



# HOME CAPITAL GROUP INC.

## Third Quarter Report September 30, 2006

<b>Financial Highlights</b>	Three Months Ended		Nine Months Ended	
	2006	2005	2006	2005
<i>For the Period Ended September 30 (Unaudited)</i>				
<i>In Thousands of Dollars (Except Per Share and Percentage Amounts)</i>				
<b>OPERATING RESULTS</b>				
Net Income	\$ 16,618	\$ 15,766	\$ 47,297	\$ 43,980
Total Revenue	72,928	62,763	208,042	178,303
Earnings per Share - Basic	\$ 0.49	\$ 0.47	\$ 1.39	\$ 1.30
- Diluted	0.48	0.45	1.36	1.25
Return on Shareholders' Equity	26.21%	32.10%	26.30%	32.03%
Return on Average Assets	1.82%	2.13%	1.79%	2.10%
Efficiency Ratio	39.29%	35.81%	38.47%	35.91%
Efficiency Ratio (TEB)**	38.57%	35.19%	37.79%	35.23%
(Non-interest Expense/Net Interest Income Plus Fee Income)				
<b>BALANCE SHEET HIGHLIGHTS</b>				
Total Assets			\$ 3,749,189	\$ 3,025,577
Loans			3,195,820	2,683,742
Deposits			3,312,840	2,654,898
Common Shareholders' Equity			260,653	203,903
Mortgage-Backed Security Assets Under Administration			1,044,046	698,981
<b>FINANCIAL STRENGTH</b>				
<b>Capital Measures</b>				
Risk Adjusted Assets*			\$ 1,955,551	\$ 1,551,954
Tier 1 Capital Ratio*			12.46%	12.64%
Total Capital Ratio*			14.10%	14.48%
<b>Credit Quality</b>				
Net Impaired Loans % of Gross Loans			0.56%	0.50%
Allowance % of Gross Impaired Loans			105.60%	117.26%
Annualized Provision % of Gross Loans			0.13%	0.15%
<b>Share Information</b>				
Book Value per Common Share			\$ 7.62	\$ 6.00
Common Share Price - Close			30.70	37.50
Market Capitalization			1,049,453	1,275,137
Common Shares Outstanding - Number			34,184	34,004

\* 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 Trust Company [www.hometrusted.ca](http://www.hometrusted.ca)

Home Capital Group Inc. [www.homecapital.com](http://www.homecapital.com)

*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's Earnings Rise During Quarter & Year-Over-Year  
Equityline VISA Continues Solid Advances  
Third Quarterly Dividend Increase of 80% Year-to-Date**

Home Capital Group Inc. (TSX: HCG) announced today that its income and earnings per share for both the third quarter and the first nine months of 2006 increased over the same periods of 2005. Although the pace of earnings growth was below the Company's historical performance, the interest spread on new mortgage originations returned to historical levels in the latter part of the quarter and the positive effect on earnings from the Company's mortgage portfolio will be realized in future quarters. In addition, the Equityline VISA portfolio continued to grow rapidly at 121.1% year-over-year, total assets including Mortgage-Backed Securities increased 28.7% over the previous year and the Company ended the quarter with a strong return on equity of 26.2%.

Key results from the third quarter and first nine months included:

- Net income during the third quarter was \$16.6 million, an increase of 5.4% over the \$15.8 million recorded last year. Earnings for the first nine months of 2006 rose by 7.5% to \$47.3 million, from \$44.0 million reported for the first nine months of 2005.
- Basic earnings per share were \$0.49, 4.3% higher than the \$0.47 recorded in the third quarter of 2005. Diluted earnings per share were \$0.48, a rise of 6.7% from the \$0.45 recorded for the third quarter last year. Basic earnings per share for the nine months rose from \$1.30 to \$1.39, and on a diluted basis from \$1.25 to \$1.36.
- Return on equity was 26.2% for the third quarter and 26.3% for the first nine months of 2006, compared to 32.1% for the third quarter and 32.0% during the first nine months of 2005.
- Total assets at September 30, 2006 reached \$3.75 billion, 23.9% higher than the \$3.03 billion reached at September 2005, and 14.1% higher than the \$3.28 billion recorded at December 31, 2005. Total assets, including Mortgage-Backed Securities (MBS) originated and administered by the Company, grew 28.7% to \$4.79 billion, compared to \$3.72 billion one year earlier.
- Total mortgage originations amounted to \$533.2 million during the quarter, an increase of 4.0% from the \$512.7 million advanced in the same period last year. Originations for the first nine months amounted to \$1.46 billion, an increase of 14.6% from the \$1.28 billion advanced over the same nine months of 2005. Although originations for July and August 2006 were 10.8% ahead of last year, an unusually slow September resulted in an increase of 4.0% for the quarter, year-over-year. It now appears that, based on results to date in October and commitments outstanding, growth in mortgage originations during the fourth quarter should be in line with the results reported during the first nine months of 2006.
- The efficiency ratio (TEB) was 38.6% during the third quarter, up from the 35.2% recorded for the third quarter last year and 36.0% recorded at June 30, 2006. The ratio was 37.8% for the first nine months of the year, above the 35.2% recorded in the same period of 2005.

- Outstanding balances on the Equityline VISA portfolio were \$178.8 million, a substantial rise of 121.1% and 91.2% respectively, from the \$80.9 million recorded at September 30, 2005 and \$93.5 million at December 31, 2005. During the nine months ended September 30, 2006, 3,417 credit card accounts with \$147.8 million in authorized credit limits were issued, compared to 1,828 cards and \$62.9 million in credit for the nine months ended September 2005, representing increases of 86.9% and 134.8%, respectively.
- Net impaired loans by dollar value represented 0.56% of the total loans portfolio, up slightly from 0.50% at the end of the third quarter 2005, and from 0.54% at June 30, 2006. Mortgage write-offs in the quarter were minimal.

During the quarter the Company continued its interest rate hedging initiative, entering into a swap transaction in order to hedge against the effect of rate changes between mortgage commitment dates and when those mortgages are securitized under our MBS program. Swaps may result in unrealized gains or losses to income on a mark-to-market basis, depending on actual interest rate changes. During the second quarter, the Company recorded an unrealized gain of approximately \$1.0 million, which translates into \$0.02 per share. When interest rates dropped during the third quarter, the interest rate swaps outstanding resulted in a loss of \$1.9 million, or \$0.04 per share. If these two swaps were not included, basic earnings per share would have been \$0.53, versus \$0.49 in the current quarter and \$0.46, instead of \$0.48 in the second quarter of 2006. The Company plans to utilize fewer swap transactions going forward as a result of the current stable interest rate environment. Based on sales of Mortgage-Backed Securities during the fourth quarter to date, the Company anticipates gains for the MBS program will be approximately 3.5% to 4.0% for the remainder of 2006.

The Company repaid the remaining \$5.0 million balance on the outstanding term loan and, consequently, Home Capital no longer has any external debt.

Subsequent to the end of the quarter, the Company's Board of Directors declared a dividend increase from \$0.07 to \$0.09 per share on a quarterly basis, payable on December 1 to shareholders of record at the close of business on November 15, 2006. This 28.6% increase over the last quarterly dividend also represents the third time in 2006 that the Company's share dividend has risen, bringing the total dividend rise to 80% year-to-date.

Home Capital's ongoing efforts to achieve a high level of corporate governance were recently recognized by the Ontario Chamber of Commerce and The Globe and Mail Report on Business. The Company was selected to receive the Chamber's 2006 Outstanding Business Achievement Award for Corporate Governance. Home Capital ranked in a tie for thirteenth place of 204 companies in the Report on Business fifth annual survey of corporate governance practices at Canada's largest public companies.

As a result of projected volume increases and margin expansion on our mortgage portfolio and MBS sales, and the strong increase in our Equityline VISA outstanding balances, Home Capital's Board and management continue to believe that the high potential of the business initiatives being undertaken by the Company will lead to a return to superior growth rates across the Company's key financial indicators in future quarters.

**GERALD M. SOLOWAY**  
 President and Chief Executive Officer  
 October 25, 2006

**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 \$0.7 million for the third quarter and \$2.2 million for the nine months of 2006 (\$0.7 million - Q3 2005 and \$2.1 million - nine months 2005) 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 September 30, 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 October 25, 2006. As in prior quarters, the Company's Audit and Risk Management Committee has reviewed this document, and before 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 on page 10 of the Company's 2005 Annual Report. The following table compares actual performance against these objectives.

