Management's Responsibility for Financial Information

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

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

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

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

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

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

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

Gerald M. Soloway

Gerald M. Soloway
Chief Executive Officer

Phil Braginetz, CFA
Chief Financial Officer

Toronto, Canada
February 8, 2008

Auditors' Report

To the Shareholders of
Home Capital Group Inc.

We have audited the consolidated balance sheets of **Home Capital Group Inc.** as at December 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 8, 2008.

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at December 31 (000's)		2007	2006
ASSETS			
Cash resources			
Deposits with regulated financial institutions		$ 344,464	$ 43,701
Treasury bills guaranteed by Canada		9,872	99,830
		354,336	143,531
Securities	(Note 4)		
Issued or guaranteed by Canada		–	208,980
Issued or guaranteed by provinces		–	299
Other securities		–	134,855
Held for trading		114,423	–
Available for sale		356,458	–
		470,881	344,134
Loans	(Note 5)		
Residential mortgages		3,231,555	2,885,806
Personal and credit card loans		325,393	237,037
Other mortgages		406,319	135,765
Secured loans		82,304	70,250
General allowance for credit losses		(23,400)	(19,644)
		4,022,171	3,309,214
Other			
Securitization receivable	(Note 6)	63,982	50,963
Capital assets	(Note 7)	4,837	4,691
Other assets	(Note 8)	57,100	49,783
		125,919	105,437
		$ 4,973,307	$ 3,902,316
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	(Note 9)		
Payable on demand		$ 30,793	$ 27,871
Payable on a fixed date		4,383,191	3,415,769
		4,413,984	3,443,640
Other			
Cheques and other items in transit		4,393	2,655
Other liabilities	(Note 10)	206,890	179,155
		211,283	181,810
		4,625,267	3,625,450
Commitments and contingencies	(Note 14)	–	–
SHAREHOLDERS' EQUITY			
Capital stock	(Note 11)	34,197	34,551
Contributed surplus		1,818	783
Retained earnings		318,322	241,532
Accumulated other comprehensive loss		(6,297)	–
		348,040	276,866
		$ 4,973,307	$ 3,902,316

See accompanying notes.

On behalf of the Board:

Gerald M. Soloway
Chief Executive Officer

William A. Dimma
Chairman of the Board

Consolidated Statements of Income

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

See accompanying notes.

Consolidated Statements of Comprehensive Income

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

See accompanying notes.

Consolidated Statements of Changes in Shareholders' Equity

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

See accompanying notes.

Consolidated Statements of Cash Flows

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

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

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

Principles of Consolidation

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

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

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

Cash Resources

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

Cheques and Other Items in Transit

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

Securities

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

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

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

Prior to January 1, 2007, bonds and debentures are stated at amortized cost. Common and preferred shares are stated at cost except for retractable and convertible preferred shares, which are stated at amortized cost. If the value of securities held in the securities account has an impairment that is other than temporary, the carrying value is appropriately reduced to the net realizable value.

Loans

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

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

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

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or when it has been in arrears for 90 days. Secured and unsecured credit card balances that have a payment that is contractually 180 days in arrears are written off. Equityline VISA credit card balances are measured on a basis consistent with mortgage loans.

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

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

Allowance for Credit Losses

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

Specific allowances

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

General allowances

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

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

Loan Securitization (Securitization Receivable)

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

When such sales occur, the Company retains interest-only strips and servicing responsibilities for the assets sold. Gains or losses on these transactions are recognized as income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Retained interests are classified as available for sale assets and are stated at their fair value with unrealized gains and losses reported in accumulated other comprehensive income. The fair value of the retained interests is estimated using discounted cash flow methodology and management's best estimates of key assumptions such as prepayment rates, average term of assets sold and other factors that influence the value of the retained interests.

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

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

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

Capital Assets

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

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

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

Translation of Foreign Currencies

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

Goodwill and Intangible Assets

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

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

Derivative Financial Instruments

Home Trust enters into non-trading derivitive financial instruments as part of the mortgage securitization program. Non-trading derivatives entered into are carried at fair value in other assets or liabilities, on a net basis, with changes in fair value recorded in non-interest income on the consolidated statements of income.

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

Deposits

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

Income Taxes

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

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

Employee Future Benefits

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

Stock-based Compensation Plans

The Company has two stock-based compensation plans, which are described in Notes 11 and 13.

