

# 2010

## FIRST QUARTER REPORT

### FINANCIAL HIGHLIGHTS



For the Three Months Ended (Unaudited) (000s, except % and per share amounts)	March 31 2010	December 31 2009	March 31 2009
<b>OPERATING RESULTS</b>			
<b>Net Income</b>	\$ 41,719	\$ 40,481	\$ 31,418
Total Revenue	122,673	121,381	120,721
Earnings per Share – Basic	\$ 1.20	\$ 1.17	\$ 0.91
Earnings per Share – Diluted	1.20	1.16	0.91
Return on Shareholders' Equity	27.4%	28.4%	27.9%
Return on Average Assets	2.3%	2.4%	2.2%
Net Interest Margin	2.7%	2.8%	2.7%
Spread of Loans over Deposits	3.2%	3.2%	2.9%
Efficiency Ratio	26.0%	27.1%	27.6%
Efficiency Ratio (TEB <sup>2</sup> )	25.3%	26.1%	27.1%
<b>BALANCE SHEET HIGHLIGHTS</b>			
<b>Total Assets</b>	\$ 7,047,167	\$ 7,360,874	\$ 5,630,593
Loans	5,477,487	5,440,747	4,506,677
Deposits	6,035,592	6,409,822	4,823,632
Shareholders' Equity	627,987	590,288	467,939
Mortgage-Backed Security Assets Under Administration	4,994,730	4,147,711	2,948,492
<b>FINANCIAL STRENGTH</b>			
<b>Capital Measures<sup>1</sup></b>			
Risk Weighted Assets	\$ 3,420,125	\$ 3,227,155	\$ 3,021,129
Tier 1 Capital Ratio	16.5%	16.4%	13.8%
Total Capital Ratio	17.9%	18.0%	15.2%
<b>Credit Quality</b>			
Net Impaired Loans as a Percentage of Gross Loans	0.91%	0.85%	1.17%
Allowance as a Percentage of Gross Impaired Loans	59.13%	62.13%	52.48%
Annualized Provision as a Percentage of Gross Loans	0.07%	0.17%	0.29%
<b>Share Information</b>			
Book Value per Common Share	\$ 18.08	\$ 17.00	\$ 13.62
Common Share Price – Close	\$ 43.23	\$ 41.85	\$ 24.99
Market Capitalization	\$ 1,501,464	\$ 1,452,739	\$ 858,531
Number of Common Shares Outstanding	34,732	34,713	34,355

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

<sup>2</sup> See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures of this unaudited interim consolidated financial report.



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)

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## TO OUR SHAREHOLDERS

### **Home Capital Reports Record Results for the First Quarter of 2010: Net Income Rises 32.8%; Return on Equity Strong at 27.4%; Basic Earnings per Share Increase to \$1.20**

Home Capital today announced another quarter of robust earnings and strong growth for the three months ended March 31, 2010. The Company's prudent business approach combined with its proven proactive growth strategies have also generated another period of solid returns for shareholders.

Key results for the first quarter of 2010 included:

- Net income grew to \$41.7 million, an increase of 32.8% over the \$31.4 million recorded in the same period last year driven by strong growth in net interest income.
- Basic and diluted earnings per share were \$1.20, up 31.9% from the basic and diluted earnings per share of \$0.91 reported in the first quarter of 2009.
- Return on equity was 27.4%, compared to 27.9% return on equity recorded in the first quarter of 2009 and 28.4% in the fourth quarter of 2009.
- Net interest income after the provision for credit losses was \$46.5 million, representing an increase over the \$32.9 million recorded in the first quarter of 2009 and an increase from the \$43.0 million in the fourth quarter of 2009.
- Total assets under administration, which included securitized off-balance sheet mortgages, increased 40.4% to \$12.04 billion at March 31, 2010 from \$8.58 billion at March 31, 2009 and up 4.6% from the \$11.51 billion recorded at the end of 2009.
- Total on-balance sheet assets were \$7.05 billion as at March 31, 2010 compared to \$5.63 billion one year ago and \$7.36 billion at the end of 2009. The slight decline from the end of 2009 is a result of increased securitization volumes and a drawdown of some excess liquidity in the first quarter of 2010.
- The total value of mortgages originated in the first quarter of 2010 reached \$1.33 billion, an increase of 82.6% or \$599.3 million over the same period last year and a slight decrease from the fourth quarter of 2009. Seasonal factors contributed to small origination declines in the first quarter compared to the fourth quarter of the prior year.
- Residential mortgage originations were \$1.23 billion, an increase of 78.8% over the \$690.2 million advanced in the first quarter in 2009 and a slight decline from the \$1.30 billion in the fourth quarter of 2009. Historically, first quarter residential mortgage origination volumes are the lowest quarter compared to the remaining quarters in the year.
- The Company experienced continued success in its insured Accelerator mortgage program with \$561.1 million of residential mortgage originations compared to \$199.7 million in the first quarter of 2009 and \$483.8 million in the fourth quarter of 2009. Originations in the traditional portfolio were \$537.9 million in the quarter, up from \$306.5 million in the comparable quarter of 2009 and \$517.7 million in the fourth quarter of 2009. Residential originations also include multi-unit residential originations of \$134.8 million compared to \$168.8 million in the first quarter of 2009 and \$296.8 million in the fourth quarter of 2009.
- Non-residential mortgage advances were \$61.2 million compared to \$22.3 million and \$60.2 million in the first and fourth quarters of 2009, respectively.
- Mortgage securitization volumes remained robust in the period as the Company securitized \$1.02 billion of insured mortgages compared to \$460.6 million for the same period last year and \$863.4 million in the fourth quarter of 2009. Securitization income was \$22.2 million compared to \$27.7 million in the first quarter of 2009 and \$24.3 million in the fourth quarter of 2009. Gains on securitization have moderated, despite record volumes, as the spreads earned on these transactions have continued to normalize towards historical levels due to improvement in economic and credit conditions.
- The Company continued growing its consumer lending portfolio by adding 1,008 new Equityline Visa accounts in the first quarter compared to 936 in the fourth quarter of 2009 and 380 in the comparable quarter of 2009.
- Net impaired loans represented 0.91% of the total loans portfolio at March 31, 2010, a decrease from 1.17% in net impaired loans one year ago and a slight increase from the 0.85% at the end of 2009 due to seasonal factors.

