

Management's Responsibility for Financial Information

The consolidated financial statements of Home Capital Group Inc. were prepared by Management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of Management with appropriate consideration as to materiality. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

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

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

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

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

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

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

Signed

Gerald M. Soloway

President and Chief Executive Officer

Toronto, Canada
February 16, 2007

Signed

Cathy A. Sutherland, C.A.

Vice President, Finance

Auditors' Report

To the Shareholders of
Home Capital Group Inc.

We have audited the consolidated balance sheets of **Home Capital Group Inc.** as at December 31, 2006 and 2005 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 16, 2007

Signed - Ernst & Young LLP

Chartered Accountants

Consolidated Balance Sheets

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

See accompanying notes.

On behalf of the Board:

Signed

Gerald M. Soloway

President and Chief Executive Officer

Signed

William A. Dimma

Chairman of the Board

Consolidated Statements of Income

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

See accompanying notes.

Consolidated Statements of Changes in Shareholders' Equity

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

See accompanying notes.

Consolidated Statements of Cash Flows

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

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

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

Principles of Consolidation

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

The Company also consolidates variable interest entities when it is the primary beneficiary. Under AcG-15, Consolidation of Variable Interest Entities, guidance is provided for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under this standard, the Company must consolidate these entities if it is the primary beneficiary, that is, if as a result of this investment, the Company is exposed to a majority of expected losses or is in a position to benefit from a majority of the returns. Under this guideline, the QSPE-HCC Trust (operating as Regency Finance Corp.) is consolidated and its assets are reported as secured loans on the balance sheet.

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

Cash Resources

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at amortized cost. Interest income is recognized in earnings on an accrual basis and, to the extent not received at year-end, recorded as a receivable in other assets on the consolidated balance sheets.

Cheques and Other Items in Transit

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

Securities

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

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

Loans

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

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

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 90 days. An Equityline VISA credit card is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 120 days. All other credit card balances that have payments contractually 180 days in arrears are written off.

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

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

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

Allowance for Credit Losses

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

Specific Allowances

Specific allowances are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans and Equityline VISA credit cards, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be reasonably estimated, impairment is measured with respect to the fair market value of the underlying security. The allowance is the difference between the loan's carrying value and its estimated realizable amount. For secured and unsecured credit cards, specific provisions are provided for arrears over 120 days.

General Allowances

General allowances are established to absorb potential credit losses on the aggregate exposures in each of the Company's business lines, for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon statistical analysis of past performance, level of allowance already in place and Management's judgement. The general allowance, based on the historical loss experience, adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. This estimate includes consideration of economic and business conditions, Management's judgement and the risks related to the model.

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

Loan Securitization (Mortgage-Backed Securities Receivable)

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

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

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

Capital Assets

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

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

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

Translation of Foreign Currencies

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

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

Goodwill

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

Derivative Financial Instruments

During 2006 and 2005, the Company did not designate any non-trading derivatives for hedge accounting. Non-trading derivatives entered into are carried at fair value in other assets or liabilities, on a net basis, with changes in fair value recorded in other income on the consolidated statements of income.

Income Taxes

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

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

Employee Future Benefits

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

Stock-based Compensation Plans

The Company has two stock-based compensation plans, which are described in Notes 10 and 12.

Under the Company's Stock Option Plan, the fair value of options granted after January 1, 2003 is charged to salary expense over the option vesting period. The fair value of the options granted is determined using the Black-Scholes option pricing model using Management's best estimates. Refer to Note 10 for the estimates applied.

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

Under the Employee Share Purchase Plan, as described in Note 12, the Company's contribution is expensed when paid.

NOTE 2 SECURITIES

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

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

All securities are denominated in Canadian dollars.

