



# HOME CAPITAL GROUP INC.

## Fourth Quarter Report December 31, 2006

### Financial Highlights

	Three Months Ended		Year Ended	
<i>For the Period Ended December 31 (Unaudited)</i>				
<i>In Thousands of Dollars (Except Per Share and Percentage Amounts)</i>	2006	2005	2006	2005
<b>OPERATING RESULTS</b>				
Net Income	\$ 20,518	\$ 16,881	\$ 67,815	\$ 60,861
Total Revenue	83,246	64,803	291,288	243,106
Earnings per Share - Basic	\$ 0.60	\$ 0.50	\$ 1.99	\$ 1.80
- Diluted	0.59	0.47	1.95	1.72
Return on Shareholders' Equity	30.54%	31.94%	27.36%	31.94%
Return on Average Assets	2.15%	2.14%	1.89%	2.08%
Efficiency Ratio	33.42%	34.42%	37.00%	35.52%
Efficiency Ratio (TEB)**	32.85%	33.80%	36.35%	34.86%
<i>(Non-interest Expense/Net Interest Income Plus Fee Income)</i>				
<b>BALANCE SHEET HIGHLIGHTS</b>				
Total Assets			\$ 3,902,316	\$ 3,284,829
Loans			3,309,214	2,796,873
Deposits			3,443,640	2,901,515
Common Shareholders' Equity			276,866	218,885
Mortgage-Backed Security Assets Under Administration			1,107,562	800,184
<b>FINANCIAL STRENGTH</b>				
<b>Capital Measures</b>				
Risk Adjusted Assets*			\$ 2,066,447	\$ 1,650,590
Tier 1 Capital Ratio*			12.65%	12.68%
Total Capital Ratio*			14.24%	14.46%
<b>Credit Quality</b>				
Net Impaired Loans % of Gross Loans			0.68%	0.49%
Allowance % of Gross Impaired Loans			86.53%	120.59%
Annualized Provision % of Gross Loans			0.13%	0.11%
<b>Share Information</b>				
Book Value per Common Share			\$ 8.10	\$ 6.44
Common Share Price - Close			34.05	34.75
Market Capitalization			1,163,340	1,181,904
Common Shares Outstanding - Number			34,166	34,012

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

\*\* See definition of Taxable Equivalent Basis ("TEB") on page 5 of this interim consolidated financial report.

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

**HOME CAPITAL GROUP INC.  
TO OUR SHAREHOLDERS**

**Home Capital Reports Strong Fourth Quarter Results  
Earnings Rise by 21.6%, Return on Equity at 30.5%**

Home Capital Group Inc. (TSX: HCG) today announced positive financial results for the fourth quarter of 2006, across all areas of its business. Particularly strong growth was experienced in net income and earnings per share, driven by enhanced yields from the mortgage portfolio and growth in the Equityline VISA operation. Towards the end of the quarter, the Company achieved another growth milestone as total assets, including Mortgage-Backed Securities (“MBS”) administered by Home Trust, reached \$5.01 billion.

As was anticipated by the end of the third quarter, the continuing positive lending climate across Canada, and a stable interest rate environment resulted in solid growth and returns for the Company. Key results from the fourth quarter and twelve months of 2006 included:

- Net income during the fourth quarter was \$20.5 million, an increase of 21.6% over the \$16.9 million recorded during the same period last year. Earnings for the full twelve months of 2006 rose by 11.4% to \$67.8 million, from the \$60.9 million reported for 2005.
- Basic earnings per share were \$0.60, 20.0% above the \$0.50 in the fourth quarter of 2005. Diluted earnings per share were \$0.59, a rise of 25.5% from the \$0.47 recorded for the fourth quarter last year. Basic income per share for the twelve months rose from \$1.80 to \$1.99, and on a diluted basis from \$1.72 to \$1.95.
- Return on equity was 30.5% for the fourth quarter, and 27.4% for the twelve months of 2006, compared to 31.9% for both the fourth quarter and full twelve months of 2005.
- Total assets at December 31, 2006 reached \$3.90 billion, 18.8% higher than the \$3.28 billion reported one year earlier, and 4.1% higher than the \$3.75 billion at September, 2006. Total assets, including MBS originated and administered by the Company, grew 22.6% to \$5.01 billion, compared to \$4.09 billion at December 2005.
- Total mortgage originations were \$519.8 million during the fourth quarter, an increase of 14.8% from the \$452.8 million advanced in the same period last year. Originations for the twelve months amounted to \$1.98 billion, an increase of 14.6% from the \$1.73 billion advanced during 2005.
- The efficiency ratio (TEB) was 32.8% for the fourth quarter, an improvement from the 33.8% recorded during the same period of 2005. The ratio was 36.4% for the twelve months of 2006, above 34.9% for the prior year.
- Outstanding balances on the Equityline VISA portfolio were \$215.9 million, a substantial rise of 20.8% from the \$178.8 million recorded at September 2006 and an increase of 130.8% over the \$93.5 million for December 2005. During the twelve months, 4,882 credit card accounts with \$210.2 million in authorized credit limits were issued, compared to 2,528 cards and \$90.1 million in authorized credit limits for the twelve months ending December 2005, representing increases of 93.1% and 133.2%, respectively.

- Net impaired loans represented 0.68% of the total loans portfolio, up from 0.49% at the end of 2005, and from 0.56% at September 2006. Mortgage write-offs in the fourth quarter were negligible. The Company does not anticipate any material increase in write-offs in the foreseeable future.

After considerable analysis and evaluation, Home Trust commenced a new area of business activity during the fourth quarter, namely high quality commercial mortgage lending. The first loan advanced under this program was \$28.3 million secured by a pool of commercial first mortgages. Home Trust's loan was less than 25% of the face value of the pool of mortgages, each of which was reviewed by Home Trust and determined to be of good quality, performing and under 75% loan to value.

Home Trust is entering this business in order to utilize its excess borrowing capacity in a low risk manner and has determined that there is a niche in the marketplace for a lender with Home Trust's skills to effectively compete in commercial mortgage lending.

As is consistent with our previous approach when pursuing new opportunities, we intend to gradually develop this business over the upcoming quarters. The loan that closed late in the fourth quarter had no material earnings impact on the period, however, we are optimistic that this area of lending will become a meaningful contributor to income and asset growth going forward.

The Company closed the office in Hamilton subsequent to the end of the quarter, and consolidated operations into the Toronto office in order to increase efficiency and improve service to the broker community. All the lending staff are now working from our Toronto location and early feedback indicates the move is producing positive results.

Subsequent to the end of the quarter, Home Capital's Board of Directors declared a quarterly dividend of \$0.09 per share, payable on March 1, 2007 to shareholders of record at the close of business on February 15, 2007.

Home Capital anticipates that the restored levels of business growth and profitability which the Company experienced in the fourth quarter will continue into the first quarter of 2007, and throughout the year ahead. As a result the Company has set the following targets for 2007: 20% growth in total earnings, 20% growth in diluted earnings per share, 20% total asset growth (including MBS), and 25% return on shareholders' equity.

We look forward to a very good year in 2007.

**GERALD M. SOLOWAY**  
President and Chief Executive Officer  
February 14, 2007

**WILLIAM A. DIMMA**  
Chairman of the Board

## Management's Discussion and Analysis

### Caution Regarding Forward-Looking Statements

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

### Taxable Equivalent Basis ("TEB")

Most banks and trust companies analyze revenue on a TEB to provide uniform measurement and comparisons of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. The adjustment to TEB increases income and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory tax rate. The TEB adjustment of \$0.8 million for the quarter and \$3.0 million for the twelve-month period ended December 31, 2006 (\$0.7 million and \$2.8 million for the comparable quarter and twelve-month period in 2005, respectively) increases interest income. TEB does not have a standard meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures used by other companies. Net interest income and income taxes are presented on a TEB basis throughout this Management's Discussion and Analysis (refer to financial highlights).

### Regulatory Filings

The Company's continuous disclosure materials, including interim filings, annual management's discussion and analysis and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's web site at [www.homecapital.com](http://www.homecapital.com) and on the Canadian Securities Administrators' web site at [www.sedar.com](http://www.sedar.com).

### Management's Discussion and Analysis of Operating Performance

This management's discussion and analysis ("MD & A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended December 31, 2006 included herein and the audited consolidated financial statements and MD & A for the year ended December 31, 2005. These are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on pages 8 through 50 of the Company's 2005 Annual Report. Except as discussed in the unaudited interim consolidated financial statements and MD & A, all other factors discussed and referred to in the MD & A for fiscal 2005 remain substantially unchanged. These interim consolidated financial statements and MD & A have been prepared based on information available as at February 13, 2007. As in prior quarters, the Company's Audit and Risk Management Committee reviewed this document, and prior to its release, the Company's Board of Directors approved this document, on the Audit and Risk Management Committee's recommendation.

### 2006 Performance and 2006 Objectives

Home Capital published its financial objectives for 2006 in the Company's 2005 Annual Report, found on page 10. The following table compares actual performance against these objectives.

	Year Ended December 31, 2006	
	2006 Objectives	Actual Results
Net Income	\$73 million	11.4% increase over last year or \$67.8 million
Diluted Earnings per Share	\$2.06 per share	13.4% increase over last year or \$1.95 per share
Combined Total Assets and Assets Under Administration	\$4.90 billion	22.6% increase over last year or \$5.01 billion
Return on Equity	20%	27.4%
Efficiency Ratio (TEB)*	38.0% to 43.0%	36.4%
Capital Ratio - Tier 1	Minimum of 9.5%	12.7%
Capital Ratio - Total	Minimum of 12.5%	14.2%
Provision for Loan Losses as a Percentage of Total Loans	0.1% to 0.2%	0.1%

\* TEB - The taxable equivalent basis does not have a standardized meaning prescribed by Canadian generally accepted accounting principals ("GAAP") and therefore, may not be comparable to similar measures presented by other banks. Refer to the definition of TEB above.

