

# PRESS RELEASE

## Home Capital Reports Solid Third Quarter Results: Net Income of \$27.9 Million, up 22.3% for the Quarter; Return on Equity Reaches 27.6%

**TORONTO, November 3, 2008**

Home Capital Group Inc. (TSX: HCG) today announced positive financial results for the third quarter of 2008. Despite continued financial market turmoil, the Company's core business activities including residential and commercial mortgage lending, CMHC-insured Mortgage-Backed Securities, and *Visa* lending all generated solid earnings growth and returns.

Key results from the third quarter included:

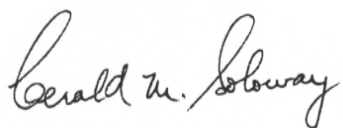
- Net income for the quarter was \$27.9 million, an increase of 22.3% over \$22.8 million recorded in the same period last year. Earnings for the nine months of 2008 reached \$79.6 million, a rise of 20.7% over the comparable period in 2007.
- Basic earnings per share were \$0.81, 22.7% above \$0.66 for the third quarter of 2007, and \$2.31 for the nine-month period, 20.3% higher than the \$1.92 recorded last year. Diluted earnings per share were \$0.81, an increase of 24.6% from the \$0.65 recorded in the third quarter of 2007; results for the nine months were \$2.29, 21.2% above the same period last year.
- Return on equity was 27.6% for the third quarter compared to 28.9% for the quarter ended September 30, 2007 and 27.8% for the nine months of 2008, versus 29.3% for the same period last year.
- Total assets at September 30, 2008 reached \$5.62 billion, 20.3% higher than the \$4.67 billion reported one year earlier. Total assets, together with Mortgage-Backed Securities (MBS) originated and administered by the Company, grew to \$7.74 billion, a rise of 28.5% from \$6.02 billion at September 2007, and 20.3% from the \$6.43 billion at December 31, 2007.
- Total mortgage originations were \$1.11 billion during the third quarter, an increase of 39.8% over the \$791.0 million advanced during the same period in 2007. The Company advanced \$816.3 million in residential mortgages, \$175.4 million in CMHC-insured multi-residential properties, \$70.8 million in commercial mortgages, \$18.5 million in store and apartment properties and \$24.5 million in warehouse commercial mortgages. Year-to-date, total mortgage originations were \$2.86 billion, an increase of 45.9% over the \$1.96 billion advanced during the same nine-month period in 2007.
- The Company experienced strong mortgage securitization activity as the Company securitized and sold \$544.7 million in CMHC-insured securities during the third quarter, compared to \$208.4 million for the same period last year. Government-backed instruments, including CMHC-insured MBS and the Canada Mortgage Bond program, have been only modestly affected by current credit market conditions.
- Outstanding balances on the Equityline *Visa* portfolio reached \$339.3 million, a rise of 16.3% from the \$291.8 million recorded in the same period last year. Net income from consumer lending reached \$5.1 million for the third quarter, 37.8% over the \$3.7 million recorded last year.
- The efficiency ratio (TEB) was 27.1% in the third quarter, compared to 25.9% during the same period one year earlier.
- Net impaired loans represented 0.72% of the total loans portfolio, consistent with the percentage of net impaired loans at the end of 2007. Non-performing mortgages continue to be professionally managed on a loan-by-loan basis by the Company, and write-offs to date have been modest.

The Company's Accelerator Program, launched in the second quarter of 2008, experienced significant growth during the period. This program offers a full range of insured mortgage products to a broad customer base, including individuals who have customarily been served by traditional financial institutions. The changing importance of mortgage insurance in our portfolio is reflected in the fact that as at October 31, 2008, 44% of all residential mortgage originations in the fiscal year have been insured. With a focus on enhanced credit quality, the Accelerator program has resulted in diminished risk on a growing segment of the mortgage portfolio.

Home Trust remains well capitalized with Tier 1 and Total capital ratios at 12.7% and 14.0% respectively, and has increased its liquidity reserve by 49.2% over the previous quarter to \$716.9 million. Home Trust's Tier 1 and Total capital ratios have steadily increased during the past year. With strong capital ratios, increased liquid assets and no external debt, Home Trust is well positioned to withstand the current market turmoil.

Subsequent to the end of the third quarter, and in light of the Company's consistent growth and financial performance, the Board of Directors declared a quarterly cash dividend of \$0.13 per Common Share payable on December 1, 2008 to shareholders of record at the close of business on November 14, 2008.

Home Capital produced solid third quarter results during a period of global market turbulence. The Company continues to manage its business with prudence and a focus on sustainability and accountability. In this time of economic uncertainty, Home Capital remains committed to measured growth, continued profitability and long-term shareholder value. Home Capital's Board of Directors and management remain confident that the Company is well positioned for the future and will meet or exceed its targets for 2008.



**GERALD M. SOLOWAY**

Chief Executive Officer  
November 3, 2008



**NORMAN F. ANGUS**

Chairman of the Board

Additional information concerning the Company's targets and related expectations for 2008, including the risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis for the Third Quarter 2008.

#### **Third Quarter Results Conference Call**

The conference call will take place on Monday, November 3, 2008 at 10:30 a.m. Participants are asked to call 5 to 15 minutes in advance, 416-644-3416 in Toronto or toll-free 1-800-732-9303 throughout North America. The call will also be accessible in listen-only mode via the Internet at [www.homecapital.com](http://www.homecapital.com)

#### **Conference Call Archive**

A telephone replay of the call will be available between 12:30 p.m. Monday, November 3, 2008 and midnight Monday, November 10, 2008 by calling 416-640-1917 or 1-877-289-8525 (enter passcode 21284997#). The archive audio web cast will be available for 90 days on CNW Group's website at [www.newswire.ca](http://www.newswire.ca) and Home Capital's website at [www.homecapital.com](http://www.homecapital.com).

# FINANCIAL HIGHLIGHTS

For the Period Ended September 30 (Unaudited)	Three Months Ended		Nine Months Ended	
<i>In Thousands of Dollars (Except Per Share and Percentage Amounts)</i>	2008	2007	2008	2007
<b>OPERATING RESULTS</b>				
Net Income	\$ 27,939	\$ 22,837	\$ 79,648	\$ 66,013
Total Revenue	116,950	94,346	336,699	263,799
Earnings per Share - Basic	\$ 0.81	\$ 0.66	\$ 2.31	\$ 1.92
Earnings per Share - Diluted	0.81	0.65	2.29	1.89
Return on Shareholders' Equity	27.6%	28.9%	27.8%	29.3%
Return on Average Assets	2.0%	2.0%	2.0%	2.1%
Efficiency Ratio	27.6%	26.4%	28.9%	27.2%
Efficiency Ratio (TEB <sup>2</sup> )	27.1%	25.9%	28.4%	26.6%
<i>(Non-interest Expense/Net Interest Income Plus Fee Income)</i>				
<b>BALANCE SHEET HIGHLIGHTS</b>				
<b>Total Assets</b>			\$5,621,809	\$ 4,674,468
Loans			4,515,017	3,740,268
Deposits			4,944,039	4,160,496
Shareholders' Equity			416,295	323,305
Mortgage-Backed Security Assets Under Administration			2,117,231	1,347,029
<b>FINANCIAL STRENGTH</b>				
<b>Capital Measures<sup>1,3</sup></b>				
Risk Weighted Assets <sup>1,3</sup>			\$2,970,417	\$ 2,534,056
Tier 1 Capital Ratio <sup>1,3</sup>			12.7%	11.7%
Total Capital Ratio <sup>1,3</sup>			14.0%	13.1%
<b>Credit Quality</b>				
Net Impaired Loans as a Percentage of Gross Loans			0.7%	0.6%
Allowance as a Percentage of Gross Impaired Loans			78.0%	93.9%
Annualized Provision as a Percentage of Gross Loans			0.1%	0.1%
<b>Share Information</b>				
Book Value per Common Share			\$ 12.07	\$ 9.38
Common Share Price - Close			31.50	34.50
Market Capitalization			1,085,984	1,188,685
Number of Common Shares Outstanding			34,476	34,455

<sup>1</sup> These figures relate to the Company's operating subsidiary, Home Trust Company.

<sup>2</sup> See definition of Taxable Equivalent Basis (TEB) in this unaudited interim consolidated financial report.

<sup>3</sup> Risk Weighted Assets, Tier 1 and Total Capital at September 30, 2008 are calculated under Basel II while the comparative periods are calculated under Basel I. See Capital Management section for further details.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Caution Regarding Forward-Looking Statements

From time to time Home Capital Group Inc. (the "Company" or "Home Capital") makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail on pages 24 through 30 of the Company's 2007 Annual Report, as well as its other publicly filed information, which may be located at [www.sedar.com](http://www.sedar.com), for the material factors that could cause the Company's actual results to differ materially from these statements. Forward-looking statements can be found in the Message to the Shareholders and the Outlook Section in this quarterly report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "may," and "could" or other similar expressions. By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf, except as required by securities laws.

## Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze and report their financial results on a TEB to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income from certain securities. The adjustment to TEB increases income and the provision for income taxes to what they would have been had the income from tax-exempt securities been taxed at the statutory tax rate. The TEB adjustments of \$1.1 million for the third quarter, and \$3.1 million for the nine months of 2008 (\$1.1 million – Q3 2007 and \$3.1 million – nine months 2007) increased reported 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 discussed on a TEB basis throughout this Management's Discussion and Analysis (MD & A).

## 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' website at [www.sedar.com](http://www.sedar.com).

## Management's Discussion and Analysis of Operating Performance

This MD & A should be read in conjunction with the unaudited interim consolidated financial statements for the period ended September 30, 2008 included herein, and the audited consolidated financial statements and MD & A for the year ended December 31, 2007. These are available on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) and on pages 8 through 58 of the Company's 2007 Annual Report. Except as described in these unaudited interim consolidated financial statements and MD & A, all other factors discussed and referred to in the MD & A for fiscal 2007 remain substantially unchanged. These unaudited interim consolidated financial statements and MD & A have been prepared based on information available as at October 30, 2008. As in prior quarters, the Company's Audit Committee reviewed this document, and prior to its release the Company's Board of Directors approved it on the Audit Committee's recommendation.

## 2008 Objectives and Performance

Home Capital published its financial objectives for 2008 on page 10 of the Company's 2007 Annual Report. The following table compares actual performance to date against each of these objectives.

	2008 Objectives <sup>1</sup>	Nine-Month Period Ended September 30, 2008	
			Actual Results <sup>1</sup>
Net Income	\$79.2 million	<b>\$79.6 million, or 20.7% increase over the same period last year</b>	
Diluted Earnings per Share	\$2.27	<b>\$2.29 per share, or 21.2% increase over the same period last year</b>	
Total Assets and Assets Under Administration	\$7.23 billion	<b>\$7.74 billion, or 28.5% increase over the same period last year</b>	
Return on Shareholders' Equity	25.0%	27.8%	
Efficiency Ratio (TEB)	27.0% to 33.0%	28.4%	
Capital Ratios <sup>2</sup>			
Tier 1	Minimum of 10%	12.7%	
Total	Minimum of 12%	14.0%	
Provision for Loan Losses as a Percentage of Total Loans	0.15% to 0.25%	0.14%	

<sup>1</sup> 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.

<sup>2</sup> Based on the Company's wholly owned subsidiary, Home Trust Company. Capital Ratios have been calculated under Basel II requirements. See Capital Management section for additional details.

## FINANCIAL HIGHLIGHTS

### Income Statement Highlights

The Company continued to achieve positive results notwithstanding continuing uncertainty in Canadian and global capital markets and the broader economy. The Company continues to maintain a strong capital base and liquidity to navigate existing volatility in the global capital markets. The Company's key financial results are summarized below.