Under the Company's Stock Option Plan, the fair value of options granted after January 1, 2003 is charged to salary expense over the option vesting period. The fair value of the options granted is determined using the Black-Scholes option pricing model using management's best estimates. Refer to Note 11 for the estimates applied.

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

Under the Employee Share Purchase Plan, as described in Note 13, the Company's contribution is expensed when paid.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

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

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

Financial Instruments – Recognition and Measurement

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

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

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

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

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

Hedges

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

Comprehensive Income

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

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

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

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

NOTE 3 ACQUISITION

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

NOTE 4 SECURITIES

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

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

All securities are denominated in Canadian dollars.

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

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

					2007
(000's)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Fair Value**	**Weighted-average Yield**
Available for sale					
Securities issued or guaranteed by					
Canada	**$ 180,080**	**$ 400**	**$ (511)**	**$ 179,969**	**3.9%**
Equity securities					
Common	**11,187**	**538**	**(1,032)**	**10,693**	**2.1%**
Fixed rate preferred	**142,060**	**544**	**(5,297)**	**137,307**	**5.2%**
Floating rate preferred	**8,654**	**32**	**(302)**	**8,384**	**5.3%**
Income trusts	**18,912**	**67**	**(2,958)**	**16,021**	**7.7%**
Mutual funds	**4,089**	**–**	**(5)**	**4,084**	**4.2%**
	$ 364,982	**$ 1,581**	**$ (10,105)**	**$ 356,458**	

					2006
(000's)	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield
Securities issued or guaranteed by					
Canada	$ 208,980	$ 698	$ (803)	$ 208,875	4.2%
Provinces	299	2	–	301	4.5%
Equity securities					
Common	11,080	1,093	(679)	11,494	2.5%
Fixed rate preferred	100,857	3,816	(654)	104,019	5.2%
Floating rate preferred	5,700	222	–	5,922	6.6%
Income trusts	13,388	308	(1,617)	12,079	6.8%
Mutual funds	3,830	81	–	3,911	4.0%
	$ 344,134	$ 6,220	$ (3,753)	$ 346,601	

NOTE 5 LOANS

(a) Loan maturities

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

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

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

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

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

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

NOTE 6 LOAN SECURITIZATION (SECURITIZATION RECEIVABLE)

The Company's subsidiary, Home Trust, securitizes residential mortgage loans, and in these securitizations Home Trust retains interest-only strips and servicing responsibilities. The retained interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold $692.3 million (2006 – $546.3 million) of mortgages receivable in securitization transactions. This value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions totaled $64.0 million (2006 – $51.0 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of $1.8 million (2006 – $1.4 million) included on the consolidated balance sheet. Mortgage payments, which have been collected and are payable to the National Housing Authority (NHA) trusts, as at December 31, 2007 totaled $35.8 million (2006 – $28.0 million) and are reported under other liabilities. There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

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

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

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

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

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

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

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

(000's, except % and number of years)	**2007**	2006
Carrying amount of retained interest	**$ 63,982**	$ 50,963
Weighted-average life in years	**2.4**	2.6
Prepayment rate	**19.4%**	14.6%
Impact on fair value of 10% adverse change	**(1,481)**	(941)
Impact on fair value of 20% adverse change	**(2,916)**	(1,863)
Residual cash flows discount rate	**4.2%**	3.9%
Impact on fair value of 10% adverse change	**(330)**	(1,204)
Impact on fair value of 20% adverse change	**(656)**	(2,502)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 7 CAPITAL ASSETS

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

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

NOTE 8 OTHER ASSETS

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

NOTE 9 DEPOSITS

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

NOTE 10 OTHER LIABILITIES

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

[1] The Company has recognized a liability on the consolidated balance sheet in the amount of $128 (2006 – $196) for the employee future benefits.

NOTE 11 CAPITAL STOCK

(a) Authorized

An unlimited number of Common shares.