## FINANCIAL HIGHLIGHTS

### Income Statement Highlights for the Quarter

- The Company achieved record earnings during the quarter. Net income rose 21.6% over the comparable quarter in 2005. The Company saw improved operating results in all lines of business, driving growth in both net interest income and non-interest income.
- Net interest income was up 18.5% over the comparable quarter in 2005 as the Company's income-producing assets grew by 18.8%.
- Non-interest income was up 49.4% over the comparable quarter in 2005, driven by growth in fee income from increased mortgage and credit card originations and changes to fees on the Company's mortgage products.
- The efficiency ratio (TEB) improved with a decrease to 32.9% during the quarter as management continued their efforts to manage expenses.
- Diluted earnings per share for the quarter increased 25.5% to \$0.59 compared to \$0.47 for the fourth quarter of 2005.
- Return on average shareholders' equity was 30.5% for the quarter compared to 31.9% for the quarter ended December 31, 2005.

### Balance Sheet Highlights for the Quarter

- Total assets at December 31, 2006 grew 18.8% to reach \$3.90 billion compared to the \$3.28 billion reported at December 31, 2005. This asset growth was driven by our residential mortgage portfolio which increased 11.7% and significant growth in our personal and credit card loan portfolio led by Equityline VISA, which grew 130.8% from December 31, 2005.
- Deposit liabilities as at December 31, 2006 grew 18.7% to reach \$3.44 billion as compared to the \$2.90 billion reported at December 31, 2005. This growth was required to fund our loan portfolio expansion.

## EARNINGS REVIEW

### Net Interest Income

Net interest income was \$32.4 million in the quarter, an increase of \$5.1 million, or 18.5%, over the \$27.3 million reported during the same quarter of 2005. Net interest income for the year was \$118.6 million, up \$15.3 million, or 14.8%, over the \$103.3 million reported in the same twelve-month period of 2005. This increase was the result of the growth in interest earning assets of \$600.1 million over December 31, 2005, compared to an increase of \$532.1 million in interest bearing liabilities. The net interest margin (on a TEB basis) for the quarter and twelve-month periods ended December 31, 2006 were 3.5% and 3.4% respectively. Both the quarter and twelve-month periods net interest margins (on a TEB basis) declined by 0.1% from the comparable quarter and twelve-month periods ended December 31, 2005, at 3.6% and 3.5%, respectively. The interest spread between loans and borrowings ended the quarter and twelve-month periods at 3.5%, down from 3.6% during the comparable quarter of 2005 and from 3.7% in the comparable twelve-month period ended December 31, 2005. Although the spread between lending and borrowing was somewhat compressed in comparison to the spread achieved in 2005, the Company did experience an increase in spread during the fourth quarter when compared to the previous quarters in 2006.

The mortgage lending line of business continues to be the primary driver of increased net interest income. Net interest income earned through the mortgage lending business contributed \$22.7 million during the quarter and \$86.7 million for the twelve-month period ended December 31, 2006, up from \$21.1 million during the comparable quarter and \$78.2 million for the twelve-month period ended December 31, 2005.

The consumer lending line of business had a strong year as it saw significant growth of 104.4% in income producing assets. Net interest income earned through the consumer lending line of business contributed \$4.6 million during the quarter and \$15.1 million for the twelve-month period ended December 31, 2006, up from \$2.8 million during the comparable quarter and \$10.3 million for the twelve-month period ended December 31, 2005.

Note 10 of the accompanying unaudited interim consolidated financial statements summarizes the Company's interest rate risk position as at December 31, 2006. This table illustrates that up to one year the Company has a deficient cumulative dollar gap of \$441.4 million (liabilities and off-balance sheet items exceed total assets) compared to deficiencies of \$280.6 million at December 31, 2005 and \$495.1 million at September 30, 2006. The deficiency in the cumulative gap reverts to a surplus in the one to three year timeframe for the current period comparable to the other periods presented in the table. This reduced gap balance in the one to three year timeframe is due to shorter-term deposit rates being high, which resulted in very little difference between the one-year and five-year rates. Depositors are choosing shorter-term investments, reducing the duration of the Company's liabilities while borrowers are looking to longer term funding.

## **Non-Interest Income**

Total non-interest income was \$16.7 million for the quarter and \$50.1 million for the twelve-month period ended December 31, 2006, an increase of \$5.5 million and \$6.8 million from the comparable quarter and twelve-month periods ended December 31, 2005.

The fees and other income component of non-interest income increased to \$9.9 million for the quarter and \$28.0 million for the twelve-month period ended December 31, 2006, compared to \$5.4 million and \$21.4 million for the comparable quarter and twelve-month periods ended December 31, 2005. The mortgage line of business contributed \$7.8 million of this income in the quarter and \$20.1 million for the twelve-month period ended December 31, 2006, compared to \$3.5 million and \$14.6 million for the comparable quarter and twelve-month periods ended December 31, 2005. The Company revisited its mortgage fee structures and changes have been instituted in the current quarter to more appropriately align fee arrangements with the Company's level of service. The consumer lending line of business contributed \$2.0 million in fee income during the quarter and \$7.7 million for the twelve-month period ended December 31, 2006, compared to \$1.8 million and \$6.7 million for the comparable quarter and twelve-month periods ended December 31, 2005.

The Company issued six MBS pools during the quarter, consisting of \$130.7 million of Canada Mortgage and Housing Corporation ("CMHC") insured residential mortgages, for a total issuance of MBS pools in 2006 of \$546.3 million. This represents a decrease of \$9.2 million over the \$139.9 million in MBS pools that were issued in the comparable quarter of 2005 and an increase of \$115.5 million over the \$430.8 million issued during the twelve-month period ended December 31, 2005. Gains of \$5.7 million from securitizations were realized in the quarter, and \$17.9 million for the twelve-month period ended December 31, 2006, up from \$4.9 million in the comparable quarter of 2005 and down from the \$19.2 million realized in the comparable twelve-month period ended December 31, 2005. (Refer to Note 3 of the unaudited interim consolidated financial statements.)

The decrease in securitization gains for the twelve-month period ended December 31, 2006 was due to the Company taking a higher estimate for unscheduled prepayments on the underlying mortgages and slightly reduced spreads over the year. The estimated annual prepayment rate rose to 12.7% for the twelve-month period ended December 31, 2006 compared to 9.2% for the twelve-month period ended December 31, 2005. The spreads earned on the MBS pools declined a modest 0.1% from those experienced during the twelve-month period ended December 31, 2005. In contrast, gains during the quarter increased by \$0.8 million in comparison to the same quarter of 2005. Although the prepayment rate during the quarter rose to 12.9% from 10.2% in the same quarter of 2005, the excess spread achieved on the current quarter's pools, at 3.1%, significantly exceeded the spreads on the pools in the same quarter of 2005 at 2.7%.

## **Non-Interest Expenses**

Total non-interest expenses for the quarter were \$16.4 million, an increase of \$3.1 million, or 23.7%, over the comparable quarter of 2005 and up \$10.3 million, or 19.8%, over the twelve-month period ended December 31, 2005. The primary driver of the increase in non-interest expense over the previous year's quarter and twelve-month period was increased staffing levels year over year. The Company ended this quarter with 350 employees, up slightly from 347 employees at September 30, 2006 and well above the 274 employees at December 31, 2005. Salary expenses were down from the third quarter by 4.3% as a result of an adjustment to the average bonus pay-out per employee under the Company's bonus program being lower than the amount projected earlier in the year. It is anticipated that there will only be modest increases in staffing levels over the next few quarters.

Premises expenses for the quarter and the twelve-month period ended December 31, 2006 increased \$0.3 million and \$1.1 million respectively, due to a relocation in early 2006 to larger offices in Toronto and the acquisition of additional space in the Company's St. Catharines, Ontario office to accommodate staffing growth and to provide capacity for enhanced back-up systems.

General and administrative expenses increased by \$0.7 million over the fourth quarter of 2005, and \$3.3 million over the twelve-month period ended December 31, 2005. This increase was related primarily to variable expenses that are volume driven. Lending growth has expanded the Company's requirement for deposits and ancillary services, which in turn increased deposit commissions, referral expenses and other operating expenses. In addition, moving expenses were incurred during the first quarter for the Toronto office move and additional equipment purchases increased the depreciation expense for both the quarter and twelve-month periods ended December 31, 2006.

The efficiency ratio (TEB) ended the quarter at 32.9% and 36.4% for the twelve-month period ended December 31, 2006. This was an improvement from the 33.8% achieved for the comparable quarter of 2005, and down from the efficiency ratio (TEB) of 34.9% achieved for the twelve-month period ended December 31, 2005. The improvement in the efficiency ratio (TEB) for the fourth quarter reflects ongoing efforts by management to reduce all controllable expense areas. The target efficiency ratio (TEB) for 2006 of between 38% and 43% was achieved.

