



HOME CAPITAL  
GROUP INC.

## Annual Report 2007

Canada's First Choice  
ALTERNATIVE PROVIDER OF  
RESIDENTIAL FIRST MORTGAGES

GROWTH.

PROFITABILITY.

STABILITY.



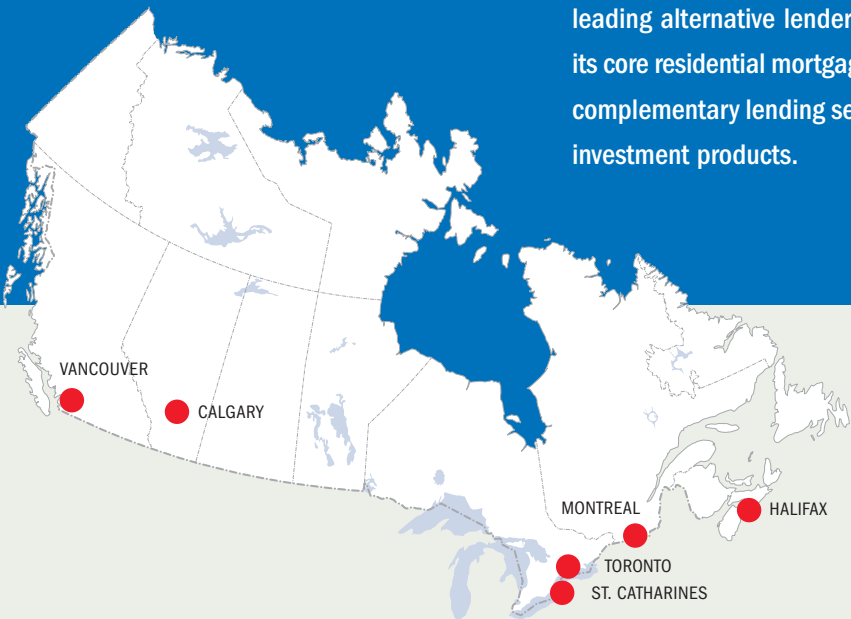
Contents

- 1 Report to Shareholders
- 6 Proven Results
- 7 Performance vs. Target
- 8 Management's Discussion and Analysis
- 36 Consolidated Financial Statements
- 40 Notes to the Consolidated Financial Statements
- 59 Corporate Directory

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., together with 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.



Home Trust Branches



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 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. Home Trust is also a provider of commercial first mortgages to high-quality borrowers in selected markets across Canada.



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 reestablish a positive credit history. PSiGate, a wholly owned subsidiary, offers electronic card-based payment services to merchants who conduct business primarily on the Internet. 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 and strong relationships with hundreds of deposit brokers and investment dealers across the country.

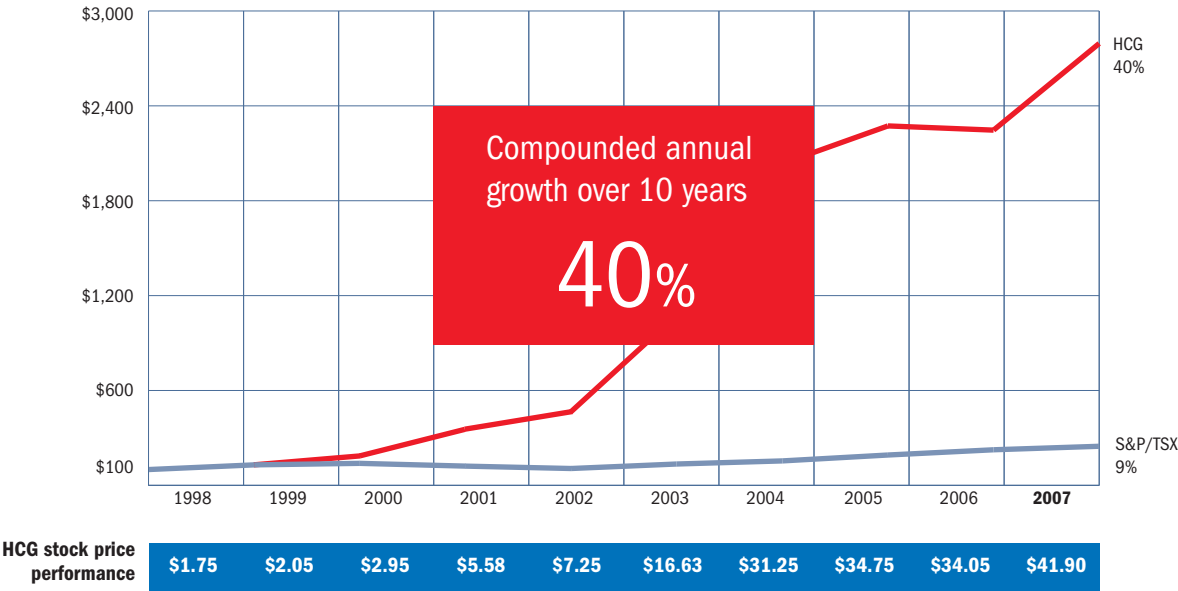
# Financial Highlights

For the years ended December 31 (000's, except per share amounts)	2007	2006	2005
Total assets	\$ 4,973,307	3,902,316	3,284,829
Loans	\$ 4,022,171	3,309,214	2,796,873
Deposits	\$ 4,413,984	3,443,640	2,901,515
Shareholders' equity	\$ 348,040	276,866	218,885
Revenue	\$ 368,881	282,549	234,704
Net income	\$ 90,241	67,815	60,861
Book value of common shares	\$ 10.08	8.10	6.44
Earnings per share – basic	\$ 2.62	1.99	1.80
Earnings per share – diluted	\$ 2.59	1.95	1.72

Return on equity was **28.9%**, over **20%** for **10** consecutive years

Earnings for 2007 grew by **33.1%** to **\$90.2 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, 1997–December 31, 2007

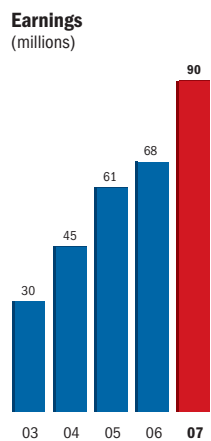


Closing price as of December 31  
 Share prices have been restated to reflect two-for-one stock split on January 29, 2004.

2004	2003	2002	2001	2000	1999	1998
2,568,513	1,897,176	1,394,289	1,136,220	892,078	738,136	538,876
2,244,130	1,611,911	1,171,102	958,564	776,177	635,939	471,841
2,269,157	1,666,788	1,216,475	995,762	794,666	671,068	493,386
162,207	121,166	94,586	75,203	49,501	40,453	33,620
181,839	141,365	111,066	91,359	70,457	52,976	42,062
44,551	29,507	20,595	14,860	10,452	8,081	6,067
4.80	3.61	2.82	2.30	1.67	1.37	1.14
1.33	0.88	0.62	0.49	0.35	0.27	0.23
1.27	0.86	0.59	0.46	0.33	0.26	0.19

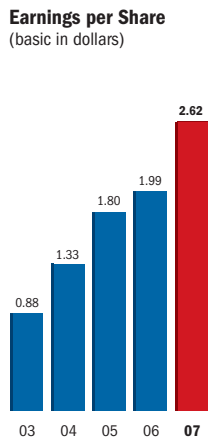
Total assets including MBS originated and administered by the Company grew **28.4%** to **\$6.43 billion**

Outstanding balances on Equityline VISA were **\$302.7 million**, up **40.2%** over 2006



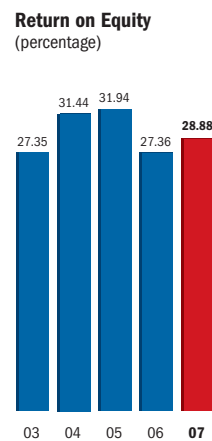
33.1%

Home Capital reported a 33.1% rise in net income over the \$67.8 million attained in 2006, reaching \$90.2 million for the year ended 2007.



31.7%

Basic earnings per share rose to \$2.62 at year-end 2007, a 31.7% increase over the \$1.99 reported at December 31, 2006.



28.9%

Home Capital surpassed 20% return on equity for the 10<sup>th</sup> consecutive year and 25% ROE for the 5<sup>th</sup> consecutive year, reaching 28.9% at December 31, 2007.

Still delivering  
growth and profit  
in turbulent times

For well over a decade, Home Capital Group has rewarded its shareholders with outstanding financial returns and superior business growth. While many companies can generate attractive returns when economic conditions are working in their favour, only the most focused and best-managed businesses can deliver consistent, industry-leading results in a challenging economic environment. The Home Capital success story carried on throughout 2007; we are pleased to share several highlights from the past year with you in this Report to Shareholders.

**RESIDENTIAL MORTGAGE  
LENDING TEAM**

FROM LEFT TO RIGHT:  
Rolf Eikeland, Vice President;  
Agostino Tuzi, Assistant Vice President,  
Credit; Diana Soloway, Assistant Vice  
President, Marketing; Armando Diseri,  
Assistant Vice President; Pino Decina,  
Senior Vice President; Ron Cuadra,  
National Sales Manager



**Exceeding Objectives in 2007**

With strong earnings arising from all areas of its business, Home Capital exceeded each of its performance targets. Among the key financial indicators of the Company's year-over-year momentum were:

- > **Return on equity** of 28.9%, extending Home Capital's performance to 10 consecutive years with a return on equity exceeding 20%.
- > **Total earnings** rose by 33.1%, or \$22.4 million, to \$90.2 million.
- > **Diluted earnings per share** increased to \$2.59, representing an increase of 32.8% over 2006.
- > **Total asset growth** of combined total assets and assets under administration grew by \$1.42 billion, or 28.4%, to \$6.43 billion.

Collectively, these returns represent record levels of financial achievement for Home Capital. We believe that this is a reflection of our strategic diversification of business revenues, our steadfast relationships with business partners, and our prudent risk management procedures and practices. Above all, our track record would not have been possible without an engaged Board of Directors, an experienced management team and a dedicated staff who bring a productive and entrepreneurial spirit to their work each and every day.

**Performance Transcending Difficult Conditions**

A year that commenced with concern over the health of the US sub-prime mortgage sector escalated into capital markets turbulence, both in North America and internationally, as 2007 continued to unfold. Many financial institutions that relied on wholesale markets for their funding suddenly found themselves unable to access previously available liquidity as investors rapidly withdrew from these markets. Non-deposit taking mortgage lenders who were reliant on these funding vehicles were seriously impacted.

Home Capital's operating subsidiary, Home Trust Company, relies exclusively on individual investors for deposits. Not only did Home Trust avoid any ill effects from the disruptions in the third-party securitization market, but we benefited somewhat as many investors avoided the uncertainty of uninsured products in favour of the safety of Canada Deposit Insurance Corporation-insured instruments. This allowed us to substantially increase our liquidity reserve as a precaution against overall market uncertainty. By the close of the year, Home Trust's liquidity position had reached an all-time high, leaving us well positioned in 2008 to take advantage of attractive opportunities that may come our way.



**COMMERCIAL MORTGAGE LENDING TEAM**

FROM LEFT TO RIGHT:  
Shaun Gonsalves, Senior Manager; Donald  
Correia, Senior Credit Manager; Wendy Goldup,  
Assistant Vice President

**Accelerated Growth on a Diversified Business Platform**

The Company continues to explore opportunities for business diversification while remaining committed to the principle of doing so only when we can identify a sustainable competitive advantage and characteristics that are comparably attractive with our core mortgage business. Home Capital's success in the marketplace arises from the 20% of Canadians who are typically underserved by traditional mortgage lenders. When carefully selected, certain borrowers within this segment can be served profitably and with lending risks adequately contained. This market segment, when measured on a national basis today, totals approximately \$150 billion of residential mortgage loans – and it continues to grow more quickly than the mortgage market as a whole. The Company's residential mortgage originations totaled \$2.32 billion in 2007, augmented by bulk portfolio purchases of whole mortgages from other lenders whose funding access was curtailed by the liquidity disruption. The year also saw the establishment of a branch in Montreal and an increased presence in the important Quebec marketplace.

Home Trust's VISA program sustained its rapid growth throughout 2007. The Company's flagship credit card product, Equityline VISA, enables qualified applicants to obtain a payment card with a substantial credit limit, with residential property provided as additional collateral. By the end of 2007, outstanding balances had grown by 40.2% to reach \$302.7 million.

During the fourth quarter, Home Capital completed its acquisition of Payment Services Interactive Gateway Corp. (PSiGate), a company that provides payment processing services to Internet-based merchants. This purchase represents an important addition to our existing payment card line of business which, over time, will enhance the Company's income stream.

The successful expansion of Home Trust's commercial mortgage lending business was a key development this year. Our focus is to extend loans to low-risk commercial mortgage borrowers and capitalize on our existing mortgage underwriting skills and market reach. This business has already become a meaningful contributor to the Company's overall growth and returns, and the high-quality portfolio of well-secured loans has added diversification to our balance sheet.

**CONSUMER LENDING TEAM**

FROM LEFT TO RIGHT:

Alex Godfrey, Assistant Vice President, Equityline VISA; Miki Asano, Senior Manager, Contact Centre; Karen Minns, Senior Manager, Equityline VISA; Raymond St. Aubin, Senior Manager, Payment Card Services; Tanya Hatton, Vice President, Payment Card Services



**A Tradition of Prudent Risk Management**

Over the year, Home Capital made significant investments to improve and strengthen its risk management infrastructure and practices. The Company has adopted an *enterprise risk management* (ERM) framework, a process by which we view the portfolio of risks that the organization faces, and reduce the potential for undesired earnings variability through rigorous monitoring, analysis and control, thereby optimizing risk and returns and improving shareholder value. The process is overseen by the Company's Board of Directors and ensures that risks are viewed within a comprehensive business perspective. The development and oversight of principles, policies, and practices is coordinated by the Company's ERM department, which is dedicated to embedding key risk awareness into everyday procedures and practices across the Company. Despite the backdrop of capital market uncertainty, Home Capital's risk management practices and financial strength position received external validation in 2007 when the Company's credit ratings were either sustained or upgraded.

Our underwriting process reflects years of experience accumulated across all business cycle conditions. In our core residential mortgage operation we continue to adhere to the practice of lending predominantly on owner-occupied properties. In an industry increasingly characterized by a one-size-fits-all approach to lending, our underwriters assess every mortgage application on an individual basis, taking a broad perspective on risk factors and thereby avoiding the drawbacks of automated scoring processes. As a result of this discipline, our portfolio continues to perform well, net impaired loans remain low and our losses continue to be modest.

Home Capital continued to strengthen various centres of competence throughout the organization during the year. Senior management personnel were added in key areas such as commercial lending, finance, treasury, and risk management. These new positions complement the Company's accomplished management team and position Home Capital for sustained growth going forward.

**A Highly Efficient Business Model Drives the Bottom Line**

Home Capital's efficiency ratio continues to be one of the best in the Canadian financial services industry. More than 70 cents of every dollar in revenue is realized as income by the Company. In 2007, we continued to consolidate operations in Toronto by assimilating operating units previously located in our branches into our head office. Looking ahead, Home Capital remains committed to its financial performance-enhancing approach to cost discipline, while also making deliberate and strategic investments which will drive future value creation.

The new year started with a greater degree of uncertainty over the economic outlook than has been the case for several years. While there is clear evidence of economic weakness in the United States, and although Canada is likely to be impacted to some degree, we remain confident that the Company is very well positioned to thrive throughout the year ahead.

**SENIOR MANAGEMENT TEAM**

FROM LEFT TO RIGHT:  
Chris Ahlvik, *Vice President, Corporate Counsel*;  
Brian Mosko, *Chief Operating Officer and Senior Vice President*; Phil Braginetz, *Chief Financial Officer*; Cathy Sutherland, *Vice President, Finance*;  
Nick Kyprianou, *President*; John Harry, *Senior Vice President, Commercial Mortgage Lending*

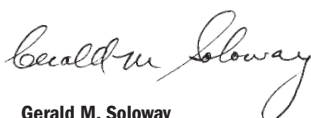
We are once again establishing the following performance targets:

- > 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 shareholders' equity.

We look forward to delivering superior results for our shareholders and other stakeholders in 2008 as we continue the work of building a great company. On behalf of the Board of Directors and management, we thank you for your confidence and support.

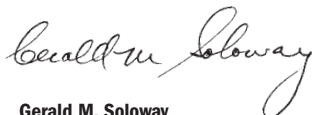


**William A. Dimma**  
Chairman of the Board



**Gerald M. Soloway**  
Chief Executive Officer

The Board of Directors and management wish to acknowledge and thank William A. Dimma, who is retiring after 14 years of distinguished leadership as Chairman and a director of the Company. As a recognized authority in corporate governance, Mr. Dimma made a significant contribution to Home Capital over the years. He has been a conscientious, dedicated director and the Company has benefited greatly from his vast experience, wisdom and insight. Mr. Dimma will continue to serve Home Capital as Chairman Emeritus. We wish him all the best for the years ahead.



**Gerald M. Soloway**  
Chief Executive Officer

Additional information concerning the company's targets and related expectations for 2008, including the risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis in this 2007 Annual Report.



# 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 27.4%, or 28.4% including assets under administration, and an increase in total revenue of 30.6%.

Assets  
(millions)

Year	Assets (millions)
03	1,897
04	2,569
05	3,285
06	3,902
07	4,973

Total assets including assets under administration  
(millions)

Year	Total assets including assets under administration (millions)
03	2,212
04	3,069
05	4,085
06	5,010
07	6,433

Revenue  
(millions)

Year	Revenue (millions)
03	141
04	182
05	235
06	283
07	369

RETURNS

The Company recorded pre-tax return on assets of 3.02% and after-tax return on assets of 2.03%, while shareholders' equity increased to \$348.0 million, a 25.7% rise from the previous year.

Pre-tax return on assets  
(percentage)

Year	Pre-tax return on assets (percentage)
03	2.62
04	2.85
05	3.12
06	2.84
07	3.02

After-tax return on assets  
(percentage)

Year	After-tax return on assets (percentage)
03	1.79
04	2.00
05	2.08
06	1.89
07	2.03

Shareholders' equity  
(millions)

Year	Shareholders' equity (millions)
03	121
04	162
05	219
06	277
07	348

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)

Year	Tier 1 capital to risk-weighted assets (percentage)
03	11.65
04	12.02
05	12.68
06	12.65
07	11.34

Total capital to risk-weighted assets  
(percentage)

Year	Total capital to risk-weighted assets (percentage)
03	14.02
04	14.03
05	14.46
06	14.24
07	12.74

Net impaired loans of loans portfolio  
(percentage)

Year	Net impaired loans of loans portfolio (percentage)
03	0.31
04	0.40
05	0.49
06	0.68
07	0.72

# Performance vs. Target

RETURN ON EQUITY		
<p><b>TARGET:</b></p> <p>25% return on equity</p>	<p>Home Capital reported return on equity of 28.9% for the year ended December 31, 2007, representing the 10<sup>th</sup> consecutive year in which the Company surpassed 20% ROE and the 5<sup>th</sup> consecutive year surpassing 25% ROE.</p>	<p>Return on equity at</p> <p><b>28.9%</b> </p> <p>for the year ended December 31, 2007</p>
EARNINGS		
<p><b>TARGET:</b></p> <p>20% increase in total earnings</p>	<p>The Company reported net earnings of \$90.2 million for the year ended December 31, 2007, representing a 33.1% increase over the \$67.8 million achieved in 2006.</p>	<p>Increase in earnings of</p> <p><b>33.1%</b> </p> <p>over 2006</p>
EARNINGS PER SHARE		
<p><b>TARGET:</b></p> <p>20% increase in diluted earnings per share</p>	<p>Diluted earnings per share rose to \$2.59 at December 31, 2007, a 32.8% increase over the \$1.95 recorded for 2006.</p>	<p>Diluted earnings per share grew</p> <p><b>32.8%</b> </p> <p>over 2006</p>
ASSETS		
<p><b>TARGET:</b></p> <p>20% increase in combined total assets and securitized mortgages originated and managed by the Company</p>	<p>Total assets, including CMHC-insured securitized mortgages originated and administered by the Company, grew to \$6.43 billion by December 31, 2007, an increase of 28.4% over the \$5.01 billion recorded on December 31, 2006.</p>	<p>Total assets increased</p> <p><b>28.4%</b> </p> <p>over year-end 2006</p>

# Management’s Discussion and Analysis

<b>Overview</b>	<b>9</b>	<b>Balance Sheet Review</b>	<b>16</b>	<b>Risk Management</b>	<b>24</b>
Business Profile and Strategy	9	Overview	16	Overview	24
General Description of the Business	9	Cash Resources and Securities	17	Credit Risk	25
2007 Performance and 2008 Objectives	10	Loans Portfolio	17	Liquidity Risk	27
		Deposits	19	Structural Interest Rate Risk	28
<b>Financial Highlights</b>	<b>10</b>	Other Assets and Liabilities	19	Operational Risk	28
Overview	10	Shareholders’ Equity	19	Investment Portfolio Risk	28
Income Statement Highlights for 2007	11	Accumulated Other		Reputational Risk	29
Balance Sheet Highlights for 2007	11	Comprehensive Income	20	Regulatory and Legal Risk	29
				Additional Risk Factors That May Affect Future Results	29
<b>Financial Performance Review</b>	<b>12</b>	<b>Operating Segment Review</b>	<b>20</b>	<b>Summary of Quarterly Results</b>	<b>30</b>
Net Interest Income and Margin	12				
Non-interest Income	13	<b>Financial Condition</b>	<b>21</b>	<b>Accounting Standards and Policies</b>	<b>32</b>
Non-interest Expenses	14	Capital Management	21	Significant Accounting Estimates and Critical Accounting Policies	32
Provision for Credit Losses	15	Derivatives and		Changes in Accounting Policies	33
Taxes	16	Off-balance Sheet Arrangements	23	Future Accounting Policy Changes	33
		Credit Ratings	23	Disclosure Controls and Internal Controls over Financial Reporting	34
				<b>Updated Share Information</b>	<b>34</b>

## 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 are made in connection with, but are not limited to, business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are “financial outlooks” within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail on pages 24 through 30 of this 2007 Annual Report, for the material factors that could cause our actual results to differ materially from these statements. Forward-looking statements are typically identified by words such as “believe,” “expect,” “will,” “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, except as required by securities laws.