- Net income rose 22.3% over the comparable quarter of 2007.
- Non-interest income was up 92.4% over the third quarter of 2007, driven by robust growth in securitization gains of \$13.1 million and increases in fees for the administration and servicing of the mortgage and Visa portfolios, offset by losses on the securities portfolio and losses on derivative mark-to-market values.
- The efficiency ratio (TEB) (the lower the better) remained low, and in-line with the Company's objective, at 27.1%, compared to 25.9% in the same quarter of 2007. The increase year-over-year was due to increased salary and benefit expenses and higher general and administration costs associated with the growth of the Company's operations.
- Diluted earnings per share for the quarter increased 24.6% to \$0.81, compared to \$0.65 in the third quarter of 2007.
- Return on average shareholders' equity for the quarter was 27.6%, compared to 28.9% for the same period last year.
- Net interest income remained unchanged from the comparable quarter in 2007. Growth in the Accelerator Program, and to a lesser extent the growth in the commercial mortgage lending, where both products attract lower spreads, combined with increases in the Company's lending costs had the impact of contracting net interest income overall.

## Balance Sheet Highlights

- Total assets rose 20.3% year-over-year to reach \$5.62 billion, compared to the \$4.67 billion reported at September 30, 2007. This asset growth was primarily driven by expansion in the Company's residential mortgage portfolio which increased by \$336.3 million, other non-residential mortgages which grew by \$392.2 million, securities which were \$100.6 million higher, partially offset by a drop in cash resources of \$18.1 million. Although global markets continue to experience significant difficulties, the Company believes it is well positioned by remaining well capitalized with access to liquidity through the offering of term deposits. The Company has remained debt free since September 2006.
- The Equityline *Visa* portfolio reached \$339.3 million in receivables, representing growth of 16.3%, or \$47.5 million, over the third quarter of 2007.
- The Company continues to be able to access funds to accommodate the growth of the Company's loans portfolio. Liquid assets at September 30, 2008 were \$716.9 million, compared to \$627.1 million at December 31, 2007 and \$626.8 million at September 30, 2007.
- The Company continues to strengthen its capital position with Tier 1 capital climbing to 12.7% at the end of the quarter compared to 11.1% at December 31, 2007 and 11.7% at September 30, 2007.
- Deposit liabilities as at September 30, 2008 grew 18.8% to reach \$4.94 billion, as compared to \$4.16 billion at September 30, 2007. These proceeds were deployed to fund the growth in the Company's loans portfolio, with excess funds invested in the Company's securities portfolio and cash resources.

## EARNINGS REVIEW

### Net Interest Income

Net interest income was \$38.3 million in the third quarter, and \$115.3 million year-to-date, compared to \$38.3 million for the comparable quarter in 2007 and \$108.2 million for the nine-month period ended September 30, 2007. The increase over the comparable nine-month period reflects strong growth of interest-bearing assets, exceeding the growth in interest-bearing liabilities offset by contracted net interest margins. Net interest income was unchanged from the comparable quarter in 2007 due in part to the growth of the Accelerator Program and commercial mortgage lending, both attracting lower spreads and lower yields on the Company's securities portfolio. The net interest margin (TEB) for the third quarter was 2.9% and 3.0% year-to-date, down from 3.5% achieved in the comparable periods in 2007. The decrease in net interest margin over the comparable periods was due to a tightening of spreads that began in the latter half of 2007 as the global liquidity crisis unfolded and has since intensified in response to greater market uncertainties.

The interest spread between the loans portfolio and deposits ended the quarter at 3.1%, compared to 3.6% for the comparable quarter in 2007, and 3.3% year-to-date, compared to 3.7% for the same nine-month period in 2007. The decrease in interest spread over the prior periods was primarily the result of an increase in funding costs resulting from a tightening in availability of liquidity and broader lending conditions. The Company's average cost of funds increased 47 basis points year-over-year while the yield on the Company's loans portfolio remained consistent as the growth in the commercial lending portfolio and the new Accelerator Program, both of which attract lower spreads, had a moderating impact on yields. With challenging credit market conditions persisting, the Company expects to continue to maintain existing spreads for the remainder of 2008.

While the net interest spread on both the commercial mortgage lending and Accelerator Program are lower than the core residential mortgage portfolio due to reduced credit risk, both product offerings provide further diversification to the core residential lending business and also provide incremental net interest income and loan origination growth that would otherwise not exist.

## Non-Interest Income

Total non-interest income was \$23.0 million for the third quarter, a 92.4% increase over the comparable quarter in 2007 and \$54.7 million for the nine-month period of 2008, or a 63.2% increase over the same nine-month period in 2007. Both the quarter-over-quarter and nine-month period increases were driven largely by the strong growth in securitization gains through the Company's participation in the Canada Mortgage Bond (CMB) program and additional short-term MBS securitizations. The increases in fees generated from the administration of the loans portfolio were offset by losses incurred on the securities portfolio, losses on the unwinding of short Government of Canada bonds and mark-to-market losses on the seller swaps and hedge swaps entered into through the CMB program.

The fees and other income components of non-interest income ended the quarter at \$7.0 million and \$21.3 million for the nine-month period of 2008, an increase of 29.9% over the comparable quarter of 2007 and 41.5% over the same nine-month period of 2007. The increases over the comparable periods were due to growth in the Company's loans portfolio and the associated fee income generated from the administration and servicing of these portfolios as well as fee income generated through Payment Services Interactive Gateway Inc. (PSiGate) which was acquired in October 2007.

The Company issued fifteen MBS pools during the third quarter of 2008, consisting of \$544.7 million of Canada Mortgage and Housing Corporation (CMHC) insured residential mortgages for a year-to-date total issuance of \$941.1 million. This represents an increase of \$336.3 million from the \$208.4 million in MBS pools issued in the comparable quarter of 2007 and an increase of \$447.7 million over the \$493.4 million in MBS pools that were issued during the nine-month period of 2007. Securitization gains were \$18.2 million during the quarter and \$35.6 million for the nine-month period of 2008, compared to \$6.0 million for the third quarter of 2007 and \$14.7 million for the comparable nine-month period of 2007 (refer to Note 5 of these unaudited interim consolidated financial statements). The increase in securitization gains during the quarter and nine-period ended September 30, 2008 compared to the prior periods was due to significant volume increases in securitization activity along with lower unscheduled prepayment rates and lower discount rates. The spread earned on the pools averaged 2.2% in the third quarter of 2008 and 2.6% for the pools issued year-to-date compared to 2.6% for the comparable quarter and nine-month period in 2007. The unscheduled prepayment rate was lower during the quarter and year-to-date as the Company issued several short-term MBS pools where the mortgages in the MBS pool were late in their term, and where the Company therefore expects less prepayment. Further, the Company issued a new pool type during the quarter where unscheduled prepayments are not permitted under the program. Of the \$544.7 million MBS pools issued during the quarter, \$268.6 million, or 50.7% were pools containing lower or prohibited unscheduled prepayments and the remaining pools had unscheduled prepayment rates in line with historic levels.

During the quarter, the Company participated in CMHC's CMB program, administered through Canada Housing Trust. This program provides the Company with an alternative distribution channel to diversify its funding stream for five-year MBS pools. Of the fifteen MBS pools issued during the quarter, nine MBS pool with a book value of \$433.0 million were securitized through the CMB program resulting in gains of \$16.0 million. Year-to-date, the Company has securitized \$639.9 million through the CMB program and recognized gains of \$26.1 million.

## Non-Interest Expenses

Total non-interest expenses for the quarter were \$17.0 million and \$49.2 million for the nine-month period of 2008. This compares to \$13.3 million for the third quarter of 2007 and \$38.5 million for the nine-month period ended September 30, 2007. The increases over the comparable periods of 2007 were due to higher salary and benefit expenses, and the inclusion of the operating expenditures of PSiGate which was acquired in October 2007. Salaries and staff benefits expenses for the quarter increased by \$1.6 million, or 20.6% over the third quarter of 2007 and up \$5.6 million, or 25.4% over the comparable nine-month period of 2007. The Company ended the quarter with 407 employees, up from 377 employees at December 31, 2007 and 360 employees one year ago. Premises expenses increased from the prior year period as the Company entered into a new lease arrangement effective June 2008, expanding the head office space with 50% more square footage to enable continued future growth, including the accommodation of additional staff from the relocation of the St. Catharines branch to the Toronto head office.

General and administration expenses increased by \$1.8 million, or 40.7% compared to the third quarter of 2007 and up \$4.7 million, or 34.1% from the same nine-month period in 2007. The increase from the comparable periods of 2007 was primarily the result of the inclusion of operating expenditures of PSiGate and rising general operating costs as the Company continues to grow across all business lines.

The efficiency ratio (TEB) ended the quarter at 27.1% and 28.4% for the nine-month period of 2008, compared to 25.9% in the previous comparable quarter and 26.6% for the nine months of 2007. As the Company continues to grow, management remains focused on containing discretionary spending as part of its continuing efforts to achieve the efficiency ratio objectives set out for 2008.

### **Provision for Credit Losses**

The Company expensed \$3.4 million during the quarter and \$4.7 million for the nine-month period of 2008, compared to \$2.1 million in the third quarter of 2007 and \$3.6 million in the comparable nine-month period of 2007 through the provision for credit losses. The quarter-over-quarter increase primarily relates to an increase in specific provisions identified on an isolated pocket of the Company's residential mortgage portfolio. This expense represented 0.1% (0.1% - Q3 2007) of total gross loans, on an annualized basis. The Company continues to add to the general allowance for credit losses due to relative shifts in the proportion of risk-weighted assets. The total general allowance amounted to \$25.1 million at the end of the quarter, an increase of \$1.7 million over the \$23.4 million recorded at December 31, 2007 and a \$3.0 million increase over the \$22.1 million allowance recorded at September 30, 2007.

At September 30, 2008 net impaired loans amounted to \$32.8 million (0.72% of gross loans), compared to \$29.0 million (0.72% of gross loans) at December 31, 2007 and \$23.6 million (0.63% of gross loans) at September 30, 2007 (refer to Note 4 of these unaudited interim consolidated financial statements). Total net loans written-off during the quarter were \$0.4 million, compared to \$0.5 million in the third quarter of 2007. Year-to-date, net loans written-off were \$1.6 million, compared to \$1.1 million for the comparable nine-month period of 2007. The Company continues to closely monitor non-performing loans and takes proactive measures to minimize losses, as described under the Credit Risk section of this MD & A and in the 2007 Annual Report under the heading Risk Management.

### **Income Taxes**

The income tax expense amounted to \$13.0 million (effective tax rate of 31.8%) for the third quarter and \$36.6 million (effective tax rate of 31.5%) year-to-date, compared to \$12.0 million (effective tax rate of 34.5%) for the comparable quarter of 2007 and \$33.6 million (effective tax rate of 33.7%) for the nine-month period of 2007. Canadian dividend income is non-taxable to financial institutions, which resulted in a lower income tax rate. In the absence of tax-free dividends, the tax rates would have been 33.6% for the third quarter and 33.3% for the nine-month period of 2008, compared to 36.5% for the third quarter of 2007 and 35.7% for the comparable nine-month period in 2007.

### **Comprehensive Income**

Comprehensive income is comprised of net income and other comprehensive income (OCI) and totaled \$28.0 million for the third quarter and \$82.6 million year-to-date, an increase of \$8.8 million, or 46.0% over the \$19.2 million recorded in the same quarter last year and a \$26.6 million, or 47.5% increase over the same nine-month period in 2007. As previously noted net income increased 22.3%, or \$5.1 million over the same quarter last year and increased 20.7%, or \$13.6 million over the same nine-month period in 2007. The Company's OCI includes unrealized losses on available for sale securities, and securitization receivables from market revaluations at the end of the quarter. OCI for the period ended September 30, 2008 was a gain of \$0.1 million, compared to a loss of \$3.7 million in the comparable quarter in 2007. The change in OCI compared to prior quarters for available for sale securities and securitization receivables primarily reflects market fluctuations related to changes in interest rates, and general market conditions affecting certain market sectors in which the Company holds equity positions. During the quarter, the Company determined that certain equity holdings were permanently impaired and recognized a writedown of \$0.2 million in losses from accumulated other comprehensive income in the consolidated statements of income. Further, the Company sold certain equity holdings realizing losses of \$2.3 million. The Company believes the remaining unrealized losses represent temporary declines in value due to the current securities market conditions.

# BALANCE SHEET REVIEW

## Assets

Total assets as at September 30, 2008 were \$5.62 billion, an increase of \$646.7 million, or 13.0% over the \$4.98 billion reported at December 31, 2007 and up by \$947.3 million, or 20.3% over the September 30, 2007 asset balance of \$4.67 billion.