## **Provision for Credit Losses**

The Company expensed \$1.3 million during the quarter and \$4.4 million for the twelve-month period ended December 31, 2006 through the provision for credit losses, compared to \$0.1 million for the comparable quarter and \$3.1 million for the twelve-month period ended December 31, 2005. For the twelve-month period ended December 31, 2006 this expense translates to 0.1% of total loans on an annualized basis. The Company continues to add to its general allowance for credit losses primarily in response to the growth of the loan portfolio and total assets. The total general allowance amounted to \$19.6 million at December 31, 2006 representing an increase of \$3.0 million over the \$16.6 million at December 31, 2005 and a \$0.5 million rise over the \$19.1 million allowance at September 30, 2006. Growth in the general allowance for the three- and twelve-month periods ended December 31, 2006 were 2.8% and 18.4% respectively, lower than total asset growth of 4.1% and 18.8% respectively.

At December 31, 2006 net impaired loans increased to \$22.8 million (0.68% of gross loans), compared to \$13.7 million (0.49% of gross loans) at December 31, 2005 and \$18.1 million (0.56% of gross loans) at September 30, 2006. The rise in net impaired loans has not resulted in a material increase in loan write-offs, as indicated in Note 2 to the unaudited interim consolidated financial statements. Total net loans written-off during the twelve-month period increased slightly to \$0.9 million, compared to \$0.6 million for the same period in 2005.

### **Income Taxes**

Income tax expenses amounted to \$10.9 million (effective tax rate of 34.6%) for the quarter and \$34.1 million (effective tax rate of 33.5%) for the twelve-month period ended December 31, 2006, compared to \$8.3 million (effective tax rate of 32.9%) for the comparable quarter and \$30.6 million (effective tax rate of 33.5%) for the twelve-month period ended December 31, 2005. In the absence of tax-free dividends, the effective tax rates would have been 36.3% for the quarter and 35.3% for the twelve-month period ended December 31, 2006.

In June 2006, the federal government enacted legislation to reduce corporate tax rates for taxation years commencing 2008. Future tax assets and liabilities have been revalued and the net effect was to increase income taxes in the amount of \$0.5 million in the fourth quarter, compared to a reduction in the third quarter of \$0.8 million. This resulted in a net reduction for the year of \$0.3 million.

## **BALANCE SHEET REVIEW**

### **Assets**

Total assets as at December 31, 2006 reached \$3.90 billion, an increase of \$617.5 million, or 18.8%, over the \$3.28 billion reported at December 31, 2005 and up \$153.1 million, or 4.1%, over the September 30, 2006 asset balance of \$3.75 billion.

Growth in the loans portfolio of \$512.3 million, or 18.3%, contributed to most of the year-over-year asset increase. Residential mortgages contributed \$302.1 million to the total loan portfolio growth, personal and credit card loans contributed \$120.4 million, other mortgages (non-residential) contributed \$66.2 million and secured loans contributed \$26.7 million. Mortgage-Backed Securities receivables contributed \$9.7 million to total asset growth. The Company's securities portfolio increased by \$115.4 million over December 31, 2005 while cash resources decreased by \$27.6 million year-over-year as the Company shifted funds into higher yielding government instruments. Other assets consisting of accrued interest receivable, deferred agent commissions, deferred finders fees and other prepaid and deferred assets (refer to Note 4 in the unaudited interim consolidated financial statements) increased by \$7.3 million from December 31, 2005. Despite the growth in the loans portfolio and deposits, both deferred finders fees and deferred agent commissions declined. Commission fees are amortized over the terms of deposits and shortening average deposit terms resulted in the decreased deferred asset.

Growth in the loans portfolio of \$113.4 million, or 3.6%, was the principal contributor to asset growth over the September 30, 2006 total asset balance. Within the loans portfolio growth arose from other mortgages (non-residential) of \$38.5 million, personal and credit card loans of \$37.0 million, residential mortgages of \$34.1 million and secured loans of \$4.4 million. Cash resources increased by \$16.7 million and securities increased by \$17.9 million, resulting from excess funds raised through deposits and internally generated earnings. All remaining other assets increased by \$5.2 million, consisting of Mortgage-Backed Securities receivable, accrued interest receivable, deferred assets and capital assets.

### **Liabilities**

Liabilities for the year ended December 31, 2006 rose to \$3.63 billion, an increase of \$559.5 million, or 18.3%, over the \$3.07 billion reported at December 31, 2005 and up by \$136.9 million, or 3.9%, over the \$3.49 billion reported at September 30, 2006.

The deposits raised by the Company are primarily used to fund the lending activity. As such, the year-over-year growth in deposits of \$542.1 million funded the increases in the loans portfolio. Increased retained earnings and other liabilities, along with deposits growth funded the Company's increase in investment securities and other assets. Other liabilities (refer to Note 5 of the unaudited interim consolidated financial statements) increased by \$31.7 million, or 21.5%, over the \$147.4 million reported at December 31, 2005. This growth was principally the result of increases in accrued interest payable of \$14.5 million, which related to the rise in deposits. Accounts payable and accrued liabilities added \$14.1 million and the increase in deferred commitment fees that resulted from the expansion of the mortgage loan portfolio, increased other liabilities by \$2.4 million.

The term loan outstanding at December 31, 2005 in the amount of \$10.0 million had been fully repaid as at December 31, 2006.

The rise in liabilities of \$136.9 million, or 3.9%, since September 30, 2006 resulted primarily from increased deposits of \$130.8 million. Increased deposit liabilities funded all of the loan portfolio growth for the quarter ended December 31, 2006. All remaining other liabilities increased by \$6.1 million, or 3.5%, since September 30, 2006 driven by higher accrued interest payable on deposits, income taxes payable and accounts payable and accrued liabilities.

### **Shareholders' Equity**

The increase in shareholders' equity of \$58.0 million, or 26.5%, over the \$218.9 million reported at December 31, 2005 was internally generated from net income for the year of \$67.8 million, less \$10.6 million for dividends paid and payable to shareholders. The remaining \$0.8 million was from share option transactions, including proceeds of \$1.2 million received on the exercise of Company share options and the amortization of the fair value of share options of \$0.5 million, which was offset by \$0.9 million paid by the Company to repurchase capital stock through the Normal Course Issuer Bid.

As at December 31, 2006 shareholders' equity rose to \$276.9 million, an increase of \$16.2 million, or 6.2%, over the \$260.7 million reported at September 30, 2006. This growth was internally generated from net income for the three months of \$20.5 million, less \$3.7 million for dividends paid or payable to shareholders. The remaining \$0.6 million was from proceeds received on the exercise of Company share options and the recording of fair value adjustments on stock options, reduced by the repurchase of capital stock through the Normal Course Issuer Bid.

At December 31, 2006 the book value per common share reached \$8.10 compared to \$7.62 at September 30, 2006 and \$6.44 at December 31, 2005.

### **Off-Balance Sheet Arrangements**

From time to time, the Company may enter into hedging transactions to mitigate the interest exposure on outstanding loan commitments. Throughout the quarter ended December 31, 2006, the Company did not enter into any new interest rate swap contracts. As a result of prior quarter transactions, the Company unwound the remaining \$30.0 million of fixed forward interest rate swaps and realized a negligible loss which was recorded in the Consolidated Statements of Income. For additional information refer to Note 9 of these accompanying unaudited interim consolidated financial statements.

The Company securitizes insured residential mortgage loans into special purpose entities for liquidity funding and capital management purposes. These transactions consist of the transfer of these loans to a Canadian trust company in exchange for cash. When these assets are sold, the Company retains rights to certain excess interest spreads and servicing liabilities, which constitute retained interests. On a quarterly basis, the Company reviews the value of the retained interests and any impairment in value is charged to income, if applicable. The Company continues to administer all securitized assets after the sales. As of December 31, 2006 outstanding securitized mortgage loans under administration amounted to \$1.11 billion (\$1.04 billion - Q3 2006 and \$800.2 million - Q4 2005) and retained interest of \$51.0 million (\$50.5 million - Q3 2006 and \$41.3 million - Q4 2005). For additional information refer to Note 5 in the consolidated financial statements of the 2005 Annual Report, and Note 3 of these accompanying unaudited interim consolidated financial statements.

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 \$201.8 million at December 31, 2006 compared to \$176.5 million at September 30, 2006 and \$176.3 million at December 31, 2005. These commitments remain open for various dates through January 2008. As of December 31, 2006 unutilized available credit card balances amounted to \$66.8 million, compared to \$66.2 million at September 30, 2006 and \$49.5 million at December 31, 2005.

## **BUSINESS AND FINANCIAL PRACTICES**

The Company's key business and financial policies and practices remain in place and unchanged from those outlined on pages 22 through 26 of the MD & A contained in the Company's 2005 Annual Report, with the exception of the new hedging program to manage interest rate risk on mortgage commitments, described above and in Note 9 of these accompanying unaudited interim consolidated financial statements.

### **Liquidity Risk**

The Company maintains sufficient liquidity to fund its obligations as they come due under normal operating conditions, as well as under various stress scenarios, within a framework of minimum levels of liquid assets to be held at all times. The Company holds liquid assets in the form of cash, bank deposits, treasury bills, bankers acceptances and government or government guaranteed bonds and debentures to meet the Company's liquidity requirements. At December 31, 2006 liquid assets amounted to \$339.0 million, up 18.2% from \$286.9 million at December 31, 2005 and 5.9% from \$320.2 million at September 30, 2006.

The Company maintains a minimum of 20% of 100-day obligations in liquid assets. For the twelve-month period ended December 31, 2006 the Company maintained an average of \$288.0 million, or 41.3%, of 100-day obligations compared to \$216.1 million, or 46.4%, for the twelve-month period ended December 31, 2005.

### **Interest Rate Risk**

The objective of interest rate risk management is to ensure that the Company can realize stable and predictable earnings over specific time periods. The Company has adopted a balanced approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings. The interest rate sensitivity position as at December 31, 2006 is presented under Note 10 in these unaudited interim consolidated financial statements. The table provided represents these positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category.

