

# 2010

## THIRD QUARTER REPORT



### FINANCIAL HIGHLIGHTS

For the Period Ended September 30 (Unaudited)	Three Months Ended		Nine Months Ended	
(000s, except Per Share and Percentage Amounts)	2010	2009	2010	2009
<b>OPERATING RESULTS</b>				
Net Income	\$ 45,450	\$ 38,243	\$ 130,562	\$ 104,012
Total Revenue	133,753	125,299	389,194	367,798
Earnings per Share – Basic	\$ 1.31	\$ 1.11	\$ 3.76	\$ 3.02
Earnings per Share – Diluted	1.31	1.10	3.75	3.00
Return on Shareholders' Equity	27.0%	28.7%	27.1%	28.2%
Return on Average Assets	2.4%	2.5%	2.3%	2.3%
Net Interest Margin	2.6%	2.9%	2.7%	2.9%
Spread of Loans over Deposits	2.9%	2.9%	3.0%	2.9%
Efficiency Ratio	27.4%	28.3%	27.0%	27.2%
Efficiency Ratio (TEB <sup>1</sup> )	26.8%	27.5%	26.3%	26.6%
(Non-interest Expense/Net Interest Income Plus Fee Income)				
<b>BALANCE SHEET HIGHLIGHTS</b>				
Total Assets			\$7,871,419	\$ 6,284,592
Loans			5,883,001	5,181,826
Deposits			6,720,825	5,373,462
Shareholders' Equity			695,848	550,823
Mortgage-Backed Security Assets Under Administration			6,831,290	3,606,015
<b>FINANCIAL STRENGTH</b>				
<b>Capital Measures<sup>2</sup></b>				
Risk Weighted Assets			\$3,793,878	\$ 2,988,427
Tier 1 Capital Ratio			16.9%	16.6%
Total Capital Ratio			18.1%	18.2%
<b>Credit Quality</b>				
Net Impaired Loans as a Percentage of Gross Loans			0.57%	1.22%
Allowance as a Percentage of Gross Impaired Loans			86.6%	46.0%
Annualized Provision as a Percentage of Gross Loans			0.08%	0.24%
<b>Share Information</b>				
Book Value per Common Share			\$ 20.07	\$ 15.99
Common Share Price – Close			\$ 44.49	\$ 38.25
Market Capitalization			\$1,542,877	\$ 1,317,713
Number of Common Shares Outstanding			34,679	34,450

<sup>1</sup> See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures of this unaudited interim consolidated financial report.

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



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 deposits, residential and non-residential mortgage lending, securitization of insured residential first mortgage products, consumer lending, *Visa* products and payment card services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia and Quebec.

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

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

## Table of Contents

Report to Shareholders	p. 3	Updated Share Information	p. 33
Management's Discussion and Analysis	p. 6	Quarterly Financial Highlights	p. 34
Financial Highlights	p. 9	Outlook	p. 35
Earnings Review	p. 11	Consolidated Statements of Income	p. 36
Balance Sheet Review	p. 19	Consolidated Statements of Comprehensive Income	p. 37
Capital Management	p. 22	Consolidated Balance Sheets	p. 38
Risk Management	p. 23	Consolidated Statements of Changes in Shareholders' Equity	p. 39
Results by Business Segment	p. 27	Consolidated Statements of Cash Flows	p. 40
Accounting Standards and Policies	p. 30	Notes to the Unaudited Interim Consolidated Financial Statements	p. 41
International Financial Reporting Standards	p. 30	Corporate Directory & Shareholder Information	p. 55

## TO OUR SHAREHOLDERS

### **Home Capital Reports Record Results for Third Quarter of 2010: Net Income Rises 18.8%; Return on Equity at 27.0%; Earnings per Share Increase to \$1.31; Dividend Increases by 12.5%**

Home Capital today announced another period of record earnings and continued growth for the three and nine months ended September 30, 2010. The Company's continued focus on increasing market share through superior service has resulted in strong mortgage originations and profitability, as well as increased assets under administration.

Key results for the third quarter and first nine months of 2010 included:

- Net income, driven by growth in net interest income and strong securitization income, rose to \$45.5 million in the third quarter and to \$130.6 million for the first nine months of 2010, representing increases of 18.8% and 25.5% respectively over the comparable periods last year.
- Basic and diluted earnings per share were \$1.31 for the quarter and \$3.76 and \$3.75, respectively, for nine months ended September 30, 2010, an increase of 18.0% and 19.1%, respectively, from \$1.11 and \$1.10 per basic and diluted earnings per share reported in the third quarter of 2009, and up 24.5% and 25.0% from the basic and diluted earnings per share of \$3.02 and \$3.00 reported for the first nine months of 2009.
- Net interest income, after the provision for credit losses, was \$47.0 million in the third quarter and \$140.4 million for the first nine months of 2010, representing an increase of 17.2% and 27.1% respectively over the \$40.1 million and \$110.4 million recorded in the same periods in 2009.
- Return on equity was 27.0% in the quarter and 27.1% year-to-date, compared to 28.7% and 28.2% recorded in the same periods of 2009.
- Total assets under administration, which included securitized off-balance sheet mortgages, increased 48.7% to \$14.70 billion at September 30, 2010 from \$9.89 billion at September 30, 2009, and rose 10.6% from the \$13.30 billion recorded at the end of second quarter of 2010.
- Total on-balance sheet assets were \$7.87 billion as at September 30, 2010 compared to \$6.28 billion at September 30, 2009 and \$7.57 billion at June 30, 2010.
- The total value of mortgages originated in the third quarter of 2010 was \$1.68 billion and \$5.02 billion for the first nine months of 2010, an increase of 17.0% over the \$1.40 billion originated in the third quarter of 2009 and an increase of 47.4% over the \$3.40 billion originated in the first nine months of 2009.
- Residential mortgage originations were \$1.58 billion in the third quarter and \$4.74 billion for the nine months ended September 30, 2010, representing increases of 17.8% over the \$1.34 billion advanced in the third quarter in 2009 and of 44.0% over the \$3.29 billion originated for the nine months ended September 30, 2009.
- The Accelerator mortgage program continues to generate strong growth with residential mortgage originations of \$716.9 million in the third quarter of 2010 and \$2.08 billion year-to-date compared to \$402.2 million and \$1.04 billion in the same periods last year. The Company's traditional business of uninsured mortgages also experienced solid growth with increased originations of \$728.6 million in the third quarter of 2010 and \$2.17 billion year-to-date, up from \$546.7 million and \$1.26 billion in the comparable periods of 2009. Residential originations also include multi-unit residential originations of \$133.9 million for the third quarter of 2010 and \$481.4 million year-to-date compared to \$392.1 million and \$942.5 million in the same respective periods of 2009.
- Non-residential mortgage advances were \$40.6 million in the third quarter of 2010 and \$146.9 million year-to-date, compared to \$36.6 million and \$75.2 million in the comparable periods of 2009. Store and apartment advances were \$23.5 million for the quarter and \$75.1 million year-to-date compared to \$9.7 million and \$24.0 million, respectively. Warehouse commercial advances were \$39.3 million in the third quarter of 2010 and \$60.1 million for the first nine months, compared to \$10.2 million and 16.3 million in the comparable periods of 2009.

- Securitization volumes in the three and nine months ended September 30, 2010 remained robust, reaching \$1.13 billion and \$3.31 billion respectively compared to \$620.6 million and \$1.74 billion respectively for the same periods in 2009. Securitization income was \$21.3 million in the third quarter of 2010 and \$70.3 million year-to-date compared to \$13.7 million and \$68.1 million for the comparable periods of 2009. Despite record volumes, relative gains on securitization have moderated compared to the average gains generated last year. Spreads earned on these transactions began to normalize towards lower, more historical levels in the latter half of 2009 due to the improvement in economic and credit conditions.
- The success of the Equityline *Visa* program continued in the third quarter as the Company added 1,796 new accounts compared to 1,371 in the second quarter of 2010 and 744 in the comparable quarter of 2009.
- Net income was positively impacted in the third quarter by a before-tax gain of \$3.9 million on the sale of a \$19.5 million portfolio of water heater loans.
- The credit performance of the loans portfolio remains strong with net impaired loans representing 0.57% of the total loans portfolio at September 30, 2010, a marked improvement from 1.22% at September 30, 2009 and from 0.67% at the end of the second quarter of 2010. Net write-offs of \$1.8 million for the third quarter of 2010 and \$3.2 million for the first nine months of 2010 have declined 19.5% and 46.0%, respectively from the \$2.2 million and \$5.9 million recorded in the same periods of 2009.
- The Company's capital ratios remained strong at 16.9% for Tier 1 capital and 18.1% for Total capital at September 30, 2010 compared to 16.4% and 18.0% at December 31, 2009 and 16.6% and 18.2% at September 30, 2009.

In the third quarter of 2010, the Company observed a modest slowing in residential real estate activity and a reduction in the pace of house price appreciation that, in the Company's view, is reflective of more balanced and sustainable housing markets across Canada. Many home purchasers entered the market in the first half of 2010 ahead of CMHC qualification changes, the introduction of the Harmonized Sales Tax in certain provinces and the anticipation of higher interest rates. These factors led to higher than expected activity in first half of 2010. Despite the subsequent slowing real estate activity in the third quarter, the Company maintained growth in assets and profitability. The Company's renewed focus earlier this year on its higher margin traditional uninsured lending programs across the country remains successful and management is pleased by the strong response to this initiative. The Company continues to experience increased market penetration through innovative marketing programs, new product offerings, an expanded broker network, superior customer service and the Company's ability to offer a one-stop shop to the mortgage broker community. Further experienced sales strength has been added to the branch offices across the country to support these initiatives.

In keeping with the Company's anticipated future growth, during and subsequent to the end of the third quarter experienced and seasoned new senior executives were added in the Company's finance, human resources and treasury disciplines. Management is confident these additions to the Company's senior management team will enhance its ability to manage growth going forward without any material increase in overhead costs, as measured as a percentage of total revenues.

Starting on January 1, 2011, the Company will change over to financial reporting under International Financial Reporting Standards (IFRS). The Company's opening IFRS retained earnings on January 1 will include a transition adjustment for the net cumulative differences in accounting between current Canadian Generally Accepted Accounting Principals (GAAP) and IFRS. Interpretations on the accounting treatment NHA Mortgage-Backed Securities (NHA MBS) transactions are still being analyzed and are not yet final. The Company estimates the opening retained earnings adjustment to be in the range of \$60.0 million to \$85.0 million with the exact amount dependant on the outcome of the final interpretations. The Company will re-earn the opening retained earnings adjustment over time through future earnings under IFRS reporting. The adoption of IFRS in 2011 will not affect the Company's ability to continue with its current strategies.

Additionally, the Company has completed a preliminary high-level calculation of the potential IFRS securitization impacts for net income for the first, second and third quarters of 2010 considering the potential range of outcomes for the accounting treatment of NHA MBS. On that basis, the preliminary analysis suggests that, if the income statement for Home Capital's first quarter of 2010 were presented on an IFRS basis in the range of scenarios, net income and earnings per share would not be materially different than under current GAAP, as presented, and the second and third quarters would not be lower than current GAAP, as presented. The IFRS estimates contain certain management assumptions and, therefore, are subject to change as further information becomes available and the calculations refined and audited.

Subsequent to the end of the quarter, and in light of the Company's strong growth and profitability, solid financial position and additional clarity on OSFI's changes to capital rules, the Board of Directors declared an increased quarterly dividend of \$0.18 per Common share payable on December 1, 2010 to shareholders of record at the close of business on November 15, 2010. This represents an increase of 12.5% in the quarterly dividend and is the 12<sup>th</sup> increase in the last 6 years, reflecting Home Capital's ongoing commitment to enhancing long-term shareholder value.

With continued strong growth through the third quarter of 2010, management remains confident that the momentum generated through the first nine months of the year will continue through the fourth quarter of 2010 and into 2011, enabling Home Capital to once again meet or exceed all of its annual financial and operating targets.



**GERALD M. SOLOWAY**

Chief Executive Officer  
November 2, 2010



**NORMAN F. ANGUS**

Chairman of the Board

Additional information concerning the Company's targets and related expectations for 2010, including the risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis in the 2009 Annual Report.

## 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 32 through 41 of the Company's 2009 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 the Company 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.

Assumptions about the performance of the Canadian economy in 2010 and its effect on Home Capital's business are material factors the Company considers when setting its objectives. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical economic data provided by the Canadian government and its agencies. In setting performance target ranges for 2010, management's expectations assume:

- The Canadian economy will continue a slow, but volatile, recovery, with fragmented growth prospects across the country, and inflation will remain low;
- Unemployment levels will remain elevated by historical norms through much of 2010. The Company continues to expect the employment rate to show slower growth for the remainder of 2010 as the US economy remains uncertain;
- Housing demand will remain relatively healthy in 2010, although the rate of increase in demand as expected has begun to slow. The Company has observed that nationally home sales have slowed compared to the growth observed in the first quarter of 2010 and the latter half of 2009;
- The Company expects a stable interest rate environment for the remainder of 2010, supported by stable inflation, and driven by lower demand for commodity and energy goods. While the Company has already observed increased Bank of Canada overnight lending rates, the price for fixed rate mortgages is expected to remain low for the remainder of 2010;
- Sound credit quality with actual losses within Home Capital's historical range of acceptable levels; and
- A stable net interest margin and comparatively lower investment returns, reflecting the Company's shift to higher quality assets held in the security portfolio. The Company observed improvements in the Canadian economy and capital markets and continues to operate with less excess liquidity.

## Non-GAAP Measures

The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with Generally Accepted Accounting Principles (GAAP), are not defined by GAAP and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The non-GAAP measures used in this Management's Discussion and Analysis (MD&A) are defined as follows:

### Return on Shareholders' Equity

Return on equity is a profitability measure that presents the annualized net income available to common shareholders' equity as a percentage of the capital deployed to earn the income. The Company calculates its return on equity using average common shareholders' equity, including all components of shareholders' equity.

### Return on Assets

Return on assets is a profitability measure that presents the net income as a percentage of the average total assets deployed to earn the income.

### Efficiency or Productivity Ratio

Management uses the efficiency ratio as a measure of the Company's efficiency. This ratio represents non-interest expenses as a percentage of total revenue, net of interest expense. The Company also looks at the same ratio on a taxable equivalent basis and will include this adjustment in arriving at the efficiency ratio, on a taxable equivalent basis.

### Net Interest Margin

Net interest margin is calculated by taking net interest income, on a taxable equivalent basis, divided by average total assets.

### Tier 1 and Total Capital Ratios

The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by Office of the Superintendent of Financial Institutions Canada (OSFI). Refer to Note 8 of the Unaudited Interim Consolidated Financial Statements.

### 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 \$2.0 million for the third quarter and \$6.1 million for the nine months of 2010 (\$2.3 million for the third quarter and \$5.1 million for the nine months of 2009) increased reported interest income. TEB does not have a standard meaning prescribed by Canadian 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 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, 2010 included herein, and the audited consolidated financial statements and MD&A for the year ended December 31, 2009. These are available on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com) and on pages 10 through 76 of the Company's 2009 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 2009 remain substantially unchanged. These unaudited interim consolidated financial statements and MD&A have been prepared based on information available as at November 1, 2010. 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.

## 2010 Objectives and Performance

Home Capital published its financial objectives for 2010 on page 13 of the Company's 2009 Annual Report. The following table compares actual performance to date against each of these objectives.

**Table 1: 2010 Objectives and Performance**

	2010 Objectives <sup>1</sup>	Nine-month Period Ended September 30, 2010 Actual Results <sup>1</sup>
Net Income	15%-20% (\$119.6 million - \$124.8 million)	<b>\$130.6 million , or 25.5% increase over the same period last year</b>
Diluted Earnings per Share	15%-20% (\$3.45 per share - \$3.60 per share)	<b>\$3.75 per share, or 25.0% increase over the same period last year</b>
Total Assets and Assets Under Administration	15%-20% (\$11.37 billion - \$11.87 billion)	<b>\$14.70 billion, or 48.7% increase over the same period last year</b>
Return on Shareholders' Equity	20.0%	<b>27.1%</b>
Efficiency Ratio (TEB)	28.0% to 34.0%	<b>26.3%</b>
Capital Ratios <sup>2</sup>		
Tier 1	Minimum of 10%	<b>16.9%</b>
Total	Minimum of 12%	<b>18.1%</b>
Provision for Loan Losses as a Percentage of Total Loans	0.2% to 0.5%	<b>0.08%</b>

<sup>1</sup> Objectives and results for net income and diluted earnings per share are for the current year.

<sup>2</sup> Based on the Company's wholly owned subsidiary, Home Trust Company.

## FINANCIAL HIGHLIGHTS

Net income reached \$45.5 million for the third quarter of 2010 driven by strong net interest income, improvements in the credit performance of the loan portfolio and robust securitization income. The Company continues to provide superior shareholder returns with a return on equity of 27.0% for the quarter. Loan origination volumes continued at a strong pace for the quarter and while the Company maintained a prudent risk profile in the loan portfolio and a strong capital base. The Company's key financial highlights for the third quarter of 2010 are summarized below.

