Weighted-average interest rate	3.0%	4.1%	–	3.8%	–	–	–	3.9%
Securities	–	32,820	7,290	27,033	165,052	111,939	–	344,134
Weighted-average interest rate	–	4.8%	4.7%	4.7%	4.1%	4.4%	–	4.4%
Loans	–	428,530	310,390	846,352	1,388,605	313,592	21,745	3,309,214
Weighted-average interest rate	–	8.6%	7.1%	7.4%	7.2%	7.0%	–	7.3%
Other assets	–	–	–	–	–	–	105,437	105,437
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 30,401	$ 561,180	$ 317,680	$ 886,685	$1,553,657	$ 425,531	$ 127,182	$3,902,316
Weighted-average interest rate	3.0%	7.6%	7.1%	7.2%	6.9%	6.3%	–	6.8%
Liabilities and shareholders' equity								
Term loan and subordinated term loan	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Weighted-average interest rate	–	–	–	–	–	–	–	–
Deposits payable on demand	–	–	–	–	–	–	27,871	27,871
Weighted-average interest rate	–	–	–	–	–	–	–	–
Deposits payable on a fixed date	–	311,280	666,542	1,082,000	1,153,619	202,328	–	3,415,769
Weighted-average interest rate	–	3.7%	4.2%	4.0%	4.1%	4.1%	–	4.0%
Other liabilities	–	–	–	–	–	–	181,810	181,810
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	276,866	276,866
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ –	$ 311,280	$ 666,542	$1,082,000	$1,153,619	$ 202,328	$ 486,547	$3,902,316
Weighted-average interest rate	–	3.7%	4.2%	4.0%	4.1%	4.1%	–	3.5%
	$ 30,401	$ 249,900	$ (348,862)	$ (195,315)	$ 400,038	$ 223,203	$ (359,365)	3.3%
Off-balance sheet items	–	(190,356)	(6,859)	19,667	62,081	115,467	–	–
Weighted-average interest rate	–	7.3%	7.2%	7.0%	7.7%	7.1%	–	–
Interest rate sensitivity gap	$ 30,401	$ 59,544	$ (355,721)	$ (175,648)	$ 462,119	$ 338,670	$ (359,365)	–
Cumulative gap	$ 30,401	$ 89,945	$ (265,776)	$ (441,424)	$ 20,695	$ 359,365	$ –	–

								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	–	11.0%	7.3%	7.4%	7.2%	7.1%	–	7.5%
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	–	–	–	–	–	–	26,245	26,245
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	–	–	–	–	–	–	154,429	154,429
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	218,885	218,885
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 10,000	$ 228,475	$ 355,277	$ 862,060	$ 1,063,773	$ 365,685	$ 399,559	$ 3,284,829
Weighted-average interest rate	6.0%	3.4%	3.5%	3.5%	3.8%	4.0%	–	3.2%
	$ 41,337	$ 132,419	$ (141,668)	$ (145,139)	$ 386,874	$ 27,583	$ (301,406)	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	$ (18,516)	$ (153,448)	$ (149,993)	$ 460,079	$ 121,947	$ (301,406)	–
Cumulative gap	$ 41,337	$ 22,821	$ (130,627)	$ (280,620)	$ 179,459	$ 301,406	$ –	–

NOTE 16 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, the valuation methods and assumptions of which 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)	**2006** Book Value	Fair Value	Fair Value Over Book Value	2005 Book Value	Fair Value	Fair Value Over Book Value
Assets						
Cash resources	**$ 143,531**	**$ 143,531**	**$ –**	$ 171,143	$ 171,143	$ –
Securities	**344,134**	**346,601**	**2,467**	228,742	233,461	4,719
Loans	**3,309,214**	**3,363,307**	**54,093**	2,796,873	2,859,292	62,419
Other	**105,437**	**108,016**	**2,579**	88,071	88,824	753
Liabilities						
Term loan	**–**	**–**	**–**	10,000	10,000	–
Deposits	**3,443,640**	**3,506,611**	**62,971**	2,901,515	2,981,683	80,168
Other	**181,810**	**181,810**	**–**	154,429	154,429	–
Off-balance sheet financial instruments						
Credit commitments	**$ 268,673**	**$ 273,770**	**$ 5,097**	$ 225,769	$ 230,164	$ 4,395

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

> Cash resources, other assets and other liabilities are assumed to approximate their carrying values due to their short-term nature.
> Securities are assumed to approximate their market values as provided in Note 2.
> Fair value of loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.
> Other assets have been adjusted for the fair value of the Mortgage-Backed Securities.
> Book value of the term loan approximates its fair value.
> Book value of the subordinated term loan approximates its fair value.
> Fair value of deposits payable on demand approximates their carrying 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.
> Derivative financial instruments are assumed to approximate their fair values as provided in Note 14.