The growth in total assets over December 31, 2007 was primarily generated from growth in the loans portfolio of \$492.8 million. Residential mortgages contributed \$157.3 million to the total loans portfolio growth, other non-residential mortgages contributed growth of \$301.6 million, consumer lending contributed \$38.9 million, offset by a reduction of \$3.3 million in secured loans, while the general allowance for credit losses increased by \$1.7 million. The residential mortgage portfolio growth excludes \$544.7 million of loans securitized during the quarter. The Company's cash resources increased by \$77.0 million from December 31, 2007 while the securities portfolio increased by \$17.1 million. Other assets increased by \$17.8 million from December 31, 2007, primarily driven by corporate income tax changes within the Company's tax balances and increased accrued interest earned on the Company's loans portfolio. Securitization receivables increased significantly from December 2007, growing by \$41.2 million due to robust securitization activity over the nine-month period of 2008.

The growth in total assets since September 30, 2007 was primarily generated from growth in the loans portfolio of \$774.7 million. The loans portfolio growth was driven by a \$336.3 million increase in residential mortgages, growth of \$392.2 million in other non-residential mortgages, a \$52.0 million rise in consumer lending, offset by a reduction of \$2.8 million in secured loans, while the general allowance for credit losses rose by \$3.0 million. The Company's cash resources decreased by \$18.1 million while the securities portfolio rose by \$100.6 million over September 30, 2007. The decrease in cash resources was due to a shift in funds from cash resources to the securities portfolio and to support the loans portfolio growth. Other assets increased by \$33.9 million, primarily resulting from the addition of goodwill and intangible assets acquired through the acquisition of PSiGate, corporate income tax changes within the Company's tax balances and accrued interest earned on the loans portfolio. Securitization receivables increased by \$55.2 million over September 2007 resulting from higher securitization volumes year-over-year.

## Liabilities

Liabilities at September 30, 2008 rose to \$5.21 billion, an increase of \$578.5 million, or 12.5% over the \$4.63 billion reported at December 31, 2007 and up by \$854.4 million, or 19.6% over the \$4.35 billion recorded at September 30, 2007.

Most of the growth from December 2007 resulted from increased deposits of \$530.1 million. The growth in the deposit liabilities funded the loans portfolio growth, with excess funds invested in the Company's cash resources and securities portfolio. Other liabilities (refer to Note 7 of these unaudited interim consolidated financial statements) increased by \$49.4 million, or 23.7% over the \$208.7 million reported at December 31, 2007. This growth was principally the result of increases in accrued interest of \$23.5 million related to higher deposits, a net increase of \$8.0 million in the Company's current and deferred corporate tax liabilities, and an increase of \$14.7 million in other liabilities resulting from the timing of payments for administration of the off-balance sheet MBS portfolio.

The rise in liabilities from September 30, 2007 resulted primarily from increased deposits of \$783.5 million. Higher deposit liabilities were the primary funding source for the loans portfolio growth, year-over-year. Other liabilities increased by \$71.4 million, or 38.3% over September 30, 2007 primarily due to increases in accrued interest of \$34.2 million, increases of \$15.2 million in the Company's corporate future tax liabilities, and \$18.7 million in other liabilities resulting from the timing of payments for administration of the MBS portfolio.

## Shareholders' Equity

Total shareholders' equity increased by \$68.3 million, or 19.6% over the \$348.0 million reported at December 31, 2007. The increase since December 2007 was internally generated from net income \$79.6 million over the nine-month period, less \$13.5 million for dividends paid and payable to shareholders. The remaining increase was principally driven from the fair value amortization of employee stock options and movements in accumulated other comprehensive income of \$2.9 million, arising from the Company's available for sale financial assets.

Total shareholders' equity rose by \$93.0 million, or 28.8% over the \$323.3 million reported at September 30, 2007. Most of this growth was internally generated from earnings for the twelve-month period ended September 30, 2008 of \$103.8 million, less \$17.3 million for shareholder dividends. The remaining increase resulted from proceeds received on the exercise of Company stock options, amortization of the fair value of stock options, and movements in the accumulated other comprehensive income (loss), offset by the Company's repurchase of capital stock through the Normal Course Issuer Bid. At September 30, 2008 the book value per common share was \$12.07, compared to \$10.08 at December 31, 2007 and \$9.38 at September 30, 2007.

## Derivatives and Off-Balance Sheet Arrangements

From time to time, the Company may enter into hedging transactions to mitigate the interest exposure on outstanding loan and deposit commitments. For example, the Company can utilize interest rate swaps or short sales of Government of Canada bonds to hedge the economic exposure to movements in interest rates between the time that mortgages are committed to being funded under asset securitization, and the time those mortgages are actually sold. The intent of the swap or short sales of Government of Canada bonds is to have the fair value movements of these instruments be effective in offsetting the fair value movements within a pool of mortgages over the period in which the fixed rate pool may be exposed to movements in the variable interest rate, generally 60 to 150 days. The counterparties with which the Company enters into such arrangements are Canadian chartered banks. During the third quarter of 2008, the Company entered into a \$433.0 million short sale of Government of Canada bonds which was unwound during the quarter, resulting in a loss of \$2.5 million. At September 30, 2008 the Company held notional short sales of Government of Canada bonds of \$40.0 million and were marked-to-market for an unrealized gain of \$0.1 million. No such arrangements were entered into during the comparable prior periods.

The Company participates in the CMB program sponsored by CMHC, and administered by Canada Housing Trust. Through this program, the Company must manage the mismatch and reinvestment risk between the amortizing five-year MBS pool and the five-year CMB. As part of this arrangement, the Company enters into a seller swap which has the effect of paying the fixed interest payments on the CMB and receiving the total return on the MBS pool and the reinvestment assets. As well, the Company entered into a hedge swap to manage the reinvestment risk between the amortizing MBS pool and the five-year CMB. These transactions do not qualify for hedge accounting under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3865, *Hedges* and therefore the Company must mark-to-market the swaps through the consolidated statement of income. The notional values of the seller swaps and hedge swaps at September 30, 2008 were \$760.9 million (\$28.0 million - Q3 2007) and \$24.4 million (\$0.3 million - Q3 2007), respectively. These swaps were marked-to-market at September 30, 2008 for an unrealized gain of \$1.0 million (unrealized gain of \$0.1 million - Q3 2007), recorded in the consolidated statements of income. For additional information refer to Note 12 of these unaudited interim consolidated financial statements.

The Company originates and securitizes insured residential mortgage loans into special purpose entities for liquidity funding, and capital management purposes. When these assets are sold, the Company retains rights to certain excess interest spreads less servicing liabilities, which constitute retained interests. The Company periodically reviews the value of retained interests, and any permanent impairment in value is charged to income. The Company continues to administer all securitized assets after the sale and, upon maturity of the mortgage, will renew or refinance these mortgage loans whenever possible. As at September 30, 2008 outstanding securitized mortgage loans under administration amounted to \$2.12 billion (\$1.46 billion - Q4 2007 and \$1.35 billion - Q3 2007) with retained interest of \$107.0 million (\$65.8 million - Q4 2007 and \$51.8 million - Q3 2007). The off-balance sheet portfolio continues to perform well, with 97.4% of the portfolio current and 1.2% greater than 60 days in arrears. For additional information, refer to Note 6 in the consolidated financial statements of the 2007 Annual Report, and Note 5 of these 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 \$424.9 million at September 30, 2008 compared to \$447.3 million at December 31, 2007 and \$288.0 million at September 30, 2007. Included within the outstanding commitments are unutilized commercial and residential mortgage advances of \$151.3 million at September 30, 2008 compared to \$238.0 million at December 31, 2007 and \$149.9 million at September 30, 2007. Commitments for the loans remain open for various dates through October 2009. As at September 30, 2008 unutilized credit card balances amounted to \$69.0 million, compared to \$77.9 million at December 31, 2007 and \$69.2 million at September 30, 2007. Outstanding commitments for the Equityline *Visa* portfolio were \$3.0 million at September 30, 2008 compared to \$5.9 million at December 31, 2007 and \$4.3 million at September 30, 2007.

## Contractual Arrangements

On March 25, 2008 Home Trust announced that it had entered into an agreement with Fidelity National Information Services, Inc. (FIS) relating to its merchant credit card services activities. FIS, a global leader in the payment processing industry, provides Home Trust with comprehensive back-office merchant processing services, including settlement, charge-back processing, retrieval services and customer support.

## CAPITAL MANAGEMENT

Effective January 1, 2008 a new regulatory capital management framework was implemented in Canada. The International Convergence of Capital Measurement and Capital Standards: a Revised Framework, commonly known as Basel II, replaced Basel I, the framework utilized in the past. Basel II introduced several significant changes to the risk-weighting of assets and the calculation of regulatory capital. Home Trust subsequently implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for operational risk. Changes for Home Trust under Basel II include a shift into lower risk-weighted categories for residential mortgages, and a new capital requirement related to operational risk.

Basel II had a modest, positive impact on the overall level of regulatory capital for Home Trust. New procedures and system enhancements were developed to conform to the new framework, including formalization of Home Trust's internal capital adequacy assessment process. The Risk and Capital Committee and the Board of Directors annually review the capital management policy, and monitor compliance with the policy on a quarterly basis.

The capital base of Home Trust continues to be strongly positioned. The Tier 1 capital ratio ended the quarter at 12.7%, up from the first and second quarters of 2008 of 12.0% and 12.5%, respectively, and up from 11.7% recorded at September 30, 2007. The total capital ratio was 14.0% at September 30, 2008, up from the first and second quarters of 2008 of 13.4% and 13.8%, respectively, and up from 13.1% achieved at September 30, 2007. The Company continues to build its capital base during a period of uncertainty in global capital markets. These ratios both continue to exceed Home Trust's minimum regulatory requirements of 7.0% for Tier 1 and 10.0% for total capital as well as Home Trust's internal capital targets.

Further information on Basel II can be found in the Company's 2007 Annual Report on page 22, and in Note 8 to these unaudited interim consolidated financial statements.

## RISK MANAGEMENT

The Company is exposed to various types of risks owing to the nature of the business activities it conducts. The types of risk to which the Company is subject include credit, liquidity and interest rate risks. The Company has adopted enterprise risk management (ERM) as a discipline for managing risks. The Company's ERM structure is supported by a governance framework which includes policies, management standards, guidelines and procedures appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors. The Company's key risk management practices remain in place and unchanged from those outlined on pages 24 through 30 in the MD & A section of the Company's 2007 Annual Report.

### Credit Risk

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

As at September 30, 2008 the composition of the total mortgage portfolio was 82.4% residential and 17.6% non-residential, compared to a composition of 88.5% residential and 11.5% non-residential at December 31, 2007 and a

composition of 90.1% residential and 9.9% non-residential one year ago. Within the Company's residential mortgage portfolio, 9.0% of the loans were insured by CMHC at the end of the quarter, compared to 5.4% at December 31, 2007 and 5.9% one year ago. First mortgages represented 99.7% of the total mortgage portfolio at September 30, 2008, consistent with the comparable periods. Further, with the launch of the Accelerator Program in June 2008, the Company continues a trend of originating higher volumes of government-insured mortgages. Of all residential mortgage originations over the nine months of 2008, 43.6% were insured. At September 30, 2008 the average loan to value of the Company's mortgage loans portfolio was 66.4%, compared to 65.7% at December 31, 2007 and 65.8% one year ago. Refer to Note 4 of these unaudited interim consolidated financial statements for a further breakdown by geographic region. The mortgage loans portfolio continues to perform well despite uncertain economic conditions with 95.3% of the portfolio current and only 1.5% of the portfolio over 60 days in arrears at the end of September 2008. This is consistent with both December 31, 2007 and September 30, 2007 at which point 1.6% and 1.5% of loans were over 60 days in arrears, respectively. When the off-balance sheet mortgage portfolio of \$2.12 billion is also factored in, the combined mortgage loans portfolio has shown no signs of performance deterioration with 95.4% of the combined portfolio current, and only 1.7% over 60 days in arrears.