### Income Statement Highlights

- Net income grew to \$45.5 million for the third quarter and \$130.6 for the nine months ended September 30, 2010, an increase of 18.8% and 25.5% over the comparable three and nine months of 2009.
- Net interest income, after the provision for credit losses, reached \$47.0 million and \$140.4 million for the three and nine months ended September 30, 2010, an increase of 17.2% and 27.1%, respectively over the comparable periods of 2009.
- Diluted earnings per share for the third quarter increased 19.1% to \$1.31 compared to \$1.10 in the third quarter of 2009 and increased 25.0% to \$3.75 for the nine months ended September 30, 2010 compared to \$3.00 in the same period of 2009.
- Net income was positively impacted in the third quarter by a before-tax gain of \$3.9 million on the sale of a \$19.5 million portfolio of water heater loans.
- Provisions for credit losses continued to stabilize in the quarter, decreasing to \$2.1 million compared to \$2.9 million the third quarter of 2009 and declining to \$3.7 million for the nine months of 2010, compared to \$9.2 million for the same period last year, an overall improvement in the credit performance of the portfolio.
- Securitization income was \$21.3 million in the third quarter and \$70.3 million year-to-date, compared to \$13.7 million and \$68.1 million in the same periods of 2009, representing increases of 55.4% and 3.2% over the same periods, respectively. Securitization volumes were \$1.13 billion and \$3.31 billion for the three and six months ended September 30, 2010, compared to \$620.6 million and \$1.74 billion in the same periods of 2009 representing increases of 81.4% and 90.4%, respectively. Market spreads earned on securitization transactions continue to reflect normalized levels in this quarter compared to the first and second quarters of 2009.
- The Company took advantage of the improvement in securities markets and realized \$1.5 million in net gains on the sale of certain securities during the third quarter compared to realized gains of \$1.1 million in the third quarter of 2009 for total gains of \$10.0 million for the first nine months of 2010 compared to \$2.5 million for the same period last year.
- During the quarter, the Company recognized \$2.9 million in unrealized gains on fair value changes in derivative instruments due to favourable interest rate movements compared to \$11.4 million in unrealized gains in the third quarter of 2009. In the third quarter of 2009 unrealized derivative gains reflected changes in market inputs, modifications to assumptions for changing circumstances and refinements and improvements to the valuation model the Company refined the methodology for estimating the fair value of certain derivative instruments, which led to the unrealized gains in that quarter.
- The efficiency ratio (TEB) remained low (the lower the better) at 26.8% for the quarter and 26.3% year-to-date compared to 27.5% and 26.6% in the comparable 2009 periods, reflecting the Company's continued diligence in expense management.
- Return on average shareholders' equity remained strong at 27.0% for the quarter and 27.1% year-to-date compared to 28.7% and 28.2% for the same periods last year.

## Balance Sheet Highlights

- Total assets under administration, including the off-balance sheet securitized mortgages, reached \$14.70 billion in the third quarter, an increase of 48.7% from the \$9.89 billion recorded one year ago and an increase of 27.8% over the \$11.51 billion recorded at December 31, 2009. Robust growth in residential mortgage originations spanning across both the traditional and Accelerator mortgage products continues and has contributed to this growth.
- Total on-balance sheet assets ended the quarter at \$7.87 billion compared to \$7.36 billion at December 31, 2009 and \$6.28 billion one year ago. The increase reflects growth in the loan portfolio of \$442.3 million and \$701.2 million over December 31, 2009 and September 30, 2009 combined with \$175.1 million and \$172.3 million increases in the securities portfolio, respectively.
- Liquid assets at September 30, 2010 were \$1.15 billion, down marginally from \$1.20 billion at December 31, 2009 and up from \$469.0 million at September 30, 2009. While the Company continues to reduce liquidity levels toward normalized levels, the timing of securitization transactions close to quarter ends will increase the level of liquid assets. During the third quarter, the Company maintained a monthly average of \$706.0 million in liquid assets and an average of \$737.1 million for the twelve months ending September 30, 2010.
- The Company's capital position remains strong with Tier 1 and Total capital ratios of 16.9% and 18.1%, respectively, at the end of the quarter compared to 16.4% and 18.0% at December 31, 2009 and 16.6% and 18.2% at September 30, 2009, respectively.
- Deposit liabilities at September 30, 2010 were \$6.72 billion, an increase of \$311.0 million from December 31, 2009 and an increase of \$1.35 billion from September 30, 2009.

## EARNINGS REVIEW

### Net Interest Income

Table 2: Net Interest Income

(000s, except %)	For the three months ended				For the nine months ended			
	September 30, 2010		September 30, 2009		September 30, 2010		September 30, 2009	
	Income/ Expense	Average Rate <sup>1</sup>	Income/ Expense	Average Rate <sup>1</sup>	Income/ Expense	Average Rate <sup>1</sup>	Income/ Expense	Average Rate <sup>1</sup>
<b>Assets</b>								
Cash and cash resources	\$ 1,032	1.2%	\$ 996	1.7%	\$ 3,404	1.1%	\$ 2,627	1.2%
Securities	6,032	3.4%	6,491	4.0%	17,232	3.3%	19,275	4.5%
Loans	89,881	5.7%	84,223	6.7%	263,775	6.1%	249,836	7.0%
Taxable equivalent adjustment	1,993	-	2,300	-	6,121	-	5,108	-
Total on interest earning assets	98,938	5.4%	94,010	6.4%	290,532	5.5%	276,846	6.6%
Other assets	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 98,938</b>	<b>5.1%</b>	<b>\$ 94,010</b>	<b>6.1%</b>	<b>\$ 290,532</b>	<b>5.2%</b>	<b>\$ 276,846</b>	<b>6.3%</b>
<b>Liabilities and Shareholders' Equity</b>								
Deposits	\$ 47,846	2.9%	\$ 48,756	3.7%	\$ 140,382	2.9%	\$ 152,063	4.0%
Other liabilities	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	-	-
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 47,846</b>	<b>2.5%</b>	<b>\$ 48,756</b>	<b>3.2%</b>	<b>\$ 140,382</b>	<b>2.5%</b>	<b>\$ 152,063</b>	<b>3.4%</b>
<b>Net Interest Income</b>	<b>\$ 51,092</b>		<b>\$ 45,254</b>		<b>\$ 150,150</b>		<b>\$ 124,783</b>	
<b>Tax Equivalent Adjustment</b>	<b>(1,993)</b>		<b>(2,300)</b>		<b>(6,121)</b>		<b>(5,108)</b>	
<b>Net Interest Income per Financial Statements</b>	<b>\$ 49,099</b>		<b>\$ 42,954</b>		<b>\$ 144,029</b>		<b>\$ 119,675</b>	
<b>Net Interest Margin<sup>2</sup></b>		<b>2.6%</b>		<b>2.9%</b>		<b>2.7%</b>		<b>2.9%</b>
<b>Spread of Loans over Deposits Only</b>		<b>2.8%</b>		<b>2.9%</b>		<b>3.2%</b>		<b>2.9%</b>

<sup>1</sup> The average rate is a simple average calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

<sup>2</sup> Net interest margin is calculated on a tax equivalent basis.

**Table 3: Interest Income and Average Rate by Loan Portfolio**

(000s, except %)	For the three months ended			For the nine months ended		
	September 30, 2010			September 30, 2010		
	Average Assets <sup>1</sup>	Interest Income	Average Rate <sup>1</sup>	Average Assets <sup>1</sup>	Interest Income	Average Rate <sup>1</sup>
Traditional single family residential mortgages	\$ 3,922,905	\$ 58,693	6.0%	\$ 3,796,208	\$ 170,156	6.0%
Accelerator single family residential mortgages	899,776	5,881	2.6%	757,310	18,279	3.2%
Multi-unit residential mortgages	262,714	3,317	5.1%	236,700	8,462	4.8%
Non-residential mortgages	731,144	10,823	5.9%	716,941	33,818	6.3%
Secured loans	37,550	510	5.4%	41,131	1,687	5.5%
Personal and credit card loans	423,079	10,657	10.1%	411,525	31,373	10.2%
<b>Total Loans</b>	<b>\$ 6,277,168</b>	<b>\$ 89,881</b>	<b>5.7%</b>	<b>\$ 5,723,115</b>	<b>\$ 263,775</b>	<b>6.1%</b>

(000s, except %)	For the three months ended			For the nine months ended		
	September 30, 2009			September 30, 2009		
	Average Assets <sup>1</sup>	Interest Income	Average Rate <sup>1</sup>	Average Assets <sup>1</sup>	Interest Income	Average Rate <sup>1</sup>
Traditional single family residential mortgages	\$ 3,196,288	\$ 55,356	6.9%	\$ 3,055,734	\$ 166,869	7.3%
Accelerator single family residential mortgages	317,353	3,343	4.2%	228,796	7,374	4.3%
Multi-unit residential mortgages	362,723	3,583	4.0%	286,706	9,012	4.2%
Non-residential mortgages	739,069	11,184	6.1%	782,893	33,518	5.7%
Secured loans	57,655	874	6.1%	64,835	3,133	6.4%
Personal and credit card loans	342,565	9,883	11.5%	352,703	29,930	11.3%
<b>Total Loans</b>	<b>\$ 5,015,653</b>	<b>\$ 84,223</b>	<b>6.7%</b>	<b>\$ 4,771,667</b>	<b>\$ 249,836</b>	<b>7.0%</b>

<sup>1</sup> The average is a simple average calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

As noted in Table 2, net interest income was \$49.1 million in the third quarter of 2010, an increase of 14.3% over the \$43.0 million recorded in the third quarter of 2009. The increase in net interest income over the comparable quarter is due to a significant increase in the on-balance sheet loans portfolio of 13.5%, dampened marginally by a slight decline in the net interest margin.

Net interest margin and spread of loans over deposits were 2.6% and 2.8%, respectively, compared to the 2.9% and 2.9% results in the same quarter of 2009. The average rate on the total loans portfolio declined as new mortgages are originated in a lower rate environment and higher rate mortgages are renewed at lower rates. Deposit rates have also declined but the deposit portfolio re-prices at a slower rate overall. Additionally, the Company's Accelerator mortgages, which carry lower interest rates than the traditional portfolio and are predominately earmarked for securitization, remain on the balance sheet until they are funded through securitization. The Company continues to originate a significant volume of Accelerator mortgages and, prior to securitization, these mortgages will decrease the average net interest margin.

As noted in Table 3 above, the average rate earned the traditional single family residential portfolio mortgages was 6.0% for the third quarter and 6.0% for the nine months ended September 30, 2010 compared to 6.9% and 7.3% for the comparable periods of 2009. The Company scaled back lending in the traditional portfolio in 2008 and 2009 in response to the economic conditions, adding fewer new mortgages to the portfolio during these years. The average rate for deposits, which fund the traditional single family residential portfolio, also declined year over year.

The Accelerator portfolio earns a lower average rate than the traditional portfolio, but is earmarked for securitization and ultimately funded at a market rate of CMB and MBS at the time of securitization. The average rates for Accelerator

mortgages declined from 2009, consistent with a reduction in fixed mortgage rates and a larger percentage of variable rate mortgage originations compared to 2009.

The average rate earned on the personal and credit card portfolio is lower than 2009 as the Company expanded its offering of Equityline *Visa* to include a lower rate product to customers with higher quality credit.

Average rates earned on cash resources, securities are lower when compared to 2009 due to the continued low interest rate environment.

## **Non-Interest Income**

Total non-interest income was \$36.8 million for the third quarter and \$104.8 million for the nine months ended September 30, 2010 compared to \$33.6 million and \$96.1 million for the comparable periods of 2009. Securitization income, the largest component of non-interest income, is discussed in the Securitization Activities section that follows.

Fees and other income was \$7.1 million for the third quarter and \$22.1 million for the nine months ended September 30, 2010 compared to \$7.4 million and \$22.1 million recorded in the comparable periods of 2009. The increased relative volumes of products with lower and more competitive fee structures, such as Accelerator mortgage products, do not provide the same level of growth in this income stream.

The Company recognized a net gain of \$1.5 million on the sale of certain securities during the quarter and \$10.0 for the nine months ended September 30, 2010, compared to net gains of \$1.1 million and \$2.5 million in the comparable periods of 2009. The Company takes advantage of improvements in securities markets and will rebalance the investment portfolio as market conditions warrant.

During the third quarter of 2010, the Company recognized a \$3.9 million gain on sale of a portfolio of individual water heater loans totalling \$19.5 million.

Non-interest income includes unrealized gains (losses) due to the changes in the fair value of the derivatives used to hedge certain risks associated with the securitization program. The Company recognized \$2.9 million in net unrealized gains in the third quarter and net unrealized losses of \$1.5 million for the nine months ended September 30, 2010 compared to \$11.4 million and \$3.3 million in net unrealized gains in the comparable periods of 2009. Current quarter unrealized gains are reflective of market changes in the spread between MBS and CMB prices used as an input in the model used that calculates the fair value of the derivatives. These gains are partially offset by relatively lower securitization gains. In the third quarter of 2009 net unrealized gains reflected changes in market inputs, modifications to assumptions for changing circumstances, refinements, and improvements to the valuation model. Please see the Derivatives and the Off-Balance Sheet Arrangements sections of this MD&A for additional information.

#### Table 4: Securitization Activity

The following table summarizes the securitization activities during the third quarter of 2010 and year-to-date compared to the same periods of 2009:

For the three months ended September 30, 2010

<i>(000s, except %)</i>	Single Family Residential MBS Under 1 year	Single Family Residential MBS Over 1 year	Multi-Unit Residential MBS	Total
Book value of mortgages securitized	\$ 112,653	\$ 920,602	\$ 92,305	\$ 1,125,560
Net gain on sale of mortgages <sup>1</sup>	1,981	18,082	129	20,192
Estimated average Prepayment rate	23.9%	15.6%	0.0%	15.1%
Average Excess spread <sup>2</sup>	3.1%	1.5%	1.0%	1.6%
Average Discount rate	1.5%	1.8%	2.8%	1.8%

For the three months ended September 30, 2009

<i>(000s, except %)</i>	Single Family Residential MBS Under 1 year	Single Family Residential MBS Over 1 year	Multi-Unit Residential MBS	Total
Book value of mortgages securitized	\$ 20,705	\$ 390,391	\$ 209,490	\$ 620,586
Net gain on sale of mortgages <sup>1</sup>	479	8,231	3,421	12,131
Estimated average Prepayment rate	4.1%	12.8%	0.0%	8.2%
Average Excess spread <sup>2</sup>	3.7%	1.3%	1.4%	1.4%
Average Discount rate	1.0%	3.3%	2.6%	3.0%

For the nine months ended September 30, 2010

<i>(000s, except %)</i>	Single Family Residential MBS Under 1 year	Single Family Residential MBS Over 1 year	Multi-Unit Residential MBS	Total
Book value of mortgages securitized	\$ 284,408	\$ 2,622,050	\$ 399,522	\$ 3,305,980
Net gain on sale of mortgages <sup>1</sup>	5,317	47,717	3,924	56,958
Estimated average Prepayment rate	18.2%	16.4%	0.0%	14.6%
Average Excess spread <sup>2</sup>	3.3%	1.7%	0.9%	1.7%
Average Discount rate	1.3%	1.7%	3.3%	1.9%

For the nine months ended September 30, 2009

<i>(000s, except %)</i>	Single Family Residential MBS Under 1 year	Single Family Residential MBS Over 1 year	Multi-Unit Residential MBS	Total
Book value of mortgages securitized	\$ 90,076	\$ 1,005,974	\$ 640,254	\$ 1,736,304
Net gain on sale of mortgages <sup>1</sup>	24,262	22,847	12,131	59,240
Estimated average Prepayment rate	4.0%	12.7%	0.0%	7.6%
Average Excess spread <sup>2</sup>	5.1%	1.9%	1.4%	1.9%
Average Discount rate	1.1%	2.8%	2.7%	2.7%

<sup>1</sup> The gain on sales of mortgages is net of gains and losses realized on hedging activities.

<sup>2</sup> The excess spread is gross of hedging activity.

The Company sold \$1.13 billion Mortgage Backed Securities (MBS) pools during the third quarter of 2010 and \$3.31 billion in the nine months ended September 30, 2010 representing an increase of \$505.0 million or 81.4% and \$1.57 billion or 90.4%, respectively, over the same periods of 2009.

The growth in securitized volumes was focused in the single family residential MBS during the period and is indicative of strong origination volumes and continued success of the Accelerator product. There was a decline in multi-unit residential securitization as fewer mortgages are available in the marketplace.

The Company's securitization activities include participation in Canada Mortgage Housing Corporation's (CMHC) Canada Mortgage Bond (CMB) program, administered through the Canada Housing Trust (CHT). This program provides the Company with an additional channel to diversify its funding stream for MBS pools. The Company sold \$752.8 million of MBS pools through the CMB program, including replacement assets, in the quarter and \$2.02 billion for the nine months ended September 30, 2010 compared to \$288.3 million and \$1.23 billion in the comparable periods of 2009. If the available CMB funding is lower than the value of pooled mortgages the Company has available for the program, the Company continues to sell MBS pools directly into the market.

The average prepayment rate assumption for the third quarter was 15.1%, and 14.6% for the nine months ended September 30, 2010 reflecting increases over the same periods last year. Compared to second quarter of 2010 and last year, the Company increased its prepayment assumption on MBS less than 1 year as market data, the Company's current experience and mix of mortgages indicated a higher prepayment rate was likely for these shorter duration pools. The average prepayment rate for MBS pools greater than 1 year has increased primarily due to the higher prepayment assumptions on variable rate mortgage pools. In the third quarter, \$505.9 million of variable rate mortgages were securitized and sold representing 44.8% of the mortgages securitized and sold in the quarter. There were no variable rate mortgages securitized and sold prior to 2010. In the third quarter of 2009 the relatively higher proportion of non-residential MBS, which have no prepayment privileges and assume a 0.0% prepayment rate and the lower rate on MBS pools less than one year, resulted in lower average prepayment assumptions.