- Capital ratios remained strong at 16.5% for Tier 1 capital and 17.9% for Total capital at March 31, 2010 compared to 16.4% and 18.0% at December 31, 2009 and 13.8% and 15.2% one year ago.

During the first quarter of 2010, the Company observed marked stabilization in the residential real estate markets across Canada. As a result, it reintroduced its traditional uninsured lending programs throughout the country and management is pleased by the strong response to this initiative. The Company is experiencing increased market penetration through innovative marketing programs, an expanded broker network and superior customer service.

Fitch Ratings, a leading global rating agency upgraded its long-term and short-term ratings for Home Capital and Home Trust Company to BBB / F2 from BBB- / F3, and the rating outlook has been revised to Stable from Positive. Fitch stated that the upgrade and stable outlook are indicative of Home Capital's consistently strong financial performance during the challenging economic environment, supported by robust earnings, minimal credit costs and a healthy net interest margin. The ratings also reflect the Company's strong capital levels, solid asset quality, sufficient reserves and increased liquidity.

Subsequent to the end of the quarter the Board of Directors declared a quarterly cash dividend of \$0.16 per Common share, payable on June 1, 2010 to shareholders of record at the close of business on May 14, 2010.

Starting on January 1, 2011, the Company will change over to financial reporting under International Financial Reporting Standards (IFRS). The Company has completed a preliminary high-level calculation of the potential IFRS securitization impacts for the first quarter of 2010. The preliminary analysis suggests that if the income statement for Home Capital's first quarter of 2010 was presented on an IFRS basis, net income and earnings per share would not be materially impacted.

With the improving economy in Canada and the strong increase in mortgage originations during the first quarter of 2010 over the same period in 2009, we are confident that the momentum we have seen so far this year will continue throughout 2010, enabling Home Capital to once again meet or exceed all of its financial and operating targets for the full year.



**GERALD M. SOLOWAY**  
Chief Executive Officer  
May 4, 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 for the First Quarter 2010.

### **Annual and Special Meeting Notice**

The Annual and Special Meeting of Shareholders of Home Capital Group Inc. will be held at the Design Exchange, Trading Floor, Second Floor, 234 Bay Street, Toronto, Ontario, on Tuesday, May 18, 2010 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

## 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 us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The preceding list is not exhaustive of possible factors.

These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf, except as required by securities laws.

Assumptions about the performance of the Canadian economy in 2010 and how it will affect 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 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, potentially beginning to show improvement later in 2010;
- Housing demand will remain strong in 2010 but the rate of increase in demand may begin to slow as interest rates begin to increase in the second half of 2010;
- A slowly increasing interest rate environment in the second half of 2010, supported by stable inflation, driven by lower demand for commodity and energy goods;
- Sound credit quality with actual losses within Home Capital's historical range of acceptable levels; and
- A continued compressed net interest margin and comparatively lower investment returns, reflecting the Company's shift to higher quality assets held in the security and liquidity portfolios and prudent levels of liquid assets being held in response to continuing uncertainty in the capital markets. In the first quarter of 2010 the Company has observed improvements and began reducing 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 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 productivity. This ratio represents non-interest expenses as a percentage of total revenue. 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 \$2.1 million for the first quarter (\$2.8 million – Q4 2009 and \$1.3 million – Q1 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 March 31, 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 May 3, 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.

	2010 Objectives <sup>1</sup>	Three-month Period Ended March 31, 2010 Actual Results <sup>1</sup>
Net Income	15%-20% (\$36.1 million - \$37.7 million)	<b>\$41.7 million, or 32.8% increase over the same period last year</b>
Diluted Earnings per Share	15%-20% (\$1.05 - \$1.09 per share)	<b>\$1.20 per share, or 31.9% increase over the same period last year</b>
Total Assets and Assets Under Administration	15%-20% (\$9.87 billion - \$10.29 billion)	<b>\$12.04 billion, or 40.4% increase over the same period last year</b>
Return on Shareholders' Equity	20.0%	<b>27.4%</b>
Efficiency Ratio (TEB)	28.0% to 34.0%	<b>25.3%</b>
Capital Ratios <sup>2</sup>		
Tier 1	Minimum of 10.0%	<b>16.5%</b>
Total	Minimum of 12.0%	<b>17.9%</b>
Provision for Loan Losses as a Percentage of Total Gross Loans	0.20% to 0.50%	<b>0.07%</b>

<sup>1</sup> Objectives and results for net income and diluted earnings per share are for the current period relative to the same period in the prior year; asset growth is the change from twelve months prior; and ratios are based on the current period, annualized.

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

## FINANCIAL HIGHLIGHTS

The Company continued its trend of positive growth and robust earnings in the first quarter of 2010 with solid results across all lines of business. The Company maintained a prudent risk profile in the loan portfolio, a strong capital base and conservative liquidity levels in Q1 2010. The Company's key financial highlights for the first quarter of 2010 are summarized below.