## 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 \$5.5 million (2006 – \$3.0 million) increased 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 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](http://www.homecapital.com), and under the Company’s profile on the Canadian Securities Administrators’ web site at [www.sedar.com](http://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 for the year ended December 31, 2007. The discussion and analysis relates principally to the Company's subsidiary, Home Trust Company ("Home Trust") which provides residential first mortgage lending, commercial mortgage lending, consumer lending, payment card services and deposit taking services. This section also reviews the Company's risk management policies relating to credit, liquidity 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 through the published results of select publicly traded Schedule I banks. Readers are reminded that the banks in this industry grouping have operations and asset sizes which may not be comparable to each other or to Home Trust. Such comparative performances are obtained from third-party sources by the Company. While the Company believes this information to be reliable, it has not independently verified the data and cannot provide any assurances as to its accuracy.*

## OVERVIEW

### Business Profile and Strategy

Home Capital Group Inc. is a public corporation whose principal asset is its wholly owned subsidiary, Home Trust Company. Home Trust is a federally regulated trust company offering deposits, mortgage lending, retail credit and payment card services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Quebec and Nova Scotia.

Home Capital's key long-term objective is to deliver superior shareholder value. Over the past decade, Home Capital has sought to achieve a return on common equity of at least 20%, and has exceeded this benchmark in each of the past ten years without exception. Home Capital's management also seeks to align its capital with the risk profile of the business through an understanding of the nature and level of risk being taken and how these risks attract regulatory and risk based capital. While Home Capital has achieved a consistently high return on equity over the past decade, it has done so with one of the least leveraged balance sheets among Canada's major banks and trust companies.

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 and superior returns, customers and business partners with high value and service, and employees with a positive and rewarding work environment. The Company 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 enterprise risk management;
- > Generating a flexible supply of funding through the deposit broker network;
- > Enhancing marketing opportunities through the cross-selling of financial services and the continuing expansion of business activities outside Ontario and through mortgage broker and referral relationships;
- > Continuing to improve and enhance the service levels provided to new and existing clients;
- > Maintaining the highest standards of corporate governance and reinforcing the Company's reputation and public confidence through timely and accurate corporate communications;
- > Focusing on underserved niches where it can achieve a market leading position;
- > Expanding existing competencies to include merchant acquiring business; and
- > Investing in leading edge technology in order to maintain the highest levels of efficiency and reliability.

Home Capital has continuously strengthened its financial performance over each of the past eleven years. This track record includes key accomplishments across earnings and earnings per share growth, returns on shareholders' equity, low loan losses, and loan and total asset growth.

### General Description of the Business

Home Capital's principal operation consists of lending in residential first mortgage markets. 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. Further, the Company participated in the Canada Mortgage Bond (CMB) program sponsored by CMHC and administered through Canada Housing Trust in the latter half of 2007. This program provides the Company with a new distribution channel for the Company's five-year MBS pools. As at December 31, 2007, the Company administered \$1.46 billion in mortgages securitized through these programs. The Company first introduced 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. The Equityline VISA product offering continued to experience growth in 2007, with receivables up 40.2% over 2006. The Company also offers VISA credit cards secured by a cash deposit. As at December 31, 2007 total authorized credit on all secured VISA products amounted to \$371.3 million (2006 – \$294.2 million). During the fourth quarter, the Company completed the acquisition of Payment Services Interactive Gateway Corp. (PSiGate) and commenced the process of integrating PSiGate's operations into the Company's VISA card services line of business. As a result of this acquisition, Home Trust now offers payment processing services to Internet-based merchants. Over time, this offering is expected to further enhance earnings from credit card services.

# Management’s Discussion and Analysis

In late 2006, the Company launched a commercial mortgage lending division, providing commercial mortgages to selected, high-quality borrowers. While the Company continues to focus on its core residential mortgage lending, management expects the commercial division will continue to grow as an increasingly important profit centre for the Company in 2008 and beyond.

### 2007 Performance and 2008 Objectives

The table below summarizes the Company’s 2007 performance and 2008 objectives.

**Table 1 – 2007 Performance and 2008 Objectives**

	2007 Actual	2007 Objectives	2008 Objectives <sup>4</sup>
Return on shareholders’ equity	<b>28.9%</b>	25.0%	<b>25.0%</b>
Diluted earnings per share	<b>\$2.59</b>	\$2.34	<b>20% or \$3.11</b>
Net income	<b>\$90.2 million</b>	\$81.4 million	<b>20% or \$108.2 million</b>
Total assets and assets under administration	<b>\$6.43 billion</b>	\$6.01 billion	<b>20% or \$7.72 billion</b>
Efficiency ratio (TEB) <sup>1,2</sup>	<b>27.1%</b>	35.0% to 39.0 %	<b>27.0% to 33.0%</b>
Capital ratios <sup>3</sup>			
Tier 1	<b>11.3%</b>	Minimum of 9.5%	<b>Minimum of 10.0%</b>
Total	<b>12.7%</b>	Minimum of 12.5%	<b>Minimum of 12.0%</b>
Provision for loan losses as a % of total loans	<b>0.2%</b>	0.1% to 0.2%	<b>0.15% to 0.25%</b>

<sup>1</sup> This ratio has been reclassified – refer to Note 2 of the consolidated financial statements.

<sup>2</sup> TEB – refer to the definition of TEB on page 8 of this Annual Report.

<sup>3</sup> Based on the Company’s wholly owned subsidiary, Home Trust Company.

<sup>4</sup> The 2007 actual results are the basis for the 2008 objectives.

The objectives presented above are solely intended to provide interested parties with information on how management measures its performance. It is not intended to disclose the Company’s expectations for future financial results. Also, the 2008 objectives take into account uncertainties related to the prevailing liquidity and credit turmoil in Canada and the United States.

The change in the Company’s Tier 1 and total capital objectives reflect changes in the minimum capital requirements under Basel II.

FINANCIAL HIGHLIGHTS

### Overview

The Company generated strong financial results across all areas of the business in 2007. For the year ended December 31, 2007 the Company reported record net income of \$90.2 million or \$2.59 diluted earnings per share, up from \$67.8 million or \$1.95 diluted earnings per share in 2006. Return on shareholders’ equity ended the year at 28.9%, up from 27.4% achieved in 2006 and outperforming the industry average at 21.1%. Double-digit asset and loan growth of 27.4% and 21.5%, respectively, was achieved. Credit quality continued to be strong and loan losses remained low when considered in light of the \$4.02 billion loan portfolio. The Company’s efficiency, or productivity, ratio improved (the lower the better) to 27.9% from 30.5% in 2006 and was substantially better than the industry average at 60.9%. The Company continues to be well capitalized as indicated by the Tier 1 and total capital ratios of 11.3% and 12.7%, respectively, which exceed both the Canadian Schedule I bank average ratios of 9.6% and 11.8% and minimum regulatory requirements of 7% and 10%.

**Table 2 – Key Performance Indicators**

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

	2007	2006	2005	2004	2003
<b>FINANCIAL PERFORMANCE MEASURES</b>					
Total revenue	\$ 368,881	\$ 282,549	\$ 234,704	\$ 181,839	\$ 141,365
Net income	90,241	67,815	60,861	44,551	29,507
Basic earnings per share	2.62	1.99	1.80	1.33	0.88
Diluted earnings per share	2.59	1.95	1.72	1.27	0.86
Dividends	0.44	0.31	0.18	0.13	0.08
Return on average shareholders' equity (ROE)	28.9%	27.4%	31.9%	31.4%	27.4%
Return on average total assets (ROA)	2.0%	1.9%	2.1%	2.0%	1.8%
Net interest margin (TEB) <sup>1</sup>	3.4%	3.3%	3.5%	3.9%	3.7%
Non-interest income to net revenue	24.7%	23.3%	24.2%	16.4%	21.1%
Efficiency ratio <sup>1</sup> (non-interest expense as a % of net revenue)	27.9%	30.5%	29.1%	31.8%	35.3%
Efficiency ratio <sup>1</sup> (TEB) (non-interest expense as a % of net revenue)	27.1%	29.9%	28.5%	30.8%	33.8%
<b>FINANCIAL CONDITION MEASURES</b>					
Total assets	\$ 4,973,307	\$ 3,902,316	\$ 3,284,829	\$ 2,568,513	\$ 1,897,176
Cash and securities-to-total assets	16.6%	12.5%	12.2%	9.9%	12.3%
Tier 1 capital ratio <sup>2</sup>	11.3%	12.7%	12.7%	12.0%	11.7%
Total capital ratio <sup>2</sup>	12.7%	14.2%	14.5%	14.0%	14.0%
Credit quality					
Provision for loan losses as a % of total loans	0.2%	0.1%	0.1%	0.2%	0.3%
Net impaired loans as a % of total loans	0.7%	0.7%	0.5%	0.4%	0.3%
Allowances for loan losses as a % of gross impaired loans	81.3%	86.5%	120.6%	147.8%	191.9%

<sup>1</sup> Reclassification – refer to Note 2 of the consolidated financial statements.<sup>2</sup> These figures relate to the Company's operating subsidiary, Home Trust Company.**Income Statement Highlights for 2007**

- > Earnings for the Company reflected increased lending growth during the 2007 fiscal year, with net income increasing to a record \$90.2 million in 2007, up \$22.4 million or 33.1% from the \$67.8 million recorded in 2006.
- > Total revenues increased by \$86.3 million or 30.6%, while net interest income and non-interest expenses increased by \$29.0 million or 24.8% and \$7.6 million or 16.3%, respectively, from 2006 levels.
- > Diluted earnings per share increased to \$2.59, up 32.8% over 2006 while basic earnings per share increased to \$2.62, up 31.7% over 2006.
- > Return on average shareholders' equity exceeded the Company's benchmark of 25%, ending the year at 28.9%, up from 27.4% in 2006.
- > The credit quality of the portfolio remained stable with a slight increase of \$1.0 million in write-offs, year-over-year. The provision for credit losses as a percentage of gross loans rose slightly to 0.2% from 0.1% in the prior year as a result of the incremental growth in the portfolio and the modest increases in write-offs and specific provisions.

**Balance Sheet Highlights for 2007**

- > Total assets increased by \$1.07 billion or 27.4% from one year ago to reach \$4.97 billion. The growth was primarily due to increases in the loans portfolio of \$713.0 million or 21.5%.
- > The Company experienced substantial growth in balances related to Equityline VISA. At December 31, 2007 the outstanding balance was \$302.7 million, a 40.2% increase over 2006.
- > Cash resources and securities increased by \$337.6 million or 69.2% over 2006.
- > Deposit liabilities increased by \$970.3 million or 28.2% over 2006. These proceeds were deployed to fund the growth of the Company's loans portfolio with excess funds invested in the Company's cash resources and securities portfolio.
- > The Tier 1 and total capital ratios declined from 2006 due to an intercompany dividend paid from Home Trust to Home Capital to facilitate the acquisition of PSiGate.

**Outlook**

The overall outlook for 2008 is continued positive financial performance with further market penetration anticipated in the Company's core markets. The Company anticipates the uncertainty in capital markets to persist into 2008 and, despite the anticipated continuing economic slowdown in the United States, it is expected that the Canadian economy will achieve moderate growth through 2008. Interest rates are expected to modestly decline through the first half of the year and level off thereafter.

# Management’s Discussion and Analysis

FINANCIAL PERFORMANCE REVIEW

### Net Interest Income and Margin

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

Table 3 – Net Interest Income (TEB)

	2007			2006		
For the years ended December 31 (000's except %)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense²	Average Rate
<b>Assets</b>						
Cash and cash resources	\$ 248,934	\$ 11,995	4.8%	\$ 157,337	\$ 3,262	2.1%
Securities	407,508	19,895	4.9%	286,438	12,785	4.5%
Loans	3,665,692	288,924	7.9%	3,053,044	230,844	7.6%
Taxable equivalent adjustment¹	–	5,455	–	–	2,996	–
Total earning assets	4,322,134	326,269	7.5%	3,496,819	249,887	7.1%
Other assets	115,678	–	–	96,754	–	–
<b>Total assets</b>	<b>\$ 4,437,812</b>	<b>\$ 326,269</b>	<b>7.4%</b>	<b>\$ 3,593,573</b>	<b>\$ 249,887</b>	<b>7.0%</b>
<b>Liabilities and shareholders' equity</b>						
Senior and subordinated term loan	\$ –	\$ –		\$ 5,000	\$ 317	6.6%
Deposits and borrowings	3,928,812	174,556	4.4%	3,172,577	129,334	4.1%
Total interest bearing liabilities	3,928,812	174,556	4.4%	3,177,577	129,651	4.1%
Other liabilities	196,547	–	–	168,120	–	–
Shareholders' equity	312,453	–	–	247,876	–	–
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,437,812</b>	<b>\$ 174,556</b>	<b>3.9%</b>	<b>\$ 3,593,573</b>	<b>\$ 122,549</b>	<b>3.6%</b>
<b>Net interest income (taxable equivalent basis)</b>		<b>\$ 151,713</b>			<b>\$ 120,236</b>	
<b>Net interest margin (net interest income divided by average total assets)</b>			<b>3.4%</b>			<b>3.3%</b>

¹ Please refer to page 8 of this Annual Report where taxable equivalent basis (TEB) is defined.  
² Reclassification – refer to Note 2 of the consolidated financial statements.

As indicated on the preceding table, net interest income (TEB) increased in 2007 by \$31.5 million, or 26.2% over 2006. The net interest margin improved slightly over 2006 to 3.4%.

The interest rate spread on new mortgage funds advanced during 2007 averaged 2.8% (3.2% in 2006). The tightening of the net interest spread on new mortgage funds advanced in 2007 was due to the growth in the commercial mortgage lending portfolio which is comprised of loans with a lower spread. Although the commercial mortgage lending portfolio had the effect of tightening spreads on new mortgage lending in 2007, the portfolio has had a positive impact on net income. The average net interest return from the total loans portfolio was 3.5% (average loans rate 7.9%; average deposit cost 4.4%) in 2007, consistent with 2006 (loans 7.6%; deposits 4.1%). Despite the relatively flat net interest margin year-over-year, net interest income grew 26.2% due to an increase in average earning assets of \$825.3 million. At year-end, the average interest rate on mortgages was 7.3% (7.2% in 2006), with personal and credit card loans at an average rate of 10.9% (10.5% in 2006), while the average rate for deposits was 4.4% (3.9% in 2006).

Overall, the average securities portfolio assets increased by \$121.1 million, or 42.3% over 2006. Over the course of 2007, the Company invested excess funds raised through deposits into both cash resources and the Company’s securities portfolio. The average holdings of bonds increased from \$171.3 million to \$213.4 million during the year. Average yield on the bond investments was stable during the year at 4.2%, consistent with 2006. The increased holdings and yields on the bonds resulted in an increase in bond income of \$1.8 million.

Average holdings of common shares declined from \$11.3 million to \$10.9 million year-over-year, and average holdings of preferred shares, income trust units and mutual funds increased from \$106.8 million to \$144.8 million. The average return, on a taxable equivalent basis, increased to 8.5% in 2007 from 7.3% in 2006. The increase over 2006 reflects the \$2.3 million deemed dividend received on the Great-West Lifeco Inc. Series L preferred shares.

## 2006 versus 2005

Net interest income (TEB) increased in 2006 by \$18.8 million, or 18.4% over 2005. The net interest margin declined to 3.3% from 3.5% reported in the prior year. The average net interest return from the total loans portfolio was 3.5% in 2006 and 2005. At year-end, the average interest rate on mortgages was 7.2% (6.8% in 2005) with personal credit card loans at an average rate of 10.5% (12.1% in 2005) while the average rate on deposits was 3.9% (3.7% in 2005). The drop in the average rate for personal credit card loans was due to a shift in product mix with the introduction of the Equityline VISA card in late 2005 that has lowered average rates. The average securities portfolio increased by \$70.5 million, or 17.1% over 2005, while the average bond holdings increased from \$117.5 million to \$171.3 million. The increase was the result of internally generated earnings and excess funds raised through the Company's deposit activities.

## Outlook for Net Interest Income and Margin

In 2008, the Company expects the net interest margin to remain stable. Although the Company experienced some mild net interest margin compression towards the end of the year, the outlook is for stable or improving spreads in 2008 as deposit expense is likely to decrease in response to general interest rate declines more quickly than mortgage rates.

## Non-interest Income

**Table 4 – Non-interest Income**

For the years ended December 31 (000's except %)	2007	2006	2005	Growth 2007/2006	Growth 2006/2005
Fees and other income <sup>1</sup>	\$ 21,533	\$ 13,483	\$ 10,202	59.7%	32.2%
Securitization income on					
mortgage-backed securities	27,367	21,038	20,935	30.1%	0.5%
Net realized and unrealized gain (loss)					
on investment securities	(1,614)	2,210	1,706	(173.0%)	29.5%
Net realized and unrealized gain (loss)					
on derivatives and short sales	781	(1,073)	(625)	172.8%	(71.7%)
<b>Total non-interest income</b>	<b>\$ 48,067</b>	<b>\$ 35,658</b>	<b>\$ 32,218</b>	<b>34.8%</b>	<b>10.7%</b>

<sup>1</sup> Reclassification – refer to Note 2 of the consolidated financial statements.

Non-interest income increased by \$12.4 million or 34.8% over 2006 led by strong growth in fees and other income of 59.7% and securitization income from MBS. This increase was net of \$1.6 million in realized losses experienced in 2007 on the Company's securities portfolio. The Company participated in the CMB program in 2007 and as such was required to enter into seller swaps and hedge swaps to manage interest rate risk and prepayment risk. The mark to market on these positions resulted in an unrealized gain of \$1.0 million at December 31, 2007.

Fees and other income, which are generated from the loans portfolio, increased by \$8.1 million, or 59.7% over 2006 as the Company experienced another strong year of growth in the average loan portfolio of 20.1%. Fees are generated from both new mortgage and VISA lending and the residual servicing of those portfolios. The mortgage lending segment contributed \$12.1 million, an increase of \$6.4 million or 114.5% over 2006, while the consumer lending segment contributed fees of \$9.2 million, an increase of \$1.5 million or 19.5% over 2006.

Securitization revenues on MBS increased to \$27.4 million at the end of 2007, up from \$21.0 million in 2006 as recognized under accounting principles described in Note 1 of the Company's 2007 consolidated financial statements. This income arose from the sale of twenty-one MBS pools totaling \$692.3 million of insured residential mortgages, which generated gains of \$22.8 million, as compared to nineteen pools sold in 2006, totaling \$546.3 million for \$17.9 million in gains. The increase in securitization gains year-over-year was primarily the result of increases in the volume of securitized mortgages as an increase in unscheduled prepayment rates had a diminishing effect on gains. In 2007, the Company initiated participation in the CMB program sponsored by CMHC and administered by Canada Housing Trust. The participation in this program provides the Company with an alternative distribution channel to diversify its funding stream for the five-year MBS pools. Included in the pools sold in 2007 are two pools issued through this program. The Company sold \$119.6 million of insured residential mortgages through the CMB program generating a gain of \$5.5 million. For additional information on the Company's securitization activities refer to Note 6 of the consolidated financial statements found on page 46 of this Annual Report.

In the normal course of business the Company sold certain holdings in its equity portfolio realizing total losses of \$1.6 million (\$2.2 million of gains in 2006). With the turmoil in the capital markets, the Company realized losses on certain common share holdings in 2007. The loss on sale of securities in 2007 was primarily the result of a redemption of Great-West Lifeco Inc. Series L preferred shares, where the redemption price was allocated between proceeds of disposition and a deemed dividend. The Company held this class of preferred shares at a market value of \$2.4 million, recording a loss of \$2.0 million and a deemed dividend of \$2.3 million. Further, within the available for sale portfolio, the Company holds 127,100 preferred shares in Quebecor World Inc. Prior to December 31, 2007, the Company exercised its option to convert the preferred shares into common shares under the terms of the prospectus. Subsequent to year-end, Quebecor World Inc. filed for bankruptcy protection and the Company expects to realize a loss of \$2.1 million, net of tax, in the first quarter of 2008. The Company monitors the available for sale portfolio on a quarterly basis to assess the likelihood of whether certain investments might be permanently impaired and require write-off on the Consolidated Statements of Income. For additional information, refer to the Significant Accounting Estimates and Critical Accounting Policies section on page 32 of this MD&A.