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

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

(b) Issued

(000's)	**Number of Shares**		**2007**	Number of Shares		2006
Common shares						
Balance, beginning of year	**34,166**	**$**	**34,551**	34,012	$	34,272
Options exercised	**477**		**3,585**	186		1,197
Repurchase of shares	**(111)**		**(3,939)**	(32)		(918)
Balance, end of year	**34,532**	**$**	**34,197**	34,166	$	34,551

(c) Normal Course Issuer Bid

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

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

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

(d) Stock Options

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

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

The Company's stock option plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective May 29, 2002 to conform the Plan to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. As at December 31, 2007, the maximum number of common shares that may be issued is 4,585,198 representing approximately 13.3% of the aggregate number of Class A shares and common shares. The exercise price of the options shall be fixed by the Board of Directors (Board) at the time of issuance at the "market price" of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted-average price at which the common shares of the Company have traded on the Toronto Stock Exchange during the two trading days immediately preceding the date on which the option is approved by the Board. The period of exercise of any option will not extend beyond a period of seven years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant will be determined in each case by the Board.

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December 31, 2007 and 2006

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

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

[1] In 2006, the Company granted certain employees the right to receive stock options of 10,000, 30,000, 115,000 and 55,000 if certain performance criteria were met. At December 31, 2007, two levels of the performance criteria for the 10,000 options had been met. As a result, 50% of these contingently assumable options have been included in the computation of diluted income per common share. For two of the remaining three sets of options issued, one level of the performance criteria had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted income per common share. For the remaining 55,000 options issued, none of the performance criteria had been met. As a result, the contingently assumable options have not been included in the computation of diluted income per common share.

[2] In 2007, the Company granted certain employees the right to receive stock options of 200,000, 20,000, 50,000 and 235,000 if certain performance criteria were met. At December 31, 2007, none of the performance criteria had been met. As a result, the contingently assumable options have not been included in the computation of diluted income per common share.

Fair Value Compensation of Stock Options

The Company determines the fair value of options granted using the Black-Scholes option pricing model. The weighted-average fair value of the options granted during the year ended December 31, 2007 was $14.43 for the December 2007 issue, $12.02 for the August 2007 issue, $12.76 for the March 2007 issue and $8.36 for the February 2007 issue. The weighted-average fair value of the options granted during the year ended December 31, 2006 was $8.12 for the December 2006 issue, $6.98 for the October 2006 issue, $7.88 for the July 2006 issue and $10.35 for the March 2006 issue.

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

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

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

For options granted after January 1, 2003 the Company determines the fair value of stock options on their grant date and records this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in capital stock. Employee compensation expense increased by $1.1 million (2006 – $0.5 million) and net income decreased by the same amount with respect to options granted during the year.

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

(000's, except per share amounts)		2007		2006
Pro forma net income	$	90,241	$	67,610
Pro forma income per Common share – basic	$	2.62	$	1.98
Pro forma income per Common share – diluted	$	2.59	$	1.94

(e) Income per Common Share

Basic income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,446,847 (2006 – 34,130,515).

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

NOTE 12 INCOME TAXES

Components of the provision for income taxes are as follows:

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

Reconciliation of income taxes is as follows:

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

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

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

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

NOTE 13 EMPLOYEE SHARE PURCHASE PLAN

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

NOTE 14 COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

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

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

Credit Commitments

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

The Company also has contractual commitments to extend credit to its clients for its credit card products. The contractual commitment for this product represents the maximum potential credit risk, assuming the contractual amount is fully utilized and the client defaults and collection efforts are unsuccessful. At December 31, 2007, these contractual commitments in aggregate were $392.2 million (2006 – $296.6 million) of which $78.0 million (2006 – $66.8 million) has not been drawn by customers. In addition, outstanding commitments for new Equityline VISA accounts were $5.9 million at December 31, 2007 (2006 – $7.7 million). These amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments. Secured credit cards have spending limits restricted by collateral held by the Company.

Directors' and Officers' Indemnification

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

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and foreign exchange rates.