		Nine Month Period Ended September 30, 2006	
	2006 Objectives	Actual Results*	
Net Income	20% or \$52.8 million for the nine month period	<b>7.5% increase over same period last year, or \$47.3 million</b>	
Diluted Earnings per Share	20% or \$1.50 per share for the nine month period	<b>8.8% increase over same period last year, or \$1.36 per share</b>	
Combined Total Assets and Assets Under Administration	20% or \$4.5 billion for the 12 month period	<b>28.7% increase over last year, or \$4.8 billion</b>	
Return on Equity	20%	<b>26.3%</b>	
Efficiency Ratio (TEB)	Maximum of 38.0% to 43.0%	<b>37.8%</b>	
Capital Ratio - Tier 1	Minimum of 9.5%	<b>12.5%</b>	
Capital Ratio - Total	Minimum of 12.5%	<b>14.1%</b>	
Provision for Loan Losses as a Percentage of Total Loans	0.1% to 0.2%	<b>0.1%</b>	

\* Objectives and results for net income and diluted earnings per share are for the current period relative to the same period in the prior year; asset growth is the change from twelve months prior; and ratios are based on the current period, annualized.

## Financial Highlights

### Overview

This section presents the highlights of the third quarter and nine months ended September 30, 2006 and details the factors affecting results when compared to the same periods in 2005. Net income was \$16.6 million in the third quarter of 2006 compared with \$15.8 million for the third quarter of 2005, and \$47.3 million for the nine months ended September 30, 2006 compared to \$44.0 million during the same period last year.

- Net interest income for the third quarter was \$30.2 million, an increase of 14.5% from the \$26.3 million reported for the same period in 2005, and \$86.2 million for the nine months ended September 30, 2006, an increase of 13.5% over the \$76.0 million recorded during the first nine months of 2005. The net interest margin was 3.4% for both the quarter and nine months ended September 30, 2006, compared to 3.7% for the same periods ended September 30, 2005.
- Non-interest income for the third quarter was \$10.7 million, a decrease of 9.5% from the \$11.8 million reported for the same period in 2005. Non-interest income for the nine month period ended September 30, 2006 was \$33.5 million, an increase of 3.9% over the \$32.2 million recorded in the nine month period ended September 30, 2005. The decrease in the third quarter can be attributed to realized losses on the close out of \$125.0 million of forward interest rate swap contracts of \$2.1 million, offset by a \$1.3 million increase in fees and other income resulting from a rise in the Company's loan assets. Despite the decrease during the third quarter, year-to-date non-interest income rose \$1.2 million on the strength of increased fees and other income due to realized and unrealized gains on the Company's investment security portfolio.
- Non-interest expenses for the third quarter were \$16.1 million, a 17.5% increase from the \$13.7 million reported for the same period in 2005, and \$46.0 million for the nine month period ended September 2006, an increase of 18.5% over the \$38.9 million reported in the first nine months of 2005. Although non-interest expenses rose during the third quarter and first nine months of 2006, resulting in a higher efficiency ratios (TEB) of 38.6% and 37.8% in comparison to the same periods in 2005 of 35.2%, the ratios remain within the Company's performance objective for the year of between 38.0% and 43.0%. The primary driver of the increases in the efficiency ratios (TEB) in 2006 over the comparable periods in 2005 is the costs associated with increased upfront staffing levels to manage the continued asset growth in the Company's mortgage and Equityline VISA portfolios.

### Net Interest Income

Net interest income was \$30.2 million in the third quarter of 2006, an increase of \$3.9 million, or 14.5%, over the \$26.3 million reported in the same quarter of 2005. Nine month net interest income was \$86.2 million, an increase of \$10.2 million, or 13.5%, over the \$76.0 million reported for the same period of 2005. This increase was largely the result of the growth in interest earning assets which increased \$706.4 million over the September 2005 level, compared to an increase of \$645.9 million in interest bearing liabilities. The net interest margin (on a TEB basis) declined to 3.4% for the three and nine month periods ended September 30, 2006 from 3.7% for the same periods in 2005. These margins are consistent with the contracted spreads experienced in the first half of this year. The interest spread between loans and borrowings ended the quarter and nine month periods of 2006 at 3.4% and 3.5% respectively, compared to 3.6% and 3.5% reported for both the three and nine month periods ended September 30, 2005.

The mortgage lending line of business continues to be the primary driver of the Company's net interest income. It contributed \$21.7 million during the third quarter and \$64.0 million for the nine month period ended September 30, 2006, compared to \$20.4 million during the third quarter and \$57.1 million for the nine month period ended September 30, 2005.

The consumer lending line of business contributed third quarter net interest income of \$4.0 million, and \$10.4 million for the nine month period ended September 30, 2006, compared to \$2.6 million and \$7.5 million for the same periods in 2005. Growth in the Equityline VISA product sustained its momentum during the third quarter of 2006, resulting in increased net interest income over the comparable periods in 2005.

Refer to Note 10 of the accompanying unaudited interim financial statements, which summarize the Company's interest rate risk position as at September 30, 2006. This table illustrates that the Company has a deficient cumulative dollar gap after 1 year of \$495.1 million (liabilities and off-balance sheet items exceed total assets) compared to deficiencies of \$300.8 million at December 31, 2005 and \$317.6 million at September 30, 2005. The deficiency in the cumulative gap reverts to a surplus within the 1 to 3 year timeframe for the current period, consistent with the timeframe for the comparative periods presented in the table.

## **Non-Interest Income**

Total non-interest income was \$10.7 million for the third quarter and \$33.5 million for the first nine months of 2006, a decrease of \$1.1 million compared to the same quarter in 2005, and an increase of \$1.3 million from the nine month period ended September 30, 2005.

The fees and other income components of non-interest income increased to \$6.6 million for the quarter and \$18.1 million for the nine months, compared to \$5.3 million and \$16.0 million for the three and nine month periods ended September 30, 2005. The mortgage line of business contributed \$4.5 million in the third quarter and \$12.3 million for the nine month period ended September 30, 2006, compared to \$3.2 million and \$11.1 million for the third quarter and nine month period ended September 30, 2005. Growth in the loan portfolio of 19.1% over September 30, 2005 did not result in a significant increase in fee income during these periods. This was due to fee modifications necessitated by market conditions on certain mortgage products offered by the Company, which began in mid-2005. The consumer lending line of business contributed \$2.0 million of fee income in the third quarter and \$5.7 million for the nine month period ended September 30, 2006, compared to \$2.0 million and \$4.9 million for the three and nine months ended September 30, 2005. Fee income from credit card operations is generally driven by the number of accounts and, although the Equityline VISA portfolio is experiencing strong growth with new credit authorizations amounting to \$147.8 million in the nine months of 2006, closed accounts in other product segments of the credit card portfolio affect this income. The total number of accounts at September 30, 2006 amounted to 24,257, down from 25,636 at September 2005. Equityline VISA is expected to generate most of its revenues from interest income.

During the third quarter the Company issued six MBS pools, consisting of \$153.1 million of Canada Mortgage and Housing Corporation (CMHC) insured residential mortgages for a year-to-date MBS issuance of \$415.5 million. This represents an increase of \$41.2 million over the \$111.9 million in MBS pools that were issued in the third quarter of 2005 and \$124.6 million over the \$290.9 million issued during the first nine months of 2005. Securitization gains were \$5.3 million in the third quarter and \$12.2 million for the nine months ended September 30, 2006, down from \$5.5 million and \$14.3 million realized in the three and nine month periods ended September 30, 2005 (refer to Note 3 of these unaudited interim consolidated financial statements). The decrease in securitization gains in the three and nine month periods in 2006 relative to the comparative periods in 2005 are primarily due to the Company taking a higher estimate for unscheduled prepayments on the underlying mortgages and the contraction in spreads which occurred earlier in the year. The estimated annual prepayment rate rose to 12.7% for both the three and nine month periods of 2006, versus 9.1% and 8.7% in the third quarter and first nine months of 2005, respectively. Further, for the nine months ended September 30, 2006 the Company continued to experience overall contraction in the spreads earned on the MBS pools dropping from 2.7% for the nine month period in 2005 to 2.5% for the same period in 2006. To offset the increases in unscheduled prepayments on the underlying mortgages, the Company experienced a modest increase in excess spread from the second quarter of 2006, moving from 2.4% to 2.8% on the MBS pools securitized in the third quarter of 2006.