# Management's Discussion and Analysis

## 2006 versus 2005

Non-interest income increased by \$3.4 million, or 10.7% over 2005. The increases experienced in 2006 in comparison to 2005 were driven by the same factors as discussed above as the average loan portfolio increased 21.1% in comparison to 2005. Fees generated from credit cards and personal loans also had considerable growth in 2006 over 2005 increasing by 31.4%. Securitization gains on MBS remained consistent with 2005 despite an increase in sales in 2006. Securitization gains remained static in 2006 as the Company experienced tighter average spreads, which dropped to 2.6% from 2.7% in 2005 combined with an increase in average unscheduled prepayments from 9.2% in 2005 to 12.7% in 2006.

## Outlook for Non-interest Income

For 2008, non-interest income is expected to increase in response to new business growth in the mortgage and credit card operations. Further, with the continued participation in the CMB program administered through Canada Housing Trust, the Company anticipates another active year in the securitization program.

## Non-interest Expenses

Table 5 illustrates the changes in non-interest expenses components in 2007 and the two prior years.

**Table 5 – Non-interest Expenses**

For the years ended December 31 (000's except %)	2007	2006	2005	Growth 2007/2006	Growth 2006/2005
<b>Salaries and employee benefits</b>	<b>\$ 30,195</b>	<b>\$ 25,883</b>	<b>\$ 19,974</b>	<b>16.7%</b>	29.6%
<b>Premises and equipment</b>					
Rent – premises	3,058	2,914	1,932	4.9%	50.8%
Equipment rental and repairs	779	604	438	29.0%	37.7%
	3,837	3,518	2,370	9.1%	48.4%
<b>General and administrative</b>					
Fees and commissions <sup>1</sup>	214	184	136	16.3%	35.3%
Taxes and insurance	3,312	2,878	2,313	15.1%	24.4%
Consulting and other professional services	4,823	2,672	2,345	80.5%	13.9%
Other	1,953	2,532	2,149	(22.9%)	17.8%
Outsourcing services	1,700	2,321	2,952	(26.8%)	(21.4%)
Advertising and business development	2,116	1,858	1,108	13.9%	67.7%
Depreciation and amortization	2,043	1,492	2,874	36.9%	(48.1%)
Communications and travel expenses	1,580	1,267	876	24.7%	44.6%
Computer services	1,583	1,124	703	40.8%	59.9%
Stationery and publications	842	861	751	(2.2%)	14.7%
	20,166	17,189	16,207	17.3%	6.1%
<b>Total non-interest expenses</b>	<b>\$ 54,198</b>	<b>\$ 46,590</b>	<b>\$ 38,551</b>	<b>16.3%</b>	20.9%
Average assets	4,437,812	3,593,573	2,926,671		
<b>As a % of average assets</b>	<b>1.2%</b>	<b>1.3%</b>	<b>1.3%</b>		
<b>Efficiency ratio</b>					
Net interest income	\$ 146,258	\$ 117,240	\$ 100,292		
Other income	48,067	35,658	32,218		
Total revenue, net of interest expense	\$ 194,325	\$ 152,898	\$ 132,510		
TEB adjustment	5,455	2,996	2,779		
Total revenue TEB, net of interest expense	199,780	155,894	135,289		
As a % of total revenue, net of interest expense	27.9%	30.5%	29.1%		
As a % of total revenue TEB, net of interest expense	27.1%	29.9%	28.5%		

<sup>1</sup> Reclassification – refer to Note 2 of the consolidated financial statements.

Non-interest expenses increased to \$54.2 million from \$46.6 million in 2006, an increase of \$7.6 million or 16.3%. During the year, the overall staff level increased to 377 from 350 a year ago. Increased staffing was required across all areas of the business to support the growth in the Company's assets and broaden the senior management team. Professional fees increased in 2007 as the Company undertook a number of initiatives to improve business and risk management processes. Premises and equipment expenses increased during 2007 with the opening of a branch office in Montreal. Depreciation and amortization increased in 2007 as the Company increased its capital expenditures. Offsetting these increases was a continued drop in outsourced and other expenditures. The Company continues to realize enhanced cost savings

from bringing certain outsourced services in-house to better service its client base and realize enhanced cross-selling opportunities. As such, outsourcing costs declined in 2007 but this was augmented by increased computer services to facilitate this change.

The efficiency ratio improved from 2006 as a result of management's continued focus on cost containment. Productivity gains were realized from increased staffing levels to manage the growth in the Company's asset base. On January 1, 2007, the Company implemented new accounting standards with respect to financial instruments. The implementation of the new standards required the Company to reclassify the amortization of deferred finders' fees and deferred agent commissions from general and administrative to interest from loans and interest on deposits. This had the effect of improving the efficiency ratio from previous levels. The Company continues to be a leader in its peer group with ratios significantly below the average of 60.9% among the Schedule I Banks.

### 2006 versus 2005

Non-interest expenses increased to \$46.6 million in 2006, up \$8.0 million or 20.9% over 2005. Staffing levels increased during the year from 274 to 350 in response to business growth while premises cost 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. Due to the above-noted expense increases, the efficiency ratio (TEB) rose slightly to 29.9% from 28.5%.

### Outlook for Non-interest Expenses

The Company anticipates another year of growth in total assets including assets under administration that will result in corresponding increases in non-interest expenses during 2008. 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 27% to 33%.

### Provision for Credit Losses

**Table 6 – Provision for Credit Losses**

For the years ended December 31 (000's except %)	2007			2006			2005		
	Specific	General	Total	Specific	General	Total	Specific	General	Total
Residential and other mortgages	\$ 1,184	\$ 2,798	\$ 3,982	\$ 521	\$ 1,133	\$ 1,654	\$ (416)	\$ 2,606	\$ 2,190
Personal and credit card loans	727	823	1,550	633	1,204	1,837	569	369	938
Secured loans	375	135	510	186	721	907	-	-	-
<b>Total provision for credit losses</b>	<b>\$ 2,286</b>	<b>\$ 3,756</b>	<b>\$ 6,042</b>	<b>\$ 1,340</b>	<b>\$ 3,058</b>	<b>\$ 4,398</b>	<b>\$ 153</b>	<b>\$ 2,975</b>	<b>\$ 3,128</b>
Average loans	<b>\$ 3,665,692</b>			\$3,053,044			\$2,520,501		
As a % of average loans	<b>0.2%</b>			0.1%			0.1%		

The provision for credit losses increased to \$6.0 million in 2007, up \$1.6 million or 37.4% over 2006. The general provision for credit losses increased to \$3.7 million in 2007, up \$0.6 million or 22.8% over 2006 while the specific provision increased to \$2.3 million in 2007, up \$1.0 million or 70.6% over 2006. The Company believes that one of the primary factors influencing the provision for credit losses is the level of formation of new impaired loans identified. At December 31, 2007, the gross impaired loans grew to \$30.0 million, an increase of \$6.6 million over the \$23.4 million identified at December 31, 2006. The increase in the new impaired loans arose primarily from the residential mortgage portfolio, an increase of \$6.3 million over 2006, and is reflected in the increase in specific provision ending the year at \$1.2 million compared to the \$0.5 million recorded in 2006. The moderate increases in the specific provision for loan losses for personal and credit card loans and secured loans also reflects the modest \$0.6 million increase in gross impaired loans. Specific provisions are based on individual loans, where possible, and on a pool basis for secured and unsecured credit cards. Refer to Table 13 in this MD&A for a summary of the year-over-year changes in impaired loans.

The increase in the general provision largely reflects the overall growth and changing risk profile of the Company's loans portfolio. Although the residential portfolio remains the largest component of the total loans portfolio (80.3% at December 31, 2007), this is down from 2006 (87.2% of the total loans portfolio) as the Company continues to experience positive growth in other mortgages, personal and credit card loans and secured loans. In particular, the Company experienced growth in other mortgages (primarily commercial mortgage loans) of \$270.6 million over 2006 which by their nature can attract more risk than residential mortgages in a market downturn. As such, the increase in the general provision for residential and other mortgages from \$1.1 million in 2006 to \$2.8 million in 2007 largely reflects the growth in the other mortgage portfolio.

The decrease in the general provision for credit losses for the personal and credit card loan portfolio of \$0.4 million year-over-year is due to the improved credit quality of the credit card portfolio. This is reflected in the weighting of credit cards accounts secured by cash

# Management’s Discussion and Analysis

or collateral mortgages which increased from 99.3% at December 31, 2006 to 99.7% at December 31, 2007. The Equityline VISA portfolio has a loan to value of 69.7%, which illustrates the Company's security interest in the portfolio. Further, the growth in receivable balances year-over-year in the personal and credit card portfolio in 2007 was down slightly to \$88.4 million from the \$120.4 million growth experienced in 2006 over 2005. As such, the additions to the general provision in 2007 were at a more moderate pace reflecting the growth rate. Similarly, the secured loan portfolio grew by \$12.0 million in 2007, a drop from the \$26.7 million growth experienced during 2006 and as such the additions to the general provision grew accordingly.

As a percentage of the average loan portfolio, the provision climbed slightly to 0.2% from 0.1% in 2006. This is consistent with the average reported by the Schedule I Banks. At December 31, 2007 the Company had 99.7% of the total loan portfolio secured by way of cash deposits, mortgages or collateral mortgages. Further, where the loan to value ratio is low, the risk of loss to the Company is low and no provision will be recorded. At December 31, 2007 the average loan to value of the Company's mortgage loan portfolio was 65.7% an improvement from the 66.3% achieved at December 31, 2006. The nominal loss experience and the lower risk levels of the residential first mortgage portfolio that makes up 65.0% of the Company's total assets resulted in a policy decision to reduce the general allowance as a percentage of total assets. The result was a general allowance at December 31, 2007 of 85.1 basis points of risk-weighted assets (refer to Table 10 for risk-weighted assets) compared to 95.1 basis points at December 31, 2006.

### 2006 versus 2005

The provision for credit losses in 2006 was \$4.4 million or 0.1% of the average total loans portfolio compared to \$3.1 million or 0.1% of the average total loans portfolio in 2005. The increase from 2005 was the result of the overall increase in the loans portfolio, specific provisions and relative risk of the portfolio.

### Outlook for Provision for Credit Losses

The provision for credit losses is expected to be between 15 and 25 basis points of average loans in 2008. Specific allowances will continue to be determined on an account-by-account basis and reviewed monthly. However, the provision for credit losses 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 2007 amounted to \$43.8 million for an effective tax rate of 32.7% compared to \$34.1 million in 2006 and an effective tax rate of 33.5%. These effective rates are lower than the legislated federal and provincial rates due to tax-exempt dividend income and, in the fourth quarter of 2007, the federal government enacted legislation to reduce corporate tax rates for taxation years commencing in 2008. The tax-exempt income lowered the tax provision by \$3.5 million in 2007 and \$1.9 million in 2006. Future tax assets and liabilities have been revalued and the net effect was a decrease in the provision for income taxes of \$1.5 million in 2007.

Capital losses of \$2.8 million (\$2.8 million in 2006) 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 general and administration expenses amounted to \$2.4 million, an increase of \$0.4 million over the \$2.0 million reported in 2006. Capital taxes increased as a result of the Company's higher retention of equity and growth in its income tax reserves.

Note 12 to the consolidated financial statements on page 51 of the Annual Report offers more information about the Company's condition regarding current income taxes and provisions for income taxes.

### Outlook for Taxes

The Company's effective income tax rate is expected to remain within the range of 30% to 33% in 2008, reflective of tax-exempt dividend income. Capital taxes will increase modestly with the anticipated growth in income for 2008 and resulting higher retained earnings.

BALANCE SHEET REVIEW

### Overview

The Company reported assets of \$4.97 billion at December 31, 2007 compared with \$3.90 billion at December 31, 2006. This increase of \$1.07 billion or 27.4% over 2006 was primarily attributable to the growth in the core mortgage business. Total mortgage loans increased \$616.3 million or 20.2%, continuing the Company's track-record of double-digit loan growth over each of the past eleven years. Taking into consideration the growth in the off-balance sheet securitization program of \$146.0 million, the year-end growth in loans and MBS loans under administration increased \$1.06 billion over 2006. Deposit liabilities as at December 31, 2007 reached \$4.41 billion, an increase of \$970.3 million or 28.2% over 2006 as a result of the funding requirements to support the overall loan growth of 21.5%. Against a backdrop of capital market uncertainty in the latter half of 2007, the Company remained liquid and benefited from a "flight to quality" by investors. The Company ended 2007 with \$627.1 million in liquid assets, up 85.0% from the liquidity position a year ago.

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

**Table 7 – Balance Sheet Accounts**

As at December 31 (000's except %)	2007	2006	2005	Growth 2007/2006	Growth 2006/2005
Cash resources and securities <sup>1</sup>	\$ 825,217	\$ 487,665	\$ 399,885	69.2%	22.0%
Residential mortgages	3,231,555	2,885,806	2,583,694	12.0%	11.7%
Personal and credit card loans	325,393	237,037	116,628	37.3%	103.2%
Other mortgages	406,319	135,765	69,572	199.3%	95.1%
Secured loans	82,304	70,250	43,565	17.2%	61.3%
General allowance for credit losses	(23,400)	(19,644)	(16,586)	19.1%	18.4%
Total loans	4,022,171	3,309,214	2,796,873	21.5%	18.3%
Other assets	125,919	105,437	88,071	19.4%	19.7%
<b>Balance sheet assets</b>	<b>\$ 4,973,307</b>	<b>\$ 3,902,316</b>	<b>\$ 3,284,829</b>	<b>27.4%</b>	<b>18.8%</b>
<b>Subordinated and term loan</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>-</b>	<b>(100.0%)</b>
<b>Deposits</b>	<b>4,413,984</b>	<b>3,443,640</b>	<b>2,901,515</b>	<b>28.2%</b>	<b>18.7%</b>
<b>Other liabilities</b>	<b>211,283</b>	<b>181,810</b>	<b>154,429</b>	<b>16.2%</b>	<b>17.7%</b>
<b>Shareholders' equity</b>	<b>348,040</b>	<b>276,866</b>	<b>218,885</b>	<b>25.7%</b>	<b>26.5%</b>
Cash resources and securities as a % of balance sheet assets	16.6%	12.5%	12.2%		
Loans as a % of balance sheets assets	80.9%	84.8%	85.1%		

<sup>1</sup> Included in securities are available for sale and held for trading securities. See Note 4 of the consolidated financial statements.

### Cash Resources and Securities

Total cash resources and securities at December 31, 2007 increased by \$337.6 million or 69.2% over 2006 to end the year at \$825.2 million. This represented 16.6% of the Company's total assets as at December 31, 2007 compared to 12.5% at December 31, 2006. The growth was primarily generated from excess funds raised through deposits as well as internally generated earnings from the business.

Cash resources, combined with government and corporate bonds, are included in the Company's liquidity reserve. Cash resources increased by \$210.8 million to end the year at \$354.3 million resulting in part from excess funds raised through the Company's deposit business. The securities portfolio (available for sale and held for trading), which is made up of MBS securities, common and preferred stocks, income trust units and mutual funds, increased \$126.8 million, or 36.8% to end the year at \$470.9 million.

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

At December 31, 2007, the preferred stock portfolio consisted of 84.4% of P1 and P2 rated stocks (85.6% in 2006). These securities are typically purchased with the intention of holding them to maturity or until market conditions make alternative investments more attractive. These securities had a deficiency in market value compared to book value of \$5.0 million at year-end, down from a surplus of \$3.0 million at December 31, 2006. With the implementation of new financial instrument standards on January 1, 2007 the unrealized loss is recorded in Accumulated Other Comprehensive Income until such time as management determines that an other than temporary impairment has occurred. For further information refer to Note 4 in the consolidated financial statements of the Annual Report.

### Outlook for Cash Resources and Securities

In 2008, cash resources and securities will continue to grow proportionately with the growth in total assets. Asset growth will increase the need for liquid assets, and excess funds will be invested in the securities portfolio when not required for loan growth. This growth of cash resources and securities is expected to range from 10% to 15% of the total assets balance.

### Loans Portfolio

The Company's loans portfolio consists of residential and other mortgages, personal and credit cards loans, and loans which are secured by residential second mortgages. At December 31, 2007 the loans portfolio amounted to \$4.02 billion up \$713.0 million or 21.5% over the \$3.31 billion recorded at December 31, 2006.

The Company's core business is residential mortgage lending, which represented 79.9% of the total gross loans portfolio while other mortgage loans represented 10.0% of the total gross loans portfolio.

All mortgages are secured by real property. Growth in total mortgage assets was primarily due to continued lending within the Company's existing service area. Relatively low interest rates continue to make house purchases attractive for many Canadians. New housing starts in Canada increased slightly from 227,900 in 2006 to 228,343 in 2007. The Company continues to provide mortgage financing for the purchase of new homes, the secondary homebuyers' market and refinancing.

# Management's Discussion and Analysis

At December 31, 2007 residential mortgage loans totaled \$3.23 billion (88.8% of the total mortgage loan portfolio), as compared to \$2.89 billion (95.5% of the total mortgage loan portfolio) at December 31, 2006. The remaining 11.2% (4.5% in 2006) was made up of commercial and other non-residential properties, the most significant type being stores with adjoining apartments, which represent 3.8% of the total mortgage loan portfolio (3.1% of the total mortgage loan portfolio in 2006). The Company began accelerating commercial mortgage lending activities in early 2007. Mortgages on commercial and non-residential properties increased significantly in 2007 by \$270.6 million or 199.3% over 2006. This increase was largely due to an increase in stores with apartments of \$46.6 million, office buildings of \$44.6 million, industrial buildings of \$30.7 million and warehouse facilities of \$50.9 million. The security priority of the mortgage loans portfolio remained relatively stable with 99.6% first mortgages, compared to 99.7% in 2006.

CMHC-insured mortgages amounted to \$195.1 million at December 31, 2007 (\$145.1 million in 2006), which represented 5.4% of the total mortgage loan portfolio in 2007 and 4.4% in 2006. This area of lending remains intensely competitive; however, due to the success of its MBS program and its entry into the CMB program, the Company intends to continue to operate in this area.

As a result of expansion activity in recent years, the Company is engaged in lending across Canada. New mortgage lending in non-Ontario markets accounted for 36.4% of the total in 2007, down marginally from 39.0% in 2006. Of the non-Ontario markets, the Company has seen positive growth in the majority of its geographic markets and particularly in the western provinces.

The Company continues to realize accelerated growth in mortgage lending as illustrated by advances increasing to \$2.86 billion in 2007 or 44.1% over \$1.98 billion in 2006. The Company is also committed to refinance existing clients as their mortgage loans mature. The Company successfully refinanced \$906.3 million in mortgage loans during 2007.

At December 31, 2007 the personal loans and credit card loans portfolio totaled \$325.4 million, an increase of \$88.4 million or 37.3% over the \$237.0 million recorded at December 31, 2006. The credit card operation ended the year with 22,913 accounts and contractual commitments of \$392.2 million compared to 24,236 accounts and \$296.6 million at December 31, 2006. Contractual commitments with cardholders to extend credit up to established credit limits represent the maximum potential credit risk, assuming that the credit limit amount is fully utilized, the client defaults, and collection efforts are unsuccessful. However, the mix of this credit card portfolio has changed due to the discontinuance of unsecured products in 2000 and the launch of the Equity Plus VISA product in 2002, subsequently renamed Equityline VISA in January 2006. At December 31, 2007, secured and collateralized credit card accounts amounted to 99.7% of outstanding balances, as compared to 99.3% at December 31, 2006. Outstanding commitments for the Equityline VISA portfolio were \$5.9 million at December 31, 2007 compared to \$7.7 million at December 31, 2006.

At December 31, 2007 the personal loans portfolio increased to 5,029 accounts from 4,730 at December 31, 2006. This increase was the result of the Company's decision to begin offering loans in the home improvement business that saw positive growth in 2007. The loans continue to be sourced through retailers that are well established in their respective industries. The Company will maintain and service existing accounts with these retailers.

In 2003 the Company entered into an agreement with Regency Finance Corp., trustee for QSPE-HCC Trust, to act as the agent for recommending and servicing second mortgage loans. Once these loans are funded, the trustee securitizes these mortgage loans and sells them at par value with a committed interest rate and participation in any surplus funds after all expenses have been paid. Under this program, second mortgage loans of \$40.2 million (\$45.5 million in 2006) were advanced and the Company purchased \$38.3 million (\$43.8 million in 2006) in Notes Receivable from the trust. The Company effectively assumes all default risk on these mortgage loans through the Notes Receivable. For the year ended December 31, 2007 these securities had an average yield of 6.9% (6.7% in 2006). The second mortgages securing the Notes Receivable were all underwritten in accordance with lending criteria as set out by Regency Finance Corp. As at December 31, 2007 only twelve mortgages were in arrears over 90 days for a total of \$0.4 million compared to \$0.3 million at December 31, 2006, 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 mortgage portfolio will closely match the anticipated growth in the Company's total assets for 2008. The Company will continue to diversify its geographic holdings where it is projected that provinces other than Ontario will account for 30% to 35% of new business in 2008 supported by positive economic indicators in the western provinces and our continued expansion into the Quebec market. The credit card loans portfolio is expected to have another year of growth as the Company continues its marketing initiatives and cross-selling efforts. We anticipate a growth rate of approximately 20% to 30% over the 2007 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 %)	2007	2006	2005	Growth 2007/2006	Growth 2006/2005
<b>Payable on demand</b>					
Savings	\$ 229	\$ 6	\$ 9	3,716.7%	(33.3%)
Real estate tax accounts	30,564	27,865	26,236	9.7%	6.2%
	30,793	27,871	26,245	10.5%	6.2%
<b>Payable on a fixed date</b>					
Short-term certificates and savings	84,037	72,639	78,136	15.7%	(7.0%)
VISA card security deposits	17,668	19,849	21,501	(11.0%)	(7.7%)
Debenture investment certificates	4,072,541	3,121,030	2,555,555	30.5%	22.1%
Registered retirement savings plans	139,472	132,861	145,336	5.0%	(8.6%)
Registered retirement income funds	69,473	69,390	74,742	0.1%	(7.2%)
	4,383,191	3,415,769	2,875,270	28.3%	18.8%
<b>Total</b>	<b>\$ 4,413,984</b>	<b>\$ 3,443,640</b>	<b>\$ 2,901,515</b>	<b>28.2%</b>	<b>18.7%</b>

Deposits increased by \$970.3 million, or 28.2% in 2007 in order to fund the growth in the loans portfolio of \$713.0 million. Deposits are primarily generated through the deposit agent network. The agent network provides the Company with access to a very significant volume of potential deposits which are sourced almost entirely from individual investors and small businesses. The Company has no reliance on wholesale funding markets. The cost of accessing this network is the commission paid on deposits. It is the Company's conclusion that commission expenditures are considerably more cost effective than increasing the number of Company-owned branches. The Company has contractual agreements with certain major national investment dealers to offer Home Trust's deposit products to their customers. As well, the Company has agreements in place with more than 180 other independent deposit brokers who offer Home Trust's deposit products to their clients. In 2007, 91.4% of new deposits were raised through the agent network compared to 85.4% in 2006. The cost of commissions amounts to 25 basis points, on an annualized basis.