### Income Statement Highlights

- Net income rose 32.8% over the comparable quarter of 2009, driven by a 31.1% increase in net interest income over the first quarter of 2009.
- Diluted earnings per share for the quarter increased 31.9% to \$1.20, compared to \$0.91 in the first quarter of 2009 and increased 3.4% from the \$1.16 recorded in the fourth quarter of 2009.
- Provisions for credit losses decreased to \$1.0 million compared to \$3.3 million the first quarter of 2009 and \$2.3 million in the fourth quarter of 2009 due to a decline in expected write-offs on impaired loans and improved recoveries.
- Securitization income was \$22.2 million, a decrease of \$5.5 and \$2.1 million over the first and fourth quarters of 2009, respectively. While the Company securitized \$1.02 billion in mortgages compared to \$460.6 million in the first quarter of 2009, the market spreads earned on securitization transactions reflected normalized levels in this quarter compared to the first quarter of 2009 as the economy and credit markets improved.
- The Company took advantage of the improvement in securities markets and realized \$3.1 million in net gains on the sale of certain securities during the first quarter compared to realized losses of \$0.9 million in Q1 2009.
- The efficiency ratio (TEB) (the lower the better) remained low at 25.3 % compared to 27.1% one year ago; reflecting the Company's continued focus on disciplined cost management.
- Return on average shareholders' equity remained strong at 27.4% for the quarter compared to 27.9% for the same period last year.

## Balance Sheet Highlights

- Total assets under administration, including the off-balance sheet securitized mortgages, grew to \$12.04 billion in the first quarter. This represents a 40.4% increase from the \$8.58 billion recorded one year ago and an increase of \$533.3 million or 4.6% over December 31, 2009. Driving this increase is robust growth in residential mortgage originations spanning across both the traditional and Accelerator mortgage products.
- Total on-balance sheet assets ended the quarter at \$7.05 billion compared to \$7.36 billion at December 31, 2009 and \$5.63 billion one year ago. The slight decline from the end of 2009 is due to the volume of securitization activity in the first quarter of 2010 and a modest decrease in the liquidity portfolio.
- The Company securitized \$1.02 billion in insured mortgages in the first quarter of 2010 compared to \$863.4 million in the fourth quarter of 2009 and \$460.6 million in the comparable quarter of 2009.
- Liquid assets at March 31, 2010 were \$794.3 million, down from \$1.20 billion at December 31, 2009 and up from \$610.7 million at March 31, 2009. Liquidity levels are often higher at the end of quarters of due to the timing of securitization transactions. While the company intends to continue holding conservative liquidity levels, it may bring the levels down toward historical norms as market conditions warrant.
- The Company's capital position remains strong with Tier 1 and Total capital ratios of 16.5% and 17.9%, respectively at the end of the quarter compared to 16.4% and 18.0% at December 31, 2009 and 13.8% and 15.2% at March 31, 2009, respectively.
- Deposit liabilities as at March 31, 2010 were \$6.04 billion, a decline of \$374.2 million from December 31, 2009 and an increase of \$1.21 billion recorded at March 31, 2009. The decline from the end of 2009 is due to the drawdown of the liquidity portfolio and increased funding through securitization in the quarter. The 25.1% increase over the prior year has funded the Company's loan growth over the year.

## EARNINGS REVIEW

### Net Interest Income

Table 2: Net Interest Income

(000s, except %)	March 31, 2010		March 31, 2009	
	Income/Expense	Average Rate <sup>1</sup>	Income/Expense	Average Rate <sup>1</sup>
<b>Assets</b>				
Cash and cash resources	\$ 1,380	0.9%	\$ 1,715	2.0%
Securities	5,710	3.3%	5,645	4.3%
Loans	85,757	6.1%	81,327	7.2%
Taxable equivalent adjustment	2,096	-	1,273	-
Total interest earning assets	94,943	5.4%	89,960	6.6%
Other assets	-	-	-	-
<b>Total Assets</b>	<b>\$ 94,943</b>	<b>5.2%</b>	<b>\$ 89,960</b>	<b>6.4%</b>
<b>Liabilities and Shareholders' Equity</b>				
Deposits	\$ 45,352	2.9%	\$ 52,455	4.3%
Other liabilities	-	-	-	-
Shareholders' equity	-	-	-	-
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 45,352</b>	<b>2.5%</b>	<b>\$ 52,455</b>	<b>3.7%</b>
<b>Net Interest Income</b>	<b>\$ 49,591</b>		<b>\$ 37,505</b>	
<b>Tax Equivalent Adjustment</b>	<b>(2,096)</b>		<b>(1,273)</b>	
<b>Net Interest Income per Financial Statements</b>	<b>\$ 47,495</b>		<b>\$ 36,232</b>	
<b>Net Interest Margin<sup>2</sup></b>		<b>2.7%</b>		<b>2.7%</b>
<b>Spread of Loans over Deposits Only</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.

As noted in Table 2 above, net interest income was \$47.5 million in the first quarter of 2010, an increase of 31.1% or \$11.3 million over the \$36.2 million recorded in the first quarter of 2009. Net interest income for the fourth quarter of 2009 was \$45.3 million. Net interest income continues to improve quarter-over-quarter. The increase in net interest income over the comparable quarter is due to a significant increase in the on-balance sheet loans portfolio of 21.5% and improved spread of loans over deposits of 3.2% compared to 2.9% in Q1 2009.

Net interest margin of 2.7% remained consistent with the comparable quarter of 2009. While the Company achieved an improvement in the spread of loans over deposits, conservative levels of funds invested in the Company's liquidity portfolio earned lower yields dropping, on average, to 0.9% in the first quarter of 2010 from 2.0% in the first quarter of 2009. Additionally, the Company earned lower returns on the securities portfolio as interest rates on the fixed income portfolio remained low.

The spread of loans over deposits improved to 3.2% from the 2.9% recorded in the first quarter of 2009. The Company is benefiting from a lower average cost of funds due to historically low prime interest rates. The decline in the average rate for the loans portfolio from 7.2% at the end of March 2009 to 6.3% at the end of March 2010 reflects the current low interest rate environment where lower rates on new and renewed loans are replacing higher rate maturing loans. The Company expects residential mortgage spreads to improve as the Company renews focus on the traditional mortgage product, leading to a relatively higher proportion of originations in this higher spread segment compared to last year.

## Non-Interest Income

Total non-interest income was \$29.8 million for the first quarter compared to \$28.0 million and \$32.0 million in the fourth and first quarters of 2009, respectively. The largest component of non-interest income is securitization income which is discussed in the section below. The other main components of non-interest income are fees and other income and gains and losses on securities and derivatives.