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

	2006			
(000's, except %)	Total Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
Securities issued or guaranteed by				
Canada	\$ 208,980	\$ (105)	\$ 208,875	4.2%
Provinces	299	2	301	4.5%
Equity securities				
Common	11,080	414	11,494	2.5%
Fixed rate preferred	100,857	3,162	104,019	5.2%
Floating rate preferred	5,700	222	5,922	6.6%
Income trusts	13,388	(1,309)	12,079	6.8%
Mutual funds	3,830	81	3,911	4.0%
	\$ 344,134	\$ 2,467	\$ 346,601	
				2005
(000's, except %)	Total Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-average Yield
Securities issued or guaranteed by				
Canada	\$ 126,832	\$ 273	\$ 127,105	3.8%
Provinces	299	4	303	4.5%
Equity securities				
Common	11,810	772	12,582	2.9%
Fixed rate preferred	79,537	3,170	82,707	5.4%
Floating rate preferred	3,410	100	3,510	4.7%
Income trusts	3,565	(60)	3,505	7.2%
Mutual funds	3,289	460	3,749	15.2%
	\$ 228,742	\$ 4,719	\$ 233,461	

NOTE 3 LOANS

(a) Loan maturities

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

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

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

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

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

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

NOTE 4 LOAN SECURITIZATION (MORTGAGE-BACKED SECURITIES RECEIVABLE)

The Company's subsidiary Home Trust securitizes residential mortgage loans, and in these securitizations Home Trust retains interest-only strips and servicing responsibilities. The retained interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold \$546.3 million (2005 - \$430.8 million) of mortgages receivable in securitization transactions. This value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization receivable recorded on the consolidated balance sheets for securitization transactions totaled \$55.0 million (2005 - \$44.8 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of \$1.4 million (2005 - \$1.2 million) included on the consolidated balance sheets. Mortgage payments, which have been collected and are payable to the National Housing Authority ("NHA") trusts, as at December 31, 2006, totaled \$28.0 million (2005 - \$15.1 million). There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

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

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

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

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

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

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

(000's, except % and number of years)	2006	2005
Carrying amount of retained interest	\$ 50,963	\$ 41,309
Weighted-average life in years	2.6	2.8
Prepayment rate	14.61%	13.51%
Impact on fair value of 10% adverse change	\$ (941)	\$ (750)
Impact on fair value of 20% adverse change	(1,863)	(1,484)
Residual cash flows discount rate	3.86%	3.67%
Impact on fair value of 10% adverse change	\$ (1,204)	\$ (631)
Impact on fair value of 20% adverse change	(2,502)	(1,186)
Expected credit losses	N/A*	N/A*

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

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

(000's)	2006	2005
Net proceeds from new securitizations	\$ 532,730	\$ 420,643
Cash flows received on retained interests	25,132	17,469

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

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

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

NOTE 5 CAPITAL ASSETS

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

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

NOTE 6 OTHER ASSETS

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

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December 31, 2006 and 2005

NOTE 7 TERM LOAN

On June 18, 2002, the Company entered into an agreement with Canadian Western Bank ("Canadian Western") whereby Canadian Western provided a term loan of \$10.0 million for a period of five years.

The terms of the loan are as follows:

- [i] The balance of the loan, together with all accrued and unpaid interest, is due and payable in full on July 10, 2007;
- [ii] Interest is payable at the bank's prime lending rate plus 1% from September 1, 2005 and plus 2% prior to this date;
- [iii] As collateral for the term loan, the Company has provided a demand note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of \$10.0 million of the subordinated notes issued by Home Trust.

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

NOTE 8 DEPOSITS

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

All deposits are denominated in Canadian dollars.

NOTE 9 OTHER LIABILITIES

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

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

NOTE 10 CAPITAL STOCK

(a) Authorized

An unlimited number of Common shares.

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

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

(b) Issued

(000's)	Number of Shares		2006	Number of Shares		2005
Common shares						
Balance at beginning of year	34,012	\$	34,272	33,777	\$	32,468
Options exercised	186		1,197	235		1,804
Repurchase of shares	(32)		(918)	-		-
Balance at end of year	34,166	\$	34,551	34,012	\$	34,272

(c) Normal Course Issuer Bid

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

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

(d) Stock Options

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

(000's, except exercise price and number of years)	Number of Options	Weighted- average Exercise Price	Number of Options	Weighted- average Exercise Price
		2006		2005
Outstanding at beginning of year	1,272	\$ 12.32	1,373	\$ 8.62
Issued	210	28.99	218	35.03
Exercised	(186)	6.34	(235)	7.23
Cancelled	(30)	34.78	(84)	25.00
Outstanding at end of year	1,266	\$ 15.43	1,272	\$ 12.32
Exercisable at year-end	910	\$ 9.25	1,003	\$ 7.31
Weighted-average term to maturity in years		2.7		3.1