## **Non-Interest Expenses**

Total non-interest expenses for the quarter ended September 30, 2006 were \$16.1 million, an increase of 17.5% or \$2.4 million over the \$13.7 million reported in the third quarter of 2005, and up by 18.5%, or \$7.1 million over the \$38.9 million reported for the first nine months of 2005.

Salaries and staff benefits for the third quarter rose by \$1.3 million, or 22.7%, over the third quarter of 2005, and \$3.8 million, or 23.8%, over the nine month period ended September 30, 2005. The increase over the three and nine month periods was the result of the upfront increased staffing levels to support the continued growth of the Company's assets and the increased need for administration staff to ensure that the increasing regulatory requirements are being properly and fully addressed. The Company ended this quarter with 347 employees, as compared to 352 at June 30, 2006, 274 at December 31, 2005 and 254 at September 30, 2005. It is anticipated that there will be only modest increases in staffing over the next few quarters.

Premises expenses increased in this quarter and for the first nine months of 2006 due to moves in early fiscal 2006 to larger offices in Toronto and the acquisition of additional space in the St. Catharines office to accommodate the Company staffing growth and to provide for enhanced back-up systems. General and administration expenses increased by \$0.7 million over the third quarter of 2005, and \$2.6 million over the same nine month period last year. These increases are related primarily to variable expenses that are volume driven. Lending growth has expanded the Company's requirement for deposits which, in turn, increased deposit commissions and referral expenses. In addition, moving expenses were incurred during the first quarter for the Toronto office move, and added equipment purchases increased the depreciation expense for both the three and nine month periods ended September 30, 2006.

The efficiency ratio (TEB) ended the third quarter at 38.6%, and 37.8% for the nine month period September 2006. Due to the additional expenses described above, these ratios were higher than the 35.2% results for both the three and nine month periods ended September 30, 2005. Despite the upward movement of the efficiency ratios during the third quarter and nine month period, the ratio remains in line with the Company's 2006 performance objective range of 38.0% to 43.0%. The Company continues to carefully control all expense areas and anticipates continuing to meet or exceed this performance objective for the remainder of the year.

## Provision for Credit Losses

The Company expensed \$1.0 million in the third quarter and \$3.1 million year-to-date, compared to \$1.0 million and \$3.0 million in the comparable periods last year, through provisions for credit losses. This expense represents 0.1% of total loans on an annualized basis. The Company continues to add to the general allowance for credit losses, primarily in response to the growth of the loan portfolio and total risk-weighted assets. The total general allowance amounted to \$19.1 million at September 30, 2006, an increase of \$2.5 million over the \$16.6 million at December 31, 2005 and a \$3.1 million rise over the \$16.0 million allowance at September 30, 2005. Growth in the general allowance over the nine month and twelve month periods amounted to 15.2% and 19.4%, comparable to total asset growth of 14.1% and 23.9%. The Company will sustain the general allowance at levels appropriate to the risk levels of the Company's assets. The Company has continued to experience low write-offs. Residential first mortgages continue to make up a substantial part of the Company's total assets (76.1% at September 30, 2006).

At September 30, 2006 net impaired loans had increased to \$18.1 million (0.56% of gross loans), compared to \$13.7 million (0.49% of gross loans) at December 31, 2005 and \$13.5 million (0.50% of gross loans) at September 30, 2005. The rise in net impaired loan levels has not resulted in a significant increase to loan write-offs, as indicated in Note 2 to the unaudited interim financial statements. Total net loans written-off during the nine months ended September 30, 2006 were \$0.6 million, compared to \$0.4 million for the same periods ended December 31, 2005 and September 30, 2005.

## Income Taxes

The income tax expense amounted to \$7.2 million (effective tax rate of 30.3%) for the third quarter and \$23.2 million (effective tax rate of 32.9%) for the nine month period ended September 30, 2006, compared to \$7.7 million (effective tax rate of 32.8%) for the third quarter and \$22.3 million (effective tax rate of 33.7%) for the nine month period ended September 30, 2005. Canadian dividend income is non-taxable to financial institutions, which results in a reduced effective income tax rate. In the absence of tax free dividends, the effective tax rates would have been 32.4% for the third quarter and 34.9% for the nine month period ended September 30, 2006, compared to 34.7% for the third quarter and 35.7% for the nine month period ended September 30, 2005.

In June 2006, the federal government enacted legislation to reduce corporate tax rates for taxation years commencing 2008. The future tax assets and liabilities were revalued and the net effect was to reduce income taxes in the amount of \$0.8 million for the third quarter of 2006.

## Balance Sheet

### Assets

Total assets at September 30, 2006 rose to \$3.75 billion, an increase of \$723.6 million, or 23.9%, over the \$3.03 billion reported one year ago and up by \$464.4 million, or 14.1%, over the December 2005 asset balance of \$3.28 billion.

Growth in the loan portfolio of \$512.1 million, or 19.1%, generated most of this year-over-year asset increase. Residential mortgages contributed \$356.8 million to total loan portfolio growth, consumer lending added \$96.0 million, secured loans contributed \$28.3 million, other mortgages (non-residential) added \$34.1 million, and the general allowance increased by \$3.1 million. MBS receivables added \$11.7 million to total assets. The Company's investment securities portfolio increased by \$133.6 million over September 30, 2005 and cash resources increased by \$60.8 million year-over-year. Capital assets increased by \$2.1 million due to the increase in staff, requiring additional equipment and furniture. The other asset category increased by \$3.9 million, which consists of accrued interest receivable, deferred agent commissions, deferred finders fees and other prepaid and deferred assets (refer to Note 4 for additional details). Deferred agent commissions decreased even though deposits increased over the prior year. Commission fees are amortized over the terms of deposits, and shortening duration of the deposit terms resulted in decreased deferred assets.

During the first nine months of 2006, growth in the loan portfolio of \$398.9 million contributed to the increase over the December 31, 2005 asset balance. Residential mortgages represented \$268.0 million of the total loan portfolio growth, consumer lending added \$83.4 million, secured loans added \$22.3 million, other mortgages (non-residential) increased by \$27.7 million and the general allowance increased by \$2.5 million. The decline in cash resources from December 2005 of \$44.2 million was offset by an increase in securities of \$97.5 million and total other assets of \$12.2 million. Total other assets primarily consist of Mortgage-Backed Securities receivable, accrued interest receivable, deferred assets and capital assets.

### Liabilities

Total liabilities at September 30, 2006 rose to \$3.49 billion, an increase of \$666.8 million, or 23.6%, over the \$2.82 billion reported at September 30, 2005 and up by \$422.6 million, or 13.8%, over the \$3.07 billion reported at December 31, 2005.

Most of the year-over-year growth resulted from increased deposits of \$657.9 million. Increased deposit liabilities funded all of the loan portfolio growth, along with a rise in the securities investments of the Company. Other liabilities (Note 5) increased by \$19.7 million, or 13.4%, over the \$147.1 million reported at September 30, 2005. This growth was principally the result of increases in accrued interest payable of \$15.1 million, which is related to the rise in deposits. Other liabilities, consisting of accounts payable and accrued liabilities, added \$3.9 million, and the increase in deferred commitment fees that resulted from growth in the mortgage loan portfolio increased other liabilities by \$2.1 million. Future income tax liabilities grew by \$2.1 million, dividends payable rose by \$1.0 million and income taxes payable declined by \$4.5 million year-over-year. Both the term loan and the subordinated term loan in the amounts of \$10.0 million and \$2.0 million respectively, which were outstanding at September 30, 2005 were fully repaid as at September 30, 2006.

The rise in liabilities over the nine months since December 31, 2005 resulted principally from increased deposits of \$417.4 million. Increased deposit liabilities funded a significant portion of the loan portfolio growth throughout 2006. Cash resources funded the remaining growth in the loans portfolio as well as a portion of the \$97.5 million increase in the securities portfolio. As described above, the remaining \$10.0 million of the term loan outstanding at December 31, 2005 was fully repaid at September 30, 2006.