As at September 30, 2008 the gross credit card receivable balance totaled \$348.8 million, of which \$348.2 million, or 99.8% of the portfolio was secured either by cash deposits or residential mortgage collateral, and \$0.6 million, or 0.2% was unsecured. The total credit approved included \$417.0 million in secured and \$0.8 million in unsecured credit, compared to \$391.0 million in secured, and \$1.2 million of unsecured credit at December 31, 2007 and \$371.3 million in secured, and \$1.4 million of unsecured credit at September 30, 2007. Within the secured credit card portfolio Equityline *Visa* credit cards represent the principal driver of receivable balance growth. Equityline *Visa* credit cards are secured by collateral residential mortgages, and this portfolio segment amounted to \$339.3 million of the total credit card receivable balance as at September 30, 2008 compared to \$302.7 million at December 31, 2007 and \$291.8 million at September 30, 2007. Cash deposits securing credit card accounts amounted to \$15.3 million, and are included in the Company's deposits. Further, the Equityline *Visa* portfolio has a loan to value of 69.8% at September 30, 2008 compared to a loan to value of 69.7% at December 31, 2007 and 70.0% at September 30, 2007. At September 30, 2008 \$6.8 million, or 1.9% of the credit card portfolio was over 60 days in arrears compared to \$3.8 million, or 1.2% at December 31, 2007 and \$4.1 million, or 1.4% at September 30, 2007. The Company continues to experience minimal losses on the credit card portfolio.

The secured loan portfolio of \$79.0 million decreased by \$3.3 million from the December 31, 2007 balance of \$82.3 million, and decreased \$2.8 million from the September 30, 2007 balance of \$81.8 million. These loans are secured by second mortgages on residential property. Since commencing this program, the Company has experienced minimal losses on these loans. At September 30, 2008, 97.6% of the secured loan portfolio was current while \$0.8 million, or 1.0% was over 60 days in arrears. This compares to 97.7% of the secured loan portfolio being current while \$0.6 million, or 0.8% was over 60 days in arrears at December 31, 2007. As at September 30, 2007, 97.1% of the secured loan portfolio was current while \$0.7 million, or 0.8% was over 60 days in arrears.

The Company experienced a small rise in net impaired loans, to \$32.8 million at September 30, 2008 compared to \$29.0 million at December 31, 2007 and \$23.6 million at September 30, 2007. The loans portfolio continues to perform well, as net impaired loans at September 30, 2008 represented less than 1% of the gross loans portfolio. The Company tightened its underwriting criteria, taking into account local market conditions in order to minimize potential loss exposure. Experienced employees of the Company undertake reviews of all non-performing loans greater than 60 days to analyze patterns and drivers, and then reflect emerging drivers in the Company's lending criteria going forward. This analytical approach and attention to emerging trends has resulted in continued low write-offs relative to the gross loans portfolio. Write-offs net of recoveries applied against the accumulated allowance for credit losses realized on loans during the nine-month period ended September 30, 2008 totaled \$1.6 million, up from both the comparable periods of December 2007 and September 2007. The Company continues to monitor this area, and is dealing prudently and effectively with impaired loans.

The Company continues to be well positioned to absorb all probable losses in its loans portfolio by increasing general allowances to \$25.1 million at September 30, 2008 as compared to general allowances of \$23.4 million at December 31, 2007 and \$22.1 million at September 30, 2007. The Company routinely monitors the adequacy of the general allowance. The Company's actual loss experience on mortgages has amounted to 0.03% per annum over the past 15 years, 0.01% for the past 10 years, and 0.001% for the past 5 years. The Company has security in the form of real property or cash deposits against loans totaling 99.8% of the total loans portfolio. A methodology has been implemented by the Company to test the adequacy of the general allowance that takes into account asset quality, borrowers' creditworthiness, property location and past loss experience. The Company periodically reviews this general allowance methodology giving due consideration to changes in economic conditions, interest rates and local housing market conditions.

The total general allowance was 84.4 basis points of the Company's risk-weighted assets as at September 30, 2008 compared to 83.5 basis points at December 31, 2007 and 87.5 basis points at September 30, 2007. It should be noted that the measurement of risk-weighted assets for September 30, 2008 was based on the new Basel II computations. Refer to the Capital Management section and Note 8 for further details.

## Liquidity Risk

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

The Company's liquidity management framework includes a policy relating to several key elements, such as the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by senior management, and quarterly reporting to the Risk and Capital Committee of the Board of Directors. The Company manages liquidity using a model which considers two stress scenarios. In the "immediate" scenario, the Company experiences a decline in new deposits over a one month-period. In the "ongoing" scenario, the situation is similarly stressed but is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet the potential and certain obligations for a period of one year beyond the time frame of the scenario. These scenarios require the Company to make assumptions regarding the probable behaviour and timing of cash flows for each type of asset and liability. The Company's liquidity ratio is the total of liquid assets, adjusted by the estimates in each scenario, divided by the adjusted liabilities. At September 30, 2008 liquid assets amounted to 150% (165% as at December 31, 2007 and 175% as at September 30, 2007) under the immediate scenario, and 136% (146% at December 31, 2007 and 148% as at September 30, 2007) under the ongoing scenario. The Company continues to monitor these scenarios and will take appropriate actions should the need arise.

The Company holds liquid assets in the form of cash and bank deposits, treasury bills, banker's acceptances, government bonds and debentures to comply with its liquidity policy. Due to the continuing liquidity crisis in Canadian and global credit markets, the Company has maintained more than sufficient liquidity to meet its obligations. At September 30, 2008 liquid assets amounted to \$716.9 million, compared to \$627.1 million recorded at December 31, 2007 and \$626.8 million at September 30, 2007. The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets. For the twelve months ended September 30, 2008 the Company maintained a monthly average of \$571.3 million, or 46.9% of 100-day obligations in liquid assets compared to \$463.7 million, or 48.9% for the twelve months ended December 31, 2007 and \$401.9 million, or 45.7% for the twelve months ended September 30, 2007.

## Structural Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings, and will attempt to match liabilities to assets through its actions in the deposit market in priority to accessing off-balance sheet solutions. The Company's Asset Liability Management Committee manages exposure arising from interest rate and liquidity risk, and reports quarterly to the Board of Directors.

The interest rate sensitivity position as at September 30, 2008 is presented under Note 13 in these unaudited interim consolidated financial statements. The table provided there represents these positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. Note 13 summarizes both on- and off-balance sheet assets and liabilities, in terms of their contractual amounts. Over the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be extended but not materialize. In measuring its interest rate risk exposure, the Company will make assumptions about these factors, taking into account aspects such as past borrower history.

To assist in matching assets and liabilities, the Company utilizes two interest rate risk sensitivity models which measure the relationship between changes in interest rates and the resulting impact on both future net interest income and the economic value of shareholders' equity. The following table provides the potential after tax impact of an immediate and sustained 100 basis point, and 200 basis point increases and decreases in interest rates on net interest income and on the economic value of shareholders' equity.

<i>In thousands of dollars</i>	<b>September 30</b> <b>2008</b>	September 30 2007	<b>September 30</b> <b>2008</b>	September 30 2007
	Increase in interest rates		Decrease in interest rates	
<b>100 basis point shift</b>				
Impact on net interest income, after tax (for the next 12 months)	\$ 3,096	\$ (5,717)	\$ (3,096)	\$ 5,717
Impact on net present value of shareholders' equity	(6,591)	6,514	6,910	(6,830)
<b>200 basis point shift</b>				
Impact on net interest income, after tax (for the next 12 months)	\$ 6,191	\$ (11,434)	\$ (6,191)	\$ 11,434
Impact on net present value of shareholders' equity	(12,879)	12,726	14,158	(13,990)

The Company may enter into derivative transactions for the purpose of hedging commitment risk. The purpose is to manage interest rate exposures during the period between when a mortgage commitment is made and when this mortgage loan is securitized into an MBS pool. The Company had no open interest rate swap arrangements at September 30, 2008 or the comparative period. The Company held notional \$40.0 million in short sale Government of Canada bond positions specific to hedging commitment risk at September 30, 2008 with no such positions in the comparative period. Through the Company's participation in CMHC's CMB program, the Company was required to enter into specific swap agreements to hedge interest rate risk and the reinvestment risk between the amortizing MBS pool and the CMB. Refer to Note 12 of these unaudited interim consolidated financial statements for additional information.

## RESULTS BY BUSINESS SEGMENT

The following section discusses the mortgage lending, consumer lending and other lines of business for the third quarter and the nine-month period ended September 30, 2008 (refer to Note 14 of these unaudited interim consolidated financial statements). The mortgage lending line of business continues to be the primary driver of the Company's overall growth while the consumer lending segment continues to provide a diversified income source, with net income up 29.6% for the nine months of 2008.

### Mortgage Lending

The Company's principal line of business contributed \$22.0 million to net income during the third quarter and \$58.1 million year-to-date, compared to \$15.1 million and \$45.3 million for the comparable periods in 2007. The increase over the prior periods was primarily driven through loan originations which increased fee income and increases in gains realized on securitization activities. These increases were offset by a slight decline in net interest income as the market uncertainty over the past several quarters has tightened spreads across core residential lending, combined with growth in both the Accelerator Program and commercial mortgage lending which attracts lower spreads. Net interest income ended the quarter at \$24.0 million and \$70.6 million for the nine-month period ended September 30, 2008, down from \$24.5 million and \$72.4 million for the comparable periods in 2007. The total value of new mortgages advanced in the quarter and year-to-date was \$1.11 billion and \$2.86 billion, respectively, increases of 39.8% and 45.9% over the \$791.0 million and \$1.96 billion advanced for the comparative periods in 2007.

The Company securitized \$544.7 million of government-guaranteed CMHC residential mortgage loans through the creation of MBS securities during the quarter and \$941.1 million for the nine-month period of 2008, realizing total gains from securitization of \$18.2 million for the quarter and \$35.6 million year-to-date. This compares to \$208.4 million securitized for the third quarter of 2007 and \$493.4 million for the nine months of 2007, resulting in gains of \$6.0 million and \$14.7 million, respectively. During the quarter, the Company participated in CMHC's CMB program. Of the \$544.7 million securitized during the quarter and \$941.1 million securitized year-to-date, \$433.0 million and \$639.9 million, respectively, relates to the securitization of government-guaranteed residential mortgage loans through the creation of MBS securities sold through Canada Housing Trust. The sale of these residential mortgages realized \$16.0 million in gains during the quarter and \$26.1 million year-to-date. Securitization will continue to contribute to the Company's income; however, core mortgage lending utilizing funding from deposits is expected to remain the main driver of the Company's financial results going forward. For additional information refer to Note 5 of these unaudited interim consolidated financial statements.

The Company's second mortgage program (recorded as Secured Loans) is conducted by way of an agreement with QSPE-HCC Trust operating as Regency Finance Corp. (Regency), whereby the Company acts as Regency's agent in

offering residential second mortgage loans. These mortgage loans are securitized and the investments are purchased by the Company. At the end of the quarter the Company held \$79.0 million in Secured Loans as Notes Receivable issued by Regency, compared to \$82.3 million at December 31, 2007 and \$81.8 million at September 30, 2007. These Notes yield 6.3% with an average duration of 2.2 years. The Company also receives fee income for servicing and administering these mortgages for Regency. This income amounted to 0.3% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgage loans securing the Notes Receivable remains high, with 1.0% of the portfolio in arrears over 60 days. This program has experienced minimal losses since inception and continues to provide the Company with ancillary marketing opportunities in the residential mortgage marketplace.

### Consumer Lending – Credit Cards and Retail Services

Consumer lending continued to generate positive results in the third quarter and year-to-date. Net income for the quarter and nine-month period of 2008 was \$5.1 million and \$14.3 million, up 37.8% over the third quarter of 2007 and up 29.6% over the comparable nine-month period in 2007. The increases over the prior periods were driven by increases in net interest income from continued growth in Equityline *Visa* receivable balances, and fees from the administration and servicing of the *Visa* portfolio. Included in the operating results of the consumer lending segment are the operations of PSiGate. PSiGate contributed \$0.3 million in net income during the quarter and \$0.9 million year-to-date.