## Outlook for Deposits

The Company will continue to expand the agent network through agreements with additional deposit brokers that meet 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 \$20.5 million or 19.4% to end the year at \$125.9 million. These assets consist of securitization receivable, accrued interest receivable, goodwill and intangible assets, capital assets, and other prepaid assets. The securitization receivable is comprised of residual interest spreads on the pools of securitized mortgages and accounted for \$64.0 million of other assets. For a further discussion on the securitization receivable, refer to the Derivatives and Off-balance Sheet Arrangements section or Note 6 of the consolidated financial statements of this Annual Report. Other significant components, except for goodwill and intangible assets, are variable in nature and will continue to grow as the interest earnings asset base grows.

Other liabilities increased \$29.5 million or 16.2% over 2006. The growth in the Company's deposits and borrowings increased the interest payable, while accelerated securitization activities increased other liabilities from the timing of payments for the administration of the off-balance sheet MBS portfolio.

## Shareholders' Equity

Total shareholders' equity increased \$71.2 million or 25.7% over the prior year on earnings of \$90.2 million offset by dividend distributions of \$14.8 million and adjustments of \$4.9 million relating to the adoption of new financial instrument accounting standards. The remaining changes resulted from fair value adjustments for stock based compensation activities and the repurchase of capital stock by the Company under the Normal Course Issuer Bid, which commenced on August 1, 2007. The earnings contributed to the return on shareholders' equity of 28.9% versus 27.4% in 2006. This return on equity when combined with the \$0.44 per common share dividend paid or payable in fiscal 2007 (\$0.31 per common share in 2006) is illustrative of the Company's continued commitment to enhancing shareholder value.

# Management’s Discussion and Analysis

## Accumulated Other Comprehensive Income

With the implementation of new accounting standards relating to financial instruments (see discussion of Changes in Accounting Policies on page 33 of the MD&A), a new statement of Other Comprehensive Income (OCI) has been added to the consolidated financial statements. Comprehensive income is composed of income and other comprehensive income. The Company’s OCI includes unrealized gains and losses on available for sale securities and unrealized gains and losses on the securitization receivable. At December 31, 2007, the balance was comprised of unrealized losses on available for sale securities, net of tax of \$5.6 million offset by unrealized gains on the securitization receivable of \$0.7 million, for a net unrealized gain of \$4.9 million. Gains of \$0.8 million were transferred to net income. The remaining balance of \$0.6 million in Accumulated Other Comprehensive Income (AOCI) is comprised of an opening adjustment on the transition to the new financial instrument standards. For further information refer to Note 2 of the consolidated financial statements on page 43 of this Annual Report.

OPERATING SEGMENT REVIEW

The following table summarizes the operating segments of the Company. For more detailed information, refer to Note 18 of the consolidated financial statements on page 56 of this Annual Report.

Table 9 – Summary of Operating Segments

	2007				2006			
	Mortgage Lending <sup>1</sup>	Consumer Lending <sup>2</sup>	Other <sup>3</sup>	Total	Mortgage Lending <sup>1</sup>	Consumer Lending <sup>2</sup>	Other <sup>3</sup>	Total
Total revenue	\$ 296,344	\$ 41,933	\$ 30,604	\$ 368,881	\$ 235,387	\$ 27,565	\$ 19,597	\$ 282,549
as a percentage	80.3%	11.4%	8.3%		83.3%	9.8%	6.9%	
Net income	\$ 62,030	\$ 15,090	\$ 13,121	\$ 90,241	\$ 50,449	\$ 10,143	\$ 7,223	\$ 67,815
as a percentage	68.7%	16.7%	14.6%		74.4%	15.0%	10.6%	
Non-interest expense	\$ 35,050	\$ 5,068	\$ 14,080	\$ 54,198	\$ 31,940	\$ 5,011	\$ 9,639	\$ 46,590
Efficiency ratio	26.2%	16.8%	46.2%	27.9%	28.8%	22.0%	50.0%	30.5%
Efficiency ratio (TEB)	26.2%	16.8%	39.2%	27.1%	28.8%	22.0%	43.3%	29.9%
Net interest margin (TEB)	2.6%	7.2%	6.0%	3.4%	2.8%	8.2%	4.9%	3.3%
Average assets	\$ 3,528,795	\$ 292,621	\$ 616,396	\$ 4,437,812	\$ 3,006,651	\$ 184,267	\$ 402,656	\$ 3,593,573

<sup>1</sup> Mortgage Lending – includes mortgage lending and secured loans.  
<sup>2</sup> Consumer Lending – includes Retail Services, Credit Cards and PSiGate.  
<sup>3</sup> Other – includes other investments, dividend income and corporate activities.

For the year ended 2007, the contribution of each operating segment to the Company’s net income was as follows: 68.7% from Mortgage Lending including secured loans, 16.7% from Consumer Lending and 14.5% from Other. The Other segment also includes dividend income, which is tax advantaged for the Company and, therefore, tax provisions in this segment are correspondingly reduced by the tax reduced dividend income.

The mortgage segment still continues to be the most significant contributor to the Company’s financial results even though it decreased to 68.7% in 2007 from 74.4% last year. The mortgage segment continues to operate on a productive basis with the efficiency ratio (TEB) at 26.2% for 2007, an improvement from 28.8% in 2006. The mortgage segment realized productivity gains in 2007 from the investment in full time employees during 2006 to manage the existing and expected growth in that line of business. This business segment recorded average assets of \$3.53 billion in 2007, representing 79.5% of total average assets and 17.4% higher than the \$3.01 billion average assets recorded in 2006.

Consumer lending continued to grow and diversify the Company’s revenue base. With the acquisition of PSiGate in the fourth quarter of 2007, the Company is now positioned to offer full payment card services and expects this segment to remain an important contributor to the overall growth in the business. The Equityline VISA receivable amounted to \$302.7 million at December 31, 2007 compared to \$215.9 million at December 31, 2006, comprising 96.3% (94.0% at December 31, 2006) of the total credit card receivable balance of \$314.3 million (\$229.8 million at December 31, 2006). These receivables bear an average interest rate of 10.9% (10.2% in 2006) on unpaid balances. Consumer lending contributed 16.7% to net income in 2007 up from 15.0% contributed in 2006. This was realized through increased total line of business revenues and improved operating efficiencies realized during the year. The efficiency ratio (TEB) for consumer lending improved to 16.8% in 2007 from the 22.0% recorded at the end of 2006.

The Other segment contributed 14.6% to net income during 2007 up from the 10.6% contributed in 2006. The efficiency ratio (TEB) decreased to 39.2% from 43.3% in 2006 due to strong growth in revenues from an increasing asset base which outpaced the increase in corporate operating expenditures.

## Outlook for Operating Segments

The Company’s mortgage segment will continue to be the major contributor to the earnings of the Company in 2008. Growth in Equityline VISA and the integration of PSiGate will enable the Company to provide full payment card services in 2008, which will continue to diversify the Company’s overall earnings sources. Other net income primarily generated from the Company’s securities portfolio will continue to grow and is expected to represent a similar percentage of overall net income in 2008.

## 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 promoting confidence among depositors, creditors, regulators and shareholders. The Company's Capital Management Policy governs the quantity and quality of capital held. The objective of the policy is to ensure that regulatory capital requirements are met while also providing a sufficient return to investors. The Risk and Capital Committee and the Board 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 \$682.2 million, largely due to growth in conventional mortgages, claims on banks and municipal governments and other assets.

Table 10 provides a further breakdown of risk-weighted assets.

**Table 10 – Risk-weighted Assets (RWA)**

(Based only on the subsidiary, Home Trust Company)

	2007			2006		
As at December 31 (000's except %)	Balance Sheet Amount	Risk-Weighting <sup>1</sup>	Risk-weighted Amount	Balance Sheet Amount	Risk-Weighting <sup>1</sup>	Risk-weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	\$ 433,390	0%	\$ –	\$ 454,882	0%	\$ –
Claims on banks and municipal governments	410,619	20%	82,124	42,619	20%	8,524
Conventional mortgages on owner-occupied residences	2,929,468	50%	1,464,734	2,721,918	50%	1,360,959
Other assets	1,177,754	100%	1,177,754	679,040	100%	679,040
General allowance (limited to 0.875% of RWA)	23,400	100%	23,400	17,925	100%	17,925
<b>Total assets</b>	<b>\$ 4,974,631</b>		<b>\$ 2,748,012</b>	<b>\$ 3,916,384</b>		<b>\$ 2,066,448</b>
<b>Derivatives and loan commitments</b>						
Loan commitments	531,151	0%	–	276,411	0%	–
Financial instruments	2,794	20%	559	–	20%	–
<b>Total</b>	<b>\$ 5,508,576</b>		<b>\$ 2,748,571</b>	<b>\$ 4,192,795</b>		<b>\$ 2,066,448</b>

<sup>1</sup> Calculated using guidelines issued by OSFI.

### Capital Structure and Regulatory Ratios

There are two capital standards addressed in the Company's Capital Management: the asset to capital multiple ratio and the risk-based capital ratio referred to as the BIS ratio. Both ratios are reviewed and approved quarterly by the Board.

Capital adequacy for Canadian banks and trust companies is governed by the requirements of OSFI. These requirements are consistent with the published framework to measure the adequacy of capital for international banks issued by the Bank for International Settlements (BIS). 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 capital multiple is currently authorized at 17.5 times its capital and reserves.

Table 11 shows both the asset to capital multiple and the risk-based capital ratio.

# Management’s Discussion and Analysis

**Table 11 – 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)	2007	2006	2005	Growth 2007/2006	Growth 2006/2005
<b>Tier 1 capital</b>					
Capital stock	\$ 23,497	\$ 23,497	\$ 23,497	-	-
Contributed surplus	951	951	951	-	-
Retained earnings	293,523	236,938	184,944	23.9%	28.1%
Accumulated other comprehensive loss	(6,211)	-	-	100%	-
Total Tier 1	311,760	261,386	209,392	19%	24.8%
<b>Tier 2 capital</b>					
General allowance for credit losses (limited to 0.875% of RWA)	23,400	17,925	14,317	30.5%	25.2%
Subordinated debentures	15,000	15,000	15,000	-	-
Total Tier 2	38,400	32,925	29,317	16.6%	12.3%
<b>Total regulatory capital</b>	<b>\$ 350,160</b>	<b>\$ 294,311</b>	<b>\$ 238,709</b>	<b>19.0%</b>	<b>23.3%</b>
<b>Regulatory capital to risk-weighted assets</b>					
Tier 1 capital	11.3%	12.7%	12.7%		
Tier 2 capital	1.4%	1.6%	1.8%		
<b>Total regulatory capital ratio (BIS ratio)</b>	<b>12.7%</b>	<b>14.3%</b>	<b>14.5%</b>		
<b>Asset to regulatory capital multiple</b>	<b>14.2</b>	<b>13.3</b>	<b>13.8</b>		

Home Trust's total BIS ratio declined to 12.7% in 2007 from 14.3% in 2006. The slight decline in total capital from 2006 was due to an intercompany dividend paid from Home Trust to Home Capital during the year to facilitate the acquisition of PSiGate, directly affecting Tier 1 capital. The Tier 2 capital increased by \$5.5 million due to an increase in the allowable portion of the general allowance from \$17.9 million in 2006 to \$23.4 million at the end of 2007. Both ratios are well in excess of the minimum levels prescribed by OSFI, being 10% for total capital, and 7% for Tier 1 capital in 2007.

At December 31, 2007 the asset to capital multiple was 14.2 times, which remained below the maximum permitted by OSFI of 17.5 times, compared to 13.3 times as at December 31, 2006.

### Basel II Capital Accord

OSFI requires that federally regulated financial institutions in Canada must be compliant with the revised Basel II capital framework commencing January 1, 2008. Having evolved from its predecessor, Basel I, Basel II articulates a framework and methodology by which institutions are required to calculate their regulatory capital. Basel II takes a risk-based view of capital adequacy and offers a range of options to financial institutions to effect its implementation in a manner most suitable to each. The Company has undertaken a project to implement the Basel II framework and was compliant effective January 1, 2008.

Basel II consists of three main initiatives, or “pillars.” Pillar 1 sets out minimum regulatory requirements on a risk-based assessment of credit, market, and operational risks. Institutions may choose from the formulaic Standardized Approach, or the more advanced Internal Ratings Based Approach in calculating credit risk capital needs. Home Trust is using the Standardized Approach. Similarly, Basel II offers a choice between the Basic Indicator, Standardized, or Advanced Measurement Approaches in calculating operational risk. Home Trust is using the Basic Indicator Approach.

Pillar 2 sets out the expectation that financial institutions will assess all material risks to which the organization is exposed and set aside sufficient capital to provide for those specific risks. To meet the requirements of Pillar 2, institutions will focus on those risks not specifically defined in Pillar 1 and will likely rely on “what if” scenarios and stress tests to simulate the impacts to their income and capital from a range of events and exogenous shocks not normally experienced in day-to-day operations. This analysis will serve to demonstrate how robust and resilient an institution is in the face of unexpected events and will be carefully scrutinized by OSFI for rigour of analysis and quality of conclusions about capital adequacy.

Pillar 3 requires institutions to disclose their approaches and methodologies used to comply with Basel II with the view to making these disclosures highly transparent, comparable across institutions, and therefore subject to the discipline of the marketplace. It is expected that through this market discipline, the safety and soundness of deposit-taking institutions will be enhanced. The Company will introduce new disclosures in 2008 to comply with this requirement.

### Share Repurchase Program

On July 30, 2007, the Company filed a new Normal Course Issuer Bid through the facilities of the Toronto Stock Exchange in order to repurchase 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 prospects and, as such, at times the repurchase of shares may represent an appropriate and desirable business decision.

During 2007, the Company repurchased 110,400 common shares (2006 – 32,000 common shares) for an aggregate cost of \$3.9 million (2006 – \$0.9 million) under the Normal Course Issuer Bid.

**Derivatives and Off-balance Sheet Arrangements**

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

From time to time, the Company may enter into hedging transactions to mitigate structural interest rate exposure. For example, the Company can utilize interest rate swaps to hedge the economic exposure to movements in interest rates between the time that the mortgages are committed to being funded under asset securitization 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 a 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. Further, the Company participates in the CMB program sponsored by CMHC and administered by Canada Housing Trust. Through this program, the Company sells five-year MBS pools to Canada Housing Trust which in turn finances the purchase by issuing a five-year CMB. Under this program, the Company must manage the mismatch and reinvestment risk between the amortizing five-year MBS pool and the five-year CMB. As part of this arrangement, the Company entered into a seller swap, which has the effect of paying the fixed interest payments on the CMB and receiving the total return on the MBS pool and the reinvestment assets. As well, the Company entered into a hedge swap to manage the reinvestment risk between the amortizing MBS pool and the five-year CMB. These transactions do not qualify for hedge accounting under CICA Handbook Section 3865 *Hedges*, and therefore the Company must mark-to-market the swaps through the Consolidated Statement of Income.

There were no outstanding interest rate swap contracts to hedge commitment risk at December 31, 2007 or December 31, 2006. With respect to the CMB program, at December 31, 2007 the Company notionally held \$118.5 million of seller swaps and \$2.2 million of accreting hedge swaps. These outstanding swap arrangements at December 31, 2007 were marked-to-market for unrealized gains of \$1.0 million. For further information refer to Note 15 of the consolidated financial statements of this 2007 Annual Report.

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 entities, in exchange for cash. When the assets are sold, the Company retains rights to certain excess interest spreads and servicing liabilities, which constitute retained interests. The Company periodically reviews the value of the retained interest and any permanent impairment in value is charged to income, if applicable. The Company continues to administer all the securitized assets after these sales. As at December 31, 2007 outstanding securitized mortgage loans under administration amounted to \$1.46 billion (\$1.11 billion at December 31, 2006) and retained interests were \$64.0 million (\$51.0 million at December 31, 2006). For additional information refer to Note 6 of the consolidated financial statements of this 2007 Annual Report.

In the normal course of its business, the Company offers credit products to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to \$447.3 million at December 31, 2007 compared to \$201.8 million at December 31, 2006. Included within the outstanding commitments are unutilized mortgage advances of \$238.0 million at December 31, 2007 compared to \$21.7 million at December 31, 2006. Commitments for the loans remain open for various dates through July 2009. As at December 31, 2007, unutilized credit card balances amounted to \$77.9 million, compared to \$66.8 million at December 31, 2006. Outstanding commitments for the Equityline VISA portfolio were \$5.9 million at December 31, 2007, compared to \$7.7 million at December 31, 2006.

**Credit Ratings**

Table 12 presents Home Capital's and Home Trust's credit ratings as established by rating agencies. These credit ratings would allow the Company to obtain institutional debt financing should the need arise for additional capital. During 2007, the Company had no requirements for such financing and thus these ratings have had no impact on the Company's financing costs to date. During 2007, Fitch Rating upgraded their outlook from stable to positive for both Home Trust and Home Capital reflecting both companies' strong performance and prudent capital management.

**Table 12 – Credit Ratings**

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

**Outlook for Capital Management**

The Company expects to remain well capitalized throughout 2008 and beyond. One of the Company's core 2008 objectives is to enhance shareholder value by targeting a minimum of 25% return on shareholders' equity.

# Management’s Discussion and Analysis

RISK MANAGEMENT

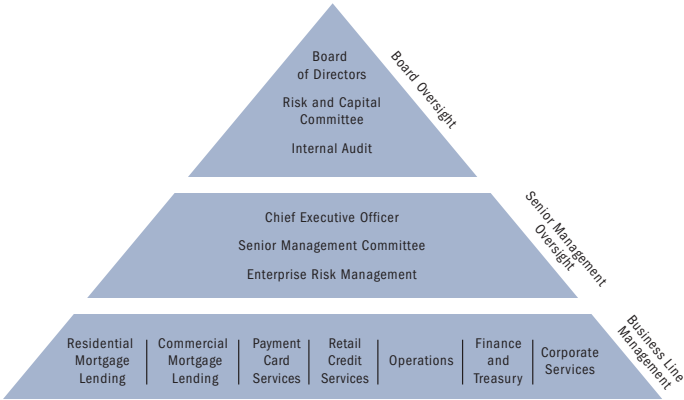
Overview

The Company, like all 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. Nevertheless, all businesses must accept some level of risk in their activities if they expect to make a profit and therefore must continuously make decisions that balance risk and reward. When evaluating risks, the Company will make decisions about which risks it will avoid, which risks to mitigate, offset or hedge, and which risks it will accept and manage in order to earn a profit. The Company’s risk vision is to have the capability to proactively identify, assess, mitigate, and report on the “in control” status of its risk profile in the context of business strategies, objectives, and philosophy on risk taking.

The Company has adopted *enterprise risk management* (ERM) as a discipline for managing risk. The Company defines ERM as an ongoing process, effected by its Board, management and other personnel, to identify and assess potential events that may positively or negatively impact the organization as a whole. The ERM process, applied in a strategy setting and across the enterprise, is designed to provide reasonable assurance that the Company’s objectives can be realized given a stated risk appetite. The goal of ERM is to embed key risk management fundamentals into everyday work practice.

The Company’s ERM structure is supported by a comprehensive governance framework. The Risk and Capital Committee assists the Board in fulfilling its oversight responsibilities by identifying and managing the Company’s risk, reviewing and approving the Company’s overall risk philosophy and risk appetite, reviewing and approving the Company’s risk capital policies and limits, reviewing the effectiveness of the Company’s risk and capital practices, and reviewing the Company’s adherence to internal risk and capital policies and procedures through timely management reporting. Authority is delegated from the Risk and Capital Committee through the CEO to business units who take, manage, and monitor risk. The ERM Group provides policy guidance to business units and oversees all significant risks through the Company, ensuring that they are all monitored, assessed and reported to senior management and the Board. Internal Audit provides timely and objective reviews of the risk management process, its controls, and the effectiveness of those controls. The overall ERM structure is supported by a framework of Board-approved policies, management standards, guidelines and procedures appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

The governance structure as depicted in the figure below ensures that there is a framework in place for risk oversight and accountability across the organization.