In addition to matching assets and liabilities, the Company utilizes an interest rate risk sensitivity model that measures the relationship between changes in interest rates, and the resulting impact on the economic value of shareholders' equity. As at December 31, 2006 an immediate and sustained 100 basis point (1%) increase in rates would have decreased the economic value of shareholders' equity over the next twelve months by \$0.5 million after tax, and a 200 basis point (2%) rate increase would result in a similar decline in shareholders' equity of \$0.9 million after tax.

The Company has the ability to enter into interest rate swap arrangements for the purpose of hedging commitment risk. The purpose is to manage interest rate exposures during the timeframe between when a mortgage commitment is made and when this mortgage loan is securitized into an MBS pool. The Company has not entered into any interest rate swap arrangements during the quarter. Refer to Note 9 of the unaudited interim consolidated financial statements for additional information.

## **Credit Risk**

Credit risk management is the management of all aspects of borrower risk associated with the loan portfolios, including the risk of loss of principal and/or interest from the failure of debtors to honour their contractual obligations to the Company.

As at December 31, 2006 the composition of the Company's mortgage portfolio was 95.5% residential, 3.1% store and apartments, and 1.4% non-residential loans. Within the residential mortgage portfolio, 4.8% are insured by CMHC. First mortgages represent 99.7% of the total mortgage portfolio. The increase in the non-residential loans was the result of \$28.3 million of lending during the quarter in new commercial properties. This commercial loan is secured by a bundle of commercial properties and the loan only represents 25% of the total face value of these non-residential loans.

The gross credit card receivable balance ended the year at \$229.8 million up \$120.6 million, or 110.4%, from the \$109.2 million reported at December 31, 2005. The balance at December 31, 2006 was comprised of \$228.2 million, or 99.3%, in accounts secured either by cash deposits or residential mortgage collateral, and \$1.6 million, or 0.7%, that is unsecured. The total credit approved includes \$294.2 million in secured and \$2.4 million in unsecured credit, compared to \$255.3 million in secured and \$3.8 million unsecured at September 30, 2006 and \$153.7 million in secured and \$5.0 million unsecured at December 31, 2005. The Company no longer offers new unsecured accounts. Equityline VISA credit cards are secured by a collateral residential mortgage, and this product amounted to \$215.9 million of the credit card receivable balance at December 31, 2006 compared to \$178.8 million on September 30, 2006 and \$93.5 million at December 31, 2005. Cash deposits for securing credit card accounts amounted to \$19.8 million, which is included in the Company's deposits and borrowings.

Secured loans of \$70.3 million increased by \$4.4 million over the September 30, 2006 balance of \$65.9 million and \$26.7 million over the December 31, 2005 balance of \$43.6 million. These loans are secured by second mortgages on residential property. The Company has experienced insignificant losses on these loans. At December 31, 2006 \$0.4 million were over 30 days in arrears, or 0.5% of the secured loans portfolio. These loans are subject to credit and lending criteria similar to the Company's core residential mortgage portfolio.

Net impaired loans rose to \$22.8 million at December 31, 2006 compared with \$18.1 million at September 30, 2006 and \$13.7 million at December 31, 2005; however the Company has not experienced a significant increase in net loan write-offs. Write-offs, net of recoveries applied against the accumulated allowance for credit losses, realized on loans during the twelve-month period ended December 31, 2006 were \$0.9 million as compared to \$0.6 million for the twelve-month period ended December 31, 2005. The Company continues to monitor this area closely and manages impaired loan situations effectively and prudently.

The Company has ensured that it is well positioned for any unforeseen future losses by establishing general allowances totalling \$19.6 million at December 31, 2006 as compared to the general allowances of \$19.1 million at September 30, 2006 and \$16.6 million at December 31, 2005.

Following a review of prior years' loss experiences and the lending criteria in place, the Company continues to monitor the adequacy of the general allowance. The Company's actual loss experience on mortgages has amounted to 0.03% per annum over the past 15 years, 0.01% for the past 10 years, and 0.001% for the past 5 years. In addition, the Company has security in the form of real property or cash deposits on loans making up 99.8% of the total loan portfolio. The Company has developed a methodology to test the adequacy of the general allowance that takes into account asset quality, borrowers' creditworthiness, property location and past loss experience. The Company periodically reviews this general allowance methodology giving due consideration to changes in economic conditions, interest rates and local housing market conditions.

The total general allowance was 95.1 basis points of the Company's risk-weighted assets at December 31, 2006, compared to 97.7 basis points at September 30, 2006 and 100.5 basis points at December 31, 2005.

## **Capital Management**

The capital base of the Company's operating subsidiary, Home Trust Company ("Home Trust"), continues to be strongly positioned. The Tier 1 capital ratio ended the year at 12.7%, the same level as at December 31, 2005 and up from the 12.5% reported at September 30, 2006. The total capital ratio was 14.2% at December 31, 2006 up slightly from the 14.1% reported at September 30, 2006 but down slightly from the 14.5% reported at December 31, 2005. Risk-weighted assets increased by 5.7% over September 30, 2006 and 25.5% over December 31, 2005, compared to growth in the capital base of 6.7% and 23.3% over September 30, 2006 and December 31, 2005 respectively. Both ratios continue to substantially exceed the minimum regulatory requirements of 7.0% for Tier 1 capital and 10.0% for total capital.

As at December 31, 2006 Home Trust was utilizing 76.1% of its approved Assets to Regulatory Capital Multiple of 17.5 times (77.6% - September 30, 2006 and 78.5% - December 31, 2005) providing sufficient capital for continued lending growth.

## **Contractual Obligations**

On March 31, 2006 the Company signed an International Swap Dealers Association Master Agreement with a regulated financial institution ("Dealer"). This agreement was entered into for the purpose of allowing the Company to conduct interest rate swap transactions for hedging purposes. The agreement stipulates criteria that the Company must meet in order to enter into or close a swap transaction, including available credit and reporting requirements. This agreement also identifies the Dealer's responsibilities for the documentation and processing of transactions.

On June 1, 2006 the Company signed a Master Service Agreement with Deloitte & Touche LLP ("Deloitte") to provide additional services supporting the design and testing of the Company's internal controls over financial reporting. Pursuant to a Staff Notice issued by the Canadian Securities Administrators ("CSA"), the CSA proposes to amend Multilateral Instruments 52-109 to require the CEO and CFO to report on the design and operating effectiveness of internal controls over financial reporting. The Agreement specifies the Company's and Deloitte's respective responsibilities with regard to this engagement.

## **Critical Accounting Estimates**

Critical accounting estimates which require management to make significant judgements, some of which are inherently uncertain, are included on pages 27 and 28 of the 2005 Annual Report. These estimates are critical since they involve material amounts and require management to make estimates that, by their very nature, include uncertainties. The preparation of the unaudited interim 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. Actual results could differ from those estimates.

Accounting policies requiring critical accounting estimates include the allowance for credit losses, securitization of Mortgage-Backed Securities, future income tax liabilities and contingencies for litigation. Further information can be found under Notes 2, 3, and 8 of the unaudited interim consolidated financial statements.

## **Updated Share Information**

As at February 13, 2007, the Company had 34,165,640 Common Shares outstanding. In addition, director and employee stock options outstanding amounted to 1,266,000 (1,104,500 - Q3 2006 and 1,272,000 - Q4 2005) of which 910,375 are exercisable as of the quarter-end (841,375 - Q3 2006 and 1,003,250 - Q4 2005) for proceeds to the Company on exercise of \$8.4 million (\$6.7 million - Q3 2006 and \$7.3 million - Q4 2005).

Subsequent to quarter-end, the Company declared a cash dividend of \$0.09 per Common Share, payable March 1, 2007 to shareholders of record at the close of business on February 15, 2007.

## **OPERATING SEGMENT REVIEW**

The following compares the mortgage and consumer lending line of business for the three- and twelve-month periods ended December 31, 2006 to the comparable quarter and twelve months ended December 31, 2005 (refer to Note 11 of the accompanying unaudited interim consolidated financial statements).

### **Mortgage Lending**

The Company's principal line of business contributed \$15.2 million to net income during the quarter and \$50.4 million for the twelve-month period ended December 31, 2006, as compared to \$13.3 million and \$47.7 million for the comparable periods in 2005 respectively. The total value of new mortgages advanced during the quarter and twelve-month periods ended December 31, 2006 amounted to \$519.8 million and \$1.98 billion, as compared to \$452.8 million and \$1.73 billion for the comparable periods in 2005 respectively.

The Company securitized \$130.7 million of government guaranteed (CMHC) residential mortgage loans through the creation of MBS securities during the quarter and a total of \$546.3 million for the twelve months ended December 31, 2006, realizing total income on securitization of \$5.7 million for the quarter and \$17.9 million for the twelve months. This compares to the quarter and twelve months ended December 31, 2005 where \$139.9 million and \$430.8 million were securitized, realizing income of \$4.9 million and \$19.2 million. Securitization will continue to contribute to the Company's income, however core mortgage lending is expected to remain the major driver of the Company's financial returns.

The Company's second mortgage program (recorded as secured loans) is conducted by way of an agreement with QSPE-HCC Trust operating as Regency Finance Corp. ("Regency"). The Company acts as Regency's agent in offering second mortgage loans, which are securitized and the investments are purchased by the Company. This program provides the Company with ancillary marketing opportunities in the residential first mortgage marketplace and complements the Company's other product offerings. As of December 31, 2006 the Company held \$70.3 million in Secured Loans as Notes Receivable issued by Regency, compared to \$65.9 million at September 30, 2006 and \$43.6 million at December 31, 2005. These Notes yield 6.7% with an average duration of 3.3 years. The Company also receives fee income for servicing and administering these mortgages for Regency. This income amounted to 0.8% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgages securing the Notes Receivable remains high, with 2.1% in arrears up to 60 days and 0.4% of the portfolio in arrears over 60 days. This program has experienced nominal losses this year.