NOTE 17 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. 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:

				2006
(000's)	**Mortgage Lending**	**Consumer Lending**	**Other**	**Total**
Net interest income	**$ 86,666**	**$ 15,066**	**$ 16,867**	**$ 118,599**
Provision for credit losses	**(2,561)**	**(1,837)**	**–**	**(4,398)**
Fees and other income	**20,100**	**7,661**	**204**	**27,965**
Gain on securities and Mortgage-Backed Securities	**19,965**	**–**	**2,210**	**22,175**
Non-interest expenses	**(47,781)**	**(5,011)**	**(9,639)**	**(62,431)**
Income before income taxes	**76,389**	**15,879**	**9,642**	**101,910**
Provision for income taxes	**25,940**	**5,736**	**2,419**	**34,095**
Net income	**$ 50,449**	**$ 10,143**	**$ 7,223**	**$ 67,815**
Total assets	**$ 3,191,427**	**$ 247,459**	**$ 463,430**	**$ 3,902,316**

				2005
(000's)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	$ 78,248	$ 10,319	$ 14,736	$ 103,303
Provision for credit losses	(2,191)	(937)	–	(3,128)
Fees and other income	14,586	6,669	112	21,367
Gain on securities and Mortgage-Backed Securities	20,310	–	1,706	22,016
Non-interest expenses	(38,321)	(6,461)	(7,319)	(52,101)
Income before income taxes	72,632	9,590	9,235	91,457
Provision for income taxes	24,980	3,464	2,152	30,596
Net income	$ 47,652	$ 6,126	$ 7,083	$ 60,861
Total assets	$ 2,821,874	$ 121,074	$ 341,881	$ 3,284,829

NOTE 18 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

NOTE 19 FUTURE ACCOUNTING CHANGES

Financial Instruments

The CICA has issued three new accounting standards: CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income, which are effective for the Company as of January 1, 2007.

As a result of adopting these standards, effective January 1, 2007 financial assets will be classified as held for trading, available for sale, loans and receivables or held to maturity. Financial liabilities will be classified as held for trading or other. Initially, all financial assets and financial liabilities will be recorded on the balance sheet at fair value except those assets classified as loans and receivables or held to maturity and other liabilities, which will be measured at amortized cost. Subsequent measurement will be determined based on their classification, with fair value changes on held for trading assets and liabilities reported through income and changes in fair value of available for sale securities recorded through other comprehensive income. Loans and receivables, held to maturity and other liabilities will continue to be measured at amortized cost using the effective interest method. Section 3855 also permits an entity to voluntarily designate a financial instrument as held for trading. Instruments that are classified as held for trading by way of this "fair value option" are subject to certain conditions and additional requirements set out by OSFI.

Other comprehensive income will be a new component of shareholders' equity and a new statement, entitled statement of comprehensive income, will be added to the Company's financial statements. Comprehensive income will be composed of the Company's net income and other comprehensive income. Other comprehensive income will include, on a net of tax basis, net unrealized gains and losses on available for sale securities. Prior period financial statements will not be restated for these new accounting standards.

Based on the analysis completed to date, the significant components of the Company's implementation of the standard is to designate cash resources as held for trading, and certain securities as available for sale; loans and deposits will continue to be recorded at amortized cost using the effective interest method. The full impact of these new standards will depend on the Company's outstanding positions and the fair values of those financial assets and liabilities at the time of implementation.

Corporate Directory

Home Capital Group Inc.

Directors

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

Norman F. Angus[2]
Corporate Director
Old Lyme, Connecticut

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

Janet L. Ecker[1, 3]
Advisor
LeDrew Laishley Reed LLP
Toronto, Ontario

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

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

Robert A. Mitchell[1, 2, 4*]
Corporate Director
Oakville, Ontario

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

Warren K. Walker[1, 5]
Corporate Director
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
Janet L. Ecker
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

Nick Kyprianou
Senior Vice President and Chief Operating Officer

Brian R. Mosko
Senior Vice President

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

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, www.homecapital.com.

Annual Meeting Notice

The Annual and Special 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 16, 2007 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

Home Trust Company

Directors

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

Norman F. Angus
William A. Dimma
Janet L. Ecker

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

Robert A. Mitchell
Brian R. Mosko
Gerald M. Soloway
Warren K. Walker

Officers

Gerald M. Soloway
President and Chief Executive Officer

Nick Kyprianou
Senior Vice President and Chief Operating Officer

Brian R. Mosko
Senior Vice President

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

Chris Ahlvik
Vice President Corporate Counsel

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Rolf Eikeland
Vice President, Mortgages

Lisa Abbatangelo
Marguerite Ryan
Agostino Tuzi
Assistant Vice Presidents Mortgages

Tom Elsdon
James Hill
Assistant Vice Presidents Credit

Laurie Chalabardo
Bobby Ramgoolam
Senior Managers Mortgages

Antoniette Doria
Michael Forshee
Kim McCormick
Managers, Mortgages

Armando Diseri
Senior Manager Direct Client Services

Diana Soloway
Assistant Vice President Sales and Marketing

Pino Decina
Vice President VISA Credit Card Services/ Equityline VISA

Tanya Hatton
Director, VISA Operations

Alex Godfrey
Karen Minns
Senior Managers Equityline VISA

Massimo DeNigris
Craig O'Brien
Managers, Equityline VISA

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Scott Congdon
Regional Manager 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, 2006, there were 34,165,640 Common shares outstanding

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