## Shareholders' Equity

The increase in shareholders' equity of \$56.7 million, or 27.8%, over the \$203.9 million reported at September 30, 2005 was internally generated from net income for the twelve month period ended September 30, 2006 of \$64.2 million, less \$8.9 million for dividends paid and payable to shareholders. The remaining \$1.4 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 \$0.4 million which was offset by \$0.2 million paid by the Company to purchase capital stock through the Normal Course Issuer Bid.

Over the nine month period ended September 30, 2006, shareholders' equity rose to \$260.6 million, an increase of \$41.7 million, or 19.1%, over the \$218.9 million reported at December 31, 2005. This growth was internally generated from net income for the nine months of \$47.3 million, less \$6.8 million for shareholders dividends. The remaining \$1.2 million was from proceeds received on the exercise of Company share options, the recording of the fair market adjustment on stock options, offset by the repurchase of capital stock through the Normal Course Issuer Bid.

At September 30, 2006 the book value per common share was \$7.62, compared to \$6.44 at December 31, 2005 and \$6.00 at September 30, 2005.

## Off-Balance Sheet Arrangements

The Company will enter into hedging transactions to mitigate the interest exposure on outstanding loan commitments. During the third quarter the Company unwound \$95.0 million of fixed forward interest rate swaps for a realized loss of \$2.1 million, leaving \$30.0 million of fixed forward interest rate swaps in place. At September 30, 2006, the \$30.0 million outstanding positions were marked-to-market, recording an unrealized loss of \$0.1 million in the consolidated Statement of Income. Subsequent to the quarter-end, the Company unwound the \$30.0 million of fixed forward interest rate swaps and realized a loss of \$0.1 million. The Company has established interest rate movements which determine whether the Company enters into or removes the financial instruments purchased for interest rate risk exposure. 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. Transactions consist of the transfer of these loans to a Canadian trust company as security, in exchange for cash. When the assets are sold, the Company retains certain rights to excess interest spreads and servicing liabilities, which constitute retained interests. The Company periodically reviews the value of the retained interests, and any permanent impairment in value is charged to income, if applicable. The Company continues to administer all securitized assets after the sales. As at September 30, 2006 outstanding securitized mortgage loans under administration amounted to \$1.04 billion (\$800.2 million - Q4 2005 and \$699.0 million - Q3 2005) and a retained interest of \$50.5 million (\$41.3 million - Q4 2005 and \$38.8 million - Q3 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 \$176.5 million at September 30, 2006 compared to \$176.3 million at December 31, 2005 and \$199.6 million at September 30, 2005. These commitments remain open for various dates through November, 2007. As of September 30, 2006 unutilized credit card balances amounted to \$66.2 million, compared to \$32.9 million at December 31, 2005, and \$48.6 million at September 30, 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 in the MD & A of the Company's 2005 Annual Report, with the exception of the hedging program to manage interest rate risk on mortgage commitments, as 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 the 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 September 30, 2006 liquid assets amounted to \$320.2 million, up 11.6% from \$286.9 million at December 2005 and 102.1% higher than \$158.5 million at September 2005.

The Company maintains a minimum 20% of its 100-day obligations in liquid assets. For the twelve month period ended September 30, 2006 the Company maintained an average of \$266.8 million, or 41.3%, of 100-day obligations in liquid assets, compared to \$216.1 million, or 46.4%, for the twelve months ended December 31, 2005 and \$186.8 million, or 43.1%, for the twelve month period ended September 30, 2005.

## Interest Rate Risk

The objective of interest rate risk management is to ensure that the Company realizes 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 September 30, 2006 is indicated in Note 10 of 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 September 30, 2006, an immediate and sustained 100 basis point (1%) increase in interest rates would have decreased net income after taxes over the next twelve months by \$0.6 million, and a 200 basis point (2%) rate increase would result in a corresponding decrease in net income after taxes of \$1.2 million.

The Company has entered into interest rate swap arrangements for the purpose of hedging commitment risk. Its purpose is to manage interest rate exposures during the timeframe between when a mortgage is committed and when this mortgage becomes securitized into an MBS pool. The outstanding swap position at September 30, 2006 was closed subsequent to the end of the quarter. Refer to Note 9 for additional information.

### **Credit Risk**

Credit risk management is the management of all aspects of borrower risk associated with the total loan portfolio, 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 September 30, 2006, the composition of the Company's mortgage portfolio was 96.7% residential, 2.9% store and apartments, and 0.4% non-residential loans. Within the residential mortgage portfolio, 4.7% of loans are insured by CMHC. First mortgages represent 99.7% of the total mortgage portfolio.

The gross credit card receivable balance totaled \$192.9 million as at September 30, 2006, comprised of \$191.2 million, or 99.1%, in accounts secured either by cash deposits or residential mortgage collateral, and \$1.7 million, or 0.9%, which is unsecured. The total credit approved includes \$255.3 million in secured and \$3.8 million in unsecured credit, compared to \$137.6 million in secured and \$4.5 million in unsecured credit at December 31, 2005, and \$140.0 million in secured and \$5.2 million in unsecured credit at September 30, 2005. The Company no longer issues unsecured credit card accounts. Equityline VISA credit cards are collateralized by a residential mortgage, and this product amounted to \$178.8 million of the credit card receivable balance at September 30, 2006 compared to \$93.5 million at December 31, 2005 and \$80.9 million at September 30, 2005. Cash security deposits on credit card accounts amounted to \$20.4 million, and are included in the Company's deposits.

Secured loans of \$65.9 million increased by \$22.3 million over the December 31, 2005 balance of \$43.6 million, and \$28.3 million over the September 30, 2005 balance of \$37.6 million. These loans are secured by collateral mortgages on residential property. At September 30, 2006, \$0.4 million of secured loans, or 0.6% of the portfolio, is over 30 days in arrears. Secured loans are subject to the same credit and lending criteria as the Company's residential mortgage portfolio.

Although net impaired loans rose to \$18.1 million at September 30, 2006 compared with \$13.7 million at December 31, 2005 and \$13.5 million at September 30, 2005, the Company has only experienced a slight increase in net loan write-offs. Write-offs net of recoveries applied against the accumulated allowance for credit losses were \$0.6 million at September 30, 2006 as compared to \$0.4 million at both September 30 and December 31, 2005. The Company continues to monitor this area closely and deals effectively and prudently with impaired loan situations.

The Company has ensured that it is well positioned for any unforeseen future losses by holding general allowances of \$19.1 million at September 30, 2006 as compared to the allowances of \$16.6 million at December 31, 2005 and \$16.0 million at September 30, 2005.

Following a review of prior years' loss experiences and the lending criteria in place, during the fourth quarter of 2005 the Company decided to reduce the general allowance ratio. The Company's actual loss experience on mortgages has amounted to 0.04% per annum over the past 15 years, 0.02% for the past 10 years, and 0.001% for the past 5 years. In addition to this loss experience, the Company has security in the form of property or cash deposits on loans making up 85.0% of total assets, with 76.1% of security in the form of residential first mortgages. The Company has developed a methodology to test the adequacy of the general allowance that considers asset quality, borrowers' creditworthiness, property location and past loss experience. The Company periodically reviews this general allowance methodology with consideration given to changes in economic conditions, interest rates and local housing market conditions.

Total general allowance was 97.7 basis points of the Company's risk-weighted assets at September 30, 2006 compared to 100.5 basis points at December 31, 2005 and 103.1 basis points at September 30, 2005.

### **Capital Management**

The capital base of the Company's operating subsidiary, Home Trust Company ("Home Trust"), continues to maintain a strong capital base. The Tier 1 capital ratio at September 30, 2006 was 12.5% versus 12.7% and 12.6% reported at December 31, 2005 and September 30, 2005, respectively. The total capital ratio was 14.1% at September 30, 2006, down slightly from the 14.5% reported at both September 30 and December 31, 2005. The total capital ratio remained relatively constant as risk-weighted assets increased by 18.5% from December 31, 2005 and the growth in capital amounted to 15.5% for the same nine month period. Risk-weighted assets increased by 26.0% over what was reported at September 30, 2005 with the growth in capital over the same twelve months amounting to 22.7%. These capital ratios continue to substantially exceed the minimum regulatory requirements of 7.0% for Tier 1 capital, and 10.0% for total capital.