The Risk and Capital Committee carries the responsibility to review and approve the Company’s risk appetite and risk bearing capacity and challenge management’s proposals and plans to ensure that the forecast results are reasonable and in line with the Company’s capabilities and objectives. To do this, the Risk and Capital Committee ensures that an appropriate monitoring and reporting framework is in place and operating effectively to deliver accurate, timely and meaningful risk information for their review and evaluation.

The Board, through its Risk and Capital Committee, ensures that the significant risks to the Company are proactively identified and managed appropriately. For example, credit exposures are reviewed for portfolio loan-to-value, geographic concentration, large single-name exposure, and delinquencies, among other factors. Market and structural balance sheet risks are evaluated based on simulated shocks to interest rates and the resulting impact on market value of net equity and future income. Operational risks are monitored for potential sources of external and internal fraud, effective employment practices and workplace safety, integrity of physical and technology assets, and other sources of risk.

The Company’s portfolio of key risk exposures is regularly reviewed and evaluated through a risk and control self-assessment process. Through this process, significant risks are identified in light of current business, market, and economic conditions ensuring that the risks the Company manages and monitors are not static but evolving in context with the greatest likelihood of impact on the Company at any given point in time.

The Company has identified and assessed the most significant inherent risks as well as management’s effectiveness in controlling those risks. The risk owners are responsible for developing, implementing, and reporting regularly on the “in control” status.

## Credit Risk

Credit risk management is the oversight of credit risk associated with the total loans portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour their financial or contractual obligations to the Company. Senior management, the Audit Committee and Risk and Capital Committee of the Board undertake extensive reviews of credit policies and lending practices. The Company's policy is that credit is approved by different levels of senior management based upon the amount of the loan. The Risk and Capital Committee and the Board review compliance with credit risk requirements on a quarterly basis.

Residential first mortgage loans represent the largest component of the total loan portfolio. 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.

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

In early 2007, the Company began accelerating its commercial mortgage lending activity. The Company's industrial, commercial and other non-residential property types represented 10.1% of the total loans portfolio at December 31, 2007, a significant increase compared to 4.1% at December 31, 2006, and management continues to monitor these properties on a regular basis and has instituted specific underwriting policies and procedures to address the particular credit risks associated with this type of lending. The new funded mortgages are diversified and include stores with adjoining apartments (3.8%), commercial (2.1%), warehouse (1.4%) and office buildings (1.2%). It is the Company's intention to continue to concentrate its core mortgage lending activities on residential properties and it has instituted policies and procedures to ensure a prudent balance between residential and commercial mortgage lending is maintained.

Secured loans represented 2.0% of the total loans portfolio at December 31, 2007 compared to 2.1% at December 31, 2006 and are secured by second mortgages on residential property where the loan to value on the property may exceed 80%. 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 8.1% of the total loans portfolio at December 31, 2007 compared to 7.2% at December 31, 2006 and \$313.4 million or 99.7% of the credit cards are secured by either deposits held by the Company or collateral equity in residential property compared to \$228.2 million or 99.3% at December 31, 2006.

Impaired loans are summarized as follows:

**Table 13 – Impaired Loans**

As at December 31 (000's except %)

	2007		2006		2005	
	Gross	Net <sup>1</sup>	Gross	Net <sup>1</sup>	Gross	Net <sup>1</sup>
Personal and credit card loans \$	1,521	\$ 1,393	\$ 1,118	\$ 970	\$ 322	\$ 160
Secured loans	400	169	258	150	81	81
Residential mortgage loans	27,849	27,215	21,521	21,135	13,486	13,486
Other mortgage loans	242	242	548	548	-	-
<b>Impaired loans</b>	<b>\$ 30,012</b>	<b>\$ 29,019</b>	<b>\$ 23,445</b>	<b>\$ 22,803</b>	<b>\$ 13,889</b>	<b>\$ 13,727</b>
Total gross loans	<b>\$ 4,046, 564</b>		<b>\$ 3,329,500</b>		<b>\$ 2,813,621</b>	
Net impaired loans as a %						
of gross loans		0.72%		0.68%		0.49%
Total allowance for loan arrears	\$	24,393	\$	20,286	\$	16,748
Total allowance as a %						
of total loans		0.60%		0.61%		0.60%
Total allowance as a %						
of gross impaired loans		81.3%		86.5%		120.6%

<sup>1</sup> 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 \$30.0 million at December 31, 2007, an increase of \$6.6 million from 2006. The total allowance for credit losses increased by \$4.1 million to reach \$24.4 million at December 31, 2007, up from \$20.3 million recorded at December 31, 2006. The total dollar volume of impaired loans is expected to fluctuate over time. However, the Company anticipates that the currently impaired mortgages totaling \$30.0 million will not result in any significant loan losses. Over the past four years the Company has realized minimal 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 accounts that were impaired at December 31, 2007 was 0.9% of total loan accounts, compared to 1.1% at December 31, 2006.

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 loss levels in the loans portfolio. The absolute dollar amount of loan losses

# Management’s Discussion and Analysis

has increased due to the significant growth in the total loans portfolio in recent years. The Company remains confident that there will be no adverse change in this trend within the portfolio as reflected in a lower general allowance as a percentage of total loans.

Table 14 shows the year-over-year change in the allocation of the allowances for credit losses for specific provisions by category of impaired loans and to the general allowance for credit risk.

**Table 14 – Allocation of Allowance for Credit Losses**

	2007 Opening Balance	Write-offs, Net of Recoveries	Provision for Credit Losses	2007 Ending Balance
As at December 31 (000's)				
<b>Specific provisions</b>				
Residential and other mortgage loans	\$ 386	\$ 936	\$ 1,184	\$ 634
Personal loans and credit cards	148	747	727	128
Secured loans	108	252	375	231
	\$ 642	\$ 1,935	\$ 2,286	\$ 993
<b>General allowance</b>				
Residential and other mortgage loans	\$ 16,545	\$ –	\$ 2,798	\$ 19,343
Personal loans and credit cards	2,378	–	823	3,201
Secured loans	721	–	135	856
	19,644	–	3,756	23,400
<b>Total allowance for credit losses</b>	<b>\$ 20,286</b>	<b>\$ 1,935</b>	<b>\$ 6,042</b>	<b>\$ 24,393</b>

	2006 Opening Balance	Write-offs, Net of Recoveries	Provision for Credit Losses	2006 Ending Balance
As at December 31 (000's)				
<b>Specific provisions</b>				
Residential and other mortgage loans	\$ –	\$ 135	\$ 521	\$ 386
Personal loans and credit cards	162	647	633	148
Secured loans	–	78	186	108
	\$ 162	\$ 860	\$ 1,340	\$ 642
<b>General allowance</b>				
Residential and other mortgage loans	\$ 15,412	\$ –	\$ 1,133	\$ 16,545
Personal loans and credit cards	1,174	–	1,204	2,378
Secured loans	–	–	721	721
	16,586	–	3,058	19,644
<b>Total allowance for credit losses</b>	<b>\$ 16,748</b>	<b>\$ 860</b>	<b>\$ 4,398</b>	<b>\$ 20,286</b>

The allowance for credit losses has been established to cover both identified and unidentified losses in the loans portfolio and is comprised of \$1.0 million in specific allowances and \$23.4 million in general allowances for credit losses as at December 31, 2007 compared to \$0.6 million in specific allowances and \$19.6 million in general allowances for credit losses as at December 31, 2006. Specific allowances represent the amount on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The balance will fluctuate from time to time and is driven by the performance of individual loans. The Company has seen a moderate rise in the specific provision over 2006 due to general economic conditions in certain geographic areas in which the Company lends. The general allowance for credit losses is established for probable losses in the portfolio that are unknown to management and which are not currently identifiable on a loan-by-loan basis and reflect the relative risk of the various loan portfolios the Company manages. At December 31, 2007 the Company's total allowance represented 60 basis points of gross outstanding loans (61 basis points at December 31, 2006) and 85.1 basis points of the Company's risk-weighted assets (95.1 basis points at December 31, 2006).

The Company has developed a methodology to support testing of the sufficiency of the general allowance which includes individual risk ratings based on statistics such as 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 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 (99.8% secured by either a mortgage, collateral mortgage or cash deposit) and lending criteria, the Company believes that it has 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. As these factors change, enhancements on how the Company supports the testing of the adequacy of the general allowance will evolve. For further information on the approach to setting the specific and general allowance, refer to Note 1 of the consolidated financial statements.

## Liquidity Risk

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

The Company's liquidity management framework includes a liquidity risk management and deposit funding policy relating to several key elements, such as the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by senior management and quarterly reporting to the Audit Committee of the Board. The Company manages liquidity using a model developed by Standard & Poor's, which considers two stress scenarios. In the "immediate" scenario, the Company experiences a sharp decline in new deposits over a period of one month. In the "ongoing" scenario, the situation is similarly stressed but is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet the potential and certain obligations for a period of one year beyond the time frame of the scenario. These scenarios require the Company to make assumptions regarding the probable behaviour and timing of cash flows for each type of asset and liability. The Company's liquidity ratio is the total of liquid assets, adjusted by the estimates in each scenario, divided by the adjusted liabilities. The Company has established a policy limit of 120% under both scenarios, and at year-end liquid assets amounted to 165% (162% as at December 31, 2006) under the immediate scenario, and 146% (132% as at December 31, 2006) under the ongoing scenario. The increase in both ratios from the prior year is primarily due to a "flight to quality" experienced in the latter half of 2007 as CDIC insured deposits attracted the investing public. The Company continues to monitor these scenarios and will take appropriate actions should the need arise.

The Company holds sufficient liquid assets in the form of cash and bank deposits, treasury bills, banker's acceptances, government bonds and debentures to comply with its policy. As at December 31, 2007 liquid assets amounted to \$627.1 million compared to \$339.0 million at December 31, 2006. The Company maintained liquid assets as a percentage of 100-day liabilities at an average of 48.9% during 2007 compared to 41.3% during 2006. See Table 15 below for information on liquid assets.

**Table 15 – Liquid Assets**

(Based only on the subsidiary Home Trust Company)

As at December 31 (000's except %)	2007	2006	2005	Growth 2007/2006	Growth 2006/2005
Cash and deposits with regulated financial institutions	\$ 55,092	\$ 29,287	\$ 48,313	88.1%	(39.4%)
Government of Canada treasury bills	275,342	99,862	110,806	175.7%	(9.9%)
Government of Canada and provincial bonds	296,624	209,857	127,777	41.3%	64.2%
<b>Total liquid assets</b>	<b>\$ 627,058</b>	<b>\$ 339,006</b>	<b>\$ 286,896</b>	<b>85.0%</b>	<b>18.2%</b>
Total liabilities maturing within 100 days	\$ 964,432	\$ 631,850	\$ 486,811	52.6%	29.8%
Total assets	4,951,230	3,898,458	3,279,008	27.0%	18.9%
Total liabilities	4,639,470	3,637,072	3,069,616	27.6%	18.5%
<b>Liquid assets as a % of 100-day liabilities</b>	<b>65.0%</b>	<b>53.7%</b>	<b>58.9%</b>		
Liquid assets as a % of total assets	12.7%	8.7%	8.7%		
Liquid assets as a % of total liabilities	13.5%	9.3%	9.3%		

## Contractual Obligations

The following table presents a summary of the Company's principal contractual obligations as at December 31, 2007 that are due within the next five years and thereafter:

**Table 16 – Contractual Obligations**

As at December 31 (000's)	2008	2009	2010	2011	2012	Thereafter	Total
Deposits and borrowings	\$ 2,613,662	\$ 853,227	\$ 494,999	\$ 218,391	\$ 233,705	\$ –	\$ 4,413,984
Commitments under leases	2,204	1,973	1,751	1,787	1,816	6,553	16,084
<b>Total</b>	<b>\$ 2,615,866</b>	<b>\$ 855,200</b>	<b>\$ 496,750</b>	<b>\$ 220,178</b>	<b>\$ 235,521</b>	<b>\$ 6,553</b>	<b>\$ 4,430,068</b>

In the normal course of its activities the Company enters into various types of contractual agreements. The main obligations result from the issuance of debt instruments, which include deposits written with individuals and businesses to finance 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 Derivatives and Off-balance Sheet Arrangements section on page 23 of this Annual Report for a description of those commitments.

# Management's Discussion and Analysis

## Structural Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company actively manages interest rate risk by employing a number of techniques. These include the matching of asset and liability terms, and modeling techniques that measure changes to the portfolios and the impact that interest rate changes would have on the Company's earning capacity.

The interest rate sensitivity position as at December 31, 2007 is presented under Note 16 in the consolidated financial statements. The table provided there represents these positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. Note 16 summarizes both on- and off-balance sheet assets and liabilities in terms of their contractual amounts. Over the course of the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments will be extended but not materialize. In measuring its interest rate risk exposure, the Company will make assumptions about these factors, taking into account aspects such as past borrower history.

To assist in matching assets and liabilities, the Company utilizes two interest rate sensitivity models, which measure the relationship between changes in interest rates and the resulting impact on both future net income and the economic value of shareholders' equity. Standards have been established whereby each major decision regarding assets or liabilities must be assessed to determine their compliance with the Company's risk tolerance.

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. A 1% or 2% decrease in interest rates would result in an economic decrease in the present value of balance sheet equity by \$3.2 million or \$6.7 million, respectively, over the full term of the assets less liabilities. A 1% decrease in interest rates would decrease net interest income over the next twelve months after tax by approximately \$2.9 million, and a 2% rate decrease in interest rates would decrease net interest income over the twelve months after tax by approximately \$5.9 million.

## Operational Risk

Operational risk, which is inherent in all business activities, is the potential for loss as a result of external events, human error or inadequacy, or the failure of processes, procedures or controls. The impact may include financial loss, loss of reputation, loss of competitive position, or regulatory penalties. The Company is exposed to operational risks not only from internal business activities, but also from activities that are outsourced. While operational risk cannot be completely eliminated, the Company has taken proactive steps to mitigate this risk. The financial measure of operational risk is actual losses incurred. No material losses occurred as a result of operational risk in either 2007 or 2006.

Key strategies instituted to minimize and manage operational risk include:

- > Annual risk and control self assessment program has been established to ensure all business lines have considered and documented significant operations risks within their particular business line;
- > A knowledgeable and experienced management team that is committed to complying with the risk management policies;
- > Establishment of whistleblower and employee code of conduct process;
- > The adoption of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for internal control assessment and the COBIT 4.0 framework for IT governance;
- > Establishment of the senior management committee, which meets monthly, made up of senior management personnel from all of the Company's business areas, and chaired by the Chief Executive Officer of the Company. This meeting includes all individuals responsible for the development and recommendation of policies and procedures regarding day-to-day operations of the Company;
- > Communication of effective principles and practices of ERM to all levels of staff through training and policy implementation;
- > Regular review and testing for compliance of the Company's policies by an independent audit team; 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.

## Investment Portfolio Risk

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

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

- > The first limit is that total investments in P1 and P2 rated preferred shares will not exceed 100% of the regulatory capital. As at December 31, 2007, these were maintained at 36.1% of the total portfolio (33.1% at December 31, 2006).

- > The second limit is that the Company's total investment in common shares, income trusts or other structured products, mutual funds or similar products, preferred shares that do not qualify under the first limit, and managed funds in common shares will not exceed 40% of regulatory capital. As at December 31, 2007, these types of investments accounted for 14.3% of the portfolio (13.6% at December 31, 2006).
- > The third limit is that the Company's total investment in bonds and debentures that are not guaranteed by the federal or provincial governments will not exceed 50% of regulatory capital. As at December 31, 2007 and 2006, no investments were held in other bonds or debentures.
- > The fourth limit is that the total value of the portfolio cannot exceed 100% of regulatory capital. As at December 31, 2007, the total investment portfolio as a percentage of regulatory capital was 50.5%.

### **Reputational Risk**

Reputational risk is the risk that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in it resulting in a loss of business, legal action, or increased regulatory oversight. It can arise from various possible events and most typically occurs in connection with strategic and operational risks.

The Company views reputational risk as an exposure to earnings and/or capital from the consequence or failure to adequately manage its strategic and operational risks, rather than a specific risk per se. Failure to effectively manage these risks can result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's growth and financial return objectives.

In taking a balanced view of risk, the most effective way for an institution to safeguard its public reputation is through the successful management of the underlying risks in the business. The Company believes that the means to achieve this is through the adoption of an ERM framework.

### **Regulatory and Legal Risk**

Regulatory risk is the risk of a negative impact to the business activities, earnings or capital, 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 preventing or handling of legal claims.

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

Proactive management of regulatory risk is carried out through an enterprise-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 risk. The Compliance department receives assistance when required from in-house counsel and internal audit.

Internal and external counsel work closely with the business units in daily operations 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 which the Company is party to as it arises.

### **Additional Risk Factors That May Affect Future Results**

In addition to the risks described in the Risk Management section, there are numerous other risk factors, many beyond the Company's control, which could cause results to differ significantly from the Company's plans, objectives and estimates. All forward-looking statements, by their very nature, including those in this MD&A, are subject to inherent risks and uncertainties, both general and specific, which may cause the Company's actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these factors are discussed below.

### **Industry Factors**

#### **Monetary Policy**

The Company's earnings are affected by the monetary policies of the Bank of Canada. Changes in supply of money and the general level of interest rates could impact the Company's profitability. A change in the level of interest rates affects the interest spread between the Company's deposits and loans and as a result impacts the Company's net interest income. Changes to monetary policy and in the financial markets are beyond the Company's control and are difficult to predict or anticipate.

#### **Level of Competition**

The Company's performance is impacted by the level of competition in the markets in which it operates. The Company currently operates in a highly competitive industry. Customer retention can be influenced by many factors, such as the pricing of products or services, changes in customer service levels and changes in products or services offered.

# Management’s Discussion and Analysis

## Changes in Laws and Regulations

Changes in laws and regulations, including interpretation or implementation, could affect the Company by limiting the products or services it can provide and increasing the ability of competitors to compete with its products and services. Also, any failure by the Company to comply with applicable laws and regulations could result in sanctions and financial penalties which could adversely impact the Company’s earnings and damage its reputation.

## Accuracy and Completeness of Information on Customers and Counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, the Company may rely on information furnished by them, including financial statements and other financial information. The Company may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information.

## Accounting Policies and Methods Used by the Company

The accounting policies and methods the Company utilizes determine how the Company reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect the Company’s results of operations and financial condition.

## Company Specific Factors

### Execution of the Company’s Strategy

The Company’s ability to execute its objectives and strategic goals will influence the Company’s performance. If strategic goals do not meet with success or if there is a change in the strategy, the Company’s financial performance could be adversely affected.

### Ability to Attract and Retain Employees and Executives

The Company’s future performance depends to a significant extent on its ability to attract and retain key personnel. There is strong competition for the best people in the financial services sector. There is no assurance that the Company will be able to continue to attract and retain key personnel, although this remains a fundamental corporate priority.

### Operational and Infrastructure Risk

The Company is exposed to many types of operational risk that affect all corporations. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. Further, the Company has the risk that computer or telecommunication systems could fail, despite efforts to maintain these systems in good working order. Shortcomings or failures in internal processes, employees or systems, including any of the Company’s financial, accounting or other data processing systems, could lead to financial loss and damage to the Company’s reputation. In addition, despite the contingency plans the Company has in place, its ability to conduct business may be adversely affected by a disruption in the infrastructure that supports the Company’s operations.

### Adequacy of the Company’s Risk Management Framework

The Company’s enterprise risk management framework is made up of various processes and strategies to manage risk exposure. Types of risk to which the Company is subject include credit, liquidity, structured interest rate, operational, reputational, strategic, regulatory, legal and other. There can be no assurance that the Company’s framework to manage risk will be effective under all conditions and circumstances. If the Company’s risk management framework proves ineffective, the Company could suffer unexpected losses and could be materially adversely affected.

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 continued positive earnings trend, return on shareholders’ equity, and earnings per share. Total revenues continued to rise based on growth in the Company’s income producing assets and cost containment efforts that resulted in an efficiency ratio (TEB) of 28.5% in the fourth quarter. The annualized provision remained consistent during the year 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 this trend in impaired loans and believes it is adequately provisioned.