Fees and other income was \$7.8 million for the quarter, an increase of 8.8% and 6.7% over the fourth and first quarters of 2009, respectively. Fees and other income are expected to increase as the loan portfolio grows, although increased relative volumes of products with lower fees, such as Accelerator mortgage products, will slow the relative increase in this income stream.

The Company recognized a net gain of \$3.1 million on the sale of certain securities during the quarter, compared to net losses of \$0.4 million and \$0.9 million in the fourth and first quarters of 2009, respectively.

Also included in non-interest income are unrealized gains (losses) due to the changes in the fair value of the derivatives used to hedge risk of in the securitization program. Unrealized losses of \$3.3 million were recognized in the quarter compared to \$3.0 and \$2.0 million in unrealized losses in the fourth and first quarters of 2009, respectively. Please see the Derivatives and the Off-Balance Sheet Arrangements sections of this MD&A for additional information.

## Securitization Activity

**Table 3: Securitization Activity**

The following table summarizes the securitization activities during the first quarter of 2010 compared to the fourth and first quarters of 2009:

	For the three months ended March 31, 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	\$ 62,253	\$ 773,441	\$ 189,010	\$ 1,024,704
Net gain on sale of mortgages	1,390	16,654	2,856	20,900
Average Prepayment rate	5.1%	18.9%	0.0%	14.6%
Average Excess spread	3.5%	1.5%	0.9%	1.5%
Average Discount rate	1.0%	1.3%	3.6%	1.7%

	For the three months ended December 31, 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	\$ 73,898	\$ 368,643	\$ 420,897	\$ 863,438
Net gain on sale of mortgages	2,005	10,137	8,669	20,811
Average Prepayment rate	4.5%	13.5%	0.0%	6.1%
Average Excess spread	4.5%	2.1%	1.3%	2.0%
Average Discount rate	1.1%	2.3%	3.4%	2.0%

	For the three months ended March 31, 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	\$ 22,108	\$ 291,564	\$ 146,952	\$ 460,624
Net gain on sale of mortgages	827	18,370	5,065	24,262
Average Prepayment rate	4.1%	12.5%	0.0%	8.1%
Average Excess spread	5.2%	3.6%	1.7%	3.1%
Average Discount rate	1.5%	2.2%	2.7%	2.3%

The Company sold Mortgage Backed Securities (MBS) pools during the first quarter of 2010, consisting of \$1.02 billion of insured residential mortgages. First quarter volumes represent an increase of 122.5% or \$564.1 million from the \$460.6 million in MBS pools issued in the first quarter of 2009 and an increase of 18.7% or \$161.3 million over the \$863.4 million issued in the fourth quarter of 2009. The growth in volumes was focused in the single family residential MBS during the quarter. Included in the single family MBS securitization volumes is the securitization of \$538.7 million in variable rate mortgages. This is the first quarter the Company has securitized variable rate mortgages.

Overall average prepayment rate assumptions have increased to 14.6% compared to 6.1% and 8.1% for the fourth and first quarters of 2009, respectively. The increase is a result of the securitization and sale of variable rate mortgage pools which assume a higher prepayment rate and the reduction in multi-unit residential volumes which have no prepayment privileges and assume a 0.0% prepayment rate.

The Company has observed an average excess spread for securitization transactions more in line with historical levels compared to spreads one year ago. Average excess spreads on securitizations for the quarter were 1.5% compared to 2.0% last quarter and 3.1% in the comparable quarters last year. The trend towards more normalized spreads, particularly in the three- and five-year terms, is the primary contributor to the lower levels.

#### Table 4: 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		
	March 31 2010	December 31 2009	March 31 2009
Securitization gains	\$ 23,308	\$ 29,156	\$ 25,622
Securitization hedging activity	(2,408)	(8,345)	(1,360)
Securitization gains, net of hedge costs	20,900	20,811	24,262
Recurring securitization income	1,267	3,472	3,393
Net securitization income	\$ 22,167	\$ 24,283	\$ 27,655

Net securitization income was \$22.2 million during the quarter compared to \$24.3 million for the fourth quarter of 2009 and \$27.7 million for the first quarter of 2009.

The decline in securitization gains despite increased volumes is a function of narrowing spreads, particularly in the single family residential category, as described above. Securitization spreads were high by historical standards during the economic downturn and credit crisis. The Company was able to effectively and proactively capitalize on these spreads. The Company continues to manage its funding mix to maximize shareholder returns and expects securitization funding to remain a significant component of funding for the Accelerator product and other insured mortgage products.

As described in the Derivatives and Off-Balance Sheet Arrangements sections of this MD&A, the Company utilizes forward bond contracts to manage exposure to movements in interest rates prior to the sale of securitized mortgage pools. Forward bond contracts are settled at the time of securitization and any realized gain or loss is then included in the securitization gain as shown above. In the first quarter of 2010, a realized \$2.4 million hedging loss was recorded in the consolidated statement of income through securitization income. The amount of gain or loss realized on the settlement of forward bond contracts is dependant on movement in the interest rate on the underlying bonds during the time the contract is held.

Forward bond contracts that are still outstanding as at the balance sheet date are fair valued with the resulting gain or loss recorded in the consolidated income statement through the gain or loss on derivatives gain account (refer to Note 12 of these unaudited interim consolidated financial statements and the Derivatives and Off-Balance Sheet Arrangements sections of this MD&A).

Recurring securitization income earned from additional excess spreads, net of servicing fees, was \$1.3 million for the first quarter of 2010, compared to \$3.5 million and \$3.4 million for the fourth and first quarters of 2009, respectively. Major components of recurring securitization income include the amortization of the securitization liability and the income (loss) that is earned when actual prepayments differ from the Company's estimates of prepayments.