The Company has observed an average excess spread for securitization transactions in line with historical levels compared to higher spreads in 2008 and the first half of 2009 and expects this to continue. Average excess spreads on securitizations, gross of hedging activity for the quarter were 1.6% compared to 1.9% in the second quarter of 2010 and 1.4% in the comparable quarter of 2009. In the third quarter of 2009 excess spreads were impacted by a strong upward movement in bond yields that caused spreads to narrow compared to the overall higher spreads experienced in earlier 2009.

The average discount rate is based on the coupon rate of the underlying MBS or CMB sold and will reflect the market conditions at the time of securitization.

#### Table 5: Reconciliation of Securitization Activity

The table below provides a summary reconciling the gains recorded during the respective quarter and the excess spread earned from the Company's continued servicing of these portfolios.

(000s)	For the three months ended		For the nine months ended	
	September 30	September 30	September 30	September 30
	2010	2009	2010	2009
Securitization gains	\$ 24,937	\$ 16,021	\$ 69,559	\$ 50,957
Securitization hedging activity	(4,745)	(3,890)	(12,601)	8,283
Securitization gains, net of hedge costs	20,192	12,131	56,958	59,240
Recurring securitization income	1,128	1,585	13,351	8,874
Net securitization income	\$ 21,320	\$ 13,716	\$ 70,309	\$ 68,114

Net securitization income of \$21.3 million for the quarter is 55.4% higher than the comparable quarter of 2009. Year-to-date securitization income is \$70.3 million or 3.2% higher than the comparable nine months of 2009.

Securitization gains, gross of hedging activity, is impacted by the volume securitized, the excess spread earned on the transaction, the prepayment assumptions, the average duration of the mortgages being securitized and the discount rate. Higher average prepayment assumptions and discount rates lead to lower gains while higher excess spreads and higher average durations lead to higher gains. Excess spread and discount rates are impacted by market conditions at the time of the transaction.

For the third quarter of 2010 securitization gains, gross of hedging activity, were up \$8.9 million or 55.6% over the comparable quarter of 2009. The increase in securitization gains, gross of hedging activity, reflects an 81.4% increase in volumes, 20 basis points in higher average excess spreads, offset by lower average durations of 4.3 years compared 4.7 years last year, and by 6.9% increase in average prepayment assumptions.

For the nine months ended September 30, 2010, securitization gains, gross of hedging activity, were up \$18.6 million or 36.5% over the comparable period of 2009. The year-to-date increase over 2009 reflects 90.4% in higher volumes offset by a lower average duration of 4.3 years compared to 4.7 years last year, a 20 basis points decrease in average excess spreads, and a 7.0% increase in prepayment assumptions.

Securitization hedging activity reflects the Company's utilization of forward bond contracts to manage exposure to movements in interest rates prior to the sale of securitized mortgage pools. The effect of these contracts are included in securitization hedging activity above. The forward bond contracts are settled at the time of securitization and any realized gain or loss is then included in the securitization gain. During the third quarter of 2010, and consistent with the third quarter of 2009, bond yields declined over the period that the hedges were in place and therefore a loss was recognized on settlement of the bond forward contracts. The realized loss on settlement is offset by an otherwise higher securitization gain as the securitization gains would be higher as the bond yields declined. Securitization hedging activity on a year-to-date basis is \$20.9 million lower than the comparable period of 2009. In the second quarter of 2009, the Canadian capital markets experienced a strong upward movement in bond yields resulting in a gain of \$13.5 million on settlement of the bond forward contracts in the second quarter of 2009. If the Company had not economically hedged its mortgage originations that were securitized, net securitization gains would have been reduced.

Recurring securitization income primarily represents servicing income, net of servicing fees, accretion of the discount rate and changes in estimated excess spread. The income will also include the impact of any changes in management's estimation of prepayments. If actual prepayment patterns are close to the management's prepayment assumptions, there will be less volatility in the additional excess spread. In the second quarter of 2010, management lowered its estimate of prepayments to more closely reflect the expected prepayments based on the current portfolio mix. This had a positive impact on recurring securitization income in the second quarter of 2010. This refinement has led to a reduction in the difference between actual prepayments and estimated prepayments in the current quarter and, over time, should result in a reduction in the volatility of recurring income earned on the excess spread.

MBS pools securitized through the CMB program, including replacement assets, resulted in net securitization gains of \$6.8 million for the quarter and \$27.5 million for the nine months ended September 30, 2010 compared to \$7.3 million and \$45.2 million in the comparable periods of 2009.

The Company also holds longer-term derivative contracts to hedge its obligations for pools previously sold to CHT under the CMB program. These hedging instruments do not qualify for hedge accounting treatment under current GAAP and must therefore be marked-to-market through net income. (Refer to Note 12 of these unaudited interim consolidated financial statements and the Derivatives and Off-Balance Sheet Arrangements sections of this MD&A.)

## Non-Interest Expenses

Total non-interest expenses incurred in the third quarter were \$23.5 million and \$67.1 million year-to-date compared to \$21.7 million and \$58.7 million for the comparable periods of 2009.

The increase over the comparable periods of 2009 is consistent with the overall growth of the Company and plans for continued growth and diversification. The growth accomplished to date, along with the Company's strategies looking forward, has resulted in the need for additional staff, space and an increase in general and administration expenditures. The Company expects modest increases in non-interest expenses to continue in a disciplined and measured manner in order to align with its growth strategy through strategic investments in infrastructure, accommodation, technology and people.

During the third quarter, salaries and staff benefits were \$11.8 million and \$34.3 million year-to-date compared to \$11.3 million and \$31.5 million in the comparable periods of 2009. The Company anticipates modest increases in staff levels for the remainder of the year to accommodate business growth and new initiatives. At September 30, 2010, the Company employed 552 staff compared to 475 staff one year ago.

Premises expenses were \$1.7 million during the quarter, consistent with the \$1.7 million last quarter and slightly increased from the \$1.6 million in the third quarter of 2009 due to lease renewals and increased space in Toronto as compared to last year. There were no changes to premises during the quarter.

General and administration expenses were \$10.0 million during the quarter, and \$27.7 million year-to-date compared to \$8.8 million and \$22.9 million in the comparable periods of 2009. These expenses increased over the comparable periods to support managed growth. In particular, the Company has experienced increased information technology costs reflective of additional employees and additional costs associated with the implementation of a new core banking system that are not eligible for capitalization.

The efficiency ratio (TEB) for the three and nine months ended September 30, 2010 was 26.8% and 26.3%, respectively, compared to 27.5% and 26.6% for the comparable period of 2009. The ratio continues to reflect the Company's consistent and prudent cost management leadership within the industry.

## Provision for Credit Losses

**Table 6: Provision for Credit Losses**

(000s, except %)	For the three months ended						For the nine months ended	
	September 30	September 30	% Change	September 30	September 30	% Change		
	2010	2009		2010	2009			
Specific provision	\$ 1,911	2,825	(32.3)%	2,299	7,901	(70.9)%		
General provision	202	37	446.0%	1,353	1,343	0.7%		
Total provision	2,113	2,862	(26.2)%	3,652	9,244	(60.5)%		
Average loans	6,050,399	5,018,075		5,690,344	4,869,957			
Provision as % of average loans (annualized)	0.03%	0.06%		0.06%	0.19%			
Net write-offs	1,766	2,194	(19.5)%	3,164	5,857	(46.0)%		
Net write-offs as % of average loans (annualized)	0.03%	0.04%		0.06%	0.12%			

**Table 7: Net impaired Loans & Allowances**

(000s, except %)	September 30			December 31		September 30	
	September 30		September 30	December 31	September 30	September 30	
	2010		2009	2009	2009	2009	
Net impaired loans	\$ 33,914	\$	46,306	\$	\$	63,506	
Gross loans	5,913,861		5,471,119			5,213,316	
Net impaired as % of gross loans	0.57%		0.85%			1.22%	
General allowance	\$ 29,146	\$	27,793	\$	\$	26,520	
Specific allowance	1,714		2,579			4,970	
Total allowance	30,860		30,372			31,490	

The provision for credit losses is charged to the income statement by an amount that brings the specific and general allowances for credit losses to the level determined by management to be adequate. Factors that influence the provisions for credit losses include the formation of new impaired loans, the level of write-offs, management's assessment of the level of general and specific allowances required based on available data including external economic factors, the composition of the portfolio, and the overall growth in the loans portfolio.

The total provision for credit losses for the third quarter has declined 26.2% over the comparable quarter in 2009 and has declined 60.5% on a year-to-date basis over 2009. The decline is due to the following factors:

- A decline in net impaired loans. Net impaired loans as a percentage of gross loans ended the quarter at 0.57% which is at a low point compared to 2009 and 2008. The overall trend in net impaired loans has been downward since a peak in mid-2009. The Company is optimistic that credit losses and impaired loans will normalize towards the Company's historical averages. Proactive strategies employed by the Company to tighten underwriting standards and to take into account local market conditions in the early days of the economic and credit crisis have lead to reduced arrears and credit losses. Further, the Company continues to employ prudent strategies to maintain the credit quality of the loans portfolio.
- An overall decline in the level of net write-offs over 2009. This reflects an improvement in recoveries early in 2010 due to improving real estate markets, lower overall net write-offs and a continued focused effort at working out non-performing loans. Write-offs in the residential mortgage portfolio have improved over comparable periods and have returned to more normalized levels. Personal and credit card loans and secured loans net write-offs are within expected levels. The non-residential mortgage portfolio continues the trend of zero write-offs. The Company's ongoing risk management philosophy includes close monitoring of non-performing loans and the employment of proactive measures to minimize losses, as described under the Credit Risk section of this MD&A and in the 2009 Annual Report under the heading Risk Management.

- An improvement in the overall risk profile of the loan portfolio and Canadian economic factors that influence management's assessment of the level of general allowance (please see the Credit Risk section of this MD&A for more information).

The general allowance balance at September 30, 2010 increased \$1.4 million over the fourth quarter of 2009 and \$2.6 million over September 30, 2009. The general allowance was 77.0 basis points of the Company's risk-weighted assets at September 30, 2010 compared to 86.1 basis points at December 31, 2009 and 88.8 basis points at September 30, 2009. The change in the level of the general allowance reflects the overall growth in the Company's loan portfolio, the current economic conditions, as well as changes in the overall risk profile of portfolio, including an overall reduction of non-residential loans, declining arrears and continued prudent lending practises.

The specific allowances balance at September 30, 2010 declined \$0.9 million and \$3.3 million over December 31, 2009 and September 30, 2009, respectively. The decrease in specific allowances is primarily reflective of lower levels of impaired loans.

## Income Taxes

The income tax expense amounted to \$14.8 million (effective tax rate of 24.6%) for the third quarter of 2010 and \$47.5 million (effective tax rate of 26.7%) for the first nine months of 2010, compared to \$13.8 million (effective tax rate of 26.5%) for the third quarter and \$43.7 million (effective tax rate of 29.6%) for same period in 2009. The lower effective tax rate during the quarter is attributed to Canadian dividend income which is non-taxable to financial institutions resulting in a lower effective income tax rate, the anticipated lower tax rates on the recognition of timing differences, and adjustments to the tax provision to effectively report the current assessed tax liability. In the absence of these items, the tax rates would have been 31.0% for both the third quarter and the nine months of 2010, compared to 31.5% for the third quarter and 33.9% for the nine months of 2009. Due to the nature of the Company's revenue and expense streams, an effective tax rate of 26.0% to 28.5% should be sustainable.

During the fourth quarter of 2009, the Ontario provincial government announced that it intended to reduce the Provincial Corporate Tax rates from 14% to 12% effective July 1, 2010 and further reductions which will result in an eventual Provincial tax rate of 10% effective July 1, 2013. These rate reductions have been accounted for in the Company's future tax provision.

## Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income was \$49.7 million for the quarter and \$123.7 million year-to-date compared to \$39.4 million and \$132.7 million in the comparable periods of 2009. OCI was a gain of \$4.2 million for the quarter and a loss of \$6.9 million year-to-date compared to OCI of \$1.2 million and \$28.6 million gain for the comparable periods in 2009.

OCI includes changes in unrealized income on available for sale securities, valuation changes on the securitization receivables, transfers of previously unrealized net gains and losses to net income once they have been realized, and transfers of unrealized losses on investments considered other than temporarily impaired to net income.

The Company recognized a net transfer of a \$1.1 million realized gain from OCI to net income related to a gain on sale of securities in the quarter for a total of \$6.1 million year-to-date. This compares to a net transfer of a \$0.2 million loss to net income in the comparable quarter of 2009 and \$13.4 million loss for nine months ended September 30, 2009.

There was a net increase in market value on securities available for sale, including fixed income, preferred and equity securities of \$5.4 million for the quarter and a net decrease of \$0.8 million year-to-date compared to a net increase of \$0.9 million and \$15.2 million for the comparable periods of 2009. This net increase in market value is predominately a result of market value increases in the preferred share portfolio.

## BALANCE SHEET REVIEW

### Assets

**Table 8: Assets**

The table below presents the asset position of the Company at September 30, 2010, December 31, 2009 and September 30, 2009 along with percentage changes.

		As at		% Change	
	September 30, 2010	December 31, 2009	September 30, 2009	September 30, 2010 - December 31, 2009	September 30, 2010 - September 30, 2009
<i>(000s, except %)</i>					
Cash resources	\$ 712,587	\$ 930,134	\$ 145,959	(23.4)%	388.2%
Securities	825,716	650,597	653,378	26.9%	26.4%
Residential mortgages	4,672,237	4,369,458	4,092,476	6.9%	14.2%
Non-Residential mortgages	774,580	708,425	719,838	9.3%	7.6%
Personal and credit card loans	428,207	342,918	342,539	24.9%	25.0%
Secured loans	37,123	47,739	53,493	(22.2)%	(30.6)%
General allowance	(29,146)	(27,793)	(26,520)	4.9%	9.9%
Total loans	5,883,001	5,440,747	5,181,826	8.1%	13.5%
Other assets	450,115	339,396	303,429	32.6%	48.3%
Total on-balance sheet assets	7,871,419	7,360,874	6,284,592	6.9%	25.2%
Mortgage-backed security assets under administration	6,831,290	4,147,711	3,606,015	64.7%	89.4%

The Company continued to reduce liquidity levels to more normalized levels leading to lower cash resources compared to the end of 2009. The Company had been maintaining higher liquidity levels in 2009 as a response to market uncertainty. Liquidity was higher at September 30, 2010 than the average month-end liquidity balance for the third quarter due to the timing of securitization transactions. Excess liquidity was used partially to fund mortgage origination activity and to rebalance the investment portfolio toward higher yielding investments.

The securities portfolio has increased by \$175.1 million and \$172.3 million from the end of 2009 and one year ago, respectively. The increase has resulted from the Company's continued growth and placing more of its resources in higher yielding securities rather than cash resources consistent with the reduction in liquidity levels. The Company continues to invest in conservative assets while balancing appropriate returns. In the third quarter, the Company took advantage of market opportunities and sold certain securities for a net before-tax gain of \$1.5 million.

Continued strong residential mortgage originations offset by securitization sales of \$3.31 billion have led to the increase in the residential mortgage balance compared to December 31, 2009 and September 30, 2009.

Strong originations in Equityline Visa and consumer lending have driven personal and credit card loan balances higher compared to the same dates. Please see the Results by Business Segment section of this MD&A for further discussion.

Non-residential mortgages are up as the Company has maintained the relative level of this portfolio in the third quarter after reducing the portfolio in late 2008 and early 2009 in response to market uncertainty.

Secured loans, which are second mortgages, continue to decline as discharges outpace new originations. The Company is not currently actively growing this portfolio.

Other assets include the Company's securitization receivable, capital assets and other assets. Growth in the securitization receivable of \$119.2 million over September 30, 2009 and \$85.8 million over December 31, 2009 is the primary driver of the increase in other assets. The securitization receivable balance, which represents the Company's right to the future cash flows of securitizations transactions, increases with new securitization volumes and reduces as the actual cash flows are collected over time.

Additionally, other assets increased due to an increase in intangible assets of \$17.4 million and \$23.9 million over December 31, 2009 and September 30, 2009, respectively, related to the development of the Company's new core banking system offset by a decline in other prepaid assets and deferred items.

Gross loans under administration, which include the MBS assets under administration, reached \$12.71 billion at the end of the quarter, an increase of 32.6% or \$3.13 billion from the \$9.59 billion recorded at the end of 2009 and a 44.7% or \$3.93 billion increase over the \$8.79 billion recorded one year ago. This increase is due to strong origination volumes in the residential mortgage portfolio.

**Table 9: Liabilities & Shareholders' Equity**

	As at			% Change	
	September 30, 2010	December 31, 2009	September 30, 2009	September 30, 2010 - December 31, 2009	September 30, 2010 - September 30, 2009
<i>(000s, except %)</i>					
Deposits	\$ 6,720,825	\$ 6,409,822	\$ 5,373,462	4.9%	25.1%
Other liabilities	454,746	360,764	360,307	26.1%	26.2%
Shareholders' equity	695,848	590,288	550,823	17.9%	26.3%
Total liabilities and shareholders' equity	7,871,419	7,360,874	6,284,592	6.9%	25.2%

Deposit liabilities increased from December 31, 2009 and one year ago in order to fund originations. The increase from December 31, 2009 was relatively less than the increase in loans as the Company also utilized excess liquidity and securitization proceeds to fund originations in the first nine months of 2010. The increase in deposits from one year ago was relatively more than the increase in on-balance sheet loans as more deposits were used to fund originations in the fourth quarter of 2009.

Growth in other liabilities was principally driven by general increases in the business that increase liability balances in accrued interest, servicing liabilities, future tax liabilities and other accrued liabilities.