The Equityline *Visa* loans portfolio amounted to \$339.3 million at September 30, 2008 (\$302.7 million – Q4 2007, and \$291.8 million – Q3 2007) comprising 97.3% (96.3% – Q4 2007, and 96.1% – Q3 2007) of the total gross credit card receivable balance of \$348.8 million, and bearing an average interest rate of 10.5% (10.9% – Q4 2007, and 10.4% – Q3 2007) on outstanding balances. During the third quarter of 2008, 868 Equityline *Visa* accounts with \$37.7 million in authorized credit limits were issued, compared to 1,079 Equityline *Visa* accounts with \$54.1 million in authorized credit limits issued for the three months ended December 31, 2007 and 973 *Visa* accounts with \$50.3 million in authorized credit limits issued for the three-month period ended September 30, 2007. The decrease in new accounts from the comparable periods is due to ongoing efforts by the Company to tighten credit in certain geographical locations as the Canadian economy softens.

### Other

The Other segment is comprised of the operating results from the Company's securities portfolio and corporate activities. Net income for the quarter and year-to-date were \$0.8 million and \$7.3 million, down from \$4.0 million and \$9.8 million for the comparative periods in 2007. The decrease from the prior periods were driven by growth in net interest income derived from the Company's cash resources and securities portfolio, offset by losses incurred on the sale of securities and writedowns on securities that management determined were permanently impaired.

## ACCOUNTING STANDARDS AND POLICIES

### Critical Accounting Estimates

Critical accounting estimates which require management to make significant judgements, some of which are inherently uncertain, are outlined on pages 32 and 33 of the 2007 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 unaudited interim consolidated financial statements in accordance with GAAP 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 MBS, financial instruments measured at fair value, other than temporary impairment of available for sale securities, future income tax liabilities and contingencies for litigation. Further information can be found under Notes 3, 4, 5, and 12 of these unaudited interim consolidated financial statements. There have been no subsequent changes to the critical accounting estimates disclosed on pages 32 and 33 of the 2007 Annual Report.

## Change in Accounting Policy

The significant accounting policies the Company follows are detailed in Note 1 to the Company's December 31, 2007 consolidated financial statements. Effective January 1, 2008 the Company adopted new accounting standards issued by the CICA, *Financial Instruments – Disclosure and Presentation* and *Capital Disclosures*. As a result of adopting these standards, new or enhanced disclosure has been provided. For further details, see Note 2 to these unaudited interim consolidated financial statements.

## International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected five-year transition period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that converge with IFRS, thus mitigating the impact of adopting IFRS on the changeover date.

The Company will change over to IFRS starting with interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year-ended December 31, 2010. The Company is in the process of finalizing a changeover plan which will include key elements around accounting policy changes, information and data systems, education and training, internal controls over financial reporting, financial reporting implication and other operational business activities.

## Controls over Financial Reporting

No changes were made in the Company's internal controls over financial reporting during the interim period ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## UPDATED SHARE INFORMATION

As at October 31, 2008 the Company had issued 34,475,690 Common Shares. In addition, outstanding director and employee stock options amounted to 1,226,750 (1,293,750 – Q4 2007, and 1,170,000 – Q3 2007) of which 540,500 are exercisable as of the quarter-end (526,250 – Q4 2007, and 596,250 – Q3 2007) for proceeds to the Company upon exercise of \$8.4 million (\$7.9 million – Q4 2007, and \$7.3 million – Q3 2007).

Subsequent to the end of the third quarter, the Board of Directors declared a quarterly cash dividend of \$0.13 per common share payable on December 1, 2008 to shareholders of record at the close of business on November 14, 2008.

## QUARTERLY FINANCIAL HIGHLIGHTS

The Company's key financial measures for each of the last eight quarters are summarized in the following table. These highlights illustrate the Company's profitability, return on equity, as well as efficiency measures and capital ratios, quarter-over-quarter. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions, and the fourth quarter normally experiencing increased credit card activity over the holiday period. The Company continues to achieve positive financial results driven by revenue growth in all business segments, and continued low efficiency ratios (where the lower the ratio the better). The increase in Tier 1 and total capital ratios throughout 2008 reflect the Company's continuing efforts to preserve its capital base during uncertain capital markets as well as changes required to calculate capital requirements under Basel II which came into effect January 1, 2008, resulting in modest positive results due to a shift into lower risk-weighted categories for residential mortgages offset by new capital requirements related to operational risk. The increase in annualized provisions as a percentage of gross loans during the third quarter of 2008 relate to increases in specific provisions in both the residential mortgage portfolio and the Equityline *Visa* portfolio.

<i>In Thousands of Dollars</i>	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(Except Per Share and Percentage Amounts)</i>								
Net interest income (TEB) <sup>1</sup>	\$39,478	\$40,418	\$38,590	\$40,394	\$39,396	\$37,647	\$34,276	\$33,040
Less TEB adjustment	1,130	1,056	962	2,311	1,084	1,118	942	841
Net interest income per financial statements	38,348	39,362	37,628	38,083	38,312	36,529	33,334	32,199
Non-interest income	23,013	17,318	14,338	14,561	11,964	11,467	10,075	12,744
Non-interest expense	16,953	17,443	14,763	15,687	13,289	13,382	11,840	12,276
Total revenues	116,950	112,953	106,796	105,081	94,346	87,708	81,745	81,053
Net income	27,939	26,550	25,159	24,228	22,837	22,018	21,158	20,518
Return on common shareholders' equity	27.6%	27.7%	27.9%	28.9%	28.9%	28.9%	29.3%	30.5%
Return on average total assets	2.0%	2.0%	1.9%	2.0%	2.0%	2.1%	2.1%	2.2%
Earnings per common share								
Basic	\$ 0.81	\$ 0.77	\$ 0.73	\$ 0.70	\$ 0.66	\$ 0.64	\$ 0.62	\$ 0.60
Diluted	\$ 0.81	\$ 0.76	\$ 0.72	\$ 0.70	\$ 0.65	\$ 0.63	\$ 0.61	\$ 0.59
Book value per common share	\$ 12.08	\$ 11.44	\$ 10.79	\$ 10.08	\$ 9.38	\$ 8.98	\$ 8.70	\$ 8.10
Efficiency ratio (TEB) <sup>1</sup>	27.1%	30.2%	27.9%	28.5%	25.9%	27.3%	26.7%	26.8%
Efficiency ratio	27.6%	30.8%	28.4%	29.8%	26.4%	27.9%	27.3%	27.3%
Tier 1 capital ratio <sup>2,3</sup>	12.7%	12.5%	12.0%	11.1%	11.7%	12.9%	12.7%	12.7%
Total capital ratio <sup>2,3</sup>	14.0%	13.8%	13.4%	12.5%	13.1%	14.4%	14.3%	14.2%
Net impaired loans as a % of gross loans	0.72%	0.71%	0.71%	0.72%	0.63%	0.68%	0.74%	0.68%
Annualized provision as a % of gross loans	0.3%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%

<sup>1</sup>TEB - Taxable Equivalent Basis, see definition on page 5

<sup>2</sup>These figures relate to the Company's operating subsidiary, Home Trust Company

<sup>3</sup>The Tier 1 and Total capital ratios for 2008 are calculated under Basel II requirements. See Capital Management section for details.

## Outlook

This Outlook section contains forward-looking statements. (Please see the Caution Regarding Forward-Looking Statements on page 5 of these unaudited interim consolidated financial statements).

Home Capital remains committed to serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. The Company continues to manage from a strong capital and liquidity position with no debt, and is well positioned to capitalize on market opportunities in the current economic environment.

The Canadian and global markets have experienced unprecedented volatility, and declines over the past several months stemming from the liquidity and credit crisis starting in 2007. The economic challenges first seen in the United States have in recent months spread globally culminating in a coordinated effort by several countries to stabilize the global financial systems. The Canadian economy has not been immune to these economic challenges. The Company expects these challenging market conditions to persist into 2009 with the Canadian economy experiencing slower growth as housing markets demonstrate modest price declines and higher inventories. Despite these challenges, the Company continues to manage its business with prudence and a strong commitment to measured growth, continued profitability and creating long-term shareholder value. The Company has a proven corporate strategy and proprietary risk management framework to manage through uncertain economic conditions while positioning the Company for future opportunities.

## Consolidated Statements of Income

<i>In Thousands of Dollars (Unaudited)</i>	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<b>Income</b>				
Interest from loans	\$ 86,524	\$ 73,372	\$ 256,570	\$ 209,823
Dividends from equity securities	2,331	2,162	6,746	6,269
Other interest	5,082	6,848	18,714	14,201
	<b>93,937</b>	<b>82,382</b>	<b>282,030</b>	<b>230,293</b>
<b>Interest Expense</b>				
Interest on deposits	55,589	44,070	166,692	122,118
Net interest income	<b>38,348</b>	<b>38,312</b>	<b>115,338</b>	<b>108,175</b>
Provision for credit losses (note 4(d))	3,420	2,103	4,650	3,593
	<b>34,928</b>	<b>36,209</b>	<b>110,688</b>	<b>104,582</b>
<b>Non-interest Income</b>				
Fees and other income	7,033	5,415	21,348	15,089
Securitization income on mortgage-backed securities	19,717	6,572	40,852	17,363
Net gain (loss) realized and unrealized on securities	(2,524)	(159)	(4,570)	945
Net gain on disposition of subsidiary (note 16)	-	-	69	-
Gain (loss) on derivatives	(1,213)	136	(3,030)	109
	<b>23,013</b>	<b>11,964</b>	<b>54,669</b>	<b>33,506</b>
	<b>57,941</b>	<b>48,173</b>	<b>165,357</b>	<b>138,088</b>
<b>Non-interest Expenses</b>				
Salaries and staff benefits	9,426	7,813	27,618	22,032
Premises	1,184	968	3,247	2,841
General and administration	6,343	4,508	18,294	13,638
	<b>16,953</b>	<b>13,289</b>	<b>49,159</b>	<b>38,511</b>
<b>Income Before Income Taxes</b>				
	<b>40,988</b>	<b>34,884</b>	<b>116,198</b>	<b>99,577</b>
Provision for income taxes (note 11(a))	13,049	12,047	36,550	33,564
<b>NET INCOME</b>	<b>\$ 27,939</b>	<b>\$ 22,837</b>	<b>\$ 79,648</b>	<b>\$ 66,013</b>
<b>NET INCOME PER COMMON SHARE</b>				
Basic	\$ 0.81	\$ 0.66	\$ 2.31	\$ 1.92
Diluted	\$ 0.81	\$ 0.65	\$ 2.29	\$ 1.89
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (thousands)</b>				
Basic	34,522	34,413	34,530	34,429
Diluted	34,822	34,873	34,784	34,845
Total number of outstanding common shares (thousands)	<b>34,476</b>	<b>34,455</b>	<b>34,476</b>	<b>34,455</b>
Book value per common share	\$ 12.07	\$ 9.38	\$ 12.07	\$ 9.38

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## Consolidated Statements of Comprehensive Income

	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<i>In Thousands of Dollars (Unaudited)</i>				
<b>NET INCOME</b>	<b>\$ 27,939</b>	<b>\$ 22,837</b>	<b>\$ 79,648</b>	<b>\$ 66,013</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>				
<b>Unrealized income on available for sale securities</b>				
Net unrealized income on securities available for sale,				
net of (\$884) tax ((\$1,387) - three months ended September 30, 2007;				
\$346 - nine months ended September 30, 2008;				
(\$5,762) - nine months ended September 30, 2007)	<b>(1,232)</b>	<b>(3,957)</b>	<b>(192)</b>	<b>(8,982)</b>
Reclassification of earnings (losses) in respect of available for sale securities,				
net of \$635 tax (\$163 - three months ended September 30, 2007;				
\$1,484 - nine months ended September 30, 2008;				
(\$608) - nine months ended September 30, 2007)	<b>1,279</b>	<b>288</b>	<b>3,094</b>	<b>(1,076)</b>
Total other comprehensive income (loss)	<b>47</b>	<b>(3,669)</b>	<b>2,902</b>	<b>(10,058)</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 27,986</b>	<b>\$ 19,168</b>	<b>\$ 82,550</b>	<b>\$ 55,955</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## Consolidated Balance Sheets