### **Consumer Lending – Credit Cards and Retail Services**

The consumer lending line of business had strong operating results for both the quarter and twelve months ended December 31, 2006. Net income was \$3.2 million for the quarter and \$10.1 million for the twelve-month period as compared to \$1.7 million and \$6.1 million for the comparable periods of 2005. The Equityline VISA loans portfolio amounted to \$215.9 million at December 31, 2006 (\$178.8 million - Q3 2006 and \$93.5 million - Q4 2005) comprising 94.0% (92.7% - Q3 2006 and 85.6% - Q4 2005) of the total gross credit card receivable balance of \$229.8 million, bearing an average interest rate of 10.2% (9.9% - Q3 2006 and 11.3% - Q4 2005) on outstanding balances.

## Quarterly Financial Highlights

In Thousands of Dollars, Except per Share Amounts and Percentages

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net Interest Income (TEB)*	\$ 33,238	\$ 30,922	\$ 29,410	\$ 28,025	\$ 28,050	\$ 27,018	\$ 27,038	\$ 23,976
Less TEB Adjustment	841	764	740	651	708	682	675	714
Net Interest Income per Financial Statements	32,397	30,158	28,670	27,374	27,342	26,336	26,363	23,262
Non-interest Income	16,665	10,718	13,011	9,746	11,153	11,840	9,906	10,484
Total Revenues	83,246	72,928	70,707	64,407	64,803	62,763	59,630	55,910
Net Income	20,518	16,618	16,496	14,183	16,881	15,766	14,638	13,576
Return on Common Shareholders' Equity	30.5%	26.2%	27.6%	25.2%	31.9%	32.1%	32.2%	32.2%
Return on Average Total Assets	2.2%	1.8%	1.9%	1.7%	2.1%	2.1%	2.1%	2.1%
Earnings per Common Share								
Basic	\$ 0.60	\$ 0.49	\$ 0.48	\$ 0.42	\$ 0.50	\$ 0.47	\$ 0.43	\$ 0.40
Diluted	\$ 0.59	\$ 0.48	\$ 0.47	\$ 0.41	\$ 0.47	\$ 0.45	\$ 0.41	\$ 0.39
Book Value per Common Share	\$ 8.10	\$ 7.62	\$ 7.22	\$ 6.79	\$ 6.44	\$ 6.00	\$ 5.57	\$ 5.17
Efficiency Ratio (TEB)*	32.9%	38.6%	36.0%	38.9%	33.8%	35.2%	35.2%	35.3%
Efficiency Ratio	33.4%	39.3%	36.7%	39.6%	34.4%	35.9%	35.9%	36.0%
Tier 1 Capital Ratio**	12.7%	12.5%	12.7%	12.9%	12.7%	12.6%	12.3%	12.2%
Total Capital Ratio**	14.2%	14.1%	14.4%	14.6%	14.5%	14.5%	14.2%	14.2%
Net Impaired Loans as % of Gross Loans	0.68%	0.56%	0.54%	0.51%	0.49%	0.50%	0.52%	0.44%
Annualized Provision as % of Gross Loans	0.1%	0.1%	0.1%	0.1%	0.0%	0.2%	0.2%	0.2%

\* TEB - taxable equivalent basis: see definition on page 5 of these unaudited interim consolidated financial statements.

\*\* These figures are related to Home Trust Company.

The Company's financial results for each of the last eight quarters are summarized in the preceding table. After a slow start to the year due to interest spread contractions in the fourth quarter of 2005 and early 2006 that resulted in reduced revenue growth, the Company realized improved operating results over the remainder of 2006. The effect of improved yields on income producing assets which grew by 18.8% during the year, culminated in record earnings in the fourth quarter. The Company anticipates that the levels of business growth and financial performance achieved in the fourth quarter will continue into the first quarter of 2007 and through the remainder of the year.

### Outlook

Home Capital remains committed to serving selected segments of the Canadian financial services marketplace that are either not being served, or are underserved by the major financial institutions. As Home Capital enters 2007 we foresee modest economic growth across Canada with no imminent signs from the Bank of Canada of significant increases in the key lending rate, which has remained unchanged since May 2006. The existing stable, low interest rate environment will continue to support both new housing starts and the resale markets. Home Capital remains strongly positioned to benefit from these conditions, particularly in the residential lending business.

Having restored strong performance across all areas of its business during the second half of 2006, the Company is confident of continued success in 2007. As a result, the Company believes that it is well positioned to meet each of the following targets: 20% growth in total earnings, 20% growth in diluted earnings per share, minimum 20% growth in total asset including assets under administration and 25% return on shareholders' equity. The key to achieving these targets, as it has been in the past, will be a continued focus on growth together with prudent lending, efficiency in operations, committed management and employees, and a strong capital position.

### **Certification of Interim Consolidated Financial Statements**

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. Management has reviewed the Consolidated Balance Sheet as at December 31, 2006 and the Interim Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows of Home Capital Group Inc. for the twelve month period ended December 31, 2006. Based on our knowledge, the Interim Consolidated Financial Statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the Interim Consolidated Financial Statements. Based on this knowledge, the Interim Consolidated Financial Statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of Home Capital Group Inc. as of December 31, 2006 in accordance with Canadian generally accepted account principles.

The Board of Directors and Audit and Risk Management Committee of Home Capital Group Inc. reviewed this quarterly report. The disclosure controls and procedures of Home Capital Group Inc. support the ability of the President and Chief Executive Officer and the Vice President, Finance of Home Capital Group Inc. to assure that Home Capital's Interim Consolidated Financial Statements are fairly presented.

**Gerald M. Soloway**  
President and Chief Executive Officer  
February 14, 2007

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

## Consolidated Statements of Income

	Three Months Ended		For the Year Ended	
	December 31 2006	December 31 2005	December 31 2006	December 31 2005
<i>In Thousands of Dollars, Except per Share Amounts (Unaudited)</i>				
<b>Income</b>				
Interest from Loans	\$ 61,725	\$ 50,359	\$ 225,101	\$ 186,673
Dividends from Securities	1,569	1,252	5,589	4,916
Other Interest	3,287	2,039	10,458	8,134
	<b>66,581</b>	53,650	<b>241,148</b>	199,723
<b>Interest Expense</b>				
Interest on Deposits and Borrowings	34,184	26,308	122,549	96,420
Net Interest Income	32,397	27,342	118,599	103,303
Provision for Credit Losses (Note 2)	1,281	89	4,398	3,128
	<b>31,116</b>	27,253	<b>114,201</b>	100,175
<b>Non-interest Income</b>				
Fees and Other Income	9,890	5,383	27,965	21,367
Securitization Income on Mortgage-Backed Securities	6,815	5,258	21,038	20,935
Net Realized and Unrealized Gain on Investment Securities	(34)	399	2,210	1,706
Net Realized and Unrealized (Loss) Gain on Derivatives and Short Sales (Note 9)	(6)	113	(1,073)	(625)
	<b>16,665</b>	11,153	<b>50,140</b>	43,383
	<b>47,781</b>	38,406	<b>164,341</b>	143,558
<b>Non-interest Expenses</b>				
Salaries and Staff Benefits	6,516	4,335	25,883	19,974
Premises	928	626	3,518	2,370
General and Administration	8,951	8,289	33,030	29,757
	<b>16,395</b>	13,250	<b>62,431</b>	52,101
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>31,386</b>	25,156	<b>101,910</b>	91,457
Provision for Income Taxes (Note 8)	10,868	8,275	34,095	30,596
<b>NET INCOME</b>	<b>\$ 20,518</b>	\$ 16,881	<b>\$ 67,815</b>	\$ 60,861
<b>NET INCOME PER COMMON SHARE</b>				
Basic	\$ 0.60	\$ 0.50	\$ 1.99	\$ 1.80
Diluted	\$ 0.59	\$ 0.47	\$ 1.95	\$ 1.72
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Thousands)</b>				
Basic	34,141	33,828	34,131	33,860
Diluted	34,796	35,590	34,801	35,450
Total Number of Outstanding Common Shares (Note 6)	34,166	34,012	34,166	34,012
Book Value Per Share	\$ 8.10	\$ 6.44	\$ 8.10	\$ 6.44