The increase in total shareholders' equity since December 31, 2009 was internally generated from net income over the nine months of \$130.6 million, \$5.3 million in amounts related to the exercise of options and the amortization of the fair value of options less \$16.3 million for dividends paid and payable to shareholders. This increase was offset by a reduction in accumulated other comprehensive income of \$6.9 million from unrealized losses on available for sale securities and the repurchase of shares of \$7.0 million.

The increase in total shareholders' equity since September 30, 2009 was internally generated from net income over the twelve months of \$171.0 million, \$8.8 million in amounts related to the exercise of options and the amortization of the fair value of options less \$21.9 million for dividends paid and payable to shareholders. This increase was offset by a reduction in accumulated other comprehensive income of \$3.2 million from unrealized losses on available for sale securities and the repurchase of shares of \$9.0 million.

At September 30, 2010, the book value per common share was \$20.07, compared to \$17.00 at December 31, 2009 and \$15.99 at September 30, 2009.

## Derivatives

From time to time, the Company enters into hedging transactions to manage interest rate exposure on outstanding loan commitments. The Company uses forward contracts to sell Government of Canada bonds to hedge the impact of movements in interest rates between the time mortgage commitments are made and the time the mortgages are actually securitized. The intent of the forward bond contracts is to have the fair value movements of the forward bond contracts offset, within a reasonable range, the fair value changes due to interest rate fluctuations of the pool of fixed rate mortgages. This period is generally 60 to 150 days. For this purpose, during the third quarter of 2010, the Company entered into \$408.2 million of forward bond contracts.

The forward bond contracts settle at the time of securitization of the underlying mortgages. For the third quarter of 2010, a net realized loss of \$4.7 million was recognized in the income statement through securitization income compared to a net loss of \$3.9 million in the third quarter of 2009. The gain or loss realized on settlement of these contracts is dependant upon interest rate movements on the underlying bonds while the Company holds the forward bond contracts. If bond rates decline, as they did in the third quarters of both 2010 and 2009 the Company will realize a loss on settlement that is offset by an increase in the gross securitization gain.

At September 30, 2010, the Company continued to hold notional forward bond contracts of \$171.7 million in anticipation of future securitizations compared to \$183.8 million and \$519.4 million at December 31, 2009 and September 30, 2009, respectively. These contracts had a negative fair value of \$1.2 million at September 30, 2010 compared to a positive fair value of \$2.4 million at the end of 2009 and a negative fair value of \$1.7 million at September 30, 2009. The fair value changes in these contracts create unrealized gains or losses that are included in income statement through (loss) gain on derivatives. Once the hedged mortgages are securitized, the gain or loss realized on the bond forward is reported with the securitization gain.

The Company participates in the CMB program sponsored by CMHC, and administered by CHT. Through this program, the Company must manage the cash flow mismatch between the CMB interest rate payments and the amortizing MBS pools interest payments. To accomplish this, the Company enters into interest rate swaps (seller swap) in which, for fixed rate MBS, the Company pays the fixed interest payments on the CMB and receives the total return on the underlying MBS. For variable rate MBS, the Company enters into interest rate swaps (seller swap), where the Company pays the variable rate interest rate payments on the CMB and receives the variable rate total return on the underlying MBS. As well, for fixed rate MBS the Company enters into accreting interest rate swaps (hedge swaps) to manage the reinvestment risk between the amortizing fixed rate MBS and the bullet fixed rate CMB.

The total notional value of the seller swaps and hedge swaps at September 30, 2010 was \$5.33 billion (\$3.20 billion – Q4 2009; \$2.53 billion – Q3 2009). These swaps, including both the seller and hedge swaps, had a negative fair value of \$3.3 million at September 30, 2010 (\$10.7 million negative fair value – Q4 2009; \$2.8 million positive fair value – Q3 2009). Unrealized gains (losses) due to changes in fair value are recorded in the consolidated statements of income through gains (losses) on derivatives. Unrealized gains (losses) from the fair value changes of these swaps are impacted primarily by the total notional amount outstanding, changes in interest rates and changes in prepayment rates. Each of these factors creates some volatility in the fair value, which, over time, should stabilize.

The Company may also from time to time enter into interest rate swaps to manage the duration risk between the seller and the hedge swaps described in the above paragraph. At the time of entering into the hedge swap, management must estimate the expected rate of prepayment of the underlying securitized pool. Where actual prepayments differ from the original expectation, an unhedged reinvestment risk exposure will emerge. The Company enters into interest rate swaps to hedge this exposure. At September 30, 2010, the total notional value of these interest rate swaps was \$75.0 million. The interest rate swap had a negative fair value of \$4.0 million at September 30, 2010. There were no similar positions at September 30, 2009 or December 31, 2009.

For additional information, refer to Note 12 of these unaudited interim consolidated financial statements.

## Off-Balance Sheet Arrangements

The Company originates, securitizes and sells insured residential mortgage loans through MBS and CMB programs into special purpose entities for funding. When these mortgages are sold, the Company retains rights to certain excess interest spreads less servicing liabilities, which constitute retained interests classified as securitization receivable on the consolidated balance sheet. The Company periodically reviews the value of retained interests, and any other than temporary impairment in value is charged to income. The Company continues to administer a large majority of securitized assets that the Company originates and, upon maturity of the mortgage, will renew or refinance these mortgage loans whenever possible.

As at September 30, 2010 outstanding securitized mortgage loans under administration amounted to \$6.83 billion (\$4.15 billion – Q4 2009; \$3.61 billion – Q3 2009) with retained interest of \$315.2 million (\$229.4 million – Q4 2009; \$196.0 million – Q3 2009). The off-balance sheet portfolio continues to perform well, with 99.2% of the portfolio current and 0.3% greater than 60 days in arrears compared to 97.9% current and 0.9% over 60 days at December 31, 2009 and 97.7% current and 1.1% over 60 days at September 30, 2009.

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 \$458.2 million at September 30, 2010 (\$380.8 million – Q4 2009; \$382.1 million Q3– 2009). Included within the outstanding commitments are unutilized non-residential loan advances of \$62.8 million at September 30, 2010 (\$48.6 million – Q4 2009; \$39.9 million – Q3 2009). Commitments for the loans remain open for various dates through September 2011. As at September 30, 2010 unutilized credit card balances amounted to \$71.4 million (\$52.8 million – Q4 2009; \$52.0 million – Q3 2009). Outstanding commitments for future advances for the Equityline Visa portfolio were \$3.6 million at September 30, 2010 (\$2.9 million – Q4 2009; \$3.9 million – Q3 2009).

## CAPITAL MANAGEMENT

Home Trust calculates capital ratios and regulatory capital based on capital adequacy rules issued by OSFI, which are based on the "International Convergence on Capital Management and Capital Standard – A Revised Framework" (Basel II).

Under Basel II, Home Trust calculates risk-weighted assets for each of credit and operational risk. Home Trust's capital structure and risk-weighted assets were as follows:

**Table 10: Regulatory Capital**

			As at	
<i>(000s, except % and multiples)</i>	<b>September 30 2010</b>		December 31 2009	September 30 2009
Capital Stock	<b>\$</b>	<b>23,497</b>	\$ 23,497	23,497
Retained earnings		<b>615,786</b>	505,808	471,940
Contributed surplus		<b>951</b>	951	951
Accumulated (net after tax) unrealized losses on available for sale equity securities		-	-	-
Net tier 1 capital	<b>\$</b>	<b>640,234</b>	\$ 530,256	496,388
Subordinated debt		<b>15,000</b>	15,000	15,000
Accumulated (net after tax) unrealized gains on available for sale equity securities		<b>2,646</b>	7,987	6,893
Eligible general allowance for credit losses		<b>29,146</b>	27,793	26,520
Total Capital	<b>\$</b>	<b>687,026</b>	\$ 581,036	544,801
Risk-weighted assets for:				
Credit risk	<b>\$</b>	<b>3,453,515</b>	\$ 2,913,092	2,688,064
Operational risk		<b>340,363</b>	314,063	300,363
Total Risk-weighted Assets <sup>1</sup>	<b>\$</b>	<b>3,793,878</b>	\$ 3,227,155	2,988,427
Tier 1 Capital Ratio		<b>16.9%</b>	16.4%	16.6%
Total Capital Ratio		<b>18.1%</b>	18.0%	18.2%
Asset to Capital Multiple		<b>11.5</b>	12.7	11.5

<sup>1</sup>Based on the Company's wholly owned subsidiary, Home Trust Company.

The capital base of Home Trust continues to be strong. The Tier 1 and Total capital ratios continue to significantly exceed OSFI's well capitalized targets of 7.0% for Tier 1 and 10.0% for Total capital, as well as Home Trust's internal capital targets.

The Company continues to maintain its conservative approach to capital and to build capital through the growth of retained earnings. The strong capital position affords the Company the flexibility to maintain and grow operations, both organically and, if the opportunity should arise, through strategic acquisitions. There were developments in international rule-making activities in the third quarter of 2010 related to the development of Basel III that are anticipated to impact the capital and liquidity requirements in Canada. The Company is currently analyzing and seeking further clarification to assess the impact of the new capital and liquidity rules.

## 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, among others, credit, liquidity, interest rate and operational risks. The Company has adopted enterprise risk management (ERM) as a discipline for managing all sources of risks. Supporting the Company's ERM structure is a governance framework that includes Board of Director and Senior Management oversight, independent monitoring and measurement by the ERM function, policies, management standards, guidelines and procedures appropriate to each business activity and source of risk. The Board of Directors reviews and approves the policies annually. The Company's key risk management practices remain in place and are continually reviewed and enhanced from those outlined on pages 32 through 41 in the MD&A section of the Company's 2009 Annual Report.

### Credit Risk

This is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties, for any reason, to honour their financial or contractual obligations to the Company. Senior management, the ERM function, the Audit Committee and the Risk and Capital Committee of the Board of Directors, monitor the Company's exposure to credit risk. These parties undertake reviews of credit policies, lending practices, the adequacy of loan loss reserves and credit risk based capital. It is the Company's policy that different levels of senior management approve credit, based upon the level of risk and 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 part of credit risk management of the mortgage portfolio, senior management and the ERM function monitor various portfolio characteristics, including the characteristics in the table below.

**Table 11: Mortgage Portfolio**

	As at		
	September 30 2010	December 31 2009	September 30 2009
<i>(000s, except %)</i>			
Total mortgage portfolio balance (net of specific allowance)	\$ 5,446,817	\$ 5,077,883	\$ 4,812,314
Percentage of residential mortgages	85.8%	86.0%	85.0%
Percentage of non-residential mortgages	14.2%	14.0%	15.0%
Percentage of insured residential mortgages	19.9%	31.0%	28.8%
Percentage of new residential originations insured (for the three months ended)	60.4%	60.7%	72.8%
Percentage of first mortgages	99.5%	99.7%	99.6%
Percentage of mortgages current	97.5%	95.5%	96.6%
Percentage of mortgages over 60 days past due	0.3%	1.1%	1.8%

The composition of the mortgage portfolio is well within the internal policy limits approved by the Company's Risk and Capital Committee. The relative proportion of non-residential mortgages has declined over September 2009 due to the Company's prudent approach in the non-residential mortgage sector and the significant growth in the residential mortgage portfolio. Refer to Note 4 of these unaudited interim consolidated financial statements for a further breakdown of the loan portfolio by geographic region.

Insured mortgages reduce the credit risk to the Company. The insured on-balance sheet mortgage balance has decreased from December 31, 2009 and September 30, 2009 due to a high volume of insured mortgage securitizations. The percentage of insured mortgages originated is consistent with the three months ended December 31, 2009 and down from the comparable quarter of 2009. Through the Accelerator program, the Company continues originating high volumes of insured mortgages, but the increased focus on growing the traditional portfolio resulted in a lower percentage of mortgages insured at origination compared to the three months ended September 30, 2009.

The Company also reduces credit risk on residential mortgages through collateral in the form of real property. In that regard, first mortgages continue to represent almost the entire portfolio. The average loan to value on origination of the Company's traditional residential mortgage loans portfolio was 72.9% compared to 68.8% at December 31, 2009 and 68.1% one year ago.

Senior management and ERM closely monitor the credit performance of the mortgage loans portfolio. The portfolio continues to perform well with arrears returning to historical norms and showing signs of stability. The total mortgage loans

portfolio under administration, which includes the off-balance sheet securitized mortgages, is also performing well with 98.2% of the portfolio current and 0.8% over 60 days in arrears.

At September 30, 2010 the gross credit card receivable balance totalled \$322.0 million, of which 99.9% was secured either by cash deposits or residential property. Within the secured credit card portfolio, Equityline Visa credit cards represent the principal driver of receivable balances. Equityline Visa credit cards are secured by collateral residential mortgages, and this portfolio segment amounted to \$313.9 million or 97.4% of the total credit card receivable balance as at September 30, 2010 compared to 97.6% at December 31, 2009. Cash deposits securing credit card accounts amounted to \$7.8 million and are included in the Company's deposits. Additionally, the Equityline Visa portfolio has a loan to value of 69.8% at September 30, 2010 up slightly from a loan to value of 69.3% at December 31, 2009 and 69.4% at September 30, 2009. At September 2010, \$6.5 million or 2.0% of the credit card portfolio was over 60 days in arrears compared to \$7.5 million or 2.5% at December 31, 2009 and \$8.4 million or 2.7% at September 30, 2009.

The secured loan portfolio of \$37.1 million decreased by \$10.6 million from December 31, 2009 and decreased \$16.4 million from September 30, 2009. These loans are secured by second mortgages on residential properties. At September 30, 2010, 97.1% of the secured loan portfolio was current while \$0.3 million or 0.6% was over 60 days in arrears. This compares to 96.6% of the secured loan portfolio being current while \$0.5 million or 0.9% was over 60 days in arrears at December 31, 2009. As at September 30, 2009, 96.2% of the secured loan portfolio was current while \$1.1 million or 2.1% was over 60 days in arrears.

**Table 12: Total Net Impaired Loans**

(000s, except %)	September 30		December 31		September 30	
	2010		2009		2009	
Net impaired loans	\$	33,914	\$	46,306	\$	63,506
Gross loans		5,913,861		5,471,119		5,213,316
Net impaired as % of gross loans		0.57%		0.85%		1.22%

Total net impaired loans have stabilized after reaching a peak in the second quarter of 2009. The Company continues to benefit from its early implementation of strategies to minimize loss exposure during the economic challenges. These strategies included the tightening of its underwriting criteria taking into account local market conditions. While the Company has begun prudently re-entering certain markets, including markets outside Ontario, its ongoing business strategy ensures that 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 during the quarter totalled \$1.8 million and \$3.2 million year-to-date, down from \$2.2 million and \$5.9 million for the comparable periods of 2009. The Company continually monitors arrears and write-offs very carefully, and deals prudently and effectively with impaired loans.

The Company maintains a general allowance that, in management's judgement, is sufficient to absorb probable losses in its loans portfolio. At September 30, 2010, the Company held a general allowance of \$29.1 million compared to \$27.8 million at December 31, 2009 and \$26.5 million at September 30, 2009. The Company routinely monitors the adequacy of the general allowance. The Company has security in the form of real property or cash deposits against loans totalling 99.9% of the total loans portfolio. The Company's evaluation of the adequacy of the general allowance takes into account asset quality, borrowers' creditworthiness, property location and past loss experience. The Company periodically reviews the methods utilized in assessing the general allowance, giving due consideration to changes in economic conditions, interest rates and local housing market conditions.

The total general allowance was 77.0 basis points of the Company's risk-weighted assets at September 30, 2010 compared to 86.1 basis points at December 31, 2009 and 88.8 basis points at September 30, 2009. The decrease in basis points of risk-weighted assets reflects the overall improvement in the credit performance of the portfolio and improving economic conditions.

## Liquidity Risk

This is the risk that the Company would be unable 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. These include 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 the ERM function, and quarterly reporting to the Risk and Capital Committee of the Board of Directors.

The Company holds liquid assets in the form of cash and bank deposits, treasury bills, bankers' acceptances, government bonds and debentures, and Canadian bank bonds to comply with its liquidity policy. At September 30, 2010, liquid assets amounted to \$1.15 billion, compared to \$1.20 billion recorded at December 31, 2009 and \$469.0 million at September 30, 2009. While liquidity levels were relatively high at the end of the quarter, the Company has been reducing the liquidity levels to within more normalized levels. There was a spike in liquidity at the end of the quarter due to the timing of securitization funding close to the end to quarter. The average month-end liquidity for the third quarter of 2010 was \$706.0 million or 32.9% of 100-day liabilities.

The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets and at September 30, 2010, the Company had 51.4% of 100-day liabilities in liquid assets. For the twelve months ended September 30, 2010, the Company maintained a monthly average of \$737.1 million or 41.5% of 100-day obligations in liquid assets compared to \$646.5 million or 44.8% for the twelve months ended December 31, 2009 and \$620.2 million or 44.0% for the twelve months ended September 30, 2009.

As another tool used in managing liquidity, the Company runs a model that considers two stress scenarios. In the "immediate" scenario, the Company experiences a significant 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, 2010 liquid assets amounted to 182% under the immediate scenario and 141% under the ongoing scenario compared to 165% and 139%, respectively, at December 31, 2009 and 163% and 141%, respectively, as at September 30, 2009. The Company continues to monitor these scenarios and will take appropriate actions should the need arise.

## Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due 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 that is designed to provide reasonable assurance that interest rate fluctuations will not materially impact future earnings, and to the best of its abilities matches 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 (ALCO) 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, 2010 is presented under Note 13 in these unaudited interim consolidated financial statements. The table provided there represents the Company's position at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. Note 13 summarizes 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 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.