As at September 30, 2006 Home Trust was utilizing 77.6% of its approved Assets to Regulatory Capital Multiple of 17.5 times (78.5% - December 31, 2005 and 77.1% - September 30, 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 enabling 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, along with available credit and reporting requirements. It also identifies the Dealer's responsibilities for the execution, 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 MI 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 both 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 page 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 October 25, 2006, the Company had 34,184,140 Common Shares outstanding. In addition, director and employee stock options outstanding amounted to 1,104,500 (1,272,000 - Q4 2005 and 1,130,000 - Q3 2005) of which 841,375 options are exercisable as of the quarter-end (1,003,250 - Q4 2005 and 747,500 - Q3 2005) for proceeds to the Company on exercise of \$6.7 million (\$7.3 million - Q4 2005 and \$5.4 million - Q3 2005).

On October 25, 2006 the Company declared a quarterly cash dividend of \$0.09 per Common Share, payable December 1, 2006 to shareholders of record at the close of business on November 15, 2006.

### **Results by Business Segment**

The following discusses the mortgage and consumer lending lines of business for the third quarter and first nine months of 2006, compared to the same periods in 2005 (refer to Note 11 of the accompanying interim consolidated financial statements).

#### **Mortgage Lending**

The Company's principal line of business, mortgage lending, contributed \$12.0 million to net income during the third quarter of 2006 and \$35.2 million for the first nine months of 2006, as compared to \$13.1 million and \$34.4 million for the comparative periods ended September 30, 2005. During the third quarter the Company maintained interest spread levels similar to performance in the second quarter. The total value of new mortgages advanced in the third quarter and nine month period of 2006 amounted to \$533.2 million and \$1.46 billion, as compared to \$512.7 million and \$1.28 billion for the same periods ended September 2005, respectively.

The Company securitized \$153.1 million of residential mortgages during the third quarter and a total of \$415.5 million for the first nine months of this year, realizing total income on securitization of \$5.3 million for the quarter and \$12.2 million for the nine month period ended September 30, 2006. Securitizations of pools were up from the total of \$290.9 million for the nine month period ended September 30, 2005, but total income was down from the \$14.3 million realized for the nine months ended September 30, 2005. The decrease in income was due to a higher estimate of unscheduled principal prepayments and reduced gains recorded as a result of contraction in interest spreads. For additional information refer to Note 3 of these unaudited interim consolidated financial statements.

A second mortgage lending program (recorded as secured loans) is conducted by way of an agreement with QSPE-HCC Trust, operating as Regency Finance Corp. ("Regency"), whereby the Company acts as Regency's agent in offering second mortgage loans. These mortgage loans are securitized and the investment securities are purchased by the Company. As at September 30, 2006, the Company held \$65.9 million in secured loans as Notes Receivable issued by Regency, compared to \$43.6 million at December 2005 and \$37.6 million at September 30, 2005. These Notes yield 6.6% with an average duration of 3.5 years. The Company also receives fee income for servicing and administering these mortgages on Regency's behalf. Interest and servicing income amounted to 7.4% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgages that secure the Notes Receivable remains high, with 1.1% in arrears up to 60 days and 0.4% of the portfolio in arrears over 60 days. It also provides the Company with ancillary marketing opportunities in the residential first mortgage marketplace.

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

This line of business contributed \$2.7 million to net income during the third quarter and \$7.0 million for the nine month period ended September 30, 2006 compared to \$1.8 million and \$4.4 million for the same periods in 2005. The Equityline VISA portfolio amounted to \$178.8 million at September 30, 2006 (\$93.5 million - Q4 2005 and \$80.9 million - Q3 2005) and comprises 92.7% (85.6% - Q4 2005 and 83.8% - Q3 2005) of the total gross credit card receivable balance of \$192.9 million, bearing an average interest rate of 9.9% (11.3% - Q4 2005 and 11.5% - Q3 2005) on outstanding balances. The interest yields have declined over the prior periods due to an increase in a higher quality of credit worthiness in the Equityline VISA portfolio and the reduction of the unsecured portfolio. The market response following the introduction of the Equityline VISA product in January 2006 is exceeding management's expectations and should provide significant interest income to this segment of the business as more authorized credit is utilized.

## Quarterly Financial Highlights

In thousands of dollars, except per share amounts and percentages

	2006								2005	2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4		
Net interest income (TEB)*	\$ 30,922	\$ 29,451	\$ 28,061	\$ 28,049	\$ 27,019	\$ 27,038	\$ 23,976	\$ 28,426		
Less TEB adjustment	764	781	687	708	682	675	714	694		
Net interest income per financial statements	30,158	28,670	27,374	27,341	26,337	26,363	23,262	27,732		
Non-interest income	10,718	13,011	9,746	11,040	11,596	9,906	10,484	1,535		
Total revenues	72,928	70,707	64,407	64,803	62,763	59,630	55,910	50,804		
Net income	16,618	16,496	14,183	16,881	15,766	14,638	13,576	12,271		
Return on common shareholders' equity	26.2%	27.6%	25.2%	31.9%	32.1%	32.2%	32.2%	31.3%		
Return on average total assets	1.8%	1.9%	1.7%	2.1%	2.1%	2.1%	2.1%	2.0%		
Earnings per common share										
Basic	\$ 0.49	\$ 0.48	\$ 0.42	\$ 0.50	\$ 0.47	\$ 0.43	\$ 0.40	\$ 0.37		
Diluted	\$ 0.48	\$ 0.47	\$ 0.41	\$ 0.47	\$ 0.45	\$ 0.41	\$ 0.39	\$ 0.35		
Book value per common share	\$ 7.62	\$ 7.22	\$ 6.79	\$ 6.44	\$ 6.00	\$ 5.57	\$ 5.17	\$ 4.80		
Efficiency ratio (TEB)*	38.6%	36.0%	38.9%	33.8%	35.2%	35.2%	35.3%	40.0%		
Efficiency ratio	39.3%	36.7%	39.6%	34.4%	35.9%	35.9%	36.0%	41.0%		
Tier 1 capital ratio**	12.5%	12.7%	12.9%	12.7%	12.6%	12.3%	12.2%	12.0%		
Total capital ratio**	14.1%	14.4%	14.6%	14.5%	14.5%	14.2%	14.2%	14.0%		
Net impaired loans as % of gross loans	0.56%	0.54%	0.51%	0.49%	0.50%	0.52%	0.44%	0.40%		
Annualized provision as % of gross loans	0.1%	0.1%	0.1%	0.0%	0.2%	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. The reduction in earnings, return on equity and productivity in the first quarter of 2006 was the result of interest spread contractions in the fourth quarter of 2005 and early 2006, which resulted in reduced revenue growth. Results in the second and third quarters of 2006 illustrate the effect of improved rate spreads on net interest income and continued growth in the Company's income producing assets. The Company continues its track record of positive earnings growth, low credit losses and strong capital ratios, which will support sustained results into the fourth quarter.

### Outlook

Home Capital remains committed to its strategy of serving selected segments of the Canadian financial services marketplace that are not within the business focus of the major financial institutions. The Company remains confident that it will benefit from favourable market positioning and economic conditions across its business activities. Forecasts for the last quarter of 2006 and into early 2007 foresee modest economic growth across Canada, supported by low interest rates and strong job creation that will sustain new housing starts as well as the resale market. Although the Company will not meet all of its performance objectives set for 2006, it does expect that it is well positioned for superior performance going forward.