<i>In Thousands of Dollars (Unaudited)</i>	<b>September 30 2008</b>	December 31 2007	September 30 2007
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with regulated financial institutions	\$ 431,288	\$ 344,464	\$ 449,396
Treasury bills guaranteed by Canada	-	9,872	-
	<b>431,288</b>	<b>354,336</b>	<b>449,396</b>
<b>Securities (note 3)</b>			
Held for trading	301	114,423	19,965
Available for sale	487,654	356,458	367,411
	<b>487,955</b>	<b>470,881</b>	<b>387,376</b>
<b>Loans (note 4)</b>			
Residential mortgages	3,375,767	3,218,474	3,039,459
Personal and credit card loans	364,261	325,393	312,261
Other mortgages	721,041	419,400	328,838
Secured loans	79,025	82,304	81,797
General allowance for credit losses	(25,077)	(23,400)	(22,087)
	<b>4,515,017</b>	<b>4,022,171</b>	<b>3,740,268</b>
<b>Other</b>			
Securitization receivable (note 5)	106,969	65,768	51,772
Capital assets	5,725	4,837	4,664
Other assets (note 6)	74,855	57,100	40,992
	<b>187,549</b>	<b>127,705</b>	<b>97,428</b>
	<b>\$ 5,621,809</b>	<b>\$ 4,975,093</b>	<b>\$ 4,674,468</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits			
Payable on demand	\$ 16,457	\$ 30,793	\$ 13,608
Payable on a fixed date	4,927,582	4,383,191	4,146,888
	<b>4,944,039</b>	<b>4,413,984</b>	<b>4,160,496</b>
<b>Other</b>			
Cheques and other items in transit	3,396	4,393	3,989
Other liabilities (note 7)	258,079	208,676	186,678
	<b>261,475</b>	<b>213,069</b>	<b>190,667</b>
	<b>5,205,514</b>	<b>4,627,053</b>	<b>4,351,163</b>
<b>Shareholders' Equity</b>			
Capital stock (note 8)	39,142	38,899	38,047
Contributed surplus	2,910	1,818	1,523
Retained earnings	377,638	313,620	294,423
Accumulated other comprehensive loss (note 10)	(3,395)	(6,297)	(10,688)
	<b>416,295</b>	<b>348,040</b>	<b>323,305</b>
	<b>\$ 5,621,809</b>	<b>\$ 4,975,093</b>	<b>\$ 4,674,468</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## Consolidated Statements of Changes in Shareholders' Equity

	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<i>In Thousands of Dollars (Unaudited)</i>				
<b>CAPITAL STOCK</b> (note 8)				
Balance at beginning of the period	\$ 39,217	\$ 37,985	\$ 38,899	\$ 35,436
Proceeds of options exercised	-	124	318	2,695
Normal course issuer bid	(75)	(62)	(75)	(84)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 39,142</b>	<b>\$38,047</b>	<b>\$ 39,142</b>	<b>\$ 38,047</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance at beginning of the period	\$ 2,531	\$ 1,256	\$ 1,818	\$ 783
Amortization of fair value of employee stock options (note 9)	379	285	1,143	808
Employee stock options exercised	-	(18)	(51)	(68)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 2,910</b>	<b>\$ 1,523</b>	<b>\$ 2,910</b>	<b>\$ 1,523</b>
<b>RETAINED EARNINGS</b>				
Balance at beginning of the period (note 8)	\$ 356,693	\$ 277,619	\$ 313,620	\$ 240,647
Transitional adjustment on adoption of new accounting policies	-	-	-	1,391
Normal course issuer bid	(2,167)	(1,898)	(2,167)	(2,595)
Net income for the period	27,939	22,837	79,648	66,013
Dividends paid during the period	(345)	(345)	(8,981)	(7,243)
Dividends declared, unpaid during the period	(4,482)	(3,790)	(4,482)	(3,790)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 377,638</b>	<b>\$ 294,423</b>	<b>\$ 377,638</b>	<b>\$ 294,423</b>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>				
Balance at beginning of the period	\$ (3,442)	\$ (7,019)	\$ (6,297)	\$ -
Transitional adjustment on adoption of new accounting policies	-	-	-	(630)
Other comprehensive income, net of (\$249) tax				
((\$1,224) - three months ended September 30, 2007;				
\$1,830 - nine months ended September 30, 2008;				
(\$6,370) - nine months ended September 30, 2007)	47	(3,669)	2,902	(10,058)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ (3,395)</b>	<b>\$ (10,688)</b>	<b>\$ (3,395)</b>	<b>\$ (10,688)</b>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## Consolidated Statements of Cash Flows

	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<i>In Thousands of Dollars (Unaudited)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period				
Adjustments to determine cash flows relating to operating activities:	\$ 27,939	\$ 22,837	\$ 79,648	\$ 66,013
Future income taxes	5,013	2,091	9,227	4,308
Amortization	4,578	2,089	10,350	8,293
Provision for credit losses (note 4(d))	3,420	2,103	4,650	3,593
Change in accrued interest payable	(3,035)	6,069	23,534	13,059
Change in accrued interest receivable	404	(1,975)	(1,595)	(4,076)
Net loss (gain) realized and unrealized on investment securities	2,524	159	4,570	(945)
Loss (gain) on derivatives	1,213	(136)	3,030	(109)
Securitization income on mortgage-backed securities	(19,717)	(6,572)	(40,852)	(17,363)
Amortization of fair value of employee stock options (note 9)	379	285	1,143	808
Other	604	1,636	(4,817)	654
Cash flows from operating activities	23,322	28,586	88,888	74,235
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase in deposits	227,468	352,337	530,055	718,704
Issuance of capital stock	-	124	318	2,695
Normal course issuer bid	(2,242)	(1,960)	(2,242)	(2,679)
Exercise of stock options	-	(18)	(51)	(68)
Dividends paid	(4,491)	(3,795)	(12,779)	(10,319)
Cash flows from financing activities	220,735	346,688	515,301	708,333
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Activity in available for sale and held for trading securities				
Purchases	(64,711)	(27,883)	(328,266)	(143,954)
Proceeds from sales	30,635	4,176	234,222	28,716
Proceeds from maturities	26,215	23,127	59,167	63,247
Activity in mortgages				
Net increase	(541,831)	(355,703)	(1,402,219)	(840,579)
Proceeds from securitization of mortgage-backed securities	540,347	202,536	929,331	480,041
Change in mortgage-backed securities receivable	7,331	9,733	19,649	24,497
Net increase in personal and credit card loans	(1,706)	(20,875)	(39,367)	(75,741)
Net increase (decrease) in secured loans	7,116	(3,748)	2,944	(11,667)
Purchases of capital assets	(853)	(286)	(2,698)	(1,263)
Cash flows from (used in) investing activities	2,543	(168,923)	(527,237)	(476,703)
Net increase in cash and cash equivalents during the period	246,600	206,351	76,952	305,865
Cash and cash equivalents at beginning of the period	184,688	243,045	354,336	143,531
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 431,288</b>	<b>\$ 449,396</b>	<b>\$ 431,288</b>	<b>\$ 449,396</b>
<b>Supplementary Disclosure of Cash Flow Information</b>				
Interest paid	\$ 58,624	\$ 42,234	\$ 143,159	\$ 109,059
Income taxes paid	11,293	10,774	38,710	35,461

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

## 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, 2007 as set out in the 2007 Annual Report, on pages 36 through 58. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Except as disclosed in Note 2, the accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in Home Capital Group Inc.'s (the "Company") most recent annual audited financial statements. These unaudited interim consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

### 2. CHANGES IN ACCOUNTING POLICIES

#### Capital Disclosures

Effective January 1, 2008 the Company adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The new standard requires disclosure of information about; (i) the Company's objectives, policies and processes for managing capital (ii) quantitative data about what the Company regards as capital; and (iii) whether the Company has complied with any capital requirements and consequences of non-compliance. Note 8 includes information related to this new standard.

#### Financial Instruments

Effective January 1, 2008 the Company adopted the new accounting standards issued by the CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments - Presentation*. These new standards place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the Company manages those risks. As a result of adopting these new standards, enhanced disclosure is provided in Notes 3, 4, 10 and 15. The new standards did not affect the financial position of the Company.

### 3. SECURITIES

#### Available for Sale Securities - Net Unrealized Gains and Losses

Net unrealized gains and losses are included in accumulated other comprehensive income except unrealized losses which are other than temporary in nature which are transferred to net income. Accumulated other comprehensive income is disclosed in Note 10.

<i>In Thousands of Dollars</i>	September 30 2008	December 31 2007	September 30 2007
Securities issued or guaranteed by:			
Canada	\$ 599	\$ (111)	\$ (1,546)
Corporations	(2,507)	-	-
Equity securities			
Common	(1,584)	(494)	(1,289)
Fixed rate preferred	(9,446)	(4,753)	(1,301)
Floating rate preferred	(301)	(270)	(106)
Income trusts	(2,714)	(2,891)	(1,730)
Mutual funds	80	(5)	38
	\$ (16,033)	\$ (8,524)	\$ (5,934)

The above unrealized losses represent differences between the carrying value of a security and its current fair value. The Company does not consider these losses to be other than temporary based on market conditions at the reporting date, and continues to regularly monitor these investments and market conditions.

As at September 30, 2008, the Company had \$0.2 million of unrealized losses on available for sale securities which are other than temporary in nature and have been transferred into net income. These unrealized losses are not included in the table above.

Effective January 1, 2008, all new bond acquisitions were designated as available for sale securities consistent with the Company's intentions to hold them.

#### 4. LOANS

##### (A) Loans by Geographic Region and Type

As at September 30, 2008

<i>In Thousands of Dollars</i>	Residential	Personal	Other	Secured	Total
	Mortgages	and Credit Card Loans	Mortgages	Loans	
British Columbia	\$ 337,498	\$ 30,909	\$ 9,604	\$ 8	\$ 378,019
Alberta	413,988	80,052	114,952	8,981	617,973
Ontario	2,368,193	244,170	518,904	67,488	3,198,755
Quebec	93,198	1,073	58,313	-	152,584
Maritimes	94,203	6,423	11,974	2,548	155,148
Manitoba and Saskatchewan	68,687	1,634	7,294	-	77,615
	<b>\$ 3,375,767</b>	<b>\$ 364,261</b>	<b>\$ 721,041</b>	<b>\$ 79,025</b>	<b>\$ 4,540,094</b>

As at December 31, 2007

<i>In Thousands of Dollars</i>	Residential	Personal	Other	Secured	Total
	Mortgages	and Credit Card Loans	Mortgages	Loans	
British Columbia	\$ 303,150	\$ 22,828	\$ 6,555	\$ 213	\$ 332,746
Alberta	387,168	70,781	50,210	7,957	516,116
Ontario	2,314,008	222,230	342,140	70,692	2,949,070
Quebec	59,952	24	12,066	-	72,042
Maritimes	118,297	7,661	8,429	3,442	137,829
Manitoba and Saskatchewan	35,899	1,869	-	-	37,768
	<b>\$ 3,218,474</b>	<b>\$ 325,393</b>	<b>\$ 419,400</b>	<b>\$ 82,304</b>	<b>\$ 4,045,571</b>

As at September 30, 2007

<i>In Thousands of Dollars</i>	Residential	Personal	Other	Secured	Total
	Mortgages	and Credit Card Loans	Mortgages	Loans	
British Columbia	\$ 291,654	\$ 22,013	\$ 489	\$ 221	\$ 314,377
Alberta	333,923	63,629	25,026	7,820	430,398
Ontario	2,232,075	216,469	279,728	70,160	2,798,432
Quebec	50,098	30	16,190	-	66,318
Maritimes	124,137	8,048	7,405	3,596	143,186
Manitoba and Saskatchewan	7,572	2,072	-	-	9,644
	<b>\$ 3,039,459</b>	<b>\$ 312,261</b>	<b>\$ 328,838</b>	<b>\$ 81,797</b>	<b>\$ 3,762,355</b>

**(B) Past Due Loans that are not Impaired**

As at September 30, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
1 - 30 days	\$ 119,685	\$ 2,391	\$ 3,185	\$ 989	\$ 126,250
31 - 60 days	8,433	2,015	332	258	11,038
61 - 90 days	28,163	2,038	-	122	30,323
91 - 120 days	-	1,369	-	-	1,369
	\$ 156,281	\$ 7,813	\$ 3,517	\$ 1,369	\$ 168,980