**Table 13: Impact of Interest Rate Shifts**

<i>(000s)</i>	<b>September 30</b> <b>2010</b>	September 30 2009	<b>September 30</b> <b>2010</b>	September 30 2009
	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)	<b>\$ 13,263</b>	\$ 5,465	<b>\$ (13,263)</b>	\$ (5,465)
Impact on net present value of shareholders' equity	<b>(4,392)</b>	(1,450)	<b>5,086</b>	1,712
<b>200 basis point shift</b>				
Impact on net interest income, after tax (for the next 12 months)	<b>\$ 26,526</b>	\$ 10,930	<b>\$ (26,256)</b>	\$ (10,930)
Impact on net present value of shareholders' equity	<b>(8,175)</b>	(2,673)	<b>10,964</b>	3,724

As described in the Derivatives section of this MD&A, the Company may enter into derivative contracts to hedge the interest rate risk on loan commitments. The purpose is to manage interest rate exposures during the period between when a mortgage commitment is made and when the mortgage loan is securitized. At September 30, 2010, the Company held notional \$171.7 million (\$183.8 million – Q4 2009; \$519.4 million – Q3 2009) in bond forward contracts for the sale of Government of Canada bond positions to hedge this risk. Through the Company's participation in CMHC's CMB program, the Company is also required to enter into specific interest rate swap contracts to hedge interest rate risk and the reinvestment risk between the amortizing MBS pool and the CMB. Refer to Derivatives section of this MD&A and 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 segments for the three- and nine-month periods ended September 30, 2010 (refer to Note 14 of these unaudited interim consolidated financial statements). The mortgage lending segment continues to be the primary driver of the Company's overall growth while the consumer lending segment continues to provide a diversified income source.

### Mortgage Lending

**Table 14: Summary of Mortgage Lending Results**

(000s, except %)	For the three months ended				For the nine months ended		
	September 30	September 30		September 30	September 30		
	2010	2009	% Change	2010	2009	% Change	
Net interest income	\$ 32,327	\$ 26,839	20.4%	\$ 97,119	\$ 71,965	35.0%	
Net income	32,323	29,402	9.9%	93,893	79,437	18.2%	
Total assets	6,140,127	5,252,272	16.9%	6,140,127	5,252,272	16.9%	

The Company's principal line of business continues to experience growth in net interest income driven through increased mortgage originations and higher mortgage loan balances. Net interest income is discussed on page 11 of this MD&A. The rise in net income on a quarter over comparable quarter of 2009 is due to the increased net interest income, higher securitization income, lower provisions for credit losses and lower taxes, offset by decreases in unrealized gains on derivatives, a marginal decline in fee income and managed increases in expenses.

The table below provides a breakdown of specific residential and non-residential advances made during the quarter compared to the previous quarter.

**Table 15: Mortgage Production**

(000s)	For the three months ended		For the nine months ended	
	September 30	September 30	September 30	September 30
	2010	2009	2010	2009
Traditional single family residential mortgages <sup>1</sup>	\$ 728,563	\$ 546,703	\$ 2,169,874	\$ 1,260,907
Accelerator single family residential mortgages <sup>1</sup>	716,879	402,150	2,083,762	1,035,215
Multi-unit residential mortgages <sup>1</sup>	133,855	392,134	481,441	942,518
Warehouse residential mortgages <sup>1</sup>	-	-	-	49,951
Non-residential mortgages	40,617	36,609	146,905	75,224
Store and apartments	23,495	9,662	75,146	24,051
Warehouse commercial mortgages	39,300	10,250	60,050	16,250
Total Mortgage Advances	\$ 1,682,709	\$ 1,397,508	\$ 5,017,178	\$ 3,404,116

<sup>1</sup> As defined by OSFI

The mortgage lending segment advanced \$1.68 billion in the third quarter of 2010 and a record \$5.02 billion for the nine months ended September 30, 2010 representing 20.4% and 47.4% growth over the comparable periods in 2009. Compared to a record second quarter of 2010, third quarter originations declined \$326.6 million. However, compared to the first quarter of 2010, originations are up 27.0% in the third quarter. The second quarter of 2010 benefitted from higher than normal origination activity reflecting homebuyers push to close before changes to CMHC qualification rules and the adoption of HST. The Company also benefitted in the second quarter from a business as usual approach to the G-20 summit in Toronto in June 2010.

The Company's focus on customer service and broker relationships, as well as the breadth of mortgage product offerings, is leading to expanded market penetration and continued growth in mortgage originations. The Company began offering Equityline Visa products along with mortgages as a packaged product to qualified customers in 2010. Through this, and other initiatives, the Company has been able to offer a "one stop" lending solution to brokers and customers, driving both

increased mortgage originations and new Equityline *Visa* accounts, which are included in the consumer lending line of business.

The fully insured Accelerator mortgage program remains a key contributor to growth and the cautious expansion in the traditional portfolio continues providing increased origination volumes over 2009. The Company has increased its presence in markets outside the Ontario region and has grown originations outside of Ontario on a volume basis by 4.2% compared to the second quarter of 2010.

The non-residential product advances of \$40.6 million have increased over the comparable quarter and over the comparable year-to-date. The Company began a focused effort in early 2009 to reduce the level of exposure to non-residential mortgages and this is reflected in the lower volumes in 2009 and marginal increases in 2010. The Company is currently maintaining the overall balance in this portfolio but will look to grow the portfolio marginally if appropriate and high quality assets are available.

The Company securitized and sold \$1.13 billion of insured residential mortgage loans through the creation of MBS securities during the quarter. Continued strong Accelerator mortgage originations drove this record level of securitization. Securitization income was \$21.3 million for the quarter compared to \$13.7 million in the comparable quarter last year. Refer to the Securitization Activity section of this MD&A and Note 5 of the unaudited interim consolidated financial statements for additional information.

Through Regency Finance Corp. (Regency), 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 third quarter of 2010 the Company held \$37.1 million in Secured Loans as Notes Receivable issued by Regency, compared to \$47.7 million at December 31, 2009 and \$53.5 million at September 30, 2009. These Notes yield 5.8% with an average duration of 2.1 years. The Company also receives fee income for servicing and administering these mortgages for Regency. This income amounted for 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 only 0.6% of the portfolio in arrears over 60 days. This program has experienced minimal losses since inception.

## Consumer Lending – Credit Cards and Retail Services

**Table 16: Summary of Consumer Lending Results**

	For the three months ended			For the nine months ended		
	September 30 2010	September 30 2009	% Change	September 30 2010	September 30 2009	% Change
<i>(000s, except %)</i>						
Net interest income	\$ 8,692	\$ 9,599	(9.4)%	\$ 26,771	\$ 27,665	(3.2)%
Net income	8,598	6,163	39.5%	20,860	16,777	24.3%
Total assets	487,704	384,805	26.7%	487,704	384,805	26.7%

Consumer lending, which includes *Visa* and retail lending, continues to generate positive returns for the Company. Net interest income for the third quarter of 2010 declined compared to the third quarter of 2009 due to a reduction in the yield on the portfolio as the Company began to issue lower rate Equityline *Visa* cards to high quality borrowers. The average yield earned on the consumer lending portfolio was 10.1% for the third quarter and 10.2% year-to-date compared to 11.5% and 11.3% in the comparable periods of 2009.

During the third quarter of 2010, 1,796 Equityline *Visa* accounts with \$49.0 million in authorized credit limits were issued, up from 1,515 Equityline *Visa* accounts with \$44.9 million in authorized credit limits issued in the second quarter of 2010 and up from 744 Equityline *Visa* accounts with \$26.7 million in authorized credit limits issued for the three months ended September 30, 2009.

The balance in the Equityline *Visa* loans portfolio amounted to \$313.9 million at September 30, 2010 (\$297.3 million – Q4 2009, \$305.4 million – Q3 2009). Equityline *Visa* comprises 97.4% (97.6% – Q4 2009; 97.6% – Q3 2009) of the total gross credit card receivable balance.

The total credit card receivable balance was \$322.0 million at September 30, 2010, carrying an average interest rate of 9.8% (10.8% – Q4 2009; 10.8% – Q3 2009) on outstanding balances. The Company had scaled back lending in the *Visa* products last year as a proactive measure to manage credit risk in during the economic downturn. The Company resumed its strategy in 2010 to prudently increase this business line through new marketing and product initiatives, including packaging with the traditional mortgage product, and has seen increased volumes and expects this trend to continue.

The Company's consumer lending portfolio also includes the results from its retail lending operations. The largest component of retail lending, representing 78.9% of the portfolio, is water heater loans. There were 13,160 new water heater accounts during the third quarter for a net increase in receivables over the second quarter of 2010 of \$15.0 million.

During the third quarter of 2010, the Company recognized a \$3.9 million gain on the sale of \$19.5 million in water heater loans.

## Other

**Table 17: Summary of Other Results**

<i>(000s, except %)</i>	For the three months ended				For the nine months ended	
	<b>September 30 2010</b>	September 30 2009	% Change	<b>September 30 2010</b>	September 30 2009	% Change
Net interest income	<b>\$ 8,080</b>	\$ 6,516	24.0%	<b>\$ 20,139</b>	\$ 20,045	0.5%
Net income	<b>4,529</b>	2,678	69.1%	<b>15,809</b>	7,798	102.7%
Total assets	<b>1,243,588</b>	647,515	92.1%	<b>1,243,588</b>	647,515	92.1%

The Other segment is comprised of the operating results from the Company's securities portfolio and corporate activities.

The increase in net interest income for the third quarter of 2010 compared to 2009 is reflective of an increase in the securities portfolio size and the rebalancing of the portfolio from lower yielding liquid assets to higher dividend paying securities when compared to 2009. Total assets have increased due to general growth in the balance sheet as well as the timing of securitization transactions, which increased the liquidity portfolio.

Net income has increased over comparable periods as the Company sold certain securities during the first nine months to take advantage of market opportunities. Additionally, expenses in the corporate segment have remained relatively flat year-over-year while revenue has grown.

## ACCOUNTING STANDARDS AND POLICIES

Critical accounting estimates which require management to make significant judgements, some of which are inherently uncertain, are outlined on pages 44 through 45 of the 2009 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 residential mortgages, financial instruments measured at fair value, other than temporary impairment of available for sale securities, goodwill and future income tax liabilities. Further information can be found under Notes 3, 4, 5, 11, and 12 of these unaudited interim consolidated financial statements. There have been no subsequent changes to the critical accounting estimates disclosed on pages 44 through 45 of the 2009 Annual Report.

### Controls over Financial Reporting

No changes were made in the Company's internal controls over financial reporting during the interim period ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### Preliminary Impact of Securitization Accounting Changes on Net Income in 2010

The Company has completed a preliminary calculation of what the possible material IFRS securitization impacts would be for the first, second and third quarters of 2010 under two scenarios. This analysis has not been audited by the Company's external auditors.

The Company continues to analyze the appropriate accounting treatment for securitization transactions under IFRS and final conclusions have not yet been reached for certain transactions. Mortgages securitized through the CMB program will not achieve sale and off-balance sheet treatment, and therefore will be on-balance sheet under IFRS. However, mortgages securitized under NHA MBS are still being analyzed by the Company, its auditors, and its advisors and a final conclusion has not been reached on the appropriate treatment. As such, the Company has estimated IFRS income for the first, second and third quarters of 2010 under two scenarios, where all securitized mortgages remain on balance sheet or only mortgages securitized through the CMB program remain on balance sheet. The final outcome is expected to fall within these range of scenarios.

Under the range of possible scenarios, net income on an IFRS basis for the first quarter of 2010 would not be materially different than and the second and third quarter would not be lower than current GAAP, as presented.

Income on an IFRS basis differs from current GAAP as a result of two factors: the recognition of net interest income on the securitized mortgages in place of the securitization gains, and an increase in the volatility on derivative instruments. Under IFRS, one of the derivative instruments required as part of the CMB program, the seller swap, that currently acts as an offset to another derivative instrument, the hedge swap, is no longer fair valued through profit and loss. This increases the volatility of the derivative gain or loss on an IFRS basis in 2010. In the first, second and third quarters of 2010, this was a positive volatility on an IFRS basis. The Company is investigating accounting alternatives under IFRS, including hedge accounting, which could reduce this accounting volatility.

The IFRS calculations are preliminary and contain certain management assumptions and, therefore, are subject to change as the information is further refined and audited. The calculations assume the application of currently applicable IFRS and retroactive treatment of IFRS for all securitization transactions.

The Company utilized existing disclosure controls and internal controls over financial reporting to develop and conduct the preliminary impact of securitization changes on net income.

## Transition Adjustment at January 1, 2010

On the transition date to IFRS, January 1, 2010, the IFRS opening retained earnings and accumulated other comprehensive income (AOCI) is adjusted for the net impact of the accounting differences between current GAAP and IFRS. The vast majority of the adjustment for the Company relates to securitization activities.

The Company has calculated an opening adjustment based on two scenarios, as discussed above. The Company estimates an opening retained earnings adjustment of between \$60 million – \$85 million, dependant on the final interpretations and analysis for its NHA MBS transactions and \$11 million - \$14 million for AOCI. The opening retained earnings adjustment is re-earned over time through future earnings under IFRS reporting.

For regulatory calculations, Home Capital will be able to exclude mortgages securitized prior to March 31, 2010 from the asset to capital multiple (measure of leverage) and transition the IFRS opening retained earnings adjustment for securitization transactions over eight quarters for purposes of calculating regulatory capital. Please see the discussion below for more information.

## IFRS Project

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 the year ended December 31, 2010. The Company is in the process of transition from current Canadian GAAP to IFRS. A project team that includes representatives from various areas of the organization is working towards a smooth transition to IFRS. The Company engaged outside consultants to provide technical assistance and additional resources. The IFRS project team provides regular progress reports to the Audit Committee of the Board of Directors on the status of the IFRS implementation project.

Most adjustments required on transition to IFRS will be made retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presentation based on standards applicable at that time. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

The Company's analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reporting results and financial positions. However, there may be significant accounting changes following from the IFRS accounting principles and provisions for first-time adoption of IFRS standards on certain areas as described below.

IFRS 1 "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company has analyzed the various accounting policy choices available and has made preliminary conclusions on the accounting policy choices, but these elections are subject to change during the transition year. None of the preliminary elections made by management under IFRS 1 are expected to have a material impact on the financial statements.

The Company is currently capturing IFRS based accounting for the 2010 comparative periods. The calculation of the IFRS opening balance sheet, assuming all securitized and sold mortgages are on-balance sheet under IFRS is complete. The Company is able to adapt its accounting if final IFRS interpretations differ from this assumption.

Key remaining project milestones include:

- production of 2010 comparative IFRS financial disclosure – Q1 2011 – Q3 2011
- completion of Q1 2011 skeleton financial statements – December 2010
- development and documentation of revised accounting processes and controls – December 2010
- additional training of accounting and finance personnel – Q4 2010
- ongoing senior management and board awareness sessions – December 2010 – April 2011
- design of revised disclosure controls and internal controls over financial reporting – December 2010
- testing of revised disclosure controls and internal controls over financial reporting – Q1 2011 – Q2 2011

## Summary of IFRS Impacts

The table below provides a preliminary high-level summary of the more significant IFRS impacts identified by the Company. The table below is based on current IFRS and is subject to change based on potential IFRS changes prior to January 1, 2011.

IFRS Area	Identified Impact on Home
Securitization Accounting	<p>The most significant IFRS implication for the Company is the accounting for the securitization and sale of mortgages under the CMHC sponsored CMB and MBS programs.</p> <p>The Company securitizes and sells insured mortgages through two programs, the NHA MBS program and the CMB program administered by CHT. Under currently applicable IFRS, mortgages securitized and sold under the CMB program would no longer qualify as sales and would remain on the Company's balance sheet. As such, at the transition date to IFRS (January 1, 2010), all previously recognized securitization gains will be reversed through opening retained earnings offset by the income that would have been recognized if the mortgages had not been securitized and sold, less the cost of the securitization funding. The Company's balance sheet at transition will include the mortgages previously securitized and sold under the CMB program at amortized cost (\$3.05 billion at December 31, 2009) and the associated bullet bond liability to the CMB security holders of \$2.96 billion.</p> <p>As discussed above, the appropriate IFRS treatment of mortgages securitized and sold through the NHA MBS programs is still being analyzed. There are three possible accounting outcomes depending on the terms of each NHA MBS securitization transaction. Either they will qualify as sales and off-balance sheet accounting will apply; or they will not qualify as sales and they will be treated the same as the CMB program; or they will qualify for continuing involvement accounting. Continuing involvement accounting is a form of accounting where a sale accounting applies to the portion of the assets sold and a corresponding continuing involvement asset and liability is recognized. Future securitization transactions undertaken through the CMB programs using the current IFRS, will not be accounted for as sales of mortgages. As such, upfront securitization gains will no longer be recognized and instead will be replaced by the interest income on the mortgages less the interest expense on the funding. As described, the treatment of NHA MBS has not been finalized.</p>
Accounting for Loans	<p>The Company anticipates that the loans portfolio will continue to be accounted for at amortized cost. However, non-performing loans will continue to accrue interest. This will be partially offset by an increase in provisions for credit losses where appropriate.</p>
Accounting for Investments	<p>The Company's preliminary decision is to continue to account for securities portfolio as Available for Sale under IFRS where fair value changes are recorded through OCI.</p>
First-time Adoption of IFRS (IFRS 1)	<p>The Company's preliminary elections under IFRS 1 are not expected to have a material financial impact on the Company. The Company will need to provide the additional reconciliations and disclosures required by IFRS 1 throughout 2011.</p>
Stock-based Compensation	<p>The Company has identified differences in the way the vesting of options are treated under IFRS. This may lead to acceleration in the recognition of the expense under IFRS. The Company is currently quantifying the impact, but it is not expected to be material to the results.</p>
Income Tax Impact of IFRS	<p>Any financial statement adjustment under IFRS will have a related income tax accounting impact. The Company has identified tax accounting differences between Canadian GAAP and IFRS but they are not applicable to the Company.</p>
Additional Disclosure	<p>There are a number of IFRS that require additional disclosures compared to Canadian GAAP. Additionally, any changes to the financial statement balances will change the related financial statement note disclosure on a comparative basis.</p>
Hedge Accounting	<p>The elimination of upfront securitization gains and the on-balance sheet treatment of securitized and sold mortgages with the associated securitization liability under IFRS can lead to additional volatility in the gains (losses) from derivative instruments. The Company has determined that applying hedge accounting on an IFRS basis will better reflect the economic purpose of certain derivatives. The Company intends on applying hedge accounting on an IFRS basis to its bond forward transactions and to certain interest rate swaps where possible.</p>

## Information Technology Impacts

The Company has completed a comprehensive assessment of its existing financial information technology platforms and has determined that there are no significant changes required due to its transition to IFRS. The Company has developed controls and procedures to capture all required IFRS based financial information in order to produce its comparative year financial information. In addition, the Company is in the process of a major system conversion and expects to have it operational and IFRS compliant during 2011.