**Table 17 – Quarterly Financial Highlights**

(000's, except % and per share amounts)

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (TEB) <sup>1</sup>	\$ 40,394	\$ 39,396	\$ 37,647	\$ 34,276	\$ 33,040	\$ 30,727	\$ 29,073	\$ 27,396
Less TEB adjustment	2,311	1,084	1,118	942	841	764	740	651
Net interest income per financial statements	38,083	38,312	36,529	33,334	32,199	29,963	28,333	26,745
Non-interest income	14,561	11,964	11,467	10,075	12,744	6,880	9,412	6,623
Non-interest expenses	15,687	13,289	13,382	11,840	12,276	12,027	11,344	10,943
Total revenues	105,081	94,345	87,710	81,745	81,053	70,621	68,495	62,380
Net income	24,228	22,837	22,018	21,158	20,518	16,618	16,496	14,183
Return on shareholders' equity	28.9%	28.9%	28.9%	29.3%	30.5%	26.2%	27.6%	25.2%
Return on average total assets	2.0%	2.0%	2.1%	2.1%	2.2%	1.8%	1.9%	1.7%
Earnings per share								
Basic	\$ 0.70	\$ 0.66	\$ 0.64	\$ 0.62	\$ 0.60	\$ 0.49	\$ 0.48	\$ 0.42
Diluted	0.70	0.65	0.63	0.61	0.59	0.48	0.47	0.41
Book value per common share	10.08	9.38	8.98	8.70	8.10	7.62	7.22	6.79
Efficiency ratio (TEB) <sup>1,3</sup>	28.5%	25.9%	27.3%	26.7%	26.8%	32.0%	29.5%	32.2%
Efficiency ratio <sup>3</sup>	29.8%	26.4%	27.9%	27.3%	27.3%	31.2%	30.1%	32.8%
Tier 1 capital ratio <sup>2</sup>	11.3%	11.5%	12.7%	12.8%	12.7%	12.5%	12.7%	12.9%
Total capital ratio <sup>2</sup>	12.7%	12.9%	14.2%	14.3%	14.2%	14.1%	14.4%	14.6%
Net impaired loans as a % of gross loans	0.72%	0.63%	0.68%	0.74%	0.68%	0.56%	0.54%	0.51%
Annualized provision as a % of gross loans	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

<sup>1</sup> TEB – taxable equivalent basis, see definition on page 8 of this Annual Report.<sup>2</sup> These figures relate to the Company's operating subsidiary, Home Trust Company.<sup>3</sup> Reclassification – refer to Note 2 of the consolidated financial statements.**Fourth Quarter 2007**

Net income was \$24.2 million in the fourth quarter of 2007, a \$3.7 million or 18.1% increase over the \$20.5 million recorded in the comparative quarter of 2006. The increase in earnings is attributable to a number of factors as the Company experienced growth in all business lines. Total interest and dividend income was \$90.5 million for the three months ended December 31, 2007, up from the \$68.3 million recorded in the comparable quarter of 2006. This was attributed to growth in income earning assets of 27.7%.

Non-interest income was \$14.6 million for the quarter ended December 31, 2007 representing a \$1.8 million or 14.3% increase over the comparable quarter in 2006 driven by growth in securitization income of \$3.2 million and fees and other income of \$0.5 million partially offset by realized losses on the Company's securities portfolio of \$2.5 million. The Company securitized \$198.9 million of insured residential mortgages in the fourth quarter of 2007, up from \$130.7 million in the fourth quarter of 2006.

Non-interest expenses increased by \$3.4 million or 27.8% over the comparable quarter in 2006. The increase in 2007 over 2006 non-interest expenses related primarily to salaries and benefits for increased staffing levels year-over-year. The Company ended the quarter with 377 employees, up from the 350 employed at the end of 2006. Further, the Company experienced an increase in professional fees as continuing initiatives to improve business and risk management processes were undertaken, increasing the general and administrative expenses. The efficiency ratio (TEB) remained low (the lower the better) ending the quarter at 28.5% compared to 26.8% in the fourth quarter of 2006, well ahead of the Company's objective and the industry average.

Provisions for credit losses increased by \$1.2 million when compared to the fourth quarter of 2006. The Company ended the year with a general allowance for credit losses at 85.1 basis points on an annualized basis of risk-weighted assets, down from 95.1 basis points over the comparable quarter in 2006.

Total assets as at December 31, 2007 reached \$4.97 billion, up \$300.5 million or 6.4% over the September 30, 2007 asset balance of \$4.67 billion. During the fourth quarter of 2007, growth in the loans portfolio of \$281.9 million or 7.5% was the primary driver for total asset growth over the September 30, 2007 balance.

The rise in liabilities over September 30, 2007 resulted primarily from increased deposits of \$253.5 million. Increased deposit liabilities were the primary funding source for the growth in the loan portfolio for the fourth quarter of 2007.

Shareholders' equity rose to \$348.0 million, an increase of \$24.7 million, or 7.7%, over \$323.3 million reported at September 30, 2007. This growth was internally generated from net income of \$24.2 million, less \$3.8 million for dividends paid or payable to shareholders. The remaining increase was principally derived from unrealized gains in accumulated other comprehensive income of \$4.1 million from the Company's available for sale financial assets. Return on shareholders' equity for the quarter was 28.9%, identical to the third quarter of 2007 and compared to 30.5% for the fourth quarter of 2006. At December 31, 2007 the book value per common share was \$10.08 compared to \$9.38 at September 30, 2007 and \$8.10 at December 31, 2006.

# Management's Discussion and Analysis

For further information refer to the Company's fourth quarter report filed under the Company's profile at [www.sedar.com](http://www.sedar.com) and on the Company's web site at [www.homecapital.com](http://www.homecapital.com) dated February 11, 2008.

## ACCOUNTING STANDARDS AND POLICIES

### Significant Accounting Estimates and Critical Accounting Policies

The significant accounting policies are outlined in Note 1 to the consolidated financial statements starting on page 40 of the Annual Report. The following policies are critical, since they refer to material amounts and require management to make estimates that by their very nature involve uncertainties.

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

#### i) Allowance for Credit Losses

##### **Specific Allowance**

Specific allowances are established to cover estimated losses on the loans portfolio. Loan impairment is recognized when, based on management's judgement, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the loan agreement. Specific allowances are determined on a loan-by-loan basis and reflect the associated estimated credit loss. In the case of 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. 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.

##### **General Allowance**

The general allowance is established to cover estimated credit losses incurred in the loans portfolio which have not yet been specifically identified as impaired. 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 general economic and industry conditions, management's judgement and the risks related to the model. In determining the general allowance level, management must also consider current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. Any fundamental change in methodology is subject to independent vetting and review.

##### **Total Allowance for Credit Losses**

Based on the procedures above, management believes that the total allowance for credit losses is adequate to absorb estimated identified and unidentified credit losses incurred in the loans portfolio as at December 31, 2007. At December 31, 2007 the Company's total allowance for credit losses was \$24.4 million (\$20.3 million at December 31, 2006), which included specific allowances of \$1.0 million (\$0.6 million at December 31, 2006) and general allowances of \$23.4 million (\$19.7 million at December 31, 2006). Additional information on the allowance for credit losses can be found in Notes 1 and 5 to the consolidated financial statements and the Credit Risk section beginning on page 25 of this MD&A.

#### ii) Securitization

Securitization is a process by which financial assets, including government guaranteed mortgage loans of the Company, are converted into securities and sold to investors. When the Company surrenders control over the mortgage loans sold, and receives consideration other than beneficial interest in the transferred assets, this transaction is recorded as a sale. The determination of the initial gain depends on the value attributed to the retained interests, referred to as Securitization Receivable. Since quoted market prices are not available for this retained interest, the Company estimates the fair value based on the present value of estimated future cash flows. As a result, estimates and assumptions could have a material impact on results. Also, retained interests must be reviewed on an ongoing basis for changes in the estimates and assumptions. For further information on this refer to Note 6 of the consolidated financial statements on page 46 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 23 of this MD&A provides further information on these transactions.

#### iii) Financial Instruments Measured at Fair Value

Cash resources, held for trading securities, available for sale securities, securitization receivable and derivative financial instruments are reported on the Consolidated Balance Sheet at fair value. In the prior year, all financial instruments, except for derivative financial instruments, were reported at amortized cost. The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial instruments that are quoted in active markets are measured

at fair value based on bid prices for financial assets and ask prices for financial liabilities. For derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis and other valuation techniques commonly used by market participants. The fair value of the securitization receivable 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 interest. For further information, refer to Note 2 of the consolidated financial statements.

**iv) Other than Temporary Impairment of Available for Sale Securities**

The Company reviews available for sale and financial assets at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary. In making this assessment, the Company considers such factors as the type of investment, the length of time and extent to which the fair value has been below the cost, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the investment long enough to allow for any anticipated recovery. If the decline in value is considered to be other than temporary, the cumulative changes in the fair values of available for sale securities previously recognized in AOCI are reclassified to net income during that period. For further details, refer to Notes 2 and 4 to the consolidated financial statements.

**v) Income Tax**

Future income tax assets and liabilities reflect management's estimate of the value of temporary differences. The determination of an asset's or liability's value is based on assumptions related to the results of operations of future periods, the timing of reversals of temporary differences, and the tax rates anticipated on the date of reversals. The use of different assumptions may produce significantly different results, particularly if federal or provincial governments introduce changes in the budgets that were previously announced. For further information on income tax expense, refer to Note 12 to the consolidated financial statements.

**vi) Contingencies – Litigation**

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

**Changes in Accounting Policies**

***Financial Instruments, Hedges and Comprehensive Income***

On January 1, 2007 the Company adopted the CICA's new accounting requirements for securities, hedging derivatives and certain other financial instruments. Under these rules, the Company was required to measure certain securities at fair value and include a new section in Shareholders' Equity, called Accumulated Other Comprehensive Income (Loss), to report unrealized gains and losses related to the Company's available for sale securities and other certain financial assets.

Certain of the Company's available for sale securities (previously referred to as investment securities) are recorded at fair value under the new rules. Unrealized gains or losses are deferred in Accumulated Other Comprehensive Income (Loss) until the securities are sold or there is impairment that is to be considered other than temporary. It is only at that time that any gain or loss is recorded in net income.

Unrealized gains and losses on equity securities included in Accumulated Other Comprehensive Income (Loss) are now included in the Company's Tier 1 and total capital ratios. The impact was insignificant on January 1, 2007. Total Accumulated Other Comprehensive Income (Loss) is included in Shareholders' Equity for purposes of calculating return on equity.

For details of the specific accounting changes and related impacts, refer to Notes 2, 4 and 17 of the consolidated financial statements.

**Future Accounting Policy Changes**

***Financial Instruments – Disclosures and Presentation***

In December 2006, the CICA issued two new Handbook sections, 3862 *Financial Instruments – Disclosures* and 3863 *Financial Instruments – Presentation*. These new standards are effective beginning January 1, 2008. The new requirements are intended to enhance financial statement users' ability to evaluate the significance of financial instruments to an enterprise and the exposures inherent within these instruments and to try and understand the entity's ongoing management of such exposures.

# Management's Discussion and Analysis

## **Capital Disclosures**

In December 2006, the CICA issued a new Handbook section, 1535 *Capital Disclosures*, which requires the entity to disclose its objectives, policies and procedures for managing capital. This new standard became effective beginning January 1, 2008.

## **International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board released its new Strategic Plan (the "Plan"), which includes the decision to move financial reporting for Canadian public entities to International Financial Reporting Standards. Under the Plan, this new framework will be effective for fiscal years beginning on or after January 1, 2011. Information regarding the transition and the anticipated effects will have to be disclosed in the financial statements for the two fiscal years preceding adoption.

## **Disclosure Controls and Internal Controls over Financial Reporting**

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian GAAP. 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 MD&A present fairly, in all material respects, the financial position of the Company and the results of its operations.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2007. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2007.

## **Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company has used the COSO framework and COBIT, an IT governance framework, to evaluate the design of the Company's internal controls over financial reporting.

An evaluation of the design of the Company's internal control over financial reporting was conducted as of December 31, 2007. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

## **Changes to Internal Control over Financial Reporting**

During the year ended December 31, 2007, no changes to internal control over financial reporting affected nor are reasonably likely to materially affect internal control over financial reporting.

## **Updated Share Information**

As at February 29, 2008 the Company had 34,532,490 common shares outstanding. In addition, directors and employee stock options that had been issued amounted to 1,288,750 (1,266,000 in 2006), of which 526,250 were exercisable at December 31, 2007 (910,375 at December 31, 2006) for proceeds of \$7.9 million in 2007 (\$8.4 million in 2006).

## **Additional Information**

Additional information relating to the Company, including the annual information form for the year ended December 31, 2007, may be found under the Company's profile at [www.sedar.com](http://www.sedar.com).

This MD&A is dated as of March 11, 2008.

# 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.

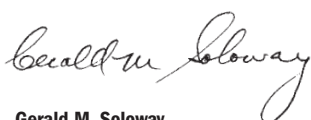
The internal control systems are further supported by a compliance function, which ensures that the Company and its employees comply with all regulatory requirements, as well as by a risk integration function and an operating risk management function that ensure proper risk control, related documentation 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.



**Gerald M. Soloway**  
Chief Executive Officer



**Phil Braginetz, CFA**  
Chief Financial Officer

Toronto, Canada  
February 8, 2008

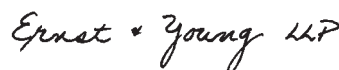
## Auditors' Report

To the Shareholders of  
**Home Capital Group Inc.**

We have audited the consolidated balance sheets of **Home Capital Group Inc.** as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
February 8, 2008.

# Consolidated Balance Sheets

As at December 31 (000's)

	2007	2006
<b>ASSETS</b>		
<b>Cash resources</b>		
Deposits with regulated financial institutions	\$ 344,464	\$ 43,701
Treasury bills guaranteed by Canada	9,872	99,830
	<b>354,336</b>	143,531
<b>Securities</b> (Note 4)		
Issued or guaranteed by Canada	-	208,980
Issued or guaranteed by provinces	-	299
Other securities	-	134,855
Held for trading	114,423	-
Available for sale	356,458	-
	<b>470,881</b>	344,134
<b>Loans</b> (Note 5)		
Residential mortgages	3,231,555	2,885,806
Personal and credit card loans	325,393	237,037
Other mortgages	406,319	135,765
Secured loans	82,304	70,250
General allowance for credit losses	(23,400)	(19,644)
	<b>4,022,171</b>	3,309,214
<b>Other</b>		
Securitization receivable (Note 6)	63,982	50,963
Capital assets (Note 7)	4,837	4,691
Other assets (Note 8)	57,100	49,783
	<b>125,919</b>	105,437
	<b>\$ 4,973,307</b>	\$ 3,902,316
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Deposits</b> (Note 9)		
Payable on demand	\$ 30,793	\$ 27,871
Payable on a fixed date	4,383,191	3,415,769
	<b>4,413,984</b>	3,443,640
<b>Other</b>		
Cheques and other items in transit	4,393	2,655
Other liabilities (Note 10)	206,890	179,155
	<b>211,283</b>	181,810
	<b>4,625,267</b>	3,625,450
Commitments and contingencies (Note 14)	-	-
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	34,197	34,551
Contributed surplus	1,818	783
Retained earnings	318,322	241,532
Accumulated other comprehensive loss	(6,297)	-
	<b>348,040</b>	276,866
	<b>\$ 4,973,307</b>	\$ 3,902,316

See accompanying notes.

On behalf of the Board:



**Gerald M. Soloway**  
Chief Executive Officer



**William A. Dimma**  
Chairman of the Board

# Consolidated Statements of Income

Years ended December 31 (000's, except per share amounts)		2007	2006
<b>Income</b>			
Interest from loans		\$ 288,924	\$ 230,844
Dividends from securities		10,877	5,589
Other interest		21,013	10,458
		<b>320,814</b>	<b>246,891</b>
<b>Interest expense</b>			
Interest on deposits		174,556	129,334
Interest on term and subordinated term loans		-	317
		<b>174,556</b>	<b>129,651</b>
<b>Net interest income</b>		<b>146,258</b>	<b>117,240</b>
Provision for credit losses	(Note 5)	6,042	4,398
		<b>140,216</b>	<b>112,842</b>
<b>Non-interest income</b>			
Fees and other income		21,533	13,483
Securitization income on mortgage-backed securities	(Note 6)	27,367	21,038
Net realized and unrealized gain (loss)			
on investment securities		(1,614)	2,210
Net realized and unrealized gain (loss)			
on derivatives		781	(1,073)
		<b>48,067</b>	<b>35,658</b>
		<b>188,283</b>	<b>148,500</b>
<b>Non-interest expenses</b>			
Salaries and benefits		30,195	25,883
Premises		3,837	3,518
General and administration		20,166	17,189
		<b>54,198</b>	<b>46,590</b>
<b>Income before income taxes</b>		<b>134,085</b>	<b>101,910</b>
Income taxes	(Note 12)		
Current		40,532	33,377
Future		3,312	718
		<b>43,844</b>	<b>34,095</b>
<b>Net income for the year</b>		<b>\$ 90,241</b>	<b>\$ 67,815</b>
<b>Average number of Common shares outstanding</b>			
Basic	(Note 11)	34,447	34,131
Diluted		34,857	34,801
<b>Net income per Common share</b>			
Basic	(Note 11)	\$ 2.62	\$ 1.99
Diluted		\$ 2.59	\$ 1.95

See accompanying notes.

## Consolidated Statements of Comprehensive Income

Years ended December 31 (000's)	2007	2006
Net income	\$ 90,241	\$ 67,815
<b>Other comprehensive loss, net of tax</b>		
Net unrealized losses on securities available for sale (net of \$2,458 tax)	(4,899)	-
Transfers to net income (net of \$434 tax)	(768)	-
	\$ (5,667)	\$ -
<b>Comprehensive income</b>	<b>\$ 84,574</b>	<b>\$ 67,815</b>

See accompanying notes.

## Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31 (000's)	2007	2006
<b>Capital stock</b>		
Common shares		
Balance, beginning of year	\$ 34,551	\$ 34,272
Proceeds of options exercised (Note 11)	3,585	1,197
Repurchase of shares (Note 11)	(3,939)	(918)
<b>Balance at end of year</b>	<b>\$ 34,197</b>	<b>\$ 34,551</b>
<b>Contributed surplus</b>		
Balance, beginning of year	\$ 783	\$ 306
Amortization of fair value of employee stock options (Note 11)	1,129	495
Employee stock options exercised	(94)	(18)
<b>Balance at end of year</b>	<b>\$ 1,818</b>	<b>\$ 783</b>
<b>Retained earnings</b>		
Balance, beginning of year	\$ 241,532	\$ 184,307
Transitional adjustment on adoption of new accounting policies (Note 2)	1,391	-
Dividends paid	(11,043)	(7,514)
Dividends declared	(3,799)	(3,076)
Net income for the year	90,241	67,815
<b>Balance at end of year</b>	<b>\$ 318,322</b>	<b>\$ 241,532</b>
<b>Accumulated other comprehensive loss</b>		
Balance, beginning of year	\$ -	\$ -
Transitional adjustment on adoption of new accounting policies (Note 2)	(630)	-
Other comprehensive loss (net of \$2,892 tax)	(5,667)	-
<b>Balance at end of year</b>	<b>\$ (6,297)</b>	<b>\$ -</b>

See accompanying notes.

# Consolidated Statements of Cash Flows

Years ended December 31 (000's)	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net income for the year	\$ 90,241	\$ 67,815
Adjustments to determine net cash flows relating to operating activities		
Future income taxes	3,708	718
Amortization of capital assets	1,997	1,429
Amortization of intangible assets and other deferred assets	93	-
Amortization of securities	9,601	(596)
Amortization of deferred financing costs	-	63
Amortization of fair value of employee stock options (Note 11)	1,129	495
Exercise of employee stock options	(94)	(18)
Provision for credit losses	6,042	4,398
Change in accrued interest receivable	(6,262)	(3,812)
Change in accrued interest payable	23,730	14,529
Net realized and unrealized loss (gain) on investment securities	1,614	(2,210)
(Gain) loss realized and unrealized on derivatives	(781)	1,073
Net unrealized gain on securities	(6,063)	-
Securitization gains on mortgage-backed securities	(27,367)	(21,038)
Change in other assets	14,816	(4,707)
Change in cheques and other items in transit	1,738	(4,334)
Change in other liabilities	(368)	15,093
<b>Cash provided by operating activities</b>	<b>113,774</b>	<b>68,898</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of term loan	-	(10,000)
Net increase in deposits	972,192	542,125
Issuance of capital stock	3,585	1,197
Normal course issuer bid	(3,939)	(918)
Dividends paid	(14,119)	(9,215)
<b>Cash provided by financing activities</b>	<b>957,719</b>	<b>523,189</b>
<b>INVESTING ACTIVITIES</b>		
Activity in available for sale and held for trading securities		
Purchases	(266,275)	-
Proceeds on sales	50,239	-
Proceeds on maturities	79,457	-
Activity in securities		
Purchases	-	(220,089)
Proceeds on sales	-	32,862
Proceeds on maturities	-	74,641
Activity in mortgages		
Net increase	(1,309,808)	(915,093)
Proceeds from securitization of mortgage-backed securities	673,920	532,730
Change in mortgage-backed securities receivable	31,671	24,920
Net increase in personal and credit card loans	(89,084)	(121,041)
Net increase in secured loans	(12,372)	(26,871)
Proceeds from leasehold inducements	-	1,009
Business acquisition (Note 3)	(16,563)	-
Purchase of capital assets	(1,873)	(2,767)
<b>Cash used in investing activities</b>	<b>(860,688)</b>	<b>(619,699)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>210,805</b>	<b>(27,612)</b>
Cash and cash equivalents beginning of year	143,531	171,143
<b>Cash and cash equivalents end of year</b>	<b>\$ 354,336</b>	<b>\$ 143,531</b>
<b>Supplemental disclosure of cash flow information</b>		
Amount of interest paid in year	\$ 150,824	\$ 108,020
Amount of income taxes paid in year	\$ 46,723	\$ 37,324

See accompanying notes.

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Use of Estimates

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

### Principles of Consolidation

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

The Company also consolidates variable interest entities (VIEs) when it is the primary beneficiary. Under AcG-15, “Consolidation of Variable Interest Entities,” guidance is provided for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under this standard, the Company must consolidate these entities if it is the primary beneficiary that is, as a result of this investment, 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. Regency Financial Corp. consists only of these secured loans and the Company is the sole beneficiary.