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

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As at December 31, 2006, stock options outstanding to acquire Common shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price per Share	Expiry Date
Options granted to				
Directors	200,000	200,000	\$ 6.76	03/06/2007
	10,000	10,000	7.75	06/18/2007
	265,000	265,000	7.15	12/05/2009
	475,000	475,000		
Employees	118,500	118,500	\$ 6.76	03/06/2007
	115,000	115,000	7.15	12/05/2009
	145,000	145,000	10.56	07/23/2010
	15,000	7,500	26.16	03/10/2011
	37,500	9,375	34.55*	02/14/2010
	10,000	2,500	34.53*	04/26/2010
	140,000	35,000	35.25*	12/06/2010
	10,000	2,500	42.02**	03/03/2011
	30,000	-	31.20**	07/26/2011
	115,000	-	27.89**	10/25/2011
	55,000	-	27.71**	12/01/2011
	791,000	435,375		
	1,266,000	910,375	\$ 9.25	

* In 2005, the Company granted certain employees the right to receive stock options of 57,500, 10,000 and 150,000 if certain performance criteria were met. As at December 31, 2006, one level of the performance criteria had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted income per Common share.

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

Fair Value Compensation of Stock Options

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

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

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

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

For options granted after January 1, 2003 the Company determines the fair value of stock options on their grant date and records this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in capital stock. Employee compensation expense increased by \$0.5 million (2005 - \$0.2 million) and net income decreased by the same amount.

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

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

(e) Income per Common Share

Basic income per Common share is determined as net income for the year divided by the average number of Common shares outstanding of 34,130,515 (2005 – 33,860,077).

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

NOTE 11 INCOME TAXES

Components of the provision for income taxes are as follows:

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

Reconciliation of income taxes is as follows:

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

The combined federal and provincial income tax rate varies each year according to changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statements of income is different from the combined federal and provincial income tax rate of 36.12% (2005 – 36.12%).

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

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

NOTE 12 EMPLOYEE SHARE PURCHASE PLAN

Effective January 1, 2001, qualifying employees of Home Trust have the ability to purchase shares in the Company. Under the Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their annual base earnings withheld to purchase Common shares. The Company matches 50% of the employee's contribution amount. All contributions are used by the trustee of the Employee Share Purchase Plan to purchase the Common shares during each pay period in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totaled \$317,155 for 2006 (2005 - \$280,299).

NOTE 13 COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

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

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

Credit Commitments

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

The Company has contractual commitments to extend credit to its clients for its credit card products. The contractual commitment for this product represents the maximum potential credit risk, assuming the contractual amount is fully utilized and the client defaults and collection efforts are unsuccessful. At December 31, 2006, these contractual commitments in aggregate were \$296,647,964 (2005 - \$158,692,723). These amounts are not fully drawn by the Company's customers and, therefore, these amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments. Secured credit cards have spending limits restricted by collateral held by the Company.

Directors' and Officers' Indemnification

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

NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates. The Company has entered into economic hedge swap transactions.