## Disclosure Controls and Internal Controls over Financial Reporting Impacts

Management has determined that the Company's internal controls over financial reporting and its disclosure controls and procedures will largely be unaffected by the transition to IFRS. Effects will be limited primarily to the development of internal controls and procedures over the accounting and communicating of IFRS financial and non-financial information. In the comparative year, potential changes in the accounting treatment for securitization activities and additional disclosures to the Company's financial statements. Management has identified potential changes to its control environment and has incorporated them into its IFRS implementation plan.

## IFRS Education and Corporate Governance

In 2009 the Company began developing its IFRS education program. The program was established to ensure that an appropriate level of expertise and governance is in place upon the Company's transition to IFRS. The training program consists of presentations, technical workshops and exercises. This program is being provided to the Board of Directors, senior management, accounting and finance staff, and other affected members of the Company.

## Regulatory Considerations

In March 2010 OSFI released a Final Advisory on the conversion to IFRS by Federally Regulated Entities (FREs) that among other items provided guidance on the capital treatment under IFRS of securitization activities under the CMHC-sponsored CMB and National Housing Authority (NHA) MBS programs. These activities, as off-balance sheet items, were previously excluded from the calculation of the assets to capital multiple (ACM) prescribed by OSFI. The Final Advisory requires that these activities be included in the calculation of ACM when these activities are accounted for on-balance sheet under IFRS. CMHC-sponsored securitizations entered into on or before March 31, 2010 would be grandfathered for purposes of the ACM calculation and will not affect the ACM. The Company believes that the proposed ACM rules for securitization will not materially affect participation in the CMB and NHA MBS programs, nor affect the Company's ability to continue offering these competitive mortgage products that utilize these programs to provide additional funding sources. Additionally, OSFI's Final Advisory provided transitional relief for the opening IFRS capital adjustment for certain adjustments including the impact of mortgages securitized through CMHC programs. Based on the regulatory relief, the Company will be permitted to transition the opening retained earnings adjustment over eight quarters beginning March 31, 2011. The transition to IFRS will not materially affect the strong capital position of the Company.

## UPDATED SHARE INFORMATION

As at September 30, 2010, the Company had issued 34,679,190 Common Shares. In addition, outstanding employee stock options amounted to 748,750 (797,250 – Q2 2010, and 1,271,750 – Q3 2009) of which 434,100 were exercisable as of the quarter-end (406,000 – Q2 2010, and 755,500 – Q3 2009) for proceeds to the Company upon exercise of \$14.4 million (\$13.1 million – Q2 2010, and \$18.3 million – Q3 2009).

Subsequent to the end of the third quarter, the Board of Directors declared a quarterly cash dividend of \$0.18 per common share payable on December 1, 2010 to shareholders of record at the close of business on November 15, 2010.

## QUARTERLY FINANCIAL HIGHLIGHTS

**Table 17: Summary of Quarterly Results**

(000s, except per share and %)	2010				2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Net interest income (TEB <sup>1</sup> )	\$ 51,092	\$ 49,467	\$ 49,591	\$ 48,178	\$ 45,254	\$ 42,024	\$ 37,505	\$ 36,399	
Less TEB adjustment	1,993	2,032	2,096	2,842	2,300	1,535	1,273	1,162	
Net interest income per financial statements	49,099	47,435	47,495	45,336	42,954	40,489	36,232	35,237	
Non-interest income	36,808	38,149	29,826	28,015	33,589	30,437	32,034	26,023	
Non-interest expense	23,535	23,435	20,101	19,856	21,674	18,222	18,849	16,852	
Total revenues	133,753	132,768	122,673	121,381	125,299	121,778	120,721	117,996	
Net income	45,450	43,393	41,719	40,481	38,243	34,351	31,418	29,039	
Return on common shareholders' equity	27.0%	27.1%	27.4%	28.4%	28.7%	27.9%	27.9%	27.4%	
Return on average total assets	2.4%	2.4%	2.3%	2.4%	2.5%	2.3%	2.2%	2.0%	
Earnings per common share									
Basic	\$ 1.31	\$ 1.25	\$ 1.20	\$ 1.17	\$ 1.11	\$ 1.00	\$ 0.91	\$ 0.84	
Diluted	\$ 1.31	\$ 1.25	\$ 1.20	\$ 1.16	\$ 1.10	\$ 0.99	\$ 0.91	\$ 0.84	
Book value per common share	\$ 20.07	\$ 18.78	\$ 18.08	\$ 17.00	\$ 15.99	\$ 14.99	\$ 13.62	\$ 12.57	
Efficiency ratio (TEB) <sup>1</sup>	26.8%	26.7%	25.3%	26.1%	27.5%	25.1%	27.1%	27.0%	
Efficiency ratio	27.4%	27.4%	26.0%	27.1%	28.3%	25.7%	27.6%	27.5%	
Tier 1 capital ratio <sup>2</sup>	16.9%	16.7%	16.5%	16.4%	16.6%	15.2%	13.8%	12.9%	
Total capital ratio <sup>2</sup>	18.1%	17.9%	17.9%	18.0%	18.2%	16.7%	15.2%	14.2%	
Net impaired loans as a % of gross loans	0.57%	0.67%	0.91%	0.85%	1.22%	1.26%	1.17%	0.9%	
Annualized provision as a % of gross loans	0.03%	0.02%	0.1%	0.2%	0.06%	0.05%	0.3%	0.2%	

<sup>1</sup> TEB - Taxable Equivalent Basis, see definition on page 7

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

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, as well as efficiency measures and capital ratios. 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. Tier 1 and total capital ratios throughout 2009 and into 2010 reflect the Company's prudent capital management strategies and the proactive approach to increase the capital base during the economic downturn.

Net income has increased for each of the last eight quarters, while return on equity has remained above 27%.

Net impaired loans as a percentage of gross loans trended upwards over the last half of 2008 and into 2009; however, improvement began in the fourth quarter of 2009 and continued through the first half of 2010 and currently reflect historical norms. The Company expects the relative level of net impaired loans to remain relatively stable.

## OUTLOOK

The Company will continue to increase focus on its core business consisting of the classic traditional mortgage lending programs that have successfully operated for over 20 years as well as focusing on developing new products in this suite of offerings. These products focus on serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. Additionally, the Company will maintain growth in the insured mortgage portfolio by offering competitive, well-serviced mortgage products. The focus on growth of the loans portfolio will continue through cautious and strategic geographical penetration combined with ongoing measured growth of the consumer portfolio, while maintaining the Company's prudent credit policies.

The Company is committed to maintaining its financial strength through a strong capital base, conservative liquidity and no external debt. The Company believes that this positions the Company to continue generating above-average returns and capitalize on market opportunities where they arise.

Real estate markets showed robust growth in the first quarter of 2010 and began to slow in the second and third quarters of 2010. The Company has observed healthier and more stable real estate conditions across the country. As expected, the relative increase in new and resale home sales and price appreciation continued to slow to more sustainable and balanced levels in the quarter. Much of the pent up demand that was leading the robust real estate growth in late 2009 and the first part of 2010 has been satisfied. However, the Company still believes the housing market will remain healthy for the remainder of 2010 and into 2011. Canadian housing market activity is expected to slow into 2011 compared to 2010. However, Alberta, Saskatchewan and British Columbia may benefit from modest increases in housing activity as their unemployment rate and economies are expected to recover more quickly than central and eastern Canada.

Despite slowing in the real estate market, and a decline in originations compared to the second quarter, the Company has maintained the pattern of growth in profitability by adapting its strategies as the market changes. The stabilization of housing markets has allowed for renewed focus on the Company's traditional mortgage portfolio, Equityline *Visa* and geographic growth strategies. The Company does not expect the modest slowing in the housing markets to affect the Company's ability to achieve its stated objectives for 2010 as the strategies it employs to generate growth and robust returns have been developed with these market expectations in mind. The Company intends to keep focusing on superior customer and broker service, diverse and new product offerings and expansion of broker networks and market penetration. The Company expects origination volume increases over the third quarter of 2010 in the traditional mortgage portfolio, increased originations outside Ontario and continued growth in consumer lending, which includes Equityline *Visa*.

The Company expects securitization volumes to remain robust in the fourth quarter, reflective of strong Accelerator originations and spreads earned on securitization to remain relatively stable in the last quarter of the year.

The Company expects that the rate of growth in the mortgage loan portfolio and net income will moderate in 2011 compared to the record increases in 2009 and 2010 that exceeded all annual objectives. Net interest income and margin will remain strong.

Arrears in the Company's mortgage portfolio reached a high water mark in the second quarter of 2009 when the total arrears over 30 days reached \$71.3 million and \$56.3 million non-performing at June 30, 2009. At September 30, 2010 arrears over 30 days was \$50.5 million and \$35.6 million non-performing. Non-performing loans as a percentage of gross loans was 0.57% at September 30, 2010 compared to 1.22% one year ago. Management believes these levels are within a low range and the Company expects arrears and non-performing loans to remain stable on a relative basis for the remainder of the year.

As a result of the transition to the Harmonized Sales Tax (HST) regime, the Company experienced certain expense increases due to the additional tax being introduced. Most notably, rent, consulting fees, legal and audit fees increased by 8% for a total of 13% HST on July 1, 2010.

Looking ahead, the Board of Directors and management are confident that Home Capital is well positioned to continue generating strong earnings and growth for the remainder of 2010 and into 2011, and continue to believe the following objectives are achievable for 2010: 15-20% growth in each of total earnings, diluted earnings per share and total assets (including off-balance sheet securitized assets), as well as 20% return on equity.

**This Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements on page 6 of these unaudited interim consolidated financial statements.**

## Consolidated Statements of Income

	For the three months ended		For the nine months ended	
	September 30 2010	September 30 2009	September 30 2010	September 30 2009
<i>000s except per share amounts (Unaudited)</i>				
<b>Income</b>				
Interest from loans	\$ 89,881	\$ 84,223	\$ 263,775	\$ 249,836
Dividends from equity securities	4,592	5,132	14,106	11,399
Other interest	2,472	2,355	6,530	10,503
	<b>96,945</b>	91,710	<b>284,411</b>	271,738
<b>Interest Expense</b>				
Interest on deposits	47,846	48,756	140,382	152,063
Net interest income	49,099	42,954	144,029	119,675
Provision for credit losses (note 4(E))	2,113	2,862	3,652	9,244
	<b>46,986</b>	40,092	<b>140,377</b>	110,431
<b>Non-interest Income</b>				
Fees and other income	7,127	7,360	22,069	22,144
Securitization income on mortgage-backed securities (note 5)	21,320	13,716	70,309	68,114
Gain on sale of loan portfolio (note 4(F))	3,917	-	3,917	-
Net gain realized and unrealized on securities	1,503	1,146	9,986	2,528
(Loss) Gain on derivatives	2,941	11,367	(1,498)	3,274
	<b>36,808</b>	33,589	<b>104,783</b>	96,060
	<b>83,794</b>	73,681	<b>245,160</b>	206,491
<b>Non-interest Expenses</b>				
Salaries and staff benefits	11,847	11,334	34,334	31,514
Premises	1,732	1,565	5,074	4,370
General and administration	9,956	8,775	27,663	22,861
	<b>23,535</b>	21,674	<b>67,071</b>	58,745
<b>Income Before Income Taxes</b>	<b>60,259</b>	52,007	<b>178,089</b>	147,746
Provision for income taxes (note 11(A))	14,809	13,764	47,527	43,734
<b>NET INCOME</b>	<b>\$ 45,450</b>	\$ 38,243	<b>\$ 130,562</b>	\$ 104,012
<b>NET INCOME PER COMMON SHARE</b>				
Basic	\$ 1.31	\$ 1.11	\$ 3.76	\$ 3.02
Diluted	\$ 1.31	\$ 1.10	\$ 3.75	\$ 3.00
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>				
Basic	34,717	34,412	34,708	34,397
Diluted	34,781	34,684	34,814	34,711
Total number of outstanding common shares	34,679	34,450	34,679	34,450
Book value per common share	\$ 20.07	\$ 15.99	\$ 20.07	\$ 15.99

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 2010	September 30 2009	September 30 2010	September 30 2009
<i>000s (Unaudited)</i>				
<b>NET INCOME</b>	<b>\$ 45,450</b>	<b>\$ 38,243</b>	<b>\$ 130,562</b>	<b>\$ 104,012</b>
<b>OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX</b>				
<b>Unrealized income on available for sale securities</b>				
Net unrealized (loss) income on available for sale securities, net of \$1,917 tax ((\$1,916) – three months ended September 30, 2009; \$437 – nine months ended September 30, 2010; \$9,101 – nine months ended September 30, 2009)	<b>5,391</b>	925	<b>(819)</b>	15,280
Reclassification of losses (gain) in respect of available for sale securities, net of \$229 tax (\$140 – three months ended September 30, 2009; \$2,444 – nine months ended September 30, 2010; \$1,856 – nine months ended September 30, 2009)	<b>(1,142)</b>	252	<b>(6,052)</b>	13,367
Total other comprehensive (loss) income	<b>4,249</b>	1,177	<b>(6,871)</b>	28,647
<b>COMPREHENSIVE INCOME</b>	<b>\$ 49,699</b>	<b>\$ 39,420</b>	<b>\$ 123,691</b>	<b>\$ 132,659</b>

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

## Consolidated Balance Sheets

<i>000s (Unaudited)</i>	<b>September 30 2010</b>	December 31 2009	September 30 2009
<b>ASSETS</b>			
<b>Cash Resources</b> (note 3)	<b>\$ 712,587</b>	930,134	145,959
<b>Securities</b> (note 3)			
Held for trading	49,651	99,938	199,908
Available for sale	776,065	550,659	453,470
	<b>825,716</b>	650,597	653,378
<b>Loans</b> (note 4)			
Residential mortgages	4,672,237	4,369,458	4,092,476
Non-residential mortgages	774,580	708,425	719,838
Personal and credit card loans	428,207	342,918	342,539
Secured loans	37,123	47,739	53,493
General allowance for credit losses	(29,146)	(27,793)	(26,520)
	<b>5,883,001</b>	5,440,747	5,181,826
<b>Other</b>			
Securitization receivable (note 5)	315,203	229,418	196,013
Capital assets	5,250	4,863	5,201
Other assets (note 6)	129,662	105,115	102,215
	<b>450,115</b>	339,396	303,429
	<b>\$ 7,871,419</b>	\$ 7,360,874	\$ 6,284,592
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits			
Payable on demand	\$ 20,827	\$ 38,223	\$ 15,867
Payable on a fixed date	6,699,998	6,371,599	5,357,595
	<b>6,720,825</b>	6,409,822	5,373,462
<b>Other</b>			
Cheques and other items in transit	9,908	4,617	4,671
Other liabilities (note 7)	444,838	356,147	355,636
	<b>454,746</b>	360,764	360,307
	<b>7,175,571</b>	6,770,586	5,733,769
<b>Shareholders' Equity</b>			
Capital stock (note 8)			
Contributed surplus	50,475	45,396	41,888
Retained earnings	3,452	3,606	3,948
Accumulated other comprehensive income (note 10)	627,524	520,018	487,393
	14,397	21,268	17,594
	<b>695,848</b>	590,288	550,823
	<b>\$ 7,871,419</b>	\$ 7,360,874	\$ 6,284,592