## Consolidated Balance Sheets

	December 31	September 30	December 31
<i>In Thousands of Dollars (Unaudited) as at</i>	<b>2006</b>	2006	2005
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with Regulated Financial Institutions	\$ 43,701	\$ 52,119	\$ 60,337
Treasury Bills Guaranteed by Canada	99,830	74,747	110,806
	<b>143,531</b>	126,866	171,143
<b>Securities</b>			
Issued or Guaranteed by Canada	208,980	203,245	126,832
Issued or Guaranteed by Provinces	299	299	299
Other Securities	134,855	122,670	101,611
	<b>344,134</b>	326,214	228,742
<b>Loans</b>			
Personal and Credit Card Loans	237,037	200,016	116,628
Secured Loans	70,250	65,888	43,565
Residential Mortgages	2,885,806	2,851,760	2,583,694
Other Mortgages	135,765	97,264	69,572
General Allowance for Credit Losses (Note 2)	(19,644)	(19,108)	(16,586)
	<b>3,309,214</b>	3,195,820	2,796,873
<b>Other</b>			
Mortgage-Backed Securities Receivable	50,963	50,499	41,309
Capital Assets	4,691	4,522	4,362
Other Assets (Note 4)	49,783	45,268	42,400
	<b>105,437</b>	100,289	88,071
	<b>\$ 3,902,316</b>	\$ 3,749,189	\$ 3,284,829
<b>LIABILITIES</b>			
Term Loan	\$ -	\$ -	\$ 10,000
<b>Deposits</b>			
Payable on Demand	27,871	14,412	26,245
Payable on a Fixed Date	3,415,769	3,298,428	2,875,270
	<b>3,443,640</b>	3,312,840	2,911,515
<b>Other</b>			
Cheques and Other Items in Transit	2,655	8,864	6,989
Other Liabilities (Note 5)	179,155	166,832	147,440
	<b>181,810</b>	175,696	154,429
	<b>3,625,450</b>	3,488,536	3,065,944
<b>SHAREHOLDERS' EQUITY</b>			
Capital Stock (Note 6)	34,551	35,261	34,272
Contributed Surplus	783	622	306
Retained Earnings	241,532	224,770	184,307
	<b>276,866</b>	260,653	218,885
	<b>\$ 3,902,316</b>	\$ 3,749,189	\$ 3,284,829

## Consolidated Statements of Changes in Shareholders' Equity

	For the Three Months Ended		For the Year Ended	
	December 31 2006	December 31 2005	December 31 2006	December 31 2005
<i>In Thousands of Dollars (Unaudited)</i>				
<b>CAPITAL STOCK</b>				
Common Shares				
Balance at Beginning of the Period	\$ 35,261	\$ 34,190	\$ 34,272	\$ 32,468
Proceeds of Options Exercised (Note 6)	58	82	1,197	1,804
Repurchase of Shares	(768)	-	(918)	-
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 34,551</b>	<b>\$ 34,272</b>	<b>\$ 34,551</b>	<b>\$ 34,272</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance at Beginning of the Period	\$ 622	\$ 246	\$ 306	\$ 178
Amortization of Fair Value of Employee Stock Options (Note 7)	161	69	495	237
Employee Stock Options Exercised	-	(9)	(18)	(109)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 783</b>	<b>\$ 306</b>	<b>\$ 783</b>	<b>\$ 306</b>
<b>RETAINED EARNINGS</b>				
Balance at Beginning of the Period	\$ 224,770	\$ 169,467	\$ 184,307	\$ 129,561
Net Income for the Period	20,518	16,881	67,815	60,861
Dividends Paid During the Period	(680)	(340)	(7,514)	(4,414)
Dividends Declared, Unpaid During the Period	(3,076)	(1,701)	(3,076)	(1,701)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 241,532</b>	<b>\$ 184,307</b>	<b>\$ 241,532</b>	<b>\$ 184,307</b>

## Consolidated Statements of Cash Flows

	Three Months Ended		For the Year Ended	
	December 31 2006	December 31 2005	December 31 2006	December 31 2005
<i>In Thousands of Dollars (Unaudited)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income for the Period	\$ 20,518	\$ 16,881	\$ 67,815	\$ 60,861
Adjustments to Determine Net Cash Flows Relating to Operating Activities:				
Future Income Taxes	(1,049)	340	718	2,616
Amortization of Capital Assets	480	696	1,429	1,350
Amortization of Securities	(176)	(87)	(596)	(1,965)
Amortization of Deferred Financing Costs	-	31	63	75
Amortization of Deferred Development Costs	-	513	-	1,447
Provision for Credit Losses	1,281	89	4,398	3,128
Change in Accrued Interest Receivable	(925)	(855)	(3,812)	(2,430)
Change in Accrued Interest Payable	3,067	3,644	14,529	17,436
Net (Gain) Loss Realized and Unrealized on Investment Securities	34	(399)	(2,210)	(1,706)
Gain on Sale of Mortgage-Backed Securities	(6,815)	(5,258)	(21,038)	(20,935)
Loss (Gain) Realized and Unrealized on Derivatives and Short Sales	6	(113)	1,073	625
Change in Other Assets	(3,596)	(210)	(4,707)	(1,065)
Change in Cheques and Other Items in Transit	(6,209)	(704)	(4,334)	454
Change in Other Liabilities	9,625	(3,853)	15,093	4,826
Exercise of Employee Stock Options	-	(9)	(18)	(109)
Change of Fair Value of Employee Stock Options (Note 7)	161	69	495	237
Cash Provided by Operating Activities	16,402	10,775	68,898	64,845
<b>FINANCING ACTIVITIES</b>				
Repayment of Term Loan	-	-	(10,000)	-
Repayment of Subordinated Term Loan	-	(2,000)	-	(3,000)
Net Increase in Deposits	130,800	246,617	542,125	636,331
Issuance of Capital Stock (Note 6)	58	82	1,197	1,804
Repurchase of Capital Stock	(768)	-	(918)	-
Dividends Paid	(3,076)	(1,700)	(9,215)	(5,765)
Cash Provided by Financing Activities	127,014	242,999	523,189	629,370
<b>INVESTING ACTIVITIES</b>				
Activity in Securities				
Purchases	(56,119)	(47,076)	(220,089)	(148,742)
Proceeds on Sales	929	5,080	32,862	97,823
Proceeds on Maturities	37,412	6,382	74,641	28,914
Activity in Mortgages				
Net Increase	(203,721)	(234,390)	(915,093)	(924,987)
Proceeds from Securitization of Mortgage-Backed Securities (Note 3)	127,856	135,956	532,730	420,643
Change in Mortgage-Backed Securities Receivable	9,229	6,640	24,920	17,463
Net Increase in Personal and Credit Card Loans	(37,196)	(12,761)	(121,041)	(37,792)
Net Increase in Secured Loans	(4,492)	(5,924)	(26,871)	(23,847)
Proceeds from Leasehold Inducements	-	-	1,009	-
Purchases of Capital Assets	(649)	(2,630)	(2,767)	(3,046)
Cash Used in Investing Activities	(126,751)	(148,723)	(619,699)	(573,571)
Net (Decrease) Increase in Cash and Cash Equivalents	16,665	105,051	(27,612)	120,644
Cash and Cash Equivalents at the Beginning of the Period	126,866	66,092	171,143	50,499
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 143,531</b>	<b>\$ 171,143</b>	<b>\$ 143,531</b>	<b>\$ 171,143</b>
Supplementary Disclosure of Cash Flow Information				
Amount of Interest Paid During the Period	\$ 31,117	\$ 22,790	\$ 108,020	\$ 78,985
Amount of Income Taxes Paid During the Period	8,502	7,793	37,324	30,955

## Notes to the Unaudited Interim Consolidated Financial Statements

### 1. ACCOUNTING POLICIES USED TO PREPARE THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005 as set out in the 2005 Annual Report, on pages 34 through 50. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in the Company's most recent annual audited financial statements. These unaudited interim consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

### 2. LOANS

#### (A) Impaired Loans and Related Allowance for Specific Credit Losses

<i>In Thousands of Dollars</i>	<b>As at December 31, 2006</b>		
	Gross Amount of Impaired Loans	Specific Allowances	Carrying Value
Personal, Credit Card and Secured Loans	\$ 1,376	\$ 256	\$ 1,120
Residential Mortgages	21,521	386	21,135
Other Mortgages	548	-	548
	<b>\$ 23,445</b>	<b>\$ 642</b>	<b>\$ 22,803</b>
			<b>As at September 30, 2006</b>
Personal, Credit Card and Secured Loans	\$ 868	\$ 142	\$ 726
Residential Mortgages	17,314	50	17,264
Other Mortgages	95	-	95
	<b>\$ 18,277</b>	<b>\$ 192</b>	<b>\$ 18,085</b>
			<b>As at December 31, 2005</b>
Personal, Credit Card and Secured Loans	\$ 403	\$ 162	\$ 241
Residential Mortgages	13,486	-	13,486
	<b>\$ 13,889</b>	<b>\$ 162</b>	<b>\$ 13,727</b>

#### (B) Allowance for Credit Losses

<i>In Thousands of Dollars</i>	<b>For the Year Ended December 31, 2006</b>		
	Specific Allowance	General Allowance for Credit Risk	Total
Balance at the Beginning of the Period	\$ 162	\$ 16,586	\$ 16,748
Provisions for Credit Losses for the Current Period	1,340	3,058	4,398
Write-offs	(1,154)	-	(1,154)
Recoveries	294	-	294
Balance at the End of the Period	<b>\$ 642</b>	<b>\$ 19,644</b>	<b>\$ 20,286</b>
			<b>For the Year Ended December 31, 2005</b>
Balance at the Beginning of the Period	\$ 604	\$ 13,611	\$ 14,215
Provisions for Credit Losses for the Current Period	153	2,975	3,128
Write-offs	(991)	-	(991)
Recoveries	396	-	396
Balance at the End of the Period	<b>\$ 162</b>	<b>\$ 16,586</b>	<b>\$ 16,748</b>

## Notes to the Unaudited Interim Consolidated Financial Statements - Continued

### 3. LOAN SECURITIZATIONS

The following tables summarize the Company's new securitization activity for the three and twelve months ended.