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

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

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

NOTE 15 INTEREST RATE SENSITIVITY

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

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

	2006							
(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash resources	\$ 30,401	\$ 99,830	\$ -	\$ 13,300	\$ -	\$ -	\$ -	\$ 143,531
Weighted-average interest rate	3.0%	4.1%	-	3.8%	-	-	-	3.9%
Securities	-	32,820	7,290	27,033	165,052	111,939	-	344,134
Weighted-average interest rate	-	4.8%	4.7%	4.7%	4.1%	4.4%	-	4.4%
Loans	-	428,530	310,390	846,352	1,388,605	313,592	21,745	3,309,214
Weighted-average interest rate	-	8.6%	7.1%	7.4%	7.2%	7.0%	-	7.3%
Other assets	-	-	-	-	-	-	105,437	105,437
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 30,401	\$ 561,180	\$ 317,680	\$ 886,685	\$ 1,553,657	\$ 425,531	\$ 127,182	\$ 3,902,316
Weighted-average interest rate	3.0%	7.6%	7.1%	7.2%	6.9%	6.3%	-	6.8%
Liabilities and shareholders' equity								
Term loan and subordinated term loan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Weighted-average interest rate	-	-	-	-	-	-	-	-
Deposits payable on demand	-	-	-	-	-	-	27,871	27,871
Weighted-average interest rate	-	-	-	-	-	-	-	-
Deposits payable on a fixed date	-	311,280	666,542	1,082,000	1,153,619	202,328	-	3,415,769
Weighted-average interest rate	-	3.7%	4.2%	4.0%	4.1%	4.1%	-	4.0%
Other liabilities	-	-	-	-	-	-	181,810	181,810
Weighted-average interest rate	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	276,866	276,866
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ -	\$ 311,280	\$ 666,542	\$ 1,082,000	\$ 1,153,619	\$ 202,328	\$ 486,547	\$ 3,902,316
Weighted-average interest rate	-	3.7%	4.2%	4.0%	4.1%	4.1%	-	3.5%
Off-balance sheet items	\$ 30,401	\$ 249,900	\$ (348,862)	\$ (195,315)	\$ 400,038	\$ 223,203	\$ (359,365)	3.3%
Weighted-average interest rate	-	7.3%	7.2%	7.0%	7.7%	7.1%	-	-
Interest rate sensitivity gap	\$ 30,401	\$ 59,544	\$ (355,721)	\$ (175,648)	\$ 462,119	\$ 338,670	\$ (359,365)	-
Cumulative gap	\$ 30,401	\$ 89,945	\$ (265,776)	\$ (441,424)	\$ 20,695	\$ 359,365	\$ -	-

(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash resources	\$ 51,337	\$ 110,806	\$ -	\$ 9,000	\$ -	\$ -	\$ -	\$ 171,143
Weighted-average interest rate	1.8%	3.1%	-	3.0%	-	-	-	2.7%
Securities	-	26,747	3,270	9,875	112,699	76,151	-	228,742
Weighted-average interest rate	-	5.7%	4.9%	3.7%	4.1%	4.4%	-	4.4%
Loans	-	223,341	210,339	698,046	1,337,948	317,117	10,082	2,796,873
Weighted-average interest rate	-	11.0%	7.3%	7.4%	7.2%	7.1%	-	7.5%
Other assets	-	-	-	-	-	-	88,071	88,071
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 51,337	\$ 360,894	\$ 213,609	\$ 716,921	\$ 1,450,647	\$ 393,268	\$ 98,153	\$ 3,284,829
Weighted-average interest rate	1.8%	7.1%	7.1%	6.7%	6.7%	6.1%	-	6.4%
Liabilities and shareholders' equity								
Term loan and subordinated								
term loan	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Weighted-average interest rate	6.0%	-	-	-	-	-	-	6.0%
Deposits payable on demand	-	-	-	-	-	-	26,245	26,245
Weighted-average interest rate	-	-	-	-	-	-	-	-
Deposits payable on a fixed date	-	228,475	355,277	862,060	1,063,773	365,685	-	2,875,270
Weighted-average interest rate	-	3.4%	3.5%	3.5%	3.8%	4.0%	-	3.7%
Other liabilities	-	-	-	-	-	-	154,429	154,429
Weighted-average interest rate	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	218,885	218,885
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 10,000	\$ 228,475	\$ 355,277	\$ 862,060	\$ 1,063,773	\$ 365,685	\$ 399,559	\$ 3,284,829
Weighted-average interest rate	6.0%	3.4%	3.5%	3.5%	3.8%	4.0%	-	3.2%
	\$ 41,337	\$ 132,419	\$ (141,668)	\$ (145,139)	\$ 386,874	\$ 27,583	\$ (301,406)	3.2%
Off-balance sheet items	-	(150,935)	(11,780)	(4,854)	73,205	94,364	-	-
Weighted-average interest rate	-	6.7%	6.1%	6.3%	6.9%	6.6%	-	-
Interest rate sensitivity gap	\$ 41,337	\$ (18,516)	\$ (153,448)	\$ (149,993)	\$ 460,079	\$ 121,947	\$ (301,406)	-
Cumulative gap	\$ 41,337	\$ 22,821	\$ (130,627)	\$ (280,620)	\$ 179,459	\$ 301,406	\$ -	-

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NOTE 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

NOTE 17 EARNINGS BY BUSINESS SEGMENT

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

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

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

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

Notes to the Consolidated Financial Statements

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NOTE 18 COMPARATIVE FIGURES

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

NOTE 19 FUTURE ACCOUNTING CHANGES

Financial Instruments

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

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

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

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