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. Of the total MBS pools issued during the first quarter, pools with a book value of \$617.9 million were securitized through the CMB program compared to \$730.0 million and \$330.6 million in the fourth and first quarters of 2009, respectively. This resulted in net securitization gains of \$16.4 million compared to \$16.9 million in the fourth quarter of 2009 and \$18.3 million in the comparable quarter 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 first quarter were \$20.1 million compared to \$19.9 million for the fourth quarter of 2009 and \$18.8 million for the first quarter of 2009. First quarter expenses increased 6.6% over the comparable period of 2009, and increased marginally compared to the fourth quarter of 2009. The increase over the comparable quarter 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 will continue to increase non-interest expenses through strategic investments in infrastructure, accommodation, technology and people in a measured and efficient manner in order to align with its growth strategy.

During the first quarter, salaries and staff benefits were \$10.8 million compared to \$10.0 million in the fourth quarter of 2009 and \$10.1 million in the first quarter of 2009. The Company anticipates the need to increase our staff complement during the year to accommodate business growth. On March 31, 2010 the Company employed 505 staff, compared to 491 employees at the end of 2009 and 420 staff one year ago.

Premises expenses were \$1.6 million during the quarter compared to \$1.5 million last quarter and \$1.4 million in the first quarter of 2009. During the quarter Company expanded its floor space in the Toronto head office, and moved its Calgary office to new and larger premises.

General and administration expenses were \$7.7 million during the quarter compared to \$8.3 million last quarter and \$7.4 million in first quarter of 2009. The decline over the prior quarter results from lower consulting costs due to progression on key projects in International Financial Reporting Standards (IFRS) and risk management and a continued strategy of prudent cost management.

The efficiency ratio (TEB) for the quarter was 25.3%, compared to 26.1% in the fourth quarter of 2009 and 27.1% for the first quarter of 2009. The ratio continues to reflect the Company's consistent and prudent cost management leadership within the industry. The Company continues to successfully grow revenue at a stronger pace than expenses.

## Provision for Credit Losses

At March 31, 2010 net impaired loans amounted to \$50.1 million (0.91% of gross loans), compared to \$46.3 million (0.85% of gross loans) at December 31, 2009, and \$52.9 million (1.17% of gross loans) one year ago (refer to Note 4 of these unaudited interim consolidated financial statements). The slight increase in net impaired loans in the first quarter of 2010 compared to last quarter of 2009 reflects seasonal factors. The overall trend in net impaired loans has been downward since the peak in mid-2009. The Company remains cautiously optimistic that credit losses and impaired loans will return to 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 led to manageable arrears and credit losses during the economic challenges. Further, the Company continues to employ prudent strategies to maintain the credit quality of the loans portfolio.

The expense for provisions for credit losses was \$1.0 million in the first quarter compared to \$2.3 million and \$3.3 million for fourth and first quarters of 2009, respectively. On an annualized basis this expense represented 0.07% of gross loans compared to 0.17% and 0.29% for the fourth and first quarters of 2009. The provision for the quarter reflects an improvement in recoveries due to improving real estate markets and lower overall write-offs and a continued focused effort at working out non-performing loans.

Total loans written-off net of recoveries during the quarter were \$0.1 million compared to \$3.4 million in the fourth quarter of 2009 and \$1.5 million for the comparable quarter. Gross write-offs in the residential mortgage portfolio have shown significant improvement at a 76.2% decline over the fourth quarter of 2009. Personal and credit card loans and secured loans gross write-offs also decreased 47.2% on a combined basis from the fourth quarter of 2009. 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.

The general allowance balance at March 31, 2010 was \$28.5 million, an increase of \$0.7 million over the fourth quarter of 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 and the additional prudence in extending credit during the economic downturn. The general allowance was 83.4 basis points of the Company's risk-weighted assets at March 31, 2010 compared to 86.1 basis points at December 31, 2009 and 85.4 basis points at March 31, 2009.

The balance in specific provisions at March 31, 2010 was \$2.7 million, a slight increase from the \$2.6 million recorded at December 31, 2009 and a decrease of \$1.4 million from the \$4.1 million recorded at March 31, 2009. The decrease in specific provisions from a year ago is the result of an overall improvement in the performance of the portfolio, evidenced by a decline in net impaired loans as a percentage of gross loans to 0.91% in the first quarter from 1.17% in the comparable quarter.

### **Income Taxes**

The income tax expense amounted to \$14.5 million (effective tax rate of 25.8%) for the first quarter of 2010, compared to \$14.7 million (effective tax rate of 31.9%) for the first quarter of 2009. The lower effective tax rate during in 2010 is mainly attributed to the effect of the Ontario provincial rate future tax rate reductions that were substantively enacted in November 2009.

In addition, Canadian dividend income is non-taxable to financial institutions, which results in a lower effective income tax rate. In the absence of tax-free dividends, the tax rates would have been 28.4% for the first quarter of 2010, compared to 33.8% for the first quarter of 2009.

### **Comprehensive Income**

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Total comprehensive income was \$42.8 million for the first quarter of 2010 compared to \$44.2 for the fourth quarter of 2009 and \$41.1 million for the comparable quarter in 2009. While net income in the first quarter increased \$1.2 million over the fourth quarter of 2009 and increased \$10.3 million over the comparable quarter of 2009. This was offset by declines in OCI of \$2.6 million and \$8.6 million compared to the fourth and first quarters of 2009, respectively.

The Company's 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. During the first quarter of 2010, the Company recognized at net transfer of a \$2.6 million gain from OCI to net income related to a \$2.9 million gain on sale of securities and a \$0.3 million loss related to securities that, in management's judgement, were other than temporarily impaired. This compares to a net transfer of a \$3.1 million gain and a \$6.0 million loss to net income in the fourth and first quarters of 2009, respectively. Net increase in market value on securities available for sale were \$3.7 million for the three months ended March 31, 2010 compared to \$6.8 million and \$3.6 million for the three months ended December 31, 2009 and March 31, 2009, respectively.