*In Thousands of Dollars, except Percentages*

	For the Three Months Ended		For the Year Ended	
	December 2006	December 2005	December 2006	December 2005
Book Value of Mortgages Securitized	\$ 130,733	\$ 139,856	\$ 546,266	\$ 430,755
Retained Interests	\$ 9,231	\$ 9,394	\$ 33,534	\$ 31,600
Servicing Liability	\$ 202	\$ 232	\$ 870	\$ 783
Net Proceeds Received on Securitized Mortgages	\$ 127,856	\$ 135,956	\$ 532,730	\$ 420,643
Gain on Sales	\$ 5,726	\$ 4,910	\$ 17,914	\$ 19,189
Prepayment Rate	12.9%	10.2%	12.7%	9.2%
Excess Spread	3.1%	2.7%	2.6%	2.7%
Discount Rate	4.0%	3.3%	4.1%	3.5%

### 4. OTHER ASSETS

*In Thousands of Dollars*

	December 31 2006	September 30 2006	December 31 2005
Accrued Interest Receivable	\$ 19,046	\$ 18,121	\$ 15,234
Income Taxes Receivable	-	287	-
Deferred Agent Commission	9,198	8,804	9,320
Deferred Finders Fees	8,356	8,360	8,644
Goodwill	2,324	2,324	2,324
Other Prepaid Assets and Deferred Items	10,859	7,372	6,878
	\$ 49,783	\$ 45,268	\$ 42,400

### 5. OTHER LIABILITIES

*In Thousands of Dollars*

	December 31 2006	September 30 2006	December 31 2005
Accrued Interest Payable	\$ 111,920	\$ 108,853	\$ 97,391
Income Taxes Payable	3,788	-	5,157
Dividends Payable	3,076	2,396	1,701
Deferred Commitment Fees	12,213	11,676	9,847
Future Income Taxes (Note 8)	12,733	13,782	12,015
Other, Including Accounts Payable and Accrued Liabilities	35,425	30,125	21,329
	\$ 179,155	\$ 166,832	\$ 147,440

## Notes to the Unaudited Interim Consolidated Financial Statements - Continued

### 6. CAPITAL STOCK

Issued and Outstanding

In Thousands of Dollars, Except per Share Amounts

	December 31 2006		September 30 2006		December 31 2005	
Common Shares	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at Beginning of Period	34,012	\$ 34,272	34,012	\$ 34,272	33,777	\$ 32,468
Options Exercised	186	1,197	177	1,139	235	1,804
Normal Course Issuer Bid	(32)	(918)	(5)	(150)	-	-
Outstanding at End of Period	34,166	\$ 34,551	34,184	\$ 35,261	34,012	34,272
Share Purchase Options		Weighted- average Exercise Price		Weighted- average Exercise Price		Weighted- average Exercise Price
Outstanding at Beginning of Period	1,272	\$ 12.32	1,272	\$ 12.32	1,373	\$ 8.62
Granted	210	28.99	40	33.91	218	35.03
Exercised	(186)	6.34	(177)	6.32	(235)	7.23
Forfeited	(30)	34.78	(30)	34.78	(84)	25.00
Outstanding at End of Period	1,266	\$ 15.43	1,105	\$ 13.45	1,272	\$ 12.32
Exercisable, End of Period	910	\$ 9.25	841	\$ 7.98	1,003	\$ 7.31

### 7. STOCK BASED COMPENSATION

For all options issued on or after January 1, 2003 the Company has recognized a compensation expense. During the fourth quarter of 2006, \$161,000 was recorded as an expense, for a total of \$495,000 for the twelve months ended December 31, 2006 (\$69,000 - Q4 2005 and \$237,000 - twelve months 2005) for stock option awards in the Consolidated Interim Statement of Income, with an off-setting credit to Contributed Surplus.

The fair value of options granted in the twelve months ended December 31, 2006 is estimated at the date of granting using the Black-Scholes valuation model, with the following average assumptions: risk-free interest rate of 4.0% (3.7% - 2005), anticipated option life of 4.1 years (4.1 years - 2005), anticipated share price volatility of 26.5% (27.7% - 2005) and anticipated dividend yield of 0.8% (0.5% - 2005). Stock options granted amounted to a total of 210,000 for the twelve-month period and these granted options will vest, subject to performance targets, over a four-year period at a rate of 25% per year, expiring in five years.

For those options issued prior to January 1, 2003 no compensation expense has been recognized. Had these options been subject to the same accounting policy they would have reduced net income for the fourth quarter of 2006 by \$33,000 and \$205,000 for the twelve months (\$89,000 - Q4 2005 and \$357,000 - twelve months 2005) and net income and earnings per share would have been reported as follows:

	For the Three Months Ended		For the Year Ended	
	December 2006	December 2005	December 2006	December 2005
Pro-forma Net Income (in Thousands of Dollars)	\$ 20,485	\$ 16,792	\$ 67,610	\$ 60,504
Pro-forma Earnings per Share - Basic	\$ 0.60	\$ 0.50	\$ 1.98	\$ 1.79
Pro-forma Earnings per Share - Diluted	\$ 0.59	\$ 0.47	\$ 1.94	\$ 1.71

## Notes to the Unaudited Interim Consolidated Financial Statements - Continued

### 8. INCOME TAXES

Reconciliation of Income Taxes:	For the Three Months Ended		For the Year Ended	
	<b>December 2006</b>	December 2005	<b>December 2006</b>	December 2005
<i>In Thousands of Dollars</i>				
Income Before Income Taxes	\$ 31,386	\$ 25,156	\$ 101,910	\$ 91,457
Income Taxes at Combined Statutory Federal and Provincial Income Tax Rates	11,330	9,069	36,790	33,012
Increase (Decrease) in Income Taxes at Statutory Income Tax Rates Resulting From:				
Tax-exempt Income	(537)	(452)	(1,913)	(1,775)
Non-deductible Expenses	66	61	292	156
Future Tax Rate Changes and Other	9	(403)	(1,074)	(797)
Income Tax	\$ 10,868	\$ 8,275	\$ 34,095	\$ 30,596

#### Sources of Future Income Tax Balances:

<i>In Thousands of Dollars</i>	<b>December 2006</b>	September 2006	December 2005
Future Income Tax Liabilities			
Deferred Agent Commissions and Other Charges	\$ 6,251	\$ 6,233	\$ 6,621
Mortgage-Backed Securities Receivable	17,995	17,913	15,508
	24,246	24,146	22,129
Future Income Tax Assets			
Allowance for Credit Losses	6,028	5,728	5,081
Mark-to-market Adjustments to Securities	1,216	480	1,462
Deferred Commitment Fees	4,269	4,156	3,571
	11,513	10,364	10,114
Net Future Income Tax Liability	\$ 12,733	\$ 13,782	\$ 12,015

### 9. FINANCIAL INSTRUMENTS

The Company utilized off-balance sheet financial instruments during 2006. During this period the Company entered into economic hedge swap transactions with a major financial institution. The Company can utilize interest rate swaps to hedge the economic fair value exposure of movements in interest rates between the time that the mortgages are committed to be sold under asset securitization, and the time the mortgages are actually sold. (These mortgages qualify for government insurance.) The intent of the swap is to have fair value movements in the swap be effective in offsetting the fair value movements in the pool of mortgages over the period in which the fixed rate pool may be exposed to movements in the variable interest rate, generally 60 to 150 days. The interest rate swaps referred to as "pay-fixed interest rate swaps" are structured such that the Company agrees to pay a fixed rate (designated in the swap) and receives the floating rate (as designated in the swap). These transactions do not qualify for hedge accounting under the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline *AcG-13 - Hedging Relationships* and therefore the Company must mark-to-market the swap, with changes in the fair value of the swap being recognized at the applicable financial reporting dates.

The notional amount of the interest rate swaps purchased during the first nine months of 2006 amount to \$230.0 million which were all unwound by the fourth quarter of 2006. The Company unwound \$200.0 million prior to September 30, 2006 to better match the mortgage pools and realized a gain of \$1.0 million in the first quarter and losses for the second and third quarter totalling \$2.1 million. The remaining \$30.0 million was unwound in the fourth quarter to match the issuance of securitized government insured mortgages. There are no outstanding interest rate swaps at December 31, 2006. The total of the realized losses of \$1.1 million were reported on the income statement under Derivatives and Short Sales.

## Notes to the Unaudited Interim Consolidated Financial Statements - Continued

During the fourth quarter of 2004, the Company entered into an off-balance sheet financial transaction for risk management purposes. The Company sold short \$40.0 million of Government of Canada Bonds, with a coupon rate of 4.25% and a maturity of September 1, 2009. The Company intended to close this transaction upon receipt of the funds from the next sale of securitized residential insured mortgages. The short sale of the \$40.0 million of Government Canada Bonds does not qualify for hedge accounting under the CICA guideline, and therefore an unrealized gain of \$0.2 million was recorded in the fourth quarter of 2004.

During the first quarter of 2005, the Company closed \$10.0 million of this short sale and realized a loss of \$0.03 million. The remaining short sale of \$30.0 million was closed in the fourth quarter of 2005 for a realized loss of \$0.6 million. The total realized loss for the year ended December 31, 2005 amounted to \$0.6 million.

### 10. INTEREST RATE SENSITIVITY

The Company's exposure to interest rate risk results from the difference, or gap, between the maturity or repricing dates of interest sensitive assets and liabilities, including off-balance sheet items. The following table shows the gap positions at December 31, 2006, September 30, 2006 and December 31, 2005 for selected period intervals. Figures in brackets represent an excess of liabilities over assets.