### **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 September 30, 2006 and the Interim Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows of Home Capital Group Inc. for the nine month period ended September 30, 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 September 30, 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  
October 25, 2006

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

## Consolidated Statements of Income

	Three Months Ended		Nine Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
<i>In Thousands of Dollars, Except Per Share Amounts (Unaudited)</i>				
<b>Income</b>				
Interest from Loans	\$ 57,989	\$ 47,738	\$ 163,376	\$ 134,901
Dividends from Securities	1,424	1,207	4,020	3,664
Other Interest	2,797	1,979	7,171	7,508
	<b>62,210</b>	50,924	<b>174,567</b>	146,073
<b>Interest Expense</b>				
Interest on Deposits and Borrowings	32,052	24,587	88,365	70,112
Net Interest Income	30,158	26,337	86,202	75,961
Provision for Credit Losses (Note 2)	974	1,037	3,117	3,039
	<b>29,184</b>	25,300	<b>83,085</b>	72,922
<b>Non-interest Income</b>				
Fees and Other Income	6,561	5,258	18,075	15,984
Securitization Income on Mortgage-Backed Securities	5,534	5,615	14,223	15,677
Net Realized and Unrealized Gain on Investment Securities	819	723	2,244	1,307
Net Realized and Unrealized (Loss) Gain on Derivatives and Short Sales (Note 9)	(2,196)	243	(1,067)	(738)
	<b>10,718</b>	11,839	<b>33,475</b>	32,230
	<b>39,902</b>	37,139	<b>116,560</b>	105,152
<b>Non-interest Expenses</b>				
Salaries and Staff Benefits	6,808	5,549	19,367	15,639
Premises	951	549	2,590	1,744
General and Administration	8,302	7,575	24,079	21,468
	<b>16,061</b>	13,673	<b>46,036</b>	38,851
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>23,841</b>	23,466	<b>70,524</b>	66,301
Provision for Income Taxes (Note 8)	7,223	7,700	23,227	22,321
<b>NET INCOME</b>	<b>\$ 16,618</b>	\$ 15,766	<b>\$ 47,297</b>	\$ 43,980
<b>NET INCOME PER COMMON SHARE</b>				
Basic	\$ 0.49	\$ 0.47	\$ 1.39	\$ 1.30
Diluted	\$ 0.48	\$ 0.45	\$ 1.36	\$ 1.25
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Thousands)</b>				
Basic	34,041	33,892	34,135	33,835
Diluted	34,814	35,276	34,810	35,283
Total Number of Outstanding Common Shares (Note 6)	34,184	34,004	34,184	34,004
Book Value Per Share	\$ 7.62	\$ 6.00	\$ 7.62	\$ 6.00

## Consolidated Balance Sheets

	September 30	December 31	September 30
<i>In Thousands of Dollars (Unaudited) as at</i>	2006	2005	2005
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with Regulated Financial Institutions	\$ 52,119	\$ 60,337	\$ 26,409
Treasury Bills Guaranteed by Canada	74,747	110,806	39,683
	<b>126,866</b>	171,143	66,092
<b>Securities</b>			
Issued or Guaranteed by Canada	203,245	126,832	98,187
Issued or Guaranteed by Provinces	299	299	299
Other Securities	122,670	101,611	94,156
	<b>326,214</b>	228,742	192,642
<b>Loans</b>			
Personal and Credit Card Loans	200,016	116,628	103,971
Secured Loans	65,888	43,565	37,642
Residential Mortgages	2,851,760	2,583,694	2,494,918
Other Mortgages	97,264	69,572	63,209
General Allowance for Credit Losses (Note 2)	(19,108)	(16,586)	(15,998)
	<b>3,195,820</b>	2,796,873	2,683,742
<b>Other</b>			
Mortgage-Backed Securities Receivable	50,499	41,309	38,790
Capital Assets	4,522	4,362	2,429
Deferred Development Costs	-	-	514
Other Assets (Note 4)	45,268	42,400	41,368
	<b>100,289</b>	88,071	83,101
	<b>\$ 3,749,189</b>	\$ 3,284,829	\$ 3,025,577
<b>LIABILITIES</b>			
Term Loan	\$ -	\$ 10,000	\$ 10,000
Subordinated Term Loan	-	-	2,000
<b>Deposits</b>			
Payable on Demand	14,412	20,191	9,518
Payable on a Fixed Date	3,298,428	2,875,270	2,645,380
	<b>3,312,840</b>	2,905,461	2,666,898
<b>Other</b>			
Cheques and Other Items in Transit	8,864	6,989	7,693
Other Liabilities (Note 5)	166,832	153,494	147,083
	<b>175,696</b>	160,483	154,776
	<b>3,488,536</b>	3,065,944	2,821,674
<b>SHAREHOLDERS' EQUITY</b>			
Capital Stock (Note 6)	35,261	34,272	34,190
Contributed Surplus	622	306	246
Retained Earnings	224,770	184,307	169,467
	<b>260,653</b>	218,885	203,903
	<b>\$ 3,749,189</b>	\$ 3,284,829	\$ 3,025,577

## Consolidated Statements of Changes in Shareholders' Equity

<i>In Thousands of Dollars (Unaudited)</i>	For the Three Months Ended		For the Nine Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
<b>CAPITAL STOCK</b>				
Common Shares				
Balance at Beginning of the Period	\$ 35,192	\$ 33,747	\$ 34,272	\$ 32,468
Proceeds of Options Exercised (Note 6)	219	443	1,139	1,722
Repurchase of Shares	(150)	-	(150)	-
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 35,261</b>	<b>\$ 34,190</b>	<b>\$ 35,261</b>	<b>\$ 34,190</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance at Beginning of the Period	\$ 510	\$ 198	\$ 306	\$ 178
Amortization of Fair Value of Employee Stock Options (Note 7)	112	53	334	168
Employee Stock Options Exercised	-	(5)	(18)	(100)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 622</b>	<b>\$ 246</b>	<b>\$ 622</b>	<b>\$ 246</b>
<b>RETAINED EARNINGS</b>				
Balance at Beginning of the Period	\$ 210,887	\$ 155,061	\$ 184,307	\$ 129,561
Net Income for the Period	16,618	15,766	47,297	43,980
Dividends Paid During the Period	(339)	-	(4,438)	(2,714)
Dividends Declared, Unpaid During the Period	(2,396)	(1,360)	(2,396)	(1,360)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 224,770</b>	<b>\$ 169,467</b>	<b>\$ 224,770</b>	<b>\$ 169,467</b>

## Consolidated Statements of Cash Flows

	Three Months Ended		Nine Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
<i>In Thousands of Dollars (Unaudited)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income for the Period	\$ 16,618	\$ 15,766	\$ 47,297	\$ 43,980
Adjustments to Determine Net Cash Flows Relating to Operating Activities:				
Future Income Taxes	(492)	671	1,767	2,276
Amortization of Capital Assets	331	270	949	654
Amortization of Securities	(192)	(59)	(420)	(1,878)
Amortization of Deferred Financing Costs	42	15	63	44
Amortization of Deferred Development Costs	-	514	-	934
Provision for Credit Losses	974	1,037	3,117	3,039
Change in Accrued Interest Receivable	(1,501)	(734)	(2,887)	(1,575)
Change in Accrued Interest Payable	3,815	4,884	11,462	13,792
Net Gain Realized and Unrealized on Investment Securities	(819)	(723)	(2,244)	(1,307)
Gain on Sale of Mortgage-Backed Securities	(5,534)	(5,615)	(14,223)	(15,677)
Loss (Gain) Realized and Unrealized on Derivatives and Short Sales	2,196	(243)	1,067	738
Change in Mortgage-Backed Securities Receivable	6,419	4,293	15,691	10,823
Change in Other Assets	1,175	2,033	(1,111)	(855)
Change in Cheques and Other Items in Transit	4,852	(797)	1,875	1,158
Change in Other Liabilities	(6)	4,809	(586)	8,679
Change of Fair Value of Employee Stock Options (Note 7)	112	48	316	68
Cash Provided by Operating Activities	27,990	26,169	62,133	64,893
<b>FINANCING ACTIVITIES</b>				
Repayment of Term Loan	(5,000)	(1,000)	(10,000)	(1,000)
Net Increase in Deposits	185,761	113,498	417,379	389,714
Issuance of Capital Stock (Note 6)	219	443	1,139	1,722
Repurchase of Capital Stock	(150)	-	(150)	-
Dividends Paid	(2,392)	(1,358)	(6,139)	(4,065)
Cash Provided by Financing Activities	178,439	111,583	402,229	386,371
<b>INVESTING ACTIVITIES</b>				
Activity in Securities				
Purchases	(65,550)	(46,013)	(163,970)	(101,666)
Proceeds on Sales	7,618	15,966	31,933	92,743
Proceeds on Maturities	18,534	7,325	37,229	22,532
Activity in Mortgages				
Net Increase	(242,051)	(275,142)	(711,372)	(690,597)
Proceeds from Securitization of Mortgage-Backed Securities (Note 3)	149,028	109,659	404,874	284,687
Net Increase in Personal and Credit Card Loans	(32,096)	(10,352)	(83,845)	(25,031)
Net Increase in Secured Loans	(9,767)	(8,263)	(22,379)	(17,923)
Proceeds from Leasehold Inducements	-	-	1,009	-
Purchases of Capital Assets	(569)	(135)	(2,118)	(416)
Cash Used in Investing Activities	(174,853)	(206,955)	(508,639)	(435,671)
Net (Decrease) Increase in Cash and Cash Equivalents	31,576	(69,203)	(44,277)	15,593
Cash and Cash Equivalents at the Beginning of the Period	95,290	135,295	171,143	50,499
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 126,866</b>	<b>\$ 66,092</b>	<b>\$ 126,866</b>	<b>\$ 66,092</b>
Supplementary Disclosure of Cash Flow Information				
Amount of Interest Paid During the Period	\$ 28,238	\$ 19,578	\$ 76,903	\$ 56,195
Amount of Income Taxes Paid During the Period	7,841	6,926	28,822	23,162

## 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 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.

#### Changes in Accounting Policies

There were no changes to the Company's accounting policies during the nine months ended September 30, 2006.