## BALANCE SHEET REVIEW

### Assets

Total on-balance sheet assets as at March 31, 2010 were \$7.05 billion, a decrease of \$313.7 million or 4.3% over the \$7.36 billion reported at December 31, 2009, and up by \$1.42 billion or 25.2% over the March 31, 2009 asset balance of \$5.63 billion.

The decline in total on-balance sheet assets over December 31, 2009 was driven by a reduction in the Company's liquidity portfolio of \$405.8 million and increased securitization volumes. The total on-balance sheet loans portfolio increased marginally from December 31, 2009 as the Company securitized \$1.02 billion in insured mortgages in the first quarter which led to the marginal changes in the loans portfolio balance despite record mortgage originations. Additionally, over the past several quarters, the Company has maintained liquidity levels significantly higher than historical levels; however, as the markets warrant, the Company may reduce liquidity levels.

Other assets increased over December 31, 2009 by 14.0% or \$47.4 million mostly due to an increase in securitization receivables of \$44.5 million and a \$7.7 million increase in intangible assets related to the development of a new core banking system.

The increase in total on-balance sheet assets from one year ago was a result of strong growth in the on-balance sheet loans portfolio of \$970.8 million or 21.5%. Other assets also increased by \$117.3 million due mostly due an increase of \$98.3 million in securitization receivables and a rise in other assets of \$19.0 million. The increase in other assets primarily resulted from an increase in intangible assets of \$25.2 million related to the development of the Company's new core banking system offset by a decline in income taxes receivable.

The residential mortgage portfolio grew 31.9% or \$1.05 billion over March 31, 2009 and declined marginally by 0.8% or \$35.8 million from December 31, 2009. Growth over the 12-month period is attributed to strong origination volumes driven by success of the Accelerator mortgage program and an increase in originations in the traditional mortgage product. The marginal decline from December 31, 2009 results from the significant volume of mortgages securitized in the first quarter.

The non-residential mortgage portfolio was reduced by \$100.6 million or 12.3% to \$714.9 million from \$815.5 million one year ago. The reduction is consistent with the Company's strategy to reduce exposure to this market segment. The portfolio increased slightly by 0.9% or \$6.5 million to \$714.9 million from \$708.4 million at December 31, 2009.

The personal and credit card portfolio ended the quarter at \$414.2 million, up 14.6% or \$52.8 million compared to March 31, 2009 and 20.8% or \$71.3 million over December 31, 2009. The main components of this portfolio are Equityline *Visa* accounts, retail credit and water heater receivables. The primary driver of the increase in this balance is the bulk purchase of water heater receivables of \$59.1 million in January of this year and the ongoing monthly purchasing of these receivables. Equityline *Visa* receivables, which represent \$302.9 million or 74.8% of the total balance, have decreased 7.4% or \$24.8 million over March 31, 2009 and increased 4.2% or \$12.4 million over December 31, 2009. Please see the Results by Business Segment section of this MD&A for more information on this segment.

The secured loans portfolio continues to decline and was \$43.2 million at March 31, 2010, compared to \$69.6 million one year ago and \$47.8 million at December 31, 2009.

Gross loans under administration, which include the securitized off-balance sheet mortgages, reached \$10.50 billion at the end of the quarter an increase of 9.2% or \$884.7 million from the \$9.62 billion recorded at the end of 2009 and a 40.3% or \$3.02 billion increase over the \$7.49 billion recorded one year ago. This increase is due to strong origination volumes. Please see the Results by Business Segment section of this MD&A for more information on mortgages originations.

## Liabilities

Liabilities at March 31, 2010 were \$6.42 billion, a decrease of \$351.4 million or 5.2% over the \$6.77 billion reported at December 31, 2009 and up by \$1.26 billion or 24.3% over the \$5.16 billion recorded at March 31, 2009.

The decline in total liabilities compared to December 31, 2009 is a result of a decrease in deposit liabilities of \$374.2 million as the Company utilized existing liquidity funds and the securitization market to fund operations. Other liabilities (refer to Note 7 of these unaudited interim consolidated financial statements) increased by \$21.3 million or 6.0% over the \$356.1 million reported at December 31, 2009. This growth 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 rise in liabilities from March 31, 2009 is primarily due an increase of \$1.21 billion in deposit liabilities as the Company utilized deposit markets to fund the growth in the on-balance sheet loans portfolio and a general increase in other liabilities due to business growth.

## Shareholders' Equity

Total shareholders' equity of \$628.0 million at March 31, 2010 increased by \$37.7 million or 6.4% over the \$590.3 million reported at December 31, 2009. The increase since December 2009 was internally generated from net income over the three months of \$41.7 million, less \$5.6 million for dividends payable to shareholders. The remaining changes were principally driven from positive movements of \$1.1 million in accumulated other comprehensive income, \$3.0 million in proceeds from stock options, offset by a \$0.7 million buy-back of the Company's common shares through the Normal Course Issuer Bid.

Total shareholders' equity of \$628.0 million at March 31, 2010 rose by \$160.0 million, or 34.2% over the \$467.9 million reported at March 31, 2009. This growth was internally generated from earnings for the twelve-month period ended March 31, 2010 of \$154.8 million, less \$22.2 million for shareholder dividends. Additional movements resulted from amortization of the fair value of stock options; reduction of capital stock through the Company's Normal Course Issuer Bid and changes in accumulated other comprehensive income. At March 31, 2010 the book value per common share was \$18.08, compared to \$17.00 at December 31, 2009 and \$13.62 at March 31, 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 that mortgages are committed to be securitized and the time those 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 of time is generally 60 to 150 days. For this purpose, during the first quarter of 2010, the Company entered into \$315.3 million of forward bond contracts.

The forward bond contracts are settled at the time of securitization of the underlying mortgages. For the first quarter of 2010 a net realized loss of \$2.4 million was recognized in the income statement through securitization income compared to a net loss of \$8.3 million and \$1.4 million for the fourth and first quarters of 2009, respectively. 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.