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

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

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

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

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

NOTE 16 INTEREST RATE SENSITIVITY

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

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

								2007
(000's, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash resources	$ 59,161	$ 261,438	$ 13,837	$ 19,900	$ –	$ –	$ –	$ 354,336
Weighted-average interest rate	3.0%	4.7%	4.2%	4.25%	–	–	–	4.4%
Securities	–	96,112	19,872	46,833	183,327	124,737	–	470,881
Weighted-average interest rate	–	4.7%	5.8%	4.1%	4.4%	4.8%		4.6%
Loans	–	543,641	390,245	1,163,166	1,423,865	471,387	29,867	4,022,171
Weighted-average interest rate	–	9.2%	7.3%	7.5%	7.3%	7.3%	–	7.6%
Other assets	–	–	–	–	–	–	125,919	125,919
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 59,161	$ 901,191	$ 423,954	$1,229,899	$1,607,192	$ 596,124	$ 155,786	$4,973,307
Weighted-average interest rate	3.0%	7.4%	7.2%	7.3%	7.0%	6.8%	–	6.9%
Liabilities and shareholders' equity								
Deposits payable on demand	$ –	$ 229	$ –	$ –	$ –	$ –	$ 30,564	$ 30,793
Weighted-average interest rate	–	2.9%	–	–	–	–	–	0.0%
Deposits payable on a fixed date	–	445,878	630,401	1,506,590	1,330,558	452,096	17,668	4,383,191
Weighted-average interest rate	–	4.1%	4.3%	4.5%	4.4%	4.7%	–	4.4%
Other liabilities	–	–	–	–	–	–	211,283	211,283
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	348,040	348,040
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ –	$ 446,107	$ 630,401	$1,506,590	$1,330,558	$ 452,096	$ 607,555	$4,973,307
Weighted-average interest rate	–	4.1%	4.3%	4.5%	4.4%	4.7%	–	3.9%
	$ 59,161	$ 455,084	$ (206,447)	$ (276,691)	$ 276,634	$ 144,028	$ (451,769)	3.0%
Credit commitments and derivatives	–	(437,032)	2,414	191,279	110,534	132,805	–	–
Weighted-average interest rate	–	6.9%	3.2%	3.2%	7.4%	7.0%	–	–
Interest rate sensitivity gap	$ 59,161	$ 18,052	$ (204,033)	$ (85,412)	$ 387,168	$ 276,833	$ (451,769)	–
Cumulative gap	$ 59,161	$ 77,213	$ (126,820)	$ (212,232)	$(174,936)	$ 451,769	$ –	–

								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								
Deposits payable on demand	$ –	$ –	$ –	$ –	$ –	$ –	$ 27,871	$ 27,871
Weighted-average interest rate	–	–	–	–	–	–	–	–
Deposits payable on a fixed date	–	311,280	666,542	1,082,000	1,153,619	202,328	–	3,415,769
Weighted-average interest rate	–	3.7%	4.2%	4.0%	4.1%	4.1%	–	4.0%
Other liabilities	–	–	–	–	–	–	181,810	181,810
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	276,866	276,866
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ –	$ 311,280	$ 666,542	$ 1,082,000	$ 1,153,619	$ 202,328	$ 486,547	$ 3,902,316
Weighted-average interest rate	–	3.7%	4.2%	4.0%	4.1%	4.1%	–	3.5%
	$ 30,401	$ 249,900	$ (348,862)	$ (195,315)	$ 400,038	$ 223,203	$ (359,365)	3.3%
Credit commitments and derivatives	–	(190,356)	(6,859)	19,667	62,081	115,467	–	–
Weighted-average interest rate	–	7.3%	7.2%	7.0%	7.7%	7.1%	–	–
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	$ –	–

NOTE 17 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. For financial instruments which lack an available trading market, the Company applies present value valuation techniques that use observable market inputs. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

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

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

> Cash resources are assumed to approximate their carrying values due to their short-term nature. The fair value of treasury bills is determined using rates from the Bank of Canada.
> Securities are valued based on the quoted bid price as provided in Note 4.
> Fair value of loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.
> Other assets are assumed to approximate their carrying values due to their short term nature. Other assets include securitization receivable which is valued as described in Notes 1 and 6.
> Fair value of deposits payable on demand approximates their carrying value; fixed rate deposits are determined by discounting the contractual cash flows using the market interest rates currently offered for deposits with similar terms and risks.
> Other liabilities are assumed to approximate their carrying values due to their short-term nature.
> Fair value of credit commitments is determined by discounting the expected future cash flows of the credit commitments at market rates for loans with similar terms and credit risks. Book value and fair value amounts for credit commitments represent the notional amount of the commitment.
> Derivative financial instruments are assumed to approximate their fair values as provided in Note 15.

NOTE 18 EARNINGS BY BUSINESS SEGMENT

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

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

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

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

NOTE 19 SUBSEQUENT EVENT

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

NOTE 20 COMPARATIVE FIGURES

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

NOTE 21 FUTURE ACCOUNTING CHANGES

Financial Instruments – Presentation and Disclosure

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

Capital Disclosures

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

International Financial Reporting Standards

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