Subsidiaries are defined as the corporations whose operations are controlled by the Company and are corporations in which the Company owns more than 50% of the voting shares. The subsidiaries included in the consolidated financial statements are Home Trust Company (Home Trust), Home Capital Investment Management Incorporated, 964864 & 964865 Ontario Limited, Payment Services Interactive Gateway Corp. (PSiGate) and Home Trust Asset Management Inc. (HTAM) 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 to 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 fair value. Interest income is recognized in income on an accrual basis and, to the extent not received at year-end, recorded as a receivable in other assets on the consolidated balance sheet.

### Cheques and Other Items in Transit

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

### Securities

Effective January 1, 2007, securities are classified as either held for trading or available for sale based on management's intentions. On the settlement date, all securities are recognized at their fair value, which is normally the transaction price.

Held for trading securities are financial assets purchased for resale, generally within a short period of time and primarily held for liquidity purposes. Interest earned is included in other interest income. Held for trading securities are measured at fair value, using published prices, as at the consolidated balance sheet date. All realized and unrealized gains and losses are reported in income under other non-interest income. Transaction costs are expensed as incurred. The Company has not elected under the fair value option to designate any financial asset or liability as held for trading.

Available for sale securities are financial assets purchased for longer term investment that may be sold in response to or in anticipation of changes in market conditions. Dividends and interest earned are included in dividends from securities or other interest. Available for sale securities are measured at their fair value, using published prices, as at the consolidated balance sheet date. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income until the security is sold or an other than temporary impairment is recognized at which time the cumulative loss is transferred to net income. Transaction costs are generally capitalized and then amortized over the expected life of the instrument using the effective yield method.

Prior to January 1, 2007, 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.

### Loans

Effective January 1, 2007, loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the loan. Origination revenues and costs are applied to the carrying amount of the loan. Prior to January 1, 2007, loans are recorded as the principal outstanding, exclusive of any origination revenues and costs.

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 when it has been in arrears for 90 days. Secured and unsecured credit card balances that have a payment that is contractually 180 days in arrears are written off. Equityline VISA credit card balances are measured on a basis consistent with mortgage loans.

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.

### **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 sheet.

### **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 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 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 statement of income 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 (Securitization 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 classified as available for sale assets and are stated at their fair value with unrealized gains and losses reported in accumulated other comprehensive income. 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.

Prior to January 1, 2007, retained interests are stated at their original carrying amount plus interest accretion less cash received and any write-down for an other than temporary impairment in value.

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

## Capital Assets

Capital assets, which are comprised of office furniture and equipment, computer equipment, software 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%

Software is amortized on a straight-line basis over two years. 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 fees and other income in the consolidated statement of income.

## Goodwill and Intangible Assets

Goodwill and intangible assets are tested annually for impairment to ensure that their 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 or intangible assets.

Intangible assets (customer contracts and lists acquired on acquisition) are amortized on a straight-line basis over their useful life as determined at the time of valuation.

## Derivative Financial Instruments

Home Trust enters into non-trading derivative financial instruments as part of the mortgage securitization program. 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 non-interest income on the consolidated statements of income.

During 2007 and 2006, the Company did not designate any non-trading derivatives for hedge accounting.

## Deposits

Deposits are financial liabilities, which are measured at cost using the effective interest rate method. Deposit origination costs are added to deposits on the consolidated balance sheet as incurred and amortized to interest expense over the term of the deposit. Prior to January 1, 2007, deposits are recorded as the principal outstanding, exclusive of any origination costs.

## Income Taxes

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

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

## Employee Future Benefits

The Company accrues its obligations under employee benefit plans, which include post-retirement plans (health costs). The cost of the 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 11 and 13.

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 11 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 13, the Company's contribution is expensed when paid.

## NOTE 2 CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA), Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; Section 3865, *Hedges*; and Section 1530, *Comprehensive Income*.

These standards have been applied as an adjustment to opening retained earnings and accumulated other comprehensive income as of January 1, 2007. Prior period balances have not been restated following the adoption of these new standards.

### Financial Instruments – Recognition and Measurement

As a result of adopting the new standards, all financial assets were classified as held for trading, available for sale or loans and receivables. Financial liabilities were classified as held for trading or other liabilities. The new standards require that all financial assets and liabilities be measured at fair value with the exception of loans and receivables and other liabilities which are measured at amortized cost using the effective interest method.

Effective January 1, 2007, cash resources and securities issued or guaranteed by Canada and the provinces are considered held for trading. Other securities and securitization receivable have been designated as available for sale.

Deferred loan origination costs were adjusted to what the balance would have been had the Company always used the effective interest rate method to recognize loan origination costs. These costs have been reclassified against the respective loans on the consolidated balance sheet. The amortization of these costs in the current and in the prior year has been reclassified from fees and other income (non-interest income) and general and administrative non-interest expenses to interest from loans on the consolidated statement of income.

Deposit origination costs were reclassified from other assets to net against deposits on the consolidated balance sheets. The amortization of these costs in the current and in the prior year has been reclassified from general and administrative non-interest expenses to interest on deposits on the consolidated statement of income.

The Company reviewed its other contractual arrangements for embedded derivatives which require bifurcation from the underlying investment and separate valuation. These embedded derivatives do not currently have a significant value and therefore are not reported separately.

### Hedges

The Company does not hold any derivatives or other financial instruments which have been designated for hedge accounting treatment.

### Comprehensive Income

The new standards require the presentation of a new consolidated statement of comprehensive income, which consists of net income and other comprehensive income. Other comprehensive income represents the unrealized gains and losses on available for sale financial instruments net of any transfers to net income of any previously unrealized gains and losses on available for sale assets when the asset is disposed of or an other than temporary impairment is recognized at which time the cumulative loss is transferred to net income. Accumulated other comprehensive income is presented as a new category of shareholders' equity in the consolidated balance sheet.

The impact of adopting these standards at January 1, 2007 on a net of tax basis was as follows:

(000's)	December 31, 2006	Retained Earnings	AOCI
<b>Assets</b>			
Cash resources	\$ 143,531	\$ (1)	\$ -
Securities	344,134	164	70
Loans	3,309,214	47	-
Other	105,437	-	(700)
	<b>\$ 3,902,316</b>	<b>\$ 210</b>	<b>\$ (630)</b>
<b>Liabilities</b>			
Deposits	\$ 3,443,640	\$ (1,181)	\$ -
Other liabilities	181,810	-	-
	<b>3,625,450</b>	<b>(1,181)</b>	<b>-</b>
<b>Shareholders' equity</b>			
Capital stock	34,551	-	-
Contributed surplus	783	-	-
Retained earnings	241,532	1,391	-
Accumulated other comprehensive loss	-	-	(630)
	<b>276,866</b>	<b>1,391</b>	<b>(630)</b>
	<b>\$ 3,902,316</b>	<b>\$ 210</b>	<b>\$ (630)</b>

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

(000's)	2007	2006
<b>Consolidated statement of income</b>		
Interest from loans	\$ 9,585	\$ 5,743
Fees and other income	(18,288)	(14,482)
Decrease to income	\$ (8,703)	\$ (8,739)
Interest on deposits	\$ 9,046	\$ 7,102
General and administration	(17,749)	(15,841)
Decrease to expenses	\$ (8,703)	\$ (8,739)

## NOTE 3 ACQUISITION

On October 16, 2007, the Company acquired 100% of the outstanding common shares of PSiGate for cash consideration of \$18.4 million. The estimated fair values of total assets acquired and total liabilities assumed at the date of acquisition were \$20.4 million and \$2.0 million respectively. Included within the assets acquired is \$12.7 million of goodwill (not deductible for tax), \$1.2 million of intangible assets and \$2.1 million of cash. Income and expenses from PSiGate are included in the consumer lending segment in Note 18 and have been consolidated in the accounts of the Company from October 16, 2007.

## NOTE 4 SECURITIES

An analysis of securities at fair value (book value in 2006), by type and maturity, is as follows:

(000's)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2007 Total Fair Value	2006 Total Book Value
<b>Held for trading</b>						
Securities issued or guaranteed by						
Canada	\$ 45,023	\$ -	\$ -	\$ -	\$ 45,023	\$ -
Provinces	300	-	-	-	300	299
Corporations	-	48,959	20,141	-	69,100	-
<b>Available for sale</b>						
Securities issued or guaranteed by						
Canada	32,569	95,074	52,326	-	179,969	208,980
Equity securities						
Common	10,693	-	-	-	10,693	11,080
Fixed rate preferred	54,127	34,929	39,394	8,857	137,307	100,857
Floating rate preferred	-	4,365	4,019	-	8,384	5,700
Income trusts	16,021	-	-	-	16,021	13,388
Mutual funds	4,084	-	-	-	4,084	3,830
	\$ 162,817	\$ 183,327	\$ 115,880	\$ 8,857	\$ 470,881	\$ 344,134

All securities are denominated in Canadian dollars.

A net unrealized gain of \$0.1 million was recognized in net income in 2007 in respect of held for trading securities reported as at December 31, 2007.

An analysis of realized and unrealized gains (losses) and weighted-average yields is as follows:

						2007
(000's)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield	
<b>Available for sale</b>						
Securities issued or guaranteed by						
Canada	\$ 180,080	\$ 400	\$ (511)	\$ 179,969		3.9%
Equity securities						
Common	11,187	538	(1,032)	10,693		2.1%
Fixed rate preferred	142,060	544	(5,297)	137,307		5.2%
Floating rate preferred	8,654	32	(302)	8,384		5.3%
Income trusts	18,912	67	(2,958)	16,021		7.7%
Mutual funds	4,089	-	(5)	4,084		4.2%
	<b>\$ 364,982</b>	<b>\$ 1,581</b>	<b>\$ (10,105)</b>	<b>\$ 356,458</b>		
						2006
(000's)	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield	
Securities issued or guaranteed by						
Canada	\$ 208,980	\$ 698	\$ (803)	\$ 208,875		4.2%
Provinces	299	2	-	301		4.5%
Equity securities						
Common	11,080	1,093	(679)	11,494		2.5%
Fixed rate preferred	100,857	3,816	(654)	104,019		5.2%
Floating rate preferred	5,700	222	-	5,922		6.6%
Income trusts	13,388	308	(1,617)	12,079		6.8%
Mutual funds	3,830	81	-	3,911		4.0%
	<b>\$ 344,134</b>	<b>\$ 6,220</b>	<b>\$ (3,753)</b>	<b>\$ 346,601</b>		

## NOTE 5 LOANS

### (a) Loan maturities

						2007	2006
(000's)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value	Total Book Value
Residential mortgages	\$ 1,646,475	\$ 1,228,525	\$ 320,207	\$ 36,348	\$ 3,231,555	\$ 2,885,806	
Personal and credit card loans	322,433	232	523	2,205	325,393	237,037	
Secured loans <sup>1</sup>	16,111	46,096	19,213	884	82,304	70,250	
Other mortgages	156,172	155,620	77,199	17,328	406,319	135,765	
	<b>\$ 2,141,191</b>	<b>\$ 1,430,473</b>	<b>\$ 417,142</b>	<b>\$ 56,765</b>	<b>\$ 4,045,571</b>	\$ 3,328,858	
General allowance for credit losses	-	-	-	-	(23,400)	(19,644)	
	<b>\$ 2,141,191</b>	<b>\$ 1,430,473</b>	<b>\$ 417,142</b>	<b>\$ 56,765</b>	<b>\$ 4,022,171</b>	\$ 3,309,214	

<sup>1</sup> Secured loans are held by Regency Finance Corp. which is consolidated as a variable interest entity.

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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

	2007			2006		
(000's)	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Residential mortgages	\$ 27,849	\$ 634	\$ 27,215	\$ 21,521	\$ 386	\$ 21,135
Personal and credit card loans	1,521	128	1,393	1,118	148	970
Secured loans	400	231	169	258	108	150
Other mortgages	242	-	242	548	-	548
	\$ 30,012	\$ 993	\$ 29,019	\$ 23,445	\$ 642	\$ 22,803

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

	2007			2006		
(000's)	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance, beginning of year	\$ 642	\$ 19,644	\$ 20,286	\$ 162	\$ 16,586	\$ 16,748
Provision for credit losses	2,286	3,756	6,042	1,340	3,058	4,398
Write-offs	(2,181)	-	(2,181)	(1,154)	-	(1,154)
Recoveries	246	-	246	294	-	294
Balance, end of year	\$ 993	\$ 23,400	\$ 24,393	\$ 642	\$ 19,644	\$ 20,286

## NOTE 6

## LOAN SECURITIZATION (SECURITIZATION 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 \$692.3 million (2006 - \$546.3 million) of mortgages receivable in securitization transactions. This value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions totaled \$64.0 million (2006 - \$51.0 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of \$1.8 million (2006 - \$1.4 million) included on the consolidated balance sheet. Mortgage payments, which have been collected and are payable to the National Housing Authority (NHA) trusts, as at December 31, 2007 totaled \$35.8 million (2006 - \$28.0 million) and are reported under other liabilities. There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

During the year, the Company expanded its loan securitization program by participating in the Canada Mortgage Bond (CMB) program. Total mortgage receivables of \$119.6 million (2006 - nil) were transferred. The securitization receivable includes \$7.8 million (2006 - nil) for the CMB retained interest. A servicing liability of \$0.2 million is included on the consolidated balance sheet.

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

(000's)	2007	2006
Gain on sales of mortgages	\$ 22,763	\$ 17,914
Reduction in value to reflect increase in prepayment rate assumption	(770)	(710)
Change in retained interest	4,589	3,446
Change in servicing liability	772	600
Other securitization revenues (expenses)	13	(212)
	\$ 27,367	\$ 21,038

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

	2007	2006
Prepayment rate	13.2%	12.7%
Discount rate	4.3%	4.1%
Excess spread	2.7%	2.6%
Weighted-average life in years	4.0	3.9

There are no assumptions for expected credit losses 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)	2007	2006
Carrying amount of retained interest	\$ 63,982	\$ 50,963
Weighted-average life in years	2.4	2.6
Prepayment rate	19.4%	14.6%
Impact on fair value of 10% adverse change	(1,481)	(941)
Impact on fair value of 20% adverse change	(2,916)	(1,863)
Residual cash flows discount rate	4.2%	3.9%
Impact on fair value of 10% adverse change	(330)	(1,204)
Impact on fair value of 20% adverse change	(656)	(2,502)

There are no assumptions for expected credit losses as these mortgages are all government-guaranteed.

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

(000's)	2007	2006
Net proceeds from new securitizations	\$ 673,920	\$ 532,730
Cash flows received on retained interests	32,772	25,132

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

	2007	
	Total Carrying Amount	Carrying Amount of Loans 61 or More Days Past Due
(000's)		
Total loans managed or securitized	\$ 5,505,026	\$ 46,401
Less mortgages securitized	1,459,455	10,605
<b>Total gross loans reported on the consolidated balance sheet</b>	<b>\$ 4,045,571</b>	<b>\$ 35,796</b>

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

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 7

CAPITAL ASSETS

	2007			2006
(000's)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 7,170	\$ 5,377	\$ 1,793	\$ 1,248
Software	196	118	78	-
Office furniture and equipment	5,837	3,291	2,546	2,862
Signs	28	27	1	2
Leasehold improvements	2,119	1,700	419	579
	\$ 15,350	\$ 10,513	\$ 4,837	\$ 4,691

Amortization in respect of the above-noted capital assets for the year amounted to \$1,997 (2006 - \$1,429).

NOTE 8

OTHER ASSETS

(000's)	2007	2006
Accrued interest receivable	\$ 25,308	\$ 19,046
Goodwill	15,028	2,324
Deferred agent commissions	-	9,198
Intangible assets	1,158	-
Other prepaid assets and deferred items	15,606	19,215
	\$ 57,100	\$ 49,783

NOTE 9

DEPOSITS

	2007					2006
(000's except %)	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	\$ 30,793	\$ 2,577,813	\$ 1,322,959	\$ 449,270	\$ 4,380,835	\$ 3,412,442
Businesses	-	22,724	7,599	2,826	33,149	31,198
	\$ 30,793	\$ 2,600,537	\$ 1,330,558	\$ 452,096	\$ 4,413,984	\$ 3,443,640
Effective yield	-	4.4%	4.4%	4.7%	4.4%	4.0%

NOTE 10

OTHER LIABILITIES

(000's)	2007	2006
Accrued interest payable	\$ 135,650	\$ 111,920
Income taxes payable	5,795	3,788
Dividends payable	3,799	3,076
Deferred commitment fees	-	12,213
Future income taxes (Note 12)	16,586	12,733
Other, including accounts payable and accrued liabilities <sup>1</sup>	45,060	35,425
	\$ 206,890	\$ 179,155

<sup>1</sup> The Company has recognized a liability on the consolidated balance sheet in the amount of \$128 (2006 - \$196) for the employee future benefits.

## NOTE 11 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	2007	Number of Shares	2006
<b>Common shares</b>				
Balance, beginning of year	34,166	\$ 34,551	34,012	\$ 34,272
Options exercised	477	3,585	186	1,197
Repurchase of shares	(111)	(3,939)	(32)	(918)
<b>Balance, end of year</b>	<b>34,532</b>	<b>\$ 34,197</b>	<b>34,166</b>	<b>\$ 34,551</b>

### (c) Normal Course Issuer Bid

On July 30, 2007, the Company filed a Normal Course Issuer Bid which allows it to purchase over a twelve-month period, beginning August 1, 2007, up to 10% of the public float outstanding on July 27, 2007.

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

During the year, 110,400 common shares were purchased (2006 – 32,000). The cost of the common shares was reduced by the average per share amount on the transaction date, which amounted to \$3.9 million in 2007 (2006 – \$0.9 million).

### (d) Stock Options

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

	2007		2006	
(000's, except exercise price and number of years)	Number of Options	Weighted- average Exercise Price	Number of Options	Weighted- average Exercise Price
<b>Outstanding at beginning of year</b>	<b>1,266</b>	<b>\$ 15.43</b>	1,272	\$ 12.32
Issued	505	37.78	210	28.99
Exercised	(477)	7.31	(186)	6.34
Cancelled	–	–	(30)	34.78
<b>Outstanding at end of year</b>	<b>1,294</b>	<b>\$ 27.15</b>	1,266	\$ 15.43
<b>Exercisable at year-end</b>	<b>526</b>	<b>\$ 15.04</b>	910	\$ 9.25
<b>Weighted-average term to maturity in years</b>	<b>3.9</b>		2.7	

The Company's stock option plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective May 29, 2002 to conform the Plan to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. As at December 31, 2007, the maximum number of common shares that may be issued is 4,585,198 representing approximately 13.3% of the aggregate number of Class A shares and common shares. The exercise price of the options shall be fixed by the Board of Directors (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 seven 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.

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

As at December 31, 2007, stock options outstanding to acquire Common shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price per Share	Expiry Date
<b>Options granted to</b>				
Directors	265,000	265,000	\$ 7.15	12/05/2009
	100,000	-	\$ 34.51 <sup>2</sup>	02/14/2012
	20,000	-	\$ 41.29 <sup>2</sup>	12/07/2014
	385,000	265,000		
Employees	15,000	15,000	7.15	12/05/2009
	97,500	97,500	10.56	07/23/2010
	15,000	15,000	26.16	03/10/2011
	37,500	18,750	34.55	02/14/2010
	10,000	5,000	34.53	04/26/2010
	138,750	68,750	35.25 <sup>1</sup>	12/06/2010
	10,000	5,000	42.02 <sup>1</sup>	03/03/2011
	30,000	7,500	31.20 <sup>1</sup>	07/26/2011
	115,000	28,750	27.89 <sup>1</sup>	10/25/2011
	55,000	-	27.71 <sup>1</sup>	12/01/2011
	100,000	-	34.51 <sup>2</sup>	02/14/2012
	20,000	-	33.76 <sup>2</sup>	03/07/2014
	50,000	-	36.02 <sup>2</sup>	08/02/2014
	215,000	-	41.29 <sup>2</sup>	12/07/2014
	908,750	261,250		
	<b>1,293,750</b>	<b>526,250</b>	<b>\$ 15.04</b>	

<sup>1</sup> 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. At December 31, 2007, two levels of the performance criteria for the 10,000 options had been met. As a result, 50% of these contingently assumable options have been included in the computation of diluted income per common share. For two of the remaining three sets of options issued, 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. For the remaining 55,000 options issued, none of the performance criteria had been met. As a result, the contingently assumable options have not been included in the computation of diluted income per common share.

<sup>2</sup> In 2007, the Company granted certain employees the right to receive stock options of 200,000, 20,000, 50,000 and 235,000 if certain performance criteria were met. At December 31, 2007, none of the performance criteria had 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, 2007 was \$14.43 for the December 2007 issue, \$12.02 for the August 2007 issue, \$12.76 for the March 2007 issue and \$8.36 for the February 2007 issue. 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 following weighted-average assumptions were used to determine the fair value of the options on the date of grant:

	December 2007	August 2007	March 2007	February 2007
Expected dividend yield	1.20%	1.27%	1.04%	0.89%
Expected share price volatility	28.7%	28.3%	27.8%	27.0%
Risk-free rate of return	3.94%	4.53%	3.91%	4.06%
Expected period until exercise in years	7.0	7.0	7.0	5.0

	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

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 \$1.1 million (2006 - \$0.5 million) and net income decreased by the same amount with respect to options granted during the year.

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)	2007	2006
Pro forma net income	\$ 90,241	\$ 67,610
Pro forma income per Common share – basic	\$ 2.62	\$ 1.98
Pro forma income per Common share – diluted	\$ 2.59	\$ 1.94

#### (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 34,446,847 (2006 – 34,130,515).

Diluted income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,446,847 (2006 – 34,130,515) plus the stock options potentially exercisable as determined under the treasury stock method of 410,106 (2006 – 670,516) for a total of 34,856,953 (2006 – 34,801,031) diluted common shares.