At March 31, 2010 the Company continued to hold notional forward bond contracts of \$23.2 million in anticipation of the CMB issuances in the second quarter of 2010 compared to \$183.8 million and \$144.6 million at the end of the fourth and first quarters of 2009, respectively. These contracts had a positive fair value of \$0.4 million at March 31, 2010 compared to a positive fair value of \$2.4 million at the end of 2009 and \$0.5 million at March 31, 2009. The fair value changes in these contracts create unrealized gains or losses which are included in income statement through gain (loss) on derivatives.

The Company participates in the CMB program sponsored by CMHC, and administered by CHT. Through this program, the Company must manage interest rate risk. 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 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 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 March 31, 2010 was \$3.78 billion (\$3.20 billion – Q4 2009; \$1.60 billion – Q1 2009). These swaps, including both the seller and hedge swaps had a negative fair value of \$12.5 million at March 31, 2010 (\$10.7 million – Q4 2009; \$2.2 million – Q1 2009). Unrealized gains (losses) due to changes in fair value are recorded in the consolidated statements of income through gain (loss) on derivatives. Unrealized gains (losses) from the fair value changes of these swaps are impacted 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. 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. 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 almost all of securitized assets that the Company originates after the sale and, upon maturity of the mortgage, will renew or refinance these mortgage loans whenever possible.

As at March 31, 2010 outstanding securitized mortgage loans under administration amounted to \$4.99 billion (\$4.15 billion – Q4 2009; \$2.94 billion – Q1 2009) with retained interest of \$274.0 million (\$229.4 million – Q4 2009; \$175.7 million – Q1 2009). The off-balance sheet portfolio continues to perform well, with 98.7% of the portfolio current and 0.6% greater than 60 days in arrears compared to 97.9% current and 0.9% over 60 days at December 31, 2009 and 97.3% current and 1.0% over 60 days at March 31, 2009, respectively.

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 \$576.5 million at March 31, 2010 (\$380.8 million – Q4 2009; \$428.7 million Q1– 2009). Included within the outstanding commitments are unutilized non-residential loan advances of \$74.5 million at March 31, 2010 (\$48.6 million – Q4 2009; \$90.4 million – Q1 2009). Commitments for the loans remain open for various dates through December 2010. As at March 31, 2010 unutilized credit card balances amounted to \$55.2 million (\$52.8 million – Q4 2009; \$54.4 million – Q1 2009). Outstanding commitments for future advances for the Equityline Visa portfolio were \$5.5 million at March 31, 2009 (\$2.9 million – Q4 2009; \$2.7 million – Q1 2009).

## CAPITAL MANAGEMENT

Home Trust's capital ratios are calculated using the requirements of the Office of the Superintendent of Financial Institutions Canada (OSFI).

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

<i>(000s)</i>	As at March 31, 2010 <sup>1</sup>	As at December 31, 2009 <sup>1</sup>	As at March 31, 2009 <sup>1</sup>
Risk-weighted assets for:			
Credit risk	\$ 3,097,964	\$ 2,913,092	\$ 2,741,077
Operational risk	322,163	314,063	280,052
<b>Total Risk-weighted Assets<sup>1</sup></b>	<b>\$ 3,420,127</b>	<b>\$ 3,227,155</b>	<b>3,021,129</b>

<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 capital ratio ended the quarter at 16.5%, up slightly from the 16.4% recorded at the end of the fourth quarter of 2009 and up from the 13.8% reported at March 31, 2009. The Total capital ratio was 17.9% at March 31, 2010, compared to 18.0% reported at the end of the fourth quarter of 2009 and up from the 15.2% reported at March 31, 2009. 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. Additionally, given the uncertainty in international rule making activities that may potentially impact capital requirements in Canada, the Company believes a continued prudent approach is warranted.

For further information on the Company's regulatory capital, see Note 8 to these unaudited interim consolidated financial statements.

## RISK MANAGEMENT

The Company is exposed to various types of risks owing to the nature of the business activities it conducts. The types of risk to which the Company is subject include 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. The Company's ERM structure is supported by a governance framework which 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 policies are reviewed and approved annually by the Board of Directors. The Company's key risk management practices remain in place and continue to be 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. The Company's exposure to credit risk is monitored by senior management, the ERM function, the Audit Committee and the Risk and Capital Committee of the Board of Directors who undertake reviews of credit policies, lending practices, the adequacy of loan loss reserves and credit risk based capital. The Company's policy is that credit is approved by different levels of senior management, 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.

At March 31, 2010 the composition of the total mortgage portfolio was 85.8% residential and 14.2% non-residential, compared to a composition of 86.0% residential and 14.0% non-residential at December 31, 2009 and a composition of 80.1% residential and 19.9% non-residential one year ago. The composition is well within the internal policy limits approved by the Company's Risk and Capital Committee.

Within the Company's residential mortgage portfolio, 22.5% of the loans were insured at the end of the quarter, compared to 31.0% at December 31, 2009 and 15.0% one year ago. The insured balance has declined from December 31, 2009 due to the securitization of a high volume of insured mortgages in the first quarter. First mortgages represented 99.7% of the total mortgage portfolio at March 31, 2010, comparable to prior periods. With the success of the Accelerator Program the Company continues a trend of originating high volumes of insured mortgages. Of all residential mortgage originations and renewals in the first three months of 2010, 54.6% were insured compared to the same three-month period of 2009 where 62.4% of all residential mortgage originations and renewals were insured. At March 31, 2010 the average loan to value on origination of the Company's residential mortgage loans portfolio was 71.0%, compared to 68.8% at December 31, 2009 and 69.9% one year ago. Refer to Note 4 of these unaudited interim consolidated financial statements for a further breakdown by geographic region.

The performance of the mortgage loans portfolio continues to improve with 96.1% of the portfolio current and 1.3% of the portfolio over 60 days in arrears at the end of March 2010. This compares favourably with December 31, 2009 at which point 95.4% of the portfolio was current and 1.1% of the portfolio was over 60 days in arrears and March 31, 2009 at which point 94.2% of the portfolio was current while 2.4% of the portfolio was over 60 days in arrears. The total mortgage loans portfolio under administration, which includes the off-balance sheet securitized mortgages, is also performing well with 98.7% of the portfolio current and 0.6% over 60 days in arrears.