As at December 31, 2007

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
1 - 30 days	\$ 114,316	\$ 3,181	\$ 2,918	\$ 1,314	\$ 121,729
31 - 60 days	7,691	1,497	343	63	9,594
61 - 90 days	28,143	1,508	657	241	30,549
91 - 120 days	-	785	-	-	785
	\$ 150,150	\$ 6,971	\$ 3,918	\$ 1,618	\$ 162,657

As at September 30, 2007

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
1 - 30 days	\$ 116,903	\$ 3,363	\$ 2,087	\$ 1,772	\$ 124,125
31 - 60 days	7,990	1,852	-	33	9,875
61 - 90 days	24,074	1,024	-	183	25,281
91 - 120 days	-	1,217	-	-	1,217
	\$ 148,967	\$ 7,456	\$ 2,087	\$ 1,988	\$ 160,498

**(C) Impaired Loans and Specific Allowances for Credit Losses**

As at September 30, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
Gross amount of impaired loans	\$ 30,887	\$ 3,361	\$ 284	\$ 662	\$ 35,194
Specific allowances	(1,950)	(349)	(5)	(67)	(2,371)
	\$ 28,937	\$ 3,012	\$ 279	\$ 595	\$ 32,823

As at December 31, 2007

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
Gross amount of impaired loans	\$ 27,849	\$ 1,521	\$ 242	\$ 400	\$ 30,012
Specific allowances	(634)	(128)	-	(231)	(993)
	\$ 27,215	\$ 1,393	\$ 242	\$ 242	\$ 29,019

As at September 30, 2007

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
Gross amount of impaired loans	\$ 21,260	\$ 1,886	\$ 610	\$ 492	\$ 24,248
Specific allowances	(229)	(208)	-	(242)	(679)
	\$ 21,031	\$ 1,678	\$ 610	\$ 250	\$ 23,569

**(D) Allowance for Credit Losses**

For the three months ended September 30, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 242	\$ 108	\$ 5	\$ 172	\$ 527
Provisions for credit losses	1,878	306	-	85	2,269
Write-offs	(219)	(106)	-	(196)	(521)
Recoveries	49	41	-	6	96
	<b>1,950</b>	<b>349</b>	<b>5</b>	<b>67</b>	<b>2,371</b>
<b>General allowance</b>					
Balance at the beginning of the period	15,972	3,628	3,433	893	23,926
Provisions for credit losses	722	23	474	(68)	1,151
	<b>16,694</b>	<b>3,651</b>	<b>3,907</b>	<b>825</b>	<b>25,077</b>
<b>Total allowance</b>	<b>\$ 18,644</b>	<b>\$ 4,000</b>	<b>\$ 3,912</b>	<b>\$ 892</b>	<b>\$ 27,448</b>

For the three months ended December 31, 2007

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 230	\$ 208	\$ -	\$ 241	\$ 679
Provisions for credit losses	727	211	-	198	1,136
Write-offs	(327)	(309)	-	(208)	(844)
Recoveries	4	18	-	-	22
	<b>634</b>	<b>128</b>	<b>-</b>	<b>231</b>	<b>993</b>
<b>General allowance</b>					
Balance at the beginning of the period	16,403	3,127	1,718	839	22,087
Provisions for credit losses	724	74	498	17	1,313
	<b>17,127</b>	<b>3,201</b>	<b>2,216</b>	<b>856</b>	<b>23,400</b>
<b>Total allowance</b>	<b>\$ 17,761</b>	<b>\$ 3,329</b>	<b>\$ 2,216</b>	<b>\$ 1,087</b>	<b>\$ 24,393</b>

For the three months ended September 30, 2007

<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 316	\$ 158	\$ -	\$ 39	\$ 513
Provisions for credit losses	290	183	-	233	706
Write-offs	(414)	(185)	-	(40)	(639)
Recoveries	37	52	-	10	99
	<b>229</b>	<b>208</b>	<b>-</b>	<b>242</b>	<b>679</b>
<b>General allowance</b>					
Balance at the beginning of the period	15,958	2,922	1,006	804	20,690
Provisions for credit losses	445	205	712	35	1,397
	<b>16,403</b>	<b>3,127</b>	<b>1,718</b>	<b>839</b>	<b>22,087</b>
<b>Total allowance</b>	<b>\$ 16,633</b>	<b>\$ 3,335</b>	<b>\$ 1,718</b>	<b>\$ 1,080</b>	<b>\$ 22,766</b>

**(D) Allowance for Credit Losses (Continued)**

For the nine months ended September 30, 2008					
<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Secured Loans	Other Mortgages	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 634	\$ 128	\$ -	\$ 231	\$ 993
Provisions for credit losses	2,134	499	5	335	2,973
Write-offs	(1,042)	(367)	-	(537)	(1,946)
Recoveries	224	89	-	38	351
	<b>1,950</b>	<b>349</b>	<b>5</b>	<b>67</b>	<b>2,371</b>
<b>General allowance</b>					
Balance at the beginning of the period	17,127	3,201	2,216	856	23,400
Provisions for credit losses	(433)	450	1,691	(31)	1,677
	<b>16,694</b>	<b>3,651</b>	<b>3,907</b>	<b>825</b>	<b>25,077</b>
<b>Total allowance</b>	<b>\$ 18,644</b>	<b>\$ 4,000</b>	<b>\$ 3,912</b>	<b>\$ 892</b>	<b>\$ 27,448</b>

For the nine months ended September 30, 2007					
<i>In Thousands of Dollars</i>	Residential Mortgages	Personal and Credit Card Loans	Secured Loans	Other Mortgages	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 386	\$ 148	\$ -	\$ 108	\$ 642
Provisions for credit losses	456	517	-	177	1,150
Write-offs	(675)	(609)	-	(53)	(1,337)
Recoveries	62	152	-	10	224
	<b>229</b>	<b>208</b>	<b>-</b>	<b>242</b>	<b>679</b>
<b>General allowance</b>					
Balance at the beginning of the period	15,886	2,378	659	721	19,644
Provisions for credit losses	517	749	1,059	118	2,443
	<b>16,403</b>	<b>3,127</b>	<b>1,718</b>	<b>839</b>	<b>22,087</b>
<b>Total allowance</b>	<b>\$ 16,632</b>	<b>\$ 3,335</b>	<b>\$ 1,718</b>	<b>\$ 1,081</b>	<b>\$ 22,766</b>

**(E) Collateral**

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant it or if a mortgage becomes impaired. At September 30, 2008, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, is \$251.2 million. For impaired mortgages, the total appraised value of collateral at September 30, 2008 is \$41.6 million.

## 5. LOAN SECURITIZATION

The following tables summarize the Company's new securitization activities.

<i>In Thousands of Dollars, Except Percentages and Number of Years</i>	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
Book value of mortgages securitized	\$ 544,745	\$ 208,370	\$ 941,146	\$ 493,413
Securitization receivable	\$ 25,811	\$ 12,593	\$ 52,620	\$ 29,803
Servicing liability	\$ 2,039	\$ 343	\$ 2,681	\$ 794
Net proceeds received on securitized mortgages	\$ 540,347	\$ 202,536	\$ 929,331	\$ 480,041
Gain on sale of mortgages	\$ 18,226	\$ 6,005	\$ 35,615	\$ 14,656
Prepayment rate	7.3%	13.0%	9.2%	13.1%
Excess spread	2.2%	2.6%	2.6%	2.6%
Weighted average life in years	3.6	3.9	3.6	3.9
Discount rate	3.7%	4.5%	3.7%	4.3%

During the third quarter of 2008, the Company securitized insured residential mortgages through CMHC's Canada Mortgage Bond Program with a book value of \$433.0 million for a total of \$639.9 million in 2008 (\$28.0 million in Q3 2007 and for the nine months ended September 30, 2007). The gain on sale was \$16.0 million during the third quarter and \$26.1 million for the nine months ended September 30, 2008 (\$1.3 million in Q3 2007 and for the nine months ended September 30, 2007). These figures are included in the table above.

## 6. OTHER ASSETS

<i>In Thousands of Dollars</i>	September 30 2008	December 31 2007	September 30 2007
Accrued interest receivable	\$ 26,903	\$ 25,308	\$ 23,122
Income taxes receivable	12,555	-	1,432
Goodwill	15,028	15,028	2,324
Intangible assets	708	1,158	-
Other prepaid assets and deferred items	19,661	15,606	14,114
	\$ 74,855	\$ 57,100	\$ 40,992

## 7. OTHER LIABILITIES

<i>In Thousands of Dollars</i>	September 30 2008	December 31 2007	September 30 2007
Accrued interest payable	\$ 159,184	\$ 135,650	\$ 124,979
Income taxes payable	-	5,795	-
Dividends payable	4,482	3,799	3,790
Future income tax liability (note 11)	30,391	16,586	15,174
Securitization servicing liability	4,262	1,786	1,648
Other, including accounts payable and accrued liabilities	59,760	45,060	41,087
	\$ 258,079	\$ 208,676	\$ 186,678

## 8. CAPITAL

### (A) Common Shares Issued and Outstanding

	For the three months ended				For the nine months ended			
	September 30, 2008		September 30, 2007		September 30, 2008		September 30, 2007	
<i>In Thousands of Dollars Except Per Share Amounts</i>	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	34,542	\$ 39,217	34,502	\$ 37,985	34,532	\$ 38,899	34,166	\$ 35,436
Options exercised	-	-	10	124	10	318	366	2,695
Normal course issuer bid	(66)	(75)	(57)	(62)	(66)	(75)	(77)	(84)
Outstanding at end of period	34,476	\$ 39,142	34,455	\$ 38,047	34,476	\$ 39,142	34,455	\$ 38,047

The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between capital stock and retained earnings. Comparative figures have been reclassified to conform to this presentation.

### (B) Share Purchase Options

	For the three months ended				For the nine months ended			
	September 30, 2008		September 30, 2007		September 30, 2008		September 30, 2007	
<i>In Thousands Except Per Share Amounts</i>	Number of Shares	Weighted- average Exercise Price	Number of Shares	Weighted- average Exercise Price	Number of Shares	Weighted- average Exercise Price	Number of Shares	Weighted- average Exercise Price
Outstanding at beginning of period	1,227	\$ 26.73	1,130	\$ 21.76	1,294	\$ 27.15	1,266	\$ 15.43
Granted	-	-	50	36.02	-	-	270	34.73
Exercised	-	-	(10)	10.56	(10)	28.12	(366)	7.18
Forfeited	-	-	-	-	(57)	35.92	-	-
Outstanding at end of period	1,227	\$ 26.73	1,170	\$ 22.47	1,227	\$ 26.73	1,170	\$ 22.47
Exercisable, end of period	541	\$ 15.60	596	\$ 12.31	541	\$ 15.60	596	\$ 12.31

### (C) Capital Management

The Company has a Capital Management Policy which governs the quantity and quality of capital held. The objective of the policy is to ensure that regulatory capital requirements are met, while also providing a sufficient return to investors. The Risk and Capital Committee and the Board of Directors annually review the policy and monitor compliance with the policy on a quarterly basis.

The Company's subsidiary Home Trust Company is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions (OSFI). These requirements are consistent with international standards set by the Bank for International Settlements (BIS). Effective January 1, 2008, Home Trust Company adopted the new capital framework (Basel II) as required by OSFI. Under Basel II, the computation of risk weighted assets was revised and a new measure for operational risk was introduced. Home Trust Company follows the Standard Approach for calculating credit risk and the Basic Indicator Approach for operational risk.

The regulatory capital position of Home Trust Company was as follows:

	September 30 2008	December 31 <sup>1</sup> 2007	September 30 <sup>1</sup> 2007
<i>In Thousands of Dollars, Except Ratios and Multiple</i>			
Regulatory capital			
Tier 1	\$ 375,688	\$ 311,760	\$ 295,284
Total	415,765	350,160	332,265
Regulatory ratios			
Tier 1	12.7%	11.1%	11.7%
Total	14.0%	12.5%	13.1%
Assets to capital multiple	13.5	14.2	14.1

<sup>1</sup> Comparative figures were calculated in accordance with the Basel I capital rules in effect at the time.