#### Variable Interest Entities

There were no changes to the Company's position in non-consolidated Variable Interest Entities during the nine months ended September 30, 2006.

## 2. LOANS

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

<i>In Thousands of Dollars</i>	As at September 30, 2006		
	Gross Amount of Impaired Loans	Specific Allowances	Carrying Value
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>

As at December 31, 2005			
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>

As at September 30, 2005			
Personal, Credit Card and Secured Loans	\$ 534	\$ 212	\$ 322
Residential Mortgages	13,810	610	13,200
	<b>\$ 14,344</b>	<b>\$ 822</b>	<b>\$ 13,522</b>

### (B) Allowance for Credit Losses

<i>In Thousands of Dollars</i>	For the Nine Month Period Ended September 30, 2006		
	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	595	2,522	3,117
Write-offs	(781)	-	(781)
Recoveries	216	-	216
Balance at the End of the Period	<b>\$ 192</b>	<b>\$ 19,108</b>	<b>\$ 19,300</b>

For the Nine Month Period Ended December 31, 2005			
Balance at the Beginning of the Period	\$ 737	\$ 14,321	\$ 15,058
Provisions (Recoveries) for Credit Losses for the Current Period	(133)	2,265	2,132
Write-offs	(723)	-	(723)
Recoveries	281	-	281
Balance at the End of the Period	<b>\$ 162</b>	<b>\$ 16,586</b>	<b>\$ 16,748</b>

For the Nine Month Period Ended September 30, 2005			
Balance at the Beginning of the Period	\$ 604	\$ 13,611	\$ 14,215
Provisions for Credit Losses for the Current Period	652	2,387	3,039
Write-offs	(754)	-	(754)
Recoveries	320	-	320
Balance at the End of the Period	<b>\$ 822</b>	<b>\$ 15,998</b>	<b>\$ 16,820</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 nine months ended.

<i>In Thousands of Dollars, Except Percentages</i>	For the Three Months Ended		For the Nine Months Ended	
	September 2006	September 2005	September 2006	September 2005
Book Value of Mortgages Securitized	\$ 153,130	\$ 111,881	\$ 415,533	\$ 290,899
Retained Interests	\$ 10,031	\$ 8,393	\$ 24,303	\$ 22,206
Servicing Liability	\$ 236	\$ 206	\$ 668	\$ 551
Net Proceeds Received on Securitized Mortgages	\$ 149,028	\$ 109,659	\$ 404,874	\$ 284,687
Gain on Sales	\$ 5,313	\$ 5,524	\$ 12,188	\$ 14,279
Prepayment Rate	12.7%	9.1%	12.7%	8.7%
Excess Spread	2.8%	2.7%	2.5%	2.7%
Discount Rate	4.2%	3.4%	4.2%	3.6%

### 4. OTHER ASSETS

*In Thousands of Dollars*

	September 30 2006	December 31 2005	September 30 2005
Accrued Interest Receivable	\$ 18,121	\$ 15,234	\$ 14,379
Income Taxes Receivable	287	-	-
Deferred Agent Commission	8,804	9,320	9,226
Deferred Finders Fees	8,360	8,644	8,883
Goodwill	2,324	2,324	2,324
Other Prepaid Assets and Deferred Items	7,372	6,878	6,556
	\$ 45,268	\$ 42,400	\$ 41,368

### 5. OTHER LIABILITIES

*In Thousands of Dollars*

	September 30 2006	December 31 2005	September 30 2005
Accrued Interest Payable	\$ 108,853	\$ 97,391	\$ 93,747
Income Taxes Payable	-	5,157	4,553
Dividends Payable	2,396	1,701	1,360
Deferred Commitment Fees	11,676	9,847	9,576
Future Income Taxes (Note 8)	13,782	12,015	11,675
Other, Including Accounts Payable and Accrued Liabilities	30,125	27,383	26,172
	\$ 166,832	\$ 153,494	\$ 147,083

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

### 6. CAPITAL STOCK

Issued and Outstanding  
In Thousands of Dollars,  
except per share amounts

	For the Three Months Ended				For the Nine Months Ended			
	September 2006		September 2005		September 2006		September 2005	
Common Shares	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at Beginning of Period	34,157	\$ 35,192	33,912	\$ 33,747	34,012	\$ 34,272	33,777	\$ 32,468
Options Exercised	32	219	92	443	178	1,139	227	1,722
Normal Course Issuer Bid	(5)	(150)	-	-	(5)	(150)	-	-
Outstanding at End of Period	34,184	\$ 35,261	34,004	\$ 34,190	34,184	\$ 35,261	34,004	\$ 34,190
Share Purchase Options		Weighted-average Exercise Price		Weighted-average Exercise Price		Weighted-average Exercise Price		Weighted-average Exercise Price
Outstanding at Beginning of Period	1,132	\$ 13.26	1,228	\$ 8.96	1,272	\$ 12.32	1,373	\$ 8.62
Granted	30	31.20	-	-	40	33.91	67	34.55
Exercised	(32)	6.76	(92)	4.78	(177)	6.32	(227)	7.17
Forfeited	(25)	34.69	(6)	18.40	(30)	34.78	(83)	25.00
Outstanding at End of Period	1,105	\$ 13.45	1,130	\$ 9.25	1,105	\$ 13.45	1,130	\$ 9.25
Exercisable, End of Period	841	\$ 7.98	748	\$ 7.27	841	\$ 7.98	748	\$ 7.27

### 7. STOCK BASED COMPENSATION

For all options issued on or after January 1, 2003 the Company has recognized a compensation expense. During the third quarter of 2006, \$112,000 was recorded as an expense, for a total of \$334,000 for the nine months ended September 30, 2006 (\$53,000 - Q3 2005 and \$168,000 - nine 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 for the nine months ended September 30, 2006 is estimated at the date of granting using the Black-Scholes valuation model, with the following assumptions: risk-free interest rate of 4.2%, anticipated option life of 4.0 years, anticipated volatility of 26.4% and anticipated dividend yield of 0.7%. Stock options granted amounted to a total of 40,000 for the nine 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 third quarter of 2006 by \$46,000 and \$172,000 for the nine months (\$89,000 - Q3 2005 and \$268,000 - nine months 2005) and net income and earnings per share would have been reported as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 2006	September 2005	September 2006	September 2005
Pro-forma Net Income (in Thousands of Dollars)	\$ 16,572	\$ 15,677	\$ 47,125	\$ 43,712
Pro-forma Earnings per Share - Basic	\$ 0.49	\$ 0.46	\$ 1.38	\$ 1.29
Pro-forma Earnings per Share - Diluted	\$ 0.48	\$ 0.44	\$ 1.35	\$ 1.24

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

### 8. INCOME TAXES

Reconciliation of Income Taxes:	For the Three Months Ended		For the Nine Months Ended	
	September 2006	September 2005	September 2006	September 2005
<i>In Thousands of Dollars</i>				
Income Before Income Taxes	\$ 23,842	\$ 23,466	\$ 70,524	\$ 66,301
Income Taxes at Statutory Combined Federal and Provincial Income Tax Rates	8,681	8,502	25,460	23,943
Increase (Decrease) in Income Taxes at Statutory Income Tax Rates Resulting From:				
Tax-exempt Income	(488)	(436)	(1,376)	(1,323)
Non-deductible Expenses	79	47	226	95
Future Tax Rate Changes and Other	(1,049)	(413)	(1,083)	(394)
Income Tax	\$ 7,223	\$ 7,700	\$ 23,227	\$ 22,321