## NOTE 12 INCOME TAXES

Components of the provision for income taxes are as follows:

(000's)	2007	2006
<b>Current income taxes</b>		
Federal	\$ 24,822	\$ 20,096
Provincial	15,710	12,693
	<b>40,532</b>	32,789
<b>Future income taxes</b>		
Federal	2,053	800
Provincial	1,259	506
	<b>3,312</b>	1,306
	<b>\$ 43,844</b>	\$ 34,095

Reconciliation of income taxes is as follows:

(000's)	2007	2006
<b>Income before income taxes</b>	<b>\$ 134,085</b>	\$ 101,910
Income taxes at statutory combined federal and provincial income tax rate	\$ 48,377	\$ 36,790
Increase (decrease) in income taxes resulting from:		
Tax-exempt income	(3,484)	(1,913)
Non-deductible expenses	723	292
Future tax rate changes	(1,503)	-
Other	(269)	(1,074)
	<b>\$ 43,844</b>	\$ 34,095

The combined federal and provincial income tax rate varies each year according to changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statement of income is different from the combined federal and provincial income tax rate of 36.12% (2006 – 36.12%).

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

Sources of future income tax assets and liabilities at December 31 are as follows:

(000's)	2007	2006
<b>Future income tax liabilities</b>		
Deferred agent commissions and other charges	\$ 7,907	\$ 6,251
Mortgage-backed securities receivable	21,282	17,995
	<b>29,189</b>	<b>24,246</b>
<b>Future income tax assets</b>		
Allowance for credit losses	6,767	6,028
Mark-to-market adjustments on securities	-	1,216
Deferred commitment fees and unearned income	4,466	4,269
Future taxes recoverable in subsidiary	1,370	-
	<b>12,603</b>	<b>11,513</b>
<b>Net future income tax liability</b>	<b>\$ 16,586</b>	<b>\$ 12,733</b>

NOTE 13

EMPLOYEE SHARE PURCHASE PLAN

Effective January 1, 2001, qualifying employees of Home Trust have the ability to purchase shares in the Company. Under the Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their annual base earnings withheld to purchase common shares. The Company matches 50% of the employee's contribution amount. All contributions are used by the Plan's trustee to purchase the common shares during each pay period in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totaled \$0.4 million for 2007 (2006 – \$0.3 million).

NOTE 14

COMMITMENTS AND CONTINGENCIES

Lease Commitments

Contractual obligations in respect of premises and equipment at December 31, 2007 are as follows:

(000's)	
2008	\$ 2,204
2009	1,973
2010	1,751
2011	1,787
2012	1,816
2013 and thereafter	6,553
	<b>\$ 16,084</b>

(000's)	2007	2006
Rent paid	\$ 3,058	\$ 2,914

Credit Commitments

Outstanding commitments for funding on mortgages amounted to \$447.3 million at December 31, 2007 (2006 – \$201.8 million). The commitments remain open for various dates until July 2009 for 2007 and January 2008 for 2006. The average rate on mortgage commitments is 6.97% (2006 – 7.29%).

The Company also 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, 2007, these contractual commitments in aggregate were \$392.2 million (2006 – \$296.6 million) of which \$78.0 million (2006 – \$66.8 million) has not been drawn by customers. In addition, outstanding commitments for new Equityline VISA accounts were \$5.9 million at December 31, 2007 (2006 – \$7.7 million). 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 15      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.

During the year the Company entered into interest rate swaps to hedge the economic fair value exposure of movements in interest rates from the Company’s participation in the CMB program. The intent of the swaps is to have fair value movements in the swap be effective in offsetting the fair value movements of the Company’s funding commitments under the CMB program. These transactions did not qualify for hedge accounting and therefore were accounted for on a mark-to-market basis, with changes in the fair value of the swap being recognized in income.

The following table summarizes the Company’s derivative holdings at December 31, 2007:

								2007
(000's)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Credit Risk Exposure	Risk- weighted Balance	Fair Market Value		
Interest rate swaps maturing in 2012	\$ 120,715	\$ 983	\$ 2,794	\$ 1,811	\$ 559	\$ 983		

The following terms are used in the above table: “notional amount” represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract; “current replacement cost” represents the cost of replacing the contract which has a positive fair value using current market rates; “credit equivalent amount” represents the total replacement cost and the potential future credit exposure, if the counterparty defaults; “credit risk exposure” represents the estimated replacement cost of all contracts without taking into account any master netting or collateral arrangements; “risk-weighted balance” represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by the Office of the Superintendent of Financial Institutions Canada; and “fair market value” represents the value of the contract using current interest rates.

The Company did not hold any financial derivatives at December 31, 2006.

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

## NOTE 16 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 parentheses 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 credit commitments and derivatives.

	2007							
(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
<b>Assets</b>								
Cash resources	\$ 59,161	\$ 261,438	\$ 13,837	\$ 19,900	\$ -	\$ -	\$ -	\$ 354,336
Weighted-average interest rate	3.0%	4.7%	4.2%	4.25%	-	-	-	4.4%
Securities	-	96,112	19,872	46,833	183,327	124,737	-	470,881
Weighted-average interest rate	-	4.7%	5.8%	4.1%	4.4%	4.8%	-	4.6%
Loans	-	543,641	390,245	1,163,166	1,423,865	471,387	29,867	4,022,171
Weighted-average interest rate	-	9.2%	7.3%	7.5%	7.3%	7.3%	-	7.6%
Other assets	-	-	-	-	-	-	125,919	125,919
Weighted-average interest rate	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 59,161</b>	<b>\$ 901,191</b>	<b>\$ 423,954</b>	<b>\$ 1,229,899</b>	<b>\$ 1,607,192</b>	<b>\$ 596,124</b>	<b>\$ 155,786</b>	<b>\$ 4,973,307</b>
<b>Weighted-average interest rate</b>	<b>3.0%</b>	<b>7.4%</b>	<b>7.2%</b>	<b>7.3%</b>	<b>7.0%</b>	<b>6.8%</b>	<b>-</b>	<b>6.9%</b>
<b>Liabilities and shareholders' equity</b>								
Deposits payable on demand	\$ -	\$ 229	\$ -	\$ -	\$ -	\$ -	\$ 30,564	\$ 30,793
Weighted-average interest rate	-	2.9%	-	-	-	-	-	0.0%
Deposits payable on a fixed date	-	445,878	630,401	1,506,590	1,330,558	452,096	17,668	4,383,191
Weighted-average interest rate	-	4.1%	4.3%	4.5%	4.4%	4.7%	-	4.4%
Other liabilities	-	-	-	-	-	-	211,283	211,283
Weighted-average interest rate	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	348,040	348,040
Weighted-average interest rate	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 446,107</b>	<b>\$ 630,401</b>	<b>\$ 1,506,590</b>	<b>\$ 1,330,558</b>	<b>\$ 452,096</b>	<b>\$ 607,555</b>	<b>\$ 4,973,307</b>
<b>Weighted-average interest rate</b>	<b>-</b>	<b>4.1%</b>	<b>4.3%</b>	<b>4.5%</b>	<b>4.4%</b>	<b>4.7%</b>	<b>-</b>	<b>3.9%</b>
	\$ 59,161	\$ 455,084	\$ (206,447)	\$ (276,691)	\$ 276,634	\$ 144,028	\$ (451,769)	3.0%
Credit commitments and derivatives	-	(437,032)	2,414	191,279	110,534	132,805	-	-
Weighted-average interest rate	-	6.9%	3.2%	3.2%	7.4%	7.0%	-	-
<b>Interest rate sensitivity gap</b>	<b>\$ 59,161</b>	<b>\$ 18,052</b>	<b>\$ (204,033)</b>	<b>\$ (85,412)</b>	<b>\$ 387,168</b>	<b>\$ 276,833</b>	<b>\$ (451,769)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>\$ 59,161</b>	<b>\$ 77,213</b>	<b>\$ (126,820)</b>	<b>\$ (212,232)</b>	<b>\$ (174,936)</b>	<b>\$ 451,769</b>	<b>\$ -</b>	<b>-</b>

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
<b>Assets</b>								
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	-	-	-	-	-	-	-	-
<b>Total</b>	\$ 30,401	\$ 561,180	\$ 317,680	\$ 886,685	\$ 1,553,657	\$ 425,531	\$ 127,182	\$ 3,902,316
<b>Weighted-average interest rate</b>	3.0%	7.6%	7.1%	7.2%	6.9%	6.3%	-	6.8%
<b>Liabilities and shareholders' equity</b>								
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	-	-	-	-	-	-	-	-
<b>Total</b>	\$ -	\$ 311,280	\$ 666,542	\$ 1,082,000	\$ 1,153,619	\$ 202,328	\$ 486,547	\$ 3,902,316
<b>Weighted-average interest rate</b>	-	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%
Credit commitments and derivatives	-	(190,356)	(6,859)	19,667	62,081	115,467	-	-
Weighted-average interest rate	-	7.3%	7.2%	7.0%	7.7%	7.1%	-	-
<b>Interest rate sensitivity gap</b>	\$ 30,401	\$ 59,544	\$ (355,721)	\$ (175,648)	\$ 462,119	\$ 338,670	\$ (359,365)	-
<b>Cumulative gap</b>	\$ 30,401	\$ 89,945	\$ (265,776)	\$ (441,424)	\$ 20,695	\$ 359,365	\$ -	-

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 17

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. For financial instruments which lack an available trading market, the Company applies present value valuation techniques that use observable market inputs. 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.

	2007			2006		
	Book Value	Fair Value	Fair Value Over Book Value	Book Value	Fair Value	Fair Value Over Book Value
(000's)						
<b>Assets</b>						
Cash resources	\$ 354,336	\$ 354,336	\$ -	\$ 143,531	\$ 143,531	\$ -
Securities	470,881	470,881	-	344,134	346,601	2,467
Loans	4,022,171	4,032,040	9,869	3,309,214	3,363,307	54,093
Other	125,919	125,919	-	105,437	108,016	2,579
<b>Liabilities</b>						
Deposits and borrowings	4,413,984	4,519,437	105,453	3,443,640	3,506,611	62,971
Other	211,283	211,283	-	181,810	181,810	-
<b>Off-balance sheet financial instruments</b>						
Credit commitments	\$ 531,151	\$ 541,005	\$ 3,050	\$ 268,673	\$ 273,770	\$ 5,097

- The following methods and assumptions were used to estimate the fair values of both on- and off-balance sheet financial instruments:
- > Cash resources are assumed to approximate their carrying values due to their short-term nature. The fair value of treasury bills is determined using rates from the Bank of Canada.
  - > Securities are valued based on the quoted bid price as provided in Note 4.
  - > 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 are assumed to approximate their carrying values due to their short term nature. Other assets include securitization receivable which is valued as described in Notes 1 and 6.
  - > 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.
  - > Other liabilities are assumed to approximate their carrying values due to their short-term nature.
  - > 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. Book value and fair value amounts for credit commitments represent the notional amount of the commitment.
  - > Derivative financial instruments are assumed to approximate their fair values as provided in Note 15.

NOTE 18

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:

	2007				
(000's)	Mortgage Lending	Consumer Lending	Other	Total	
Net interest income	\$ 93,466	\$ 21,005	\$ 31,787	\$ 146,258	
Provision for credit losses	(4,491)	(1,551)	-	(6,042)	
Fees and other income	12,050	9,155	328	21,533	
Gain on securities and mortgage-backed securities	28,148	-	(1,614)	26,534	
Non-interest expenses	(35,050)	(5,068)	(14,080)	(54,198)	
Income before income taxes	94,123	23,541	16,421	134,085	
Provision for income taxes	32,093	8,451	3,300	43,844	
<b>Net income</b>	<b>\$ 62,030</b>	<b>\$ 15,090</b>	<b>\$ 13,121</b>	<b>\$ 90,241</b>	
<b>Goodwill</b>	<b>\$ 2,324</b>	<b>\$ 12,704</b>	<b>\$ -</b>	<b>\$ 15,028</b>	
<b>Total assets</b>	<b>\$ 3,866,163</b>	<b>\$ 337,783</b>	<b>\$ 769,361</b>	<b>\$ 4,973,307</b>	

	2006				
(000's)	Mortgage Lending	Consumer Lending	Other	Total	
Net interest income	\$ 85,307	\$ 15,066	\$ 16,867	\$ 117,240	
Provision for credit losses	(2,561)	(1,837)	-	(4,398)	
Fees and other income	5,618	7,661	204	13,483	
Gain on securities and mortgage-backed securities	19,965	-	2,210	22,175	
Non-interest expenses	(31,940)	(5,011)	(9,639)	(46,590)	
Income before income taxes	76,389	15,879	9,642	101,910	
Provision for income taxes	25,940	5,736	2,419	34,095	
<b>Net income</b>	<b>\$ 50,449</b>	<b>\$ 10,143</b>	<b>\$ 7,223</b>	<b>\$ 67,815</b>	
<b>Goodwill</b>	<b>\$ 2,324</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,324</b>	
<b>Total assets</b>	<b>\$ 3,191,427</b>	<b>\$ 247,459</b>	<b>\$ 463,430</b>	<b>\$ 3,902,316</b>	

## NOTE 19 SUBSEQUENT EVENT

On January 1, 2008, Home Trust sold all outstanding shares of its wholly owned subsidiary, Home Trust Asset Management Inc. (HTAM), for proceeds of \$0.2 million resulting in a gain on disposition of \$0.1 million.

## NOTE 20 COMPARATIVE FIGURES

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

# Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

<b>NOTE 21</b>	<b>FUTURE ACCOUNTING CHANGES</b>
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**Financial Instruments – Presentation and Disclosure**

The CICA issued two new accounting standards: CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*, which become effective for the Company as of January 1, 2008. These standards require enhanced disclosures regarding the nature and extent of risks arising from financial instruments and how these risks are managed.

**Capital Disclosures**

The CICA issued a new accounting standard, CICA Handbook Section 1535, *Capital Disclosures*, which becomes effective for the Company as of January 1, 2008. The standard requires enhanced disclosure regarding the objectives, policies and processes for managing capital.

**International Financial Reporting Standards**

The CICA intends to transition financial reporting for Canadian public entities to International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

# Corporate Directory

## Home Capital Group Inc.

### Directors



**William A. Dimma**<sup>1, 3, 4</sup>  
*Chairman of the Board  
and Corporate Director*  
Toronto, Ontario



**Norman F. Angus**<sup>2, 3</sup>  
*Corporate Director*  
Old Lyme, Connecticut



**Michelline Bouchard**<sup>1, 3</sup>  
*Corporate Director*  
Montreal, Quebec



**Hon. William G. Davis**<sup>3</sup>  
**P.C., C.C., Q.C.**  
*Counsel*  
*Torys LLP*  
Brampton, Ontario



**Janet L. Ecker**<sup>1, 4</sup>  
*Advisor*  
*The Tramore Group*  
Ajax, Ontario



**John M. E. Marsh**<sup>1, 4</sup>  
*Corporate Director*  
Port Colborne, Ontario



**Robert A. Mitchell**<sup>1, 2</sup>  
*Corporate Director*  
Oakville, Ontario



**Kevin P. D. Smith**<sup>2, 3, 4</sup>  
*President and Chief  
Executive Officer*  
*St. Joseph's Hospital*  
Burlington, Ontario



**Gerald M. Soloway**<sup>2</sup>  
*Chief Executive Officer*  
*Home Capital Group Inc.*  
Toronto, Ontario

- (1) Member of the Audit Committee  
(2) Member of the Risk and Capital Committee  
(3) Member of the Governance, Nominating and Conduct Review Committee  
(4) Member of the Human Resources and Compensation Committee

### Committees

**Audit Committee**  
Robert A. Mitchell  
*Chair*

**Risk and Capital Committee**  
Norman F. Angus  
*Chair*

**Governance, Nominating  
and Conduct Review  
Committee**  
William A. Dimma  
*Chair*

**Human Resources and  
Compensation Committee**  
Janet L. Ecker  
*Chair*

### Officers

**Gerald M. Soloway**  
*Chief Executive Officer*

**Nick Kyprianou**  
*President*

**John R. K. Harry**  
*Senior Vice President*  
*Commercial Mortgage Lending*

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

**Brian R. Mosko**  
*Chief Operating Officer and*  
*Senior Vice President*

**Phil Braginetz, CFA**  
*Chief Financial Officer*

**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 corporate governance guidelines set out by the Toronto Stock Exchange and that are compliant with applicable rules adopted by the Canadian Securities Administrators. The Board of Directors of Home Capital ensures that appropriate structures and procedures are in place so that it can independently and effectively oversee the Company's operations with the objective of enhancing shareholder value.

For a complete statement of Home Capital's corporate governance practices, please refer to the Company's Management Information Circular, the details of which are also posted on the Company's web site [www.homecapital.com](http://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 14, 2008 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

<b>Hon. William G. Davis</b> <b>P.C., C.C., Q.C.</b> <i>Chairman of the Board</i>	<b>Norman F. Angus</b> <b>Micheline Bouchard</b> <b>William A. Dimma</b>	<b>Janet L. Ecker</b> <b>Nick Kyprianou</b> <b>John M. E. Marsh</b>	<b>Brian R. Mosko</b> <b>Robert A. Mitchell</b> <b>Kevin P. D. Smith</b> <b>Gerald M. Soloway</b>
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### Officers

<b>Gerald M. Soloway</b> <i>Chief Executive Officer</i>	<b>Nick Kyprianou</b> <i>President</i>	<b>John R. K. Harry</b> <i>Senior Vice President</i> <i>Commercial Mortgage Lending</i>	<b>Cathy A. Sutherland, C.A.</b> <i>Vice President</i> <i>Finance</i>
	<b>Brian R. Mosko</b> <i>Chief Operating Officer and</i> <i>Senior Vice President</i>	<b>Phil Braginetz, CFA</b> <i>Chief Financial Officer</i>	<b>Chris Ahlvik</b> <i>Vice President</i> <i>Corporate Counsel</i>

### Branches

<b>Toronto</b> Suite 2300 145 King Street West Toronto, Ontario M5H 1J8 Tel: 416-360-4663 1-800-990-7881 Fax: 416-363-7611 1-888-470-2092	Shaun Gonsalves <i>Senior Manager</i>  Donald Correia <i>Senior Credit Manager</i>  <b>Residential</b> <b>Mortgage Lending</b> Pino Decina <i>Senior Vice President</i>  Rolf Eikeland <i>Vice President</i>  Agostino Tuzi <i>Assistant Vice President</i> <i>Credit</i>  Lisa Abbatangelo Armando Diseri James Hill Marguerite Ryan <i>Assistant Vice Presidents</i>  Ron Cuadra <i>National Sales Manager</i>  Laurie Chalabardo Bobby Ramgoolam <i>Senior Managers</i>  Oriana Bartelli Massimo DeNigris Michael Forshee Frank Lee Ivano Metallo Scott Smith Frank Tuzi <i>Managers</i>  <b>Direct Client Services</b> Jean Pierre Vico <i>Manager</i>	<b>Marketing</b> Diana Soloway <i>Assistant Vice President</i>  <b>Payment Card Services</b> Tanya Hatton <i>Vice President</i>  <b>Equityline VISA</b> Alex Godfrey <i>Assistant Vice President</i>  Karen Minns <i>Senior Manager</i>  <b>Retail Credit Services</b> Cathy Boon <i>Assistant Vice President</i> <i>Sales</i>  <b>St. Catharines</b> P. O. Box 1554, Suite 100 15 Church Street St. Catharines, Ontario L2R 7J9 Tel: 905-688-3131 1-888-771-9913 Fax: 905-688-1808 1-888-771-9914  <b>Calgary</b> Suite 720 5920 MacLeod Trail S.W. Calgary, Alberta T2H 0K2 Tel: 403-244-2432 1-866-235-3081 Fax: 403-244-6542 1-866-544-3081  Kris Chester <i>Branch Manager</i>	<b>Vancouver</b> Suite 1288 200 Granville Street Vancouver, British Columbia V6C 1S4 Tel: 604-484-4663 1-866-235-3080 Fax: 604-484-4664 1-866-564-3524  Greg Domville <i>Branch Manager</i>  <b>Montreal</b> Suite 2160 2020 Rue University Montreal, Quebec H3A 2A5 Tel: 514-843-0129 1-866-542-0129 Fax: 514-843-7620 1-866-620-7620  Philippe Cote <i>Regional Manager</i> <i>Mortgages</i>  <b>Halifax</b> Suite 1205, Duke Tower 5251 Duke Street Halifax, Nova Scotia B3J 1P3 Tel: 902-422-4387 1-888-306-2421 Fax: 902-422-8891 1-888-306-2435  Scott Congdon <i>Regional Manager</i> <i>Mortgages</i>
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# Corporate Directory

## MEMBERSHIPS

Canada Deposit Insurance Corporation  
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, 2007,  
there were 34,532,490 Common Shares outstanding.

## FOR SHAREHOLDER INFORMATION, PLEASE CONTACT:

Chris Ahlvik  
*Vice President*  
*Corporate Counsel*  
Home Capital Group Inc.  
Suite 2300, 145 King Street West  
Toronto, Ontario M5H 1J8  
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[www.homecapital.com](http://www.homecapital.com)  
[www.hometrust.ca](http://www.hometrust.ca)





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