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 2010	September 30 2009	September 30 2010	September 30 2009
<i>000s (Unaudited)</i>				
<b>CAPITAL STOCK (note 8)</b>				
Balance at beginning of the period	\$ 48,771	\$ 39,757	\$ 45,396	\$ 39,094
Proceeds of options exercised	1,751	2,152	5,309	2,926
Repurchase of shares	(47)	(21)	(230)	(132)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 50,475</b>	<b>\$ 41,888</b>	<b>\$ 50,475</b>	<b>\$ 41,888</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance at beginning of the period	\$ 3,615	\$ 3,941	\$ 3,606	\$ 3,283
Amortization of fair value of employee stock options (note 9)	299	422	912	1,194
Exercise of stock appreciation rights	(186)		(186)	-
Employee stock options exercised	(276)	(415)	(880)	(529)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 3,452</b>	<b>\$ 3,948</b>	<b>\$ 3,452</b>	<b>\$ 3,948</b>
<b>RETAINED EARNINGS</b>				
Balance at beginning of the period	\$ 588,664	\$ 455,625	\$ 520,018	\$ 401,429
Repurchase of shares	(1,387)	(616)	(6,745)	(2,557)
Net income for the period	45,450	38,243	130,562	104,012
Dividends paid or declared during the period	(5,203)	(5,859)	(16,311)	(15,491)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 627,524</b>	<b>\$ 487,393</b>	<b>\$ 627,524</b>	<b>\$ 487,393</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Balance at beginning of the period	\$ 10,148	\$ 16,417	\$ 21,268	\$ (11,053)
Other comprehensive (loss) income, net of \$2,146 tax; (\$2,056 – three months ended September 30, 2009; \$2,881 – nine months ended September 30, 2010; \$10,957 – nine months ended September 30, 2009)	4,249	1,177	(6,871)	28,647
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 14,397</b>	<b>\$ 17,594</b>	<b>\$ 14,397</b>	<b>\$ 17,594</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 2010	September 30 2009	September 30 2010	September 30 2009
<i>000s (Unaudited)</i>				
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	\$ 45,450	\$ 38,243	\$ 130,562	\$ 104,012
Adjustments to determine cash flows relating to operating activities:				
Future income taxes	4,286	8,215	22,242	21,183
Amortization	1,999	(8,049)	3,940	(40,360)
Provision for credit losses (note 4 (E))	2,113	2,862	3,652	9,244
Change in accrued interest payable	(5,089)	(13,409)	9,352	(11,498)
Change in accrued interest receivable	120	735	(303)	2,315
Net gain realized and unrealized on investment securities	(1,503)	(1,146)	(9,986)	(2,528)
(Loss) Gain on derivatives	(2,941)	(11,367)	1,498	(3,274)
Gain on sale of portfolio	(3,917)	-	(3,917)	-
Securitization income on mortgage-backed securities	(21,320)	(13,716)	(70,309)	(68,114)
Amortization of fair value of employee stock options (note 9)	299	422	912	1,194
Change in payments received for securitized pools	4,418	(24,400)	29,863	54,899
Other	11,960	1,936	25,213	23,308
Cash flows used in operating activities	35,875	(19,674)	142,719	90,381
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net increase in deposits	234,269	132,085	311,003	270,681
Issuance of capital stock	1,751	2,152	5,309	2,926
Repurchase of shares	(1,434)	(637)	(6,975)	(2,689)
Exercise of employee stock options and stock appreciation rights	(462)	(415)	(1,066)	(529)
Dividends paid	(5,203)	(5,859)	(16,311)	(15,491)
Cash flows from financing activities	228,921	127,326	291,960	254,898
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Activity in available for sale and held for trading securities				
Purchases	(874,202)	(130,684)	(1,362,859)	(666,817)
Proceeds from sales	405,605	130,910	776,073	583,194
Proceeds from maturities	283,388	11,914	412,567	25,175
Activity in mortgages				
Net increase	(849,486)	(1,021,033)	(3,676,318)	(2,463,867)
Proceeds from securitization of mortgage-backed securities	1,108,977	614,324	3,257,537	1,706,297
Change in mortgage-backed securities receivable	18,886	10,842	32,054	40,522
Net (increase) decrease in personal and credit card loans	(276)	7,605	(82,008)	24,313
Net (increase) decrease in restricted cash	3,600	(3,430)	(3,690)	(16,165)
Net decrease in secured loans	2,712	9,475	10,355	18,572
Purchases of capital assets	(496)	(485)	(2,214)	(1,601)
Purchases of intangible assets	(5,849)	(6,747)	(17,413)	(19,530)
Cash flows from investing activities	92,859	(377,309)	(655,916)	(769,907)
Net (decrease) increase in cash and cash equivalents during the period	357,655	(269,657)	(221,237)	(424,628)
Cash and cash equivalents at beginning of the period	333,277	399,451	912,169	554,422
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 690,932</b>	<b>\$ 129,794</b>	<b>\$ 690,932</b>	<b>\$ 129,794</b>
<b>Supplementary Disclosure of Cash Flow Information</b>				
Interest paid	\$ 52,935	\$ 62,165	\$ 131,031	\$ 163,561
Income taxes paid	10,323	10,550	31,793	30,943

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, 2009 as set out in the 2009 Annual Report, on pages 50 through 76. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in 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.

The comparative interim unaudited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 interim unaudited consolidated financial statements.

### 2. FUTURE CHANGES IN ACCOUNTING POLICIES

#### International Financial Reporting Standards

The Canadian Institute of Chartered Accountants 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. Please see the discussion regarding IFRS on pages 30 - 32 of the MD&A and pages 46 – 48 of the 2009 Annual Report for additional information on the Company's transition to IFRS.

### 3. CASH RESOURCES AND SECURITIES

#### (A) Cash Resources

(000s)	September 30	December 31	September 30
	2010	2009	2009
Deposits with regulated financial institutions <sup>1</sup>	\$ 540,120	\$ 912,169	\$ 129,794
Treasury bills guaranteed by government	150,812	-	-
Cash and cash equivalent	690,932	921,169	129,794
Restricted cash <sup>2</sup>	21,655	17,965	16,165
	<b>\$ 712,587</b>	<b>\$ 930,134</b>	<b>\$ 145,959</b>

<sup>1</sup> This includes a deposit of \$46.1 million (December 31, 2009 - \$46.1 million, September 30, 2009 - \$21.6 million) held as collateral for the Company's securitization activities.

<sup>2</sup> Restricted cash is held as collateral by a third party for the Company's interest rate swap transactions.

#### (B) 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.

(000s)	September 30	December 31	September 30
	2010	2009	2009
Securities issued or guaranteed by:			
Canada	\$ (1,208)	\$ 3	\$ (2)
Corporations	282	(35)	109
Equity securities			
Common	131	360	440
Fixed rate preferred	5,054	8,105	6,319
Income trusts	(550)	2,317	1,536
Mutual funds	(4)	(55)	(129)
	<b>\$ 3,705</b>	<b>\$ 10,695</b>	<b>\$ 8,273</b>

The above unrealized gains and (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.

For the three months ended September 30, 2010, the Company determined \$nil with a year-to-date total of \$0.3 million (\$2.8 million – Q3 2009 and \$6.2 million – nine months of 2009) of unrealized losses on available for sale securities were other than temporary in nature, and transferred that amount into net income. These unrealized losses are not included in the previous table.

#### 4. LOANS

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

As at September 30, 2010

<i>(000s, except %)</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	\$ 323,300	\$ 9,627	\$ 16,798	\$ -	\$ 349,725	5.9%
Alberta	285,689	30,287	41,435	4,183	361,594	6.1%
Ontario	3,734,450	683,459	363,666	31,736	4,813,311	81.4%
Quebec	147,153	34,119	1,389	-	182,661	3.1%
Maritimes	88,209	15,725	3,675	1,204	108,813	1.9%
Manitoba and Saskatchewan	93,436	1,363	1,244	-	96,043	1.6%
	\$ 4,672,237	\$ 774,580	\$ 428,207	\$ 37,123	\$ 5,912,147	100.0%
As a % of portfolio	79.0%	13.1%	7.3%	0.6%	100.0%	

As at December 31, 2009

<i>(000s, except %)</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	\$ 476,418	\$ 9,270	\$ 22,617	\$ 7	\$ 508,312	9.3%
Alberta	358,683	76,424	54,209	5,367	494,683	9.1%
Ontario	3,241,147	570,339	258,952	40,749	4,111,187	75.2%
Quebec	131,776	31,660	1,594	-	165,030	3.0%
Maritimes	90,505	11,399	4,095	1,616	107,615	1.9%
Manitoba and Saskatchewan	70,929	9,333	1,451	-	81,713	1.5%
	\$ 4,369,458	\$ 708,425	\$ 342,918	\$ 47,739	\$ 5,468,540	100.0%
As a % of portfolio	79.9%	12.9%	6.3%	0.9%	100.0%	

As at September 30, 2009

<i>(000s, except %)</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	\$ 366,503	\$ 9,786	\$ 25,069	\$ 7	\$ 401,365	7.7%
Alberta	356,646	89,369	60,537	5,738	512,290	9.8%
Ontario	3,026,518	571,304	249,516	45,971	3,893,309	74.8%
Quebec	149,198	28,967	1,686	-	179,851	3.5%
Maritimes	87,626	11,805	4,315	1,777	105,523	2.0%
Manitoba and Saskatchewan	105,985	8,607	1,416	-	116,008	2.2%
	\$ 4,092,476	\$ 719,838	\$ 342,539	\$ 53,493	\$ 5,208,346	100.0%
As a % of portfolio	78.6%	13.8%	6.6%	1.0%	100.0%	

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

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or when it has been in arrears for 90 days. Residential mortgages guaranteed by the Government of Canada where payment is contractually past due 365 days are automatically placed on a non-accrual basis. Secured and unsecured credit card balances that have a payment that is contractually 180 days in arrears are written off. Equityline Visa credit card balances are measured on a basis consistent with mortgage loans.

As at September 30, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1 - 30 days	\$ 94,052	\$ 1,719	\$ 4,238	\$ 701	\$ 100,710
31 - 60 days	25,601	1,506	1,191	125	28,423
61 - 90 days	5,953	537	1,751	-	8,241
91 - 120 days	7,338	1,148	1,150	264	9,900
	\$ 132,944	\$ 4,910	\$ 8,330	\$ 1,090	\$ 147,274

As at December 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1 - 30 days	\$ 133,967	\$ 4,058	\$ 5,204	\$ 958	\$ 144,187
31 - 60 days	35,922	1,910	1,428	227	39,487
61 - 90 days	3,080	-	2,162	-	5,242
91 - 120 days	8,911	-	749	-	9,660
	\$ 181,880	\$ 5,968	\$ 9,543	\$ 1,185	\$ 198,576

As at September 30, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1 - 30 days	\$ 104,254	\$ 3,977	\$ 3,689	\$ 662	\$ 112,582
31 - 60 days	28,931	897	1,500	254	31,582
61 - 90 days	7,985	-	2,062	58	10,105
91 - 120 days	17,104	-	877	-	17,981
	\$ 158,274	\$ 4,874	\$ 8,128	\$ 974	\$ 172,250

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

As at September 30, 2010

<i>(000s)</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	\$ 30,233	\$ 1,148	\$ 3,983	\$ 264	\$ 35,628
Specific allowances	(1,146)	(60)	(471)	(37)	(1,714)
Net	\$ 29,087	\$ 1,088	\$ 3,512	\$ 227	\$ 33,914

As at December 31, 2009

<i>(000s)</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	\$ 41,149	\$ 2,417	\$ 4,847	\$ 472	\$ 48,885
Specific allowances	(1,346)	(135)	(961)	(137)	(2,579)
Net	\$ 39,803	\$ 2,282	\$ 3,886	\$ 335	\$ 46,306

As at September 30, 2009

<i>(000s)</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	\$ 57,140	\$ 4,670	\$ 5,613	\$ 1,053	\$ 68,476
Specific allowances	(2,783)	(418)	(1,332)	(437)	(4,970)
Net	\$ 54,357	\$ 4,252	\$ 4,281	\$ 616	\$ 63,506

**(D) 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, 2010, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, was \$225.3 million. For impaired mortgages, the total appraised value of collateral at September 30, 2010 was \$50.9 million.

**(E) Allowance for Credit Losses**

For the three months ended September 30, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 635	\$ 145	\$ 699	\$ 90	\$ 1,569
Provisions for credit losses	1,627	(85)	360	9	1,911
Write-offs	(1,296)	-	(649)	(65)	(2,010)
Recoveries	180	-	61	3	244
	1,146	60	471	37	1,714
General allowance					
Balance at the beginning of the period	21,045	4,100	3,380	419	28,944
Provisions for credit losses	9	84	120	(11)	202
	21,054	4,184	3,500	408	29,146
Total allowance	\$ 22,200	\$ 4,244	\$ 3,971	\$ 445	\$ 30,860

For the three months ended December 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 2,783	\$ 418	\$ 1,332	\$ 437	\$ 4,970
Provisions for credit losses	1,258	(283)	15	19	1,009
Write-offs	(3,461)	-	(467)	(329)	(4,257)
Recoveries	766	-	81	10	857
	1,346	135	961	137	2,579
General allowance					
Balance at the beginning of the period	18,377	4,156	3,446	541	26,520
Provisions for credit losses	1,084	242	1	(54)	1,273
	19,461	4,398	3,447	487	27,793
Total allowance	\$ 20,807	\$ 4,533	\$ 4,408	\$ 624	\$ 30,372

For the three months ended September 30, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 2,139	\$ 475	\$ 1,328	\$ 397	\$ 4,339
Provisions for credit losses	2,253	(57)	406	223	2,825
Write-offs	(1,917)	-	(438)	(250)	(2,605)
Recoveries	308	-	36	67	411
	2,783	418	1,332	437	4,970
General allowance					
Balance at the beginning of the period	17,817	4,516	3,526	624	26,483
Provisions for credit losses	560	(360)	(80)	(83)	37
	18,377	4,156	3,446	541	26,520
Total allowance	\$ 21,160	\$ 4,574	\$ 4,778	\$ 978	\$ 31,490

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

For the nine months ended September 30, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 1,346	\$ 135	\$ 961	\$ 137	\$ 2,579
Provisions for credit losses	1,478	(75)	635	261	2,299
Write-offs	(3,994)	-	(1,315)	(382)	(5,691)
Recoveries	2,316	-	190	21	2,527
	1,146	60	471	37	1,714
General allowance					
Balance at the beginning of the period	19,461	4,398	3,447	487	27,793
Provisions for credit losses	1,593	(214)	53	(79)	1,353
	21,054	4,184	3,500	408	29,146
Total allowance	\$ 22,200	\$ 4,244	\$ 3,971	\$ 445	\$ 30,860

For the nine months ended September 30, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 1,680	\$ -	\$ 547	\$ 699	\$ 2,926
Provisions for credit losses	4,920	418	2,110	453	7,901
Write-offs	(4,215)	-	(1,446)	(817)	(6,478)
Recoveries	398	-	121	102	621
	2,783	418	1,332	437	4,970
General allowance					
Balance at the beginning of the period	16,136	4,580	3,700	761	25,177
Provisions for credit losses	2,241	(424)	(254)	(220)	1,343
	18,377	4,156	3,446	541	26,520
Total allowance	\$ 21,160	\$ 4,574	\$ 4,778	\$ 978	\$ 31,490

**(F) Sale of loan portfolio**

During the third quarter of 2010, the Company recognized a \$3.9 million gain on sale of a portfolio of individual water heater loans totalling \$19.5 million.

## 5. LOAN SECURITIZATION

The following table summarizes the Company's new securitization activities.

<i>(000s, except % and number of years)</i>	For the three months ended		For nine months ended	
	September 30 2010	September 30 2009	September 30 2010	September 30 2009
Book value of mortgages securitized	\$ 1,125,560	\$ 620,586	\$ 3,305,980	\$ 1,736,304
Securitization receivable	\$ 46,755	\$ 27,482	\$ 134,448	\$ 101,632
Servicing liability	\$ 3,724	\$ 3,774	\$ 12,408	\$ 15,096
Net proceeds received on securitized mortgages	\$ 1,108,976	\$ 614,324	\$ 3,257,536	\$ 1,706,297
Net gain on sale of mortgages <sup>1</sup>	\$ 20,192	\$ 12,131	\$ 56,958	\$ 59,240
Prepayment rate	15.1%	8.2%	14.6%	7.6%
Excess spread	1.6%	1.4%	1.7%	1.9%
Weighted average life in years	4.3	4.7	4.3	4.7
Discount rate	1.8%	3.0%	1.9%	2.7%

<sup>1</sup> The gain on sale of mortgages is net of hedging activities; see Table 5 in the MD&A.

During the third quarter of 2010, the Company securitized insured residential mortgages through CMHC's CMB program with a book value of \$752.8 million for a total of \$2.02 billion for the nine months ended September 30, 2010 (\$288.3 million in Q3 2009 for a total of \$1.23 billion for the nine months ended September 30, 2009). The net gain on sale was \$6.8 million during the third quarter and \$27.5 million for the nine months ended September 30, 2010 (\$7.3 million in Q3 2009 and \$45.9 million for the nine months ended September 30, 2009). These figures are included in the table above.

## 6. OTHER ASSETS

<i>(000s)</i>	September 30 2010	December 31 2009	September 30 2009
Accrued interest receivable	\$ 26,456	\$ 26,153	\$ 25,546
Income taxes receivable	10,002	-	2,712
Goodwill	15,752	15,752	15,752
Intangible assets <sup>1</sup>	44,224	26,811	20,340
Other prepaid assets and deferred items	33,228	36,399	37,865
	\$ 129,662	\$ 105,115	\$ 102,215

<sup>1</sup> Intangible assets are primarily comprised of deferred costs capitalized for the development of the Company's new core banking system.