#### Sources of Future Income Tax Balances:

<i>In Thousands of Dollars</i>	September 2006	December 2005	September 2005
Future Income Tax Liabilities			
Deferred Agent Commissions and Other Charges	\$ 6,233	\$ 6,621	\$ 6,545
Mortgage-Backed Securities Receivable	17,913	15,508	14,442
Deferred Development Costs	-	-	185
	24,146	22,129	21,172
Future Income Tax Assets			
Allowance for Credit Losses	5,728	5,081	3,459
Mark-to-market Adjustments to Securities	480	1,462	1,467
Deferred Commitment Fees	4,156	3,571	4,571
	10,364	10,114	9,497
Net Future Income Tax Liability	\$ 13,782	\$ 12,015	\$ 11,675

### 9. FINANCIAL INSTRUMENTS

The Company utilized off-balance sheet financial instruments during the second quarter of 2006. During this period the Company entered into economic hedge swap transactions with a major financial institution. The Company is using interest rate swaps in order 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 (designated in the swap). The Company currently does not qualify for hedge accounting under the Accounting Guideline *AcG-13 - Hedging Relationships* and therefore 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 nine months amount to \$230.0 million with \$30.0 million remaining at September 30, 2006, consisting of \$20.0 million of three-year and \$10.0 million of five-year swaps maturing in January, 2007. The Company unwound \$200.0 million during the period, to better match the mortgage pools and realized net losses for the second and third quarters of \$2.1 million. The remaining \$30.0 million will unwind in the fourth quarter to match the issuance of securitized government insured mortgages. The outstanding interest rate swaps at September 30, 2006 of \$30.0 million were mark-to-market for unrealized losses of \$0.1 million. The total of the realized and unrealized 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

Due to the stability of interest rates, the Company has unwound the remaining \$30.0 million subsequent to the quarter end. The Company will reinstate this procedure should interest rate volatility reaches a level of interest rate exposure for the 60 to 150 day time-frame.

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. 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 has an unrealized loss liability at September 30, 2005 of \$0.9 million, resulting in \$0.7 million of unrealized loss for the nine month period ended September 30, 2005.

### 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 September 30, 2006, December 31, 2005 and September 30, 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>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	248,666	1,217,337	1,063,773	365,685	379,368	3,284,829
Off-balance Sheet Items	-	150,935	16,634	(73,205)	(94,364)	-	-
Interest Rate Sensitive Gap	\$ 41,337	\$ (38,707)	\$ (303,441)	\$ 460,079	\$ 121,947	\$ (281,215)	\$ -
Cumulative Gap	\$ 41,337	\$ 2,630	\$ (300,811)	\$ 159,268	\$ 281,215	\$ -	\$ -
Cumulative Gap as a % of Total Assets	1.3%	0.1%	(9.2%)	4.8%	8.6%	-	-
<b>September 30, 2005</b>							
Total Assets	\$ 7,026	272,277	770,104	1,451,106	405,304	119,760	3,025,577
Total Liabilities and Equity	12,000	239,787	922,385	1,080,055	403,153	368,197	3,025,577
Off-balance Sheet Items	-	179,790	13,048	(85,001)	(107,837)	-	-
Interest Rate Sensitive Gap	\$ (4,974)	\$ (147,300)	\$ (165,329)	\$ 456,052	\$ 109,988	\$ (248,437)	\$ -
Cumulative Gap	\$ (4,974)	\$ (152,274)	\$ (317,603)	\$ 138,449	\$ 248,437	\$ -	\$ -
Cumulative Gap as a % of Total Assets	(0.2%)	(5.0%)	(10.5%)	4.6%	8.2%	-	-

## 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. 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	
	Sept. 30 2006	Sept. 30 2005	Sept. 30 2006	Sept. 30 2005	Sept. 30 2006	Sept. 30 2005	Sept. 30 2005	
	Net Interest Income	\$ 21,651	\$ 20,445	\$ 4,037	\$ 2,638	\$ 4,470	\$ 3,254	\$ 30,158
Provisions for Credit Losses	(536)	(785)	(438)	(252)	-	-	(974)	(1,037)
Fees and Other Income	4,474	3,206	2,038	2,026	49	26	6,561	5,258
Net Gain on Securities, Derivatives & Mortgage-Backed Securities	3,337	5,858	-	-	820	723	4,157	6,581
Non-interest Expense	(11,987)	(9,678)	(1,364)	(1,647)	(2,710)	(2,348)	(16,061)	(13,673)
Income Before Income Taxes	16,939	19,046	4,273	2,765	2,629	1,655	23,841	23,466
Income Taxes	(4,907)	(5,990)	(1,543)	(999)	(773)	(711)	(7,223)	(7,700)
Net Income	\$ 12,032	\$ 13,056	\$ 2,730	\$ 1,766	\$ 1,856	\$ 944	\$ 16,618	\$ 15,766
Total Assets	\$ 3,133,553	\$ 2,632,617	\$ 209,389	\$ 108,838	\$ 406,247	\$ 284,122	\$ 3,749,189	\$ 3,025,577

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

	Mortgage Business		Consumer Lending Retail & Credit Cards		Other		Total	
	Sept. 30 2006	Sept. 30 2005	Sept. 30 2006	Sept. 30 2005	Sept. 30 2006	Sept. 30 2005	Sept. 30 2005	
	Net Interest Income	\$ 64,016	\$ 57,145	\$ 10,444	\$ 7,470	\$ 11,742	\$ 11,346	\$ 86,202
Provisions for Credit Losses	(1,826)	(2,330)	(1,291)	(709)	-	-	(3,117)	(3,039)
Fees and Other Income	12,266	11,058	5,684	4,859	125	67	18,075	15,984
Net Gain on Securities & Mortgage-Backed Securities	13,156	14,939	-	-	2,244	1,307	15,400	16,246
Non-interest Expense	(34,880)	(28,265)	(3,929)	(4,770)	(7,227)	(5,816)	(46,036)	(38,851)
Income Before Income Taxes	52,732	52,547	10,908	6,850	6,884	6,904	70,524	66,301
Income Taxes	(17,506)	(18,150)	(3,940)	(2,474)	(1,781)	(1,697)	(23,227)	(22,321)
Net Income	\$ 35,226	\$ 34,397	\$ 6,968	\$ 4,376	\$ 5,103	\$ 5,207	\$ 47,297	\$ 43,980
Total Assets	\$ 3,133,553	\$ 2,632,617	\$ 209,389	\$ 108,838	\$ 406,247	\$ 284,122	\$ 3,749,189	\$ 3,025,577

### 12. FUTURE ACCOUNTING CHANGES

The CICA has issued three new accounting standards: "Financial Instruments - Recognition and Measurement", "Hedges" and "Comprehensive Income" which will be in effect for the Company effective January 1, 2007. The impact of these new standards on the Company's financial statements is not yet determinable as they will be dependant on the Company's outstanding positions, their fair values at the time of implementation and management's intentions.

### 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*

W. Roy Vincent  
*Senior Vice President  
and Chief Operating Officer*

Nick Kyprianou  
Brian R. Mosko  
*Senior Vice Presidents*

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 September 30, 2006 there were 34,184,140 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  
W. Roy Vincent  
Warren K. Walker

### BRANCHES

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*Vice President, Mortgages*  
Rolf Eikeland

*Asst. Vice Presidents, Mortgages*  
Lisa Abbatangelo  
Hugh Anderson  
Agostino Tuzi

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

*Senior Managers, Mortgages*  
Laurie Chalabardo  
Bobby Ramgoolam

*Managers, Mortgages*  
Antionette Doria  
Michael Forshee  
Kim McCormick  
Jean-Pierre Vico  
Kathleen Woods

#### Direct Client Services

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Cathy Boon  
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*Vice President,  
VISA Credit Card Services /  
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Tanya Hatton  
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#### Equityline VISA

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*Asst. Vice President, Hamilton Office*  
Marguerite Ryan

*Manager, Mortgages*  
Scott Smith

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**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, October 26, 2006 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.