Under Basel II, OSFI considers a financial institution to be well-capitalized if it maintains a Tier 1 capital ratio of 7% and a total capital ratio of 10%. Home Trust Company is in compliance with the OSFI capital guidelines.

## 9. STOCK BASED COMPENSATION

During the third quarter of 2008, \$379,000 was recorded as an expense for a total of \$1,143,000 for the first nine months of 2008 (\$285,000 – Q3 2007 and \$808,000 – nine months of 2007) for stock option awards in the consolidated statements of income, with an off-setting credit to contributed surplus. No new options were granted during 2008 (50,000 – Q3 2007 and 270,000 – nine months of 2007).

## 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

<i>In Thousands of Dollars</i>	September 30 2008	December 31 2007	September 30 2007
Unrealized gains and (losses) on			
Available for sale securities	\$ (16,033)	\$ (8,524)	\$ (5,934)
Income taxes recovery (expenses)	4,454	2,226	1,928
	(11,579)	(6,298)	(4,006)
Unrealized gains and (losses) on			
Securitization receivables	12,239	2	(10,460)
Income taxes recovery (expenses)	(4,055)	(1)	3,778
	8,184	1	(6,682)
Accumulated other comprehensive loss	\$ (3,395)	\$ (6,297)	\$ (10,688)

## 11. INCOME TAXES

### (A) Reconciliation of Income Taxes

<i>In Thousands of Dollars</i>	For the three months ended		For the nine months ended	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007
Income before income taxes	\$ 40,988	\$ 34,884	\$ 116,198	\$ 99,577
Income taxes at statutory combined federal and provincial income tax rates	13,561	12,602	38,505	35,969
Increase (decrease) in income taxes at statutory income tax rates resulting from				
Tax-exempt income	(714)	(693)	(2,070)	(2,008)
Non-deductible expenses	152	270	784	478
Future tax rate changes	(479)	(139)	(876)	(217)
Other	529	7	207	(658)
Income tax	\$ 13,049	\$ 12,047	\$ 36,550	\$ 33,564

### (B) Sources of Future Income Tax Balances

<i>In Thousands of Dollars</i>	September 30 2008	December 31 2007	September 30 2007
Future income tax liabilities			
Deferred agent commissions and other charges	\$ 7,864	\$ 7,907	\$ 8,657
Mortgage-backed securities receivable	34,654	21,282	17,638
	42,518	29,189	26,295
Future income tax assets			
Allowance for credit losses	7,593	6,767	6,757
Future tax recoverable acquired	530	1,370	-
Deferred commitment fees and other charges	4,004	4,466	4,364
	12,127	12,603	11,121
	\$ 30,391	\$ 16,586	\$ 15,174

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilized off-balance sheet financial instruments during the first nine months of 2008. In this period the Company entered into economic hedge swap transactions with major financial institutions. The Company may utilize interest rate swaps to hedge the economic value exposure of movements in interest rates between the time that the mortgages are committed to be funded 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 offset 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 (as designated in the swap) and receives the floating rate (as designated in the swap).

The Company participates in the Canada Mortgage Bond program sponsored by CMHC. Under this program, the Company sells five-year MBS pools to Canada Housing Trust which finances the purchase by issuing a five-year bullet Canada Mortgage Bond. Under this program, the Company must manage the mismatch and reinvestment risk between the amortizing five-year MBS pool and the five-year bullet Canada Mortgage Bond. As part of this arrangement, the Company entered into a seller swap which has the effect of paying the fixed interest payments on the Canada Mortgage Bond, and receiving the total return on the MBS pool. As well, the Company entered into a hedge swap to manage the reinvestment risk between the amortizing MBS pool and the five-year Canada Mortgage Bond. These transactions do not qualify for hedge accounting under CICA Handbook Section 3865, *Hedges* and therefore the Company must mark-to-market the swaps, with changes in the fair value of the swaps being recognized in the consolidated statements of income.

There were no outstanding interest rate swaps to hedge commitment risk at September 30, 2008 or September 30, 2007. With respect to the Canada Mortgage Bond program, at September 30, 2008 the Company notionally held \$760.9 million of seller swaps, and \$24.4 million of accreting hedge swaps. These outstanding swap arrangements were marked-to-market at September 30, 2008 for an unrealized gain of \$1.0 million.

During the quarter, the Company entered into an off-balance sheet financial transaction for risk management purposes. The Company entered into a bond forward contract for the sale of \$40 million of Government of Canada Bonds. The contract was marked-to-market at September 30, 2008 for an unrealized gain of \$0.1 million.

### 13. 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, 2008, December 31, 2007 and September 30, 2007 for selected period intervals. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

As at September 30, 2008							
<i>In Thousands of Dollars, Except Percentages</i>	Floating	0 to 3	3 Months	1 to 3	Over	Non-interest	Total
	Rate	Months	to 1 Year	Years	3 Years	Sensitive	
Total assets	\$ 8,687	\$1,295,361	\$1,569,166	\$1,622,285	\$ 906,671	\$ 219,639	\$ 5,621,809
Total liabilities and equity	6	869,835	2,290,982	1,312,811	438,620	709,555	5,621,809
Off-balance sheet items	-	(253,617)	81,392	172,200	25	-	-
Interest rate sensitive gap	\$ 8,681	\$ 171,909	\$(640,424)	\$ 481,674	\$ 468,076	\$(489,916)	\$ -
Cumulative gap	\$ 8,681	\$ 180,590	\$(459,834)	\$ 21,840	\$ 489,916	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.2%	3.2%	(8.2%)	0.4%	8.7%	-	-

As at December 31, 2007							
<i>In Thousands of Dollars, Except Percentages</i>	Floating	0 to 3	3 Months	1 to 3	Over	Non-interest	Total
	Rate	Months	to 1 Year	Years	3 Years	Sensitive	
Total assets	\$ 59,161	\$ 901,191	\$ 1,653,853	\$ 1,607,192	\$ 596,124	\$ 157,572	\$ 4,975,093
Total liabilities and equity	-	446,107	2,136,991	1,330,558	452,096	609,341	4,975,093
Off-balance sheet items	-	(437,032)	193,693	110,534	132,805	-	-
Interest rate sensitive gap	\$ 59,161	\$ 18,052	\$(289,445)	\$ 387,168	\$ 276,833	\$(451,769)	\$ -
Cumulative gap	\$ 59,161	\$ 77,213	\$(212,232)	\$ 174,936	\$ 451,769	\$ -	\$ -
Cumulative gap as a percentage of total assets	1.2%	1.6%	(4.3%)	3.5%	9.1%	-	-

As at September 30, 2007							
<i>In Thousands of Dollars, Except Percentages</i>	Floating	0 to 3	3 Months	1 to 3	Over	Non-interest	Total
	Rate	Months	to 1 Year	Years	3 Years	Sensitive	
Total assets	\$ 38,578	\$ 1,034,994	\$ 1,412,867	\$ 1,485,449	\$ 581,302	\$ 121,278	\$ 4,674,468
Total liabilities and equity	227	596,127	1,746,833	1,355,491	430,309	545,481	4,674,468
Off-balance sheet items	-	(276,216)	144,477	45,461	86,278	-	-
Interest rate sensitive gap	\$ 38,351	\$ 162,651	\$(189,489)	\$ 175,419	\$ 237,271	\$(424,203)	\$ -
Cumulative gap	\$ 38,351	\$ 201,002	\$ 11,513	\$ 186,932	\$ 424,203	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.8%	4.3%	0.2%	4.0%	9.1%	-	-

Based on the current interest rate gap position at September 30, 2008, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income after tax over the next twelve months by \$3.1 million. A 100 basis point increase in interest rates would increase net income after tax over the next twelve months by a similar amount.

#### 14. EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two business segments - mortgage lending and consumer lending. The mortgage lending operation consists of core residential mortgage lending, securitization of government-insured mortgage loans, commercial real estate lending, and the administration of Regency Finance Corp. second mortgage loans (secured loans). The consumer lending operation consists of credit card services, installment lending to customers of retail businesses and PSiGate operations as of October 17, 2007. The Other category includes the Company's treasury and securities investment activities.

	For the three months ended							
	Mortgage Lending		Consumer Lending		Other		Total	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<i>In Thousands of Dollars</i>								
Net interest income	\$ 23,988	\$ 24,507	\$ 7,220	\$ 5,349	\$ 7,140	\$ 8,456	\$ 38,348	\$ 38,312
Provision for credit losses	(3,091)	(1,715)	(329)	(388)	-	-	(3,420)	(2,103)
Fees and other income	3,850	3,329	3,085	2,010	98	76	7,033	5,415
Net gain on securities, mortgage-backed securities and disposition of subsidiary	18,504	6,708	-	-	(2,524)	(159)	15,980	6,549
Non-interest expenses	(11,066)	(8,958)	(2,151)	(1,127)	(3,736)	(3,204)	(16,953)	(13,289)
Income before income taxes	32,185	23,871	7,825	5,844	978	5,169	40,988	34,884
Income taxes	(10,148)	(8,801)	(2,680)	(2,110)	(221)	(1,136)	(13,049)	(12,047)
Net income	\$ 22,037	\$ 15,070	\$ 5,145	\$ 3,734	\$ 757	\$ 4,033	\$ 27,939	\$ 22,837
Goodwill	\$ 2,324	\$ 2,324	\$ 12,704	\$ -	\$ -	\$ -	\$ 15,028	\$ 2,324
Total assets	\$4,520,667	\$ 3,539,841	\$ 401,599	\$ 320,867	\$ 699,543	\$ 813,760	\$5,621,809	\$ 4,674,468

	For the nine months ended							
	Mortgage Lending		Consumer Lending		Other		Total	
	September 30 2008	September 30 2007	September 30 2008	September 30 2007	September 30 2008	September 30 2007	September 30 2008	September 30 2007
<i>In Thousands of Dollars</i>								
Net interest income	\$ 70,572	\$ 72,383	\$ 19,448	\$ 15,348	\$ 25,318	\$ 20,444	\$ 115,338	\$ 108,175
Provision for credit losses	(3,701)	(2,327)	(949)	(1,266)	-	-	(4,650)	(3,593)
Fees and other income	11,264	8,699	9,765	6,138	319	252	21,348	15,089
Net gain on securities, mortgage-backed securities and disposition of subsidiary	37,822	17,472	-	-	(4,501)	945	33,321	18,417
Non-interest expenses	(30,383)	(26,306)	(6,594)	(2,990)	(12,182)	(9,215)	(49,159)	(38,511)
Income before income taxes	85,574	69,921	21,670	17,230	8,954	12,426	116,198	99,577
Income taxes	(27,452)	(24,671)	(7,401)	(6,223)	(1,697)	(2,670)	(36,550)	(33,564)
Net income	\$ 58,122	\$ 45,250	\$ 14,269	\$ 11,007	\$ 7,257	\$ 9,756	\$ 79,648	\$ 66,013
Goodwill	\$ 2,324	\$ 2,324	\$ 12,704	\$ -	\$ -	\$ -	\$ 15,028	\$ 2,324
Total assets	\$4,520,667	\$ 3,539,841	\$ 401,599	\$ 320,867	\$ 699,543	\$ 813,760	\$5,621,809	\$ 4,674,468

## **15. RISK MANAGEMENT**

The Company is exposed to various types of risks owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include credit, liquidity and interest rate risks. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company's ERM structure is supported by a comprehensive governance framework which includes policies, management standards, guidelines and procedures appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

A description of the Company's risk management policies and procedures is included in the MD & A on pages 12 to 14 and in the 2007 Annual Report on pages 24 to 30. Significant exposures to credit, liquidity and interest rate risks are described in notes 3, 4 and 13.

## **16. DISPOSITION OF SUBSIDIARY**

On January 1, 2008, Home Trust sold all outstanding shares of its wholly owned subsidiary, Home Trust Asset Management Inc., for proceeds of \$150,000 resulting in a gain on disposition of \$69,000.

## **17. FUTURE ACCOUNTING CHANGES**

### **International Financial Reporting Standards**

The CICA will 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 consolidated financial statements is not yet determinable.

## **18. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

The comparative interim unaudited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 interim unaudited consolidated financial statements.

Home Capital Group Inc. is a public company, 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 payment card services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia and Quebec.

### **FOR ADDITIONAL INFORMATION:**

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