## 7. OTHER LIABILITIES

<i>(000s)</i>	September 30 2010	December 31 2009	September 30 2009
Accrued interest payable	\$ 147,850	\$ 138,498	\$ 148,117
Dividends payable	5,548	5,901	5,512
Future income tax liability (note 11)	84,393	57,559	57,329
Income taxes payable	-	3	-
Securitization servicing liability	38,349	30,389	23,512
Payable to MBS and CMB holders	88,102	92,896	96,912
Other, including accounts payable and accrued liabilities	80,596	30,901	24,254
	\$ 444,838	\$ 356,147	\$ 355,636

## 8. CAPITAL

### (A) Common Shares Issued and Outstanding

(000s)	For the three months ended				For the nine months ended			
	September 30, 2010		September 30, 2009		September 30, 2010		September 30, 2009	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	34,670	\$ 48,771	34,398	\$ 39,757	34,713	\$ 45,396	34,434	\$ 39,094
Options exercised	42	1,751	70	2,152	130	5,309	133	2,926
Normal course issuer bid	(33)	(47)	(18)	(21)	(164)	(230)	(117)	(132)
Outstanding at end of period	34,679	\$ 50,475	34,450	\$ 41,888	34,679	\$ 50,475	34,450	\$ 41,888

The purchase price of shares acquired through the normal course issuer bid is allocated between capital stock and retained earnings.

### (B) Share Purchase Options

(000s, except per share amounts)	For the three months ended				For the nine months ended			
	September 30, 2010		September 30, 2009		September 30, 2010		September 30, 2009	
	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	797	\$ 30.81	1,374	\$ 25.47	925	\$ 31.32	1,407	\$ 25.08
Granted	10	44.63	10	35.56	10	44.63	110	24.52
Exercised	(42)	34.96	(70)	24.82	(131)	33.94	(133)	18.09
Forfeited	(16)	29.06	(42)	29.28	(55)	34.66	(112)	28.04
Outstanding at end of period	749	\$ 30.80	1,272	\$ 25.49	749	\$ 30.80	1,272	\$ 25.49
Exercisable, end of period	434	\$ 33.26	756	\$ 24.19	434	\$ 33.26	756	\$ 24.19

### (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 OSFI.

(000s, except ratios and multiple)	September 30 2010	December 31 2009	September 30 2009
Regulatory capital			
Tier 1	\$ 640,234	\$ 530,256	\$ 496,388
Total	687,026	581,036	544,801
Regulatory ratios			
Tier 1	16.9%	16.4%	16.6%
Total	18.1%	18.0%	18.2%
Assets to capital multiple	11.5	12.7	11.5

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

### (A) Common Shares Issued and Outstanding

During the third quarter of 2010, \$298,235 was recorded as an expense for a year-to-date total of \$911,444 (\$422,000 – Q3 2009 and \$1,194,000 – nine months of 2009) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus. During the third quarter of 2010, 10,000 options were granted for a year-to-date total of 10,000. During the third quarter of 2009, 10,000 options were granted for a total of 110,000 for the nine months of 2009.

### (B) Deferred Share Unit Plan

Effective January 1, 2009 the Board of Directors approved a deferred share unit plan (DSU). The plan is open to Directors of the Company who elect to accept remuneration in the form of cash, cash and DSUs or DSUs. At September 30, 2010 there were 8,966 deferred share units issued with the associated liability of \$0.38 million recorded in other liabilities on the consolidated balance sheet.

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME

<i>(000s)</i>	<b>September 30 2010</b>	December 31 2009	September 30 2009
Unrealized gains on			
Available for sale securities	<b>\$ 3,705</b>	\$ 10,695	\$ 8,273
Income taxes expense	<b>(1,701)</b>	(2,733)	(1,312)
	<b>2,004</b>	7,962	6,961
Unrealized gains on			
Securitization receivables	<b>17,010</b>	19,772	15,796
Income tax expense	<b>(4,617)</b>	(6,466)	(5,163)
	<b>12,393</b>	13,306	10,633
Accumulated other comprehensive income	<b>\$ 14,397</b>	\$ 21,268	\$ 17,594

## 11. INCOME TAXES

### (A) Reconciliation of Income Taxes

	For the three months ended		For the nine months ended	
	September 30 2010	September 30 2009	September 30 2010	September 30 2009
(000s)				
Income before income taxes	\$ 60,259	\$ 52,007	\$ 178,089	\$ 147,746
Income taxes at statutory combined federal and provincial income tax rates	\$ 18,548	\$ 17,112	\$ 54,818	\$ 48,307
Increase (decrease) in income taxes at statutory income tax rates resulting from				
Tax-exempt income	(1,377)	(1,560)	(4,231)	(3,451)
Non-deductible expenses	141	(781)	349	1,811
Future tax rate changes	(1,851)	(1,832)	(1,858)	(3,964)
Other	(652)	825	(1,551)	1,031
Income tax	\$ 14,809	\$ 13,764	\$ 45,527	\$ 43,734

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

	September 30 2010	December 31 2009	September 30 2009
(000s)			
Future income tax liabilities			
Deferred agent commissions and other charges	\$ 22,234	\$ 18,761	\$ 15,398
Mortgage-backed securities receivable	76,827	49,560	53,166
	99,061	68,321	68,564
Future income tax assets			
Allowance for credit losses	7,652	7,549	2,668
Deferred commitment fees and other charges	7,016	3,213	8,567
	14,668	10,762	11,235
	\$ 84,393	\$ 57,559	\$ 57,329

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments to hedge economic exposures.

For example, the Company uses bond forward contracts to hedge the economic value exposure of movements in interest rates between the time that the mortgages are committed and the time the mortgages are securitized (these mortgages qualify for government insurance). The intent of the bond forward contract is to have fair value movements 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 interest rates, generally 60 to 150 days. During the quarter, the Company unwound \$284.2 million in bond forward contracts, realizing a loss of \$4.7 million. This realized loss is included in the consolidated income statement through securitization income.

Additionally, the Company participates in the Canada Mortgage Bond program sponsored by CMHC. Under this program, the Company sells amortizing MBS pools to Canada Housing Trust which finances the purchase by issuing a bullet Canada Mortgage Bond. Under this program, for fixed rate mortgage pools the Company manages the cash flow mismatch and reinvestment risk between the amortizing MBS pool and the bullet Canada Mortgage Bond. To manage the cash flow mismatch on fixed rate mortgage pools, the Company enters into seller swaps where the Company pays the fixed interest payments on the Canada Mortgage Bond, and receives the total return on the amortizing MBS pool. As well, the Company enters into accreting hedge swaps to manage the reinvestment risk between providing additional amortizing MBS pools and the bullet Canada Mortgage Bond. The Company also enters into seller swap for variable rate Canada Mortgage Bonds, where Company pays the variable rate Canada Mortgage Bond rate and receives the variable rate total return on the amortizing variable rate MBS. The Company does not enter into hedge swaps for the variable rate Canada Mortgage Bond.

The Company may also from time to time enter into interest rate swaps to manage the rebalance of the interest rate risk between the seller and the accreting hedge swaps described above. At September 30, 2010 the total notional value of these interest rate swaps was \$75.0 million. The interest swap had a negative fair value of \$4.0 million at September 30, 2010. There were no similar positions at September 30, 2009 or December 31, 2009.

As at September 30, 2010, December 31, 2009 and September 30, 2009, the outstanding interest rate, seller and hedge swap contracts (swaps), and bond forward contracts (bonds) positions were as follows:

(000s)	September 30, 2010		December 31, 2009		September 30, 2009	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
<i>Term (years)</i>						
Swaps						
1 to 5	\$ 3,923,988	\$ (143)	\$ 2,710,744	\$ 1,332	\$ 2,299,270	\$ (1,375)
6 to 10	1,482,128	(7,155)	491,498	(11,989)	234,082	4,151
	\$ 5,406,116	\$ (7,298)	\$ 3,202,242	\$ (10,657)	\$ 2,533,352	\$ 2,776
Bonds <sup>1</sup>						
1 to 5	\$ 44,000	\$ (279)	\$ 17,200	\$ 307	\$ 192,700	\$ (310)
6 to 10	127,700	(970)	166,600	2,130	326,700	(1,360)
	\$ 171,700	\$ (1,249)	\$ 183,800	\$ 2,437	\$ 519,400	\$ (1,670)

<sup>1</sup> The term of the bond forward contracts is based on the term of the underlying bonds.

The fair value of the swap and bond forward contracts are included in other assets or other liabilities in the consolidated balance sheet with changes in fair value included in (loss) or gain on derivatives in the consolidated statement of income.

### 13. INTEREST RATE SENSITIVITY

The Company's exposure to interest rate risk results from the difference, or gap between earliest of the maturity or re-pricing dates of interest sensitive assets and liabilities, including off-balance sheet items. The following table shows the gap positions at September 30, 2010, December 31, 2009 and September 30, 2009 for selected period intervals. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

As at September 30, 2010							
(000s, except %)	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	\$ (2,329)	\$ 1,811,584	\$ 1,674,970	\$ 2,533,127	\$ 1,371,943	\$ 482,124	\$ 7,871,419
Total liabilities and equity	(6)	(1,209,212)	(2,326,380)	(2,420,191)	(732,315)	(1,183,315)	(7,871,419)
Off-balance sheet items	-	(1,172,352)	9,850	363,995	798,507	-	-
Interest rate sensitive gap	\$ (2,335)	\$ (569,980)	\$ (641,560)	\$ 476,931	\$ 1,438,135	\$ (701,191)	\$ -
Cumulative gap	\$ (2,335)	\$ (572,315)	\$ (1,213,875)	\$ (736,944)	\$ 701,191	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.0%	(7.3%)	(15.4%)	(9.4%)	8.9%	-	-

As at December 31, 2009							
(000s, except %)	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	\$ 68,941	\$ 2,346,017	\$ 1,313,090	\$ 2,076,689	\$ 1,165,781	\$ 390,356	\$ 7,360,874
Total liabilities and equity	(6)	(568,242)	(2,765,144)	(2,240,214)	(786,090)	(1,001,178)	(7,360,874)
Off-balance sheet items	-	(537,393)	100,114	262,865	174,414	-	-
Interest rate sensitive gap	\$ 68,935	\$ 1,240,382	\$ (1,351,940)	\$ 99,340	\$ 554,105	\$ (610,822)	\$ -
Cumulative gap	\$ 68,935	\$ 1,309,317	\$ (42,623)	\$ 56,717	\$ 610,822	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.9%	17.8%	(0.6%)	0.8%	8.3%	-	-

As at September 30, 2009							
(000s, except %)	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	\$ 47,364	\$ 1,475,719	\$ 1,399,656	\$ 1,688,867	\$ 1,294,009	\$ 378,977	\$ 6,284,592
Total liabilities and equity	(6)	(945,948)	(1,982,433)	(1,854,920)	(561,835)	(939,450)	(6,284,592)
Off-balance sheet items	-	(276,587)	77,508	198,934	145	-	-
Interest rate sensitive gap	\$ 47,358	\$ 253,184	\$ (505,269)	\$ 32,881	\$ 732,319	\$ (560,473)	\$ -
Cumulative gap	\$ 47,358	\$ 300,542	\$ (204,727)	\$ (171,846)	\$ 560,473	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.8%	4.8%	(3.3%)	(2.7%)	8.9%	-	-

Based on the current interest rate gap position at September 30, 2010, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income and other comprehensive income after tax over the next twelve months by \$13.3 million and \$5.5 million, respectively. A 100 basis point increase in interest rates would increase net interest income and other comprehensive income after tax over the next twelve months by \$13.3 million and \$5.5 million, respectively.

#### 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, instalment lending to customers of retail businesses and PSiGate operations. The Other category includes the Company's treasury and securities investment activities.

For the three months ended

(000s)	Mortgage Lending		Consumer Lending		Other		Total	
	September 30	September 30	September 30	September 30	September 30	September 30	September 30	September 30
	2010	2009	2010	2009	2010	2009	2010	2009
Net interest income	\$ 32,327	\$ 26,839	\$ 8,692	\$ 9,599	\$ 8,080	\$ 6,516	\$ 49,099	\$ 42,954
Provision for credit losses	(1,633)	(2,536)	(480)	(326)	-	-	(2,113)	(2,862)
Fees and other income	3,283	4,970	3,815	2,813	29	(423)	7,127	7,360
Securitization income	21,320	13,716	-	-	-	-	21,320	13,716
Net gain on securities and others	2,941	11,367	3,917	-	1,503	1,146	8,361	12,513
Non-interest expenses	(14,959)	(13,394)	(3,498)	(2,823)	(5,078)	(5,457)	(23,535)	(21,674)
Income before income taxes	43,279	40,962	12,446	9,263	4,534	1,782	60,259	52,007
Income taxes	(10,956)	(11,560)	(3,848)	(3,100)	(5)	896	(14,809)	(13,764)
Net income	\$ 32,323	\$ 29,402	\$ 8,598	\$ 6,163	\$ 4,529	\$ 2,678	\$ 45,450	\$ 38,243
Goodwill	\$ 2,324	\$ 2,324	\$ 13,428	\$ 13,428	\$ -	\$ -	\$ 15,752	\$ 15,752
Total assets	\$ 6,140,127	\$ 5,252,272	\$ 487,704	\$ 384,805	\$ 1,243,588	\$ 647,515	\$ 7,871,419	\$ 6,284,592

For the nine months ended

(000s)	Mortgage Lending		Consumer Lending		Other		Total	
	September 30	September 30	September 30	September 30	September 30	September 30	September 30	September 30
	2010	2009	2010	2009	2010	2009	2010	2009
Net interest income	\$ 97,119	\$ 71,965	\$ 26,771	\$ 27,665	\$ 20,139	\$ 20,045	\$ 144,029	\$ 119,675
Provision for credit losses	(2,964)	(7,388)	(688)	(1,856)	-	-	(3,652)	(9,244)
Fees and other income	10,619	14,172	11,301	7,967	149	5	22,069	22,144
Securitization income	70,309	68,114	-	-	-	-	70,309	68,114
Net gain on securities and others	(1,498)	3,274	3,917	-	9,986	2,528	12,405	5,802
Non-interest expenses	(42,370)	(36,571)	(11,092)	(8,534)	(13,609)	(13,640)	(67,071)	(58,745)
Income before income taxes	131,215	113,566	30,209	25,242	16,665	8,938	178,089	147,746
Income taxes	(37,322)	(34,129)	(9,349)	(8,465)	(856)	(1,140)	(47,527)	(43,734)
Net income	\$ 93,893	\$ 79,437	\$ 20,860	\$ 16,777	\$ 15,809	\$ 7,798	\$ 130,562	\$ 104,012
Goodwill	\$ 2,324	\$ 2,324	\$ 13,428	\$ 13,428	\$ -	\$ -	\$ 15,752	\$ 15,752
Total assets	\$ 6,140,127	\$ 5,252,272	\$ 487,704	\$ 384,805	\$ 1,243,588	\$ 647,515	\$ 7,871,419	\$ 6,284,592

# CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

**HOME CAPITAL GROUP INC.**  
145 King Street West, Suite 2300  
Toronto, Ontario M5H 1J8

**Directors**  
Norman F. Angus  
*Chairman of the Board*

Hon. William G. Davis P.C., C.C., Q.C.  
John M. E. Marsh  
Robert A. Mitchell, C.A.  
Kevin P. D. Smith  
Gerald M. Soloway  
Bonita Then

William A. Dimma  
*Chairman Emeritus*

**Officers**  
Gerald M. Soloway  
*Chief Executive Officer*

Martin Reid  
*President*

Brian R. Mosko  
*Chief Operating Officer  
and Executive Vice President*

Pino Decina  
*Senior Vice President,  
Residential Mortgage Lending*

John R. K. Harry  
*Senior Vice President,  
Commercial Mortgage Lending*

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

Chris Ahlvik, LL.B.  
*Senior Vice President,  
Corporate Counsel*

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

**Bankers**  
Home Capital Group Inc.  
Home Trust Company  
Bank of Montreal

**Transfer Agent**  
Computershare Investor Services Inc.  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
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**Capital Stock**  
As at September 30, 2010 there  
were 34,679,190 Common Shares  
outstanding.

**Stock Listing**  
Toronto Stock Exchange  
Ticker Symbol: HCG

**HOME TRUST COMPANY**  
145 King Street West, Suite 2300  
Toronto, Ontario M5H 1J8

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

Norman F. Angus  
John M.E. Marsh  
Robert A. Mitchell, C.A.  
Brian R. Mosko

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Relationship Manager*

Greg Parker  
*Treasurer*

Kerry Reinke, C.A.  
*Vice President, Enterprise Risk  
Management and Chief Risk Officer*

Donald Correia  
*Chief Credit Officer*

Dinah Henderson, CGA  
*Vice President, Accounting*

Marissa Lauder, C.A.  
*Vice President, Financial  
Reporting and Accounting Policies*

Shawn Lyons, C.A.  
*Vice President, Taxation*

Brendon Callender  
Michael Hewitt  
Ivano Metallo  
Tim Nason  
Frank Femia  
Scott Smith  
Frank Tuzi  
Todd Wilson  
*Managers*

**Sales and Service**  
Domenic Cosentino  
*Asst. Vice President*

**Direct Client Services**  
Frank Lee  
*Manager*

**Visa Operations**  
Raymond St. Aubin  
*Director*

**Equityline Visa**  
Greg Shultz  
*Senior Manager*

**Retail Credit Services**  
Cathy Boon  
*Vice President*

Wayne Dickie  
*Asst. Vice President*

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*Manager*

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*Regional Manager, Mortgages*

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[www.homecapital.com](http://www.homecapital.com)  
Home Trust Company  
[www.hometrusted.ca](http://www.hometrusted.ca)

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

Quarterly Conference Call & Webcast  
Our quarterly conference call and live audio  
webcast with management took place on  
Wednesday, November 3 at 10:30 AM ET.  
The webcast will be archived at  
[www.homecapital.com](http://www.homecapital.com) for 90 days.

**HOME TRUST COMPANY**  
**DEPOSIT RATE HOTLINE**  
**FOR CURRENT DEPOSIT RATES**  
**30 DAYS - 5 YEARS**  
**1-877-903-2133, ext. 1550**  
**Home Trust Company**  
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