<i>In Thousands of Dollars</i>	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
<b>December 31, 2006</b>							
Total Assets	\$ 30,401	\$ 561,180	\$ 1,204,365	\$ 1,553,657	\$ 425,531	\$ 127,182	\$ 3,902,316
Total Liabilities and Equity	-	311,281	1,748,542	1,153,619	202,328	486,546	3,902,316
Off-balance Sheet Items	-	190,356	(12,808)	(62,081)	(115,467)	-	-
Interest Rate Sensitive Gap	\$ 30,401	\$ 59,543	\$ (531,369)	\$ 462,119	\$ 338,670	\$ (359,364)	\$ -
Cumulative Gap	\$ 30,401	\$ 89,944	\$ (441,425)	\$ 20,694	\$ 359,364	\$ -	\$ -
Cumulative Gap as a % of Total Assets	0.8%	2.3%	(11.3%)	0.5%	9.2%	-	-
<b>September 30, 2006</b>							
Total Assets	\$ 43,120	\$ 556,575	\$ 1,069,382	\$ 1,542,561	\$ 422,184	\$ 115,367	\$ 3,749,189
Total Liabilities and Equity	-	531,829	1,489,931	1,067,162	223,918	436,349	3,749,189
Off-balance Sheet Items	-	133,211	9,176	(45,622)	(96,765)	-	-
Interest Rate Sensitive Gap	\$ 43,120	\$ (108,465)	\$ (429,725)	\$ 521,021	\$ 295,031	\$ (320,982)	\$ -
Cumulative Gap	\$ 43,120	\$ (65,345)	\$ (495,070)	\$ 25,951	\$ 320,982	\$ -	\$ -
Cumulative Gap as a % of Total Assets	1.2%	(1.7%)	(13.2%)	0.7%	8.6%	-	-
<b>December 31, 2005</b>							
Total Assets	\$ 51,337	360,894	930,530	1,450,647	393,268	98,153	3,284,829
Total Liabilities and Equity	10,000	228,475	1,217,337	1,063,773	365,685	399,559	3,284,829
Off-balance Sheet Items	-	150,935	16,634	(73,205)	(94,364)	-	-
Interest Rate Sensitive Gap	\$ 41,337	\$ (18,516)	\$ (303,441)	\$ 460,079	\$ 121,947	\$ (301,406)	\$ -
Cumulative Gap	\$ 41,337	\$ 22,821	\$ (280,620)	\$ 179,459	\$ 301,406	\$ -	\$ -
Cumulative Gap as a % of Total Assets	1.3%	0.7%	(8.5%)	5.5%	9.2%	-	-

## Notes to the Unaudited Interim Consolidated Financial Statements - Continued

### 11. EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two business segments - mortgage lending and consumer lending. The mortgage lending operation consists of core mortgage lending, securitization of government insured mortgage loans, and the administration of Regency Financial Corp. second mortgage loans (secured loans). The consumer lending operation consists of credit card services and installment lending to customers of retail businesses. The Other category includes the Company's treasury and securities investment activities.

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

*Thousands of Dollars (Unaudited) For the Three Months Ended*

	Mortgage Business		Consumer Lending Retail & Credit Cards		Other		Total
	Dec. 31 2006	Dec. 31 2005	Dec. 31 2006	Dec. 31 2005	Dec. 31 2006	Dec. 31 2005	Dec. 31 2005
	Net Interest Income	\$ 22,650	\$ 21,103	\$ 4,622	\$ 2,849	\$ 5,125	\$ 3,390
(Provisions) Recoveries for Credit Losses	(735)	139	(546)	(228)	-	-	(89)
Fees and Other Income	7,834	3,528	1,977	1,810	79	45	5,383
Net Gain on Securities, Derivatives & Mortgage-Backed Securities	6,809	5,371	-	-	(34)	399	5,770
Non-interest Expense	(12,901)	(10,056)	(1,082)	(1,691)	(2,412)	(1,503)	(13,250)
Income Before Income Taxes	23,657	20,085	4,971	2,740	2,758	2,331	25,156
Income Taxes	(8,434)	(6,830)	(1,796)	(990)	(638)	(455)	(8,275)
Net Income	\$ 15,223	\$ 13,255	\$ 3,175	\$ 1,750	\$ 2,120	\$ 1,876	\$ 16,881
Total Assets	\$ 3,191,427	\$ 2,821,874	\$ 247,459	\$ 121,074	\$ 463,430	\$ 341,881	\$ 3,284,829

*Thousands of Dollars (Unaudited) For the Twelve Months Ended*

	Mortgage Business		Consumer Lending Retail & Credit Cards		Other		Total
	Dec. 31 2006	Dec. 31 2005	Dec. 31 2006	Dec. 31 2005	Dec. 31 2006	Dec. 31 2005	Dec. 31 2005
	Net Interest Income	\$ 86,666	\$ 78,248	\$ 15,066	\$ 10,319	\$ 16,867	\$ 14,736
Provisions for Credit Losses	(2,561)	(2,191)	(1,837)	(937)	-	-	(3,128)
Fees and Other Income	20,100	14,586	7,661	6,669	204	112	21,367
Net Gain on Securities, Derivatives & Mortgage-Backed Securities	19,965	20,310	-	-	2,210	1,706	22,016
Non-interest Expense	(47,781)	(38,321)	(5,011)	(6,461)	(9,639)	(7,319)	(52,101)
Income Before Income Taxes	76,389	72,632	15,879	9,590	9,642	9,235	91,457
Income Taxes	(25,940)	(24,980)	(5,736)	(3,464)	(2,419)	(2,152)	(30,596)
Net Income	\$ 50,449	\$ 47,652	\$ 10,143	\$ 6,126	\$ 7,223	\$ 7,083	\$ 60,861
Total Assets	\$ 3,191,427	\$ 2,821,874	\$ 247,459	\$ 121,074	\$ 463,430	\$ 341,881	\$ 3,284,829

### 12. FUTURE ACCOUNTING CHANGES

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, changes in fair value of available for sale securities recorded through other comprehensive income while 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 the Office of the Superintendent of Financial Institutions ("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, 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, certain securities as available for sale and 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.

### 13. COMPARATIVE FIGURES

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

## Corporate Directory and Shareholder Information

### HOME CAPITAL GROUP INC.

145 King Street West, Suite 2300  
Toronto, Ontario M5H 1J8

#### Directors

William A. Dimma  
*Chairman of the Board*

Norman F. Angus  
Hon. William G. Davis P.C., C.C., Q.C.  
Janet L. Ecker  
Harvey F. Kolodny  
John M. E. Marsh  
Robert A. Mitchell, C.A.  
Gerald M. Soloway  
Warren K. Walker

#### Officers

Gerald M. Soloway  
*President and  
Chief Executive Officer*

Nick Kyprianou  
*Senior Vice President  
and Chief Operating Officer*

Brian R. Mosko  
*Senior Vice President*

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

Chris Ahlvik  
*Vice President, Corporate Counsel*

#### Auditors

*Home Capital Group Inc.  
Home Trust Company*  
Ernst & Young LLP  
Chartered Accountants  
Toronto, Ontario

#### Bankers

*Home Capital Group Inc.  
Home Trust Company*  
Bank of Montreal,  
St. Catharines, Ontario

#### Transfer Agent

Computershare Investor Services Inc.  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
Tel: 1-800-564-6253

#### Capital Stock

As at December 31, 2006 there were  
34,165,640 Common Shares outstanding.

#### Stock Listing

Toronto Stock Exchange  
Ticker Symbol: HCG

### HOME TRUST COMPANY

145 King Street West, Suite 2300  
Toronto, Ontario M5H 1J8

#### Directors

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

Norman F. Angus  
William A. Dimma  
Janet L. Ecker  
Harvey F. Kolodny  
Nick Kyprianou

John M. E. Marsh  
Robert A. Mitchell, C.A.  
Gerald M. Soloway  
Warren K. Walker

### BRANCHES

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*Vice President, Mortgages*  
Rolf Eikeland

*Asst. Vice Presidents, Mortgages*  
Lisa Abbatangelo  
Marguerite Ryan  
Agostino Tuzi

*Asst. Vice Presidents, Credit*  
Tom Elsdon  
James Hill

*Senior Managers, Mortgages*  
Laurie Chalabardo  
Bobby Ramgoolam

*Managers, Mortgages*  
Antionette Doria  
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#### Direct Client Services

*Senior Manager,  
Direct Client Services*  
Armando Diseri  
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#### Sales and Marketing

*Asst. Vice President,  
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#### Retail Credit Services

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Cathy Boon  
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#### VISA

*Vice President,  
VISA Credit Card Services /  
Equityline VISA*  
Pino Decina  
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*Director, VISA Operations*  
Tanya Hatton  
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#### Equityline VISA

*Senior Managers, Equityline VISA*  
Alex Godfrey  
Karen Minns

*Managers, Equityline VISA*  
Massimo DeNigris  
Craig O'Brien

#### Corporate

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*Branch Manager*  
Kris Chester

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1-866-564-3524

*Manager, Mortgages*  
Greg Domville

#### Halifax

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1-888-306-2435

*Regional Manager, Mortgages*  
Scott Congdon

#### For Shareholder Information, Please Contact:

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#### Websites

Home Capital Group Inc.  
[www.homecapital.com](http://www.homecapital.com)  
Home Trust Company  
[www.hometruster.ca](http://www.hometruster.ca)

**Home Capital Group Inc. has established an e-mail investor information service. Sign up at our web site [www.homecapital.com](http://www.homecapital.com) and you will receive quarterly reports, press releases, the annual report, the management information circular, and other information pertaining to the Company.**

#### Quarterly Conference Call & Webcast

Our quarterly conference call and live audio webcast with management took place on Thursday, February 15, 2007 at 10:30 AM Toronto time. The webcast will be archived at [www.homecapital.com](http://www.homecapital.com) for 90 days.



HOME CAPITAL GROUP INC.