At March 31, 2010 the gross credit card receivable balance totalled \$309.7 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 \$302.9 million or 97.8% of the total credit card receivable balance as at March 31, 2010 compared to 97.6% million at December 31, 2009. Cash deposits securing credit card accounts amounted to \$11.5 million, and are included in the Company's deposits. Additionally, the Equityline Visa portfolio has a loan to value of 69.5% at March 31, 2010 consistent with a loan to value of 69.3% and 69.4% at December 31, 2009 and March 31, 2009, respectively. At March 31, 2010, \$8.5 million or 2.7% of the credit card portfolio was over 60 days in arrears compared to \$7.5 million or 2.5% at December 31, 2009 and \$12.6 million or 3.7% at March 31, 2009.

The secured loan portfolio of \$43.2 million decreased by \$4.5 million from December 31, 2009 and decreased \$26.4 million from March 31, 2009. These loans are secured by second mortgages on residential properties. At March 31, 2010, 97.5% of the secured loan portfolio was current while \$0.9 million or 1.9% 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 March 31, 2009, 96.7% of the secured loan portfolio was current while \$1.0 million or 1.3% was over 60 days in arrears.

The Company experienced a rise in net impaired loans, to \$50.1 million at March 31, 2010 compared to \$46.3 million at December 31, 2009, primarily due to seasonal factors: however, this is an improvement compared to one year ago when net impaired loans were \$52.9. Net impaired loans as a percentage of total loans remain low at 0.91% at March 31, 2010 compared to 0.85% at December 31, 2009 and 1.17% one year ago. The Company is benefiting 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. Additionally, the Company's 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 applied against the accumulated allowance for credit losses realized on loans during the three-month period ended March 31, 2010 totalled \$0.1 million, down from \$3.4 million for the three-month period ended December 31, 2009 and \$1.5 million for the three-month period ended March 31, 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 March 31, 2010 the Company held a general allowance of \$28.5 million compared to \$27.8 million at December 31, 2009 and \$25.8 million at March 31, 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, and 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 83.4 basis points of the Company's risk-weighted assets at March 31, 2010 compared to 86.1 basis points at December 31, 2009 and 85.4 basis points at March 31, 2009. The decrease reflects the overall improvement in the performance of the portfolio and improving economic conditions.

### **Liquidity Risk**

This is the risk whereby 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, such as the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by senior management and 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 to comply with its liquidity policy. At March 31, 2010 liquid assets amounted to \$794.3 million, compared to \$1.2 billion recorded at December 31, 2009 and \$610.7 million at March 31, 2009. The decline in overall liquidity levels from the fourth quarter is a result of higher liquidity levels at December 31, 2009 due to the timing of securitization activities. The Company expects to maintain conservative liquidity levels but may drawdown the level to more normalized levels as the market allows. The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets. For the twelve months ended March 31, 2010 the Company maintained a monthly average of \$638.6 million or 46.8% of 100-day obligations in liquid assets compared to \$646.5 million or 44.8% for the twelve months ended December 31, 2009 and \$609.3 million or 45.0% for the twelve months ended March 31, 2009.

As one of the tools used in managing liquidity, the Company runs a model which 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 March 31, 2010 liquid assets amounted to 166% under the immediate scenario and 143% under the ongoing scenario compared to 165% and 135%, respectively, at December 31, 2009 and 156% and 138%, respectively, as at March 31, 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 March 31, 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.

(000s)	March 31	March 31	March 31	March 31
	2010	2009	2010	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)	\$ 4,347	\$ 2,942	\$ (4,347)	\$ (2,942)
Impact on net present value of shareholders' equity	(12,154)	(13,932)	13,088	14,682
<b>200 basis point shift</b>				
Impact on net interest income, after tax (for the next 12 months)	\$ 8,693	\$ 5,883	\$ (8,693)	\$ (5,883)
Impact on net present value of shareholders' equity	(23,462)	(27,156)	23,462	30,159

As described in the Derivatives section of this MD&A, the Company may enter into derivative contracts for the purpose of hedging 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 this mortgage loan is securitized. At March 31, 2010, the Company held notional \$23.2 million (\$183.8 million – Q4 2009; \$144.6 million – Q1 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-month period ended March 31, 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

The Company's principal line of business contributed \$28.9 million to net income during the first quarter of 2010, compared to \$32.2 million and \$24.7 million for the quarters ended December 31, 2009 and March 31, 2009. The increase over the comparable period of 2009 was primarily driven through robust loan originations which increased net interest income and improved loan provisions, offset by a decline in net securitization income due to lower spreads. The decline in net income from the fourth quarter of 2009 results from lower securitization income and the non-recurrence of the fourth quarter of 2009 benefit of future tax declines, offset by improved provisions.

Net interest income ended the quarter at \$31.7 million, an improvement from \$28.3 million for the three-month period ended December 31, 2009 and the \$20.5 million for the three-month period ended March 31, 2009.

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

(000s)	Three Months Ended		
	March 31 2010	December 31 2009	March 31 2009
Traditional single family residential mortgages <sup>1</sup>	\$ 537,942	\$ 517,668	\$ 306,352
Accelerator single family residential mortgages <sup>1</sup>	561,116	483,809	199,687
Multi-unit residential mortgages <sup>1</sup>	134,824	296,834	168,798
Warehouse residential mortgages <sup>1</sup>	-	-	15,340
Non-Residential Mortgages	61,230	60,156	22,299
Stores and Apartments	23,782	18,109	10,375
Warehouse Commercial Mortgages	6,250	18,251	3,000
<b>Total Mortgage Advances</b>	<b>\$ 1,325,144</b>	<b>\$ 1,394,827</b>	<b>\$ 725,851</b>

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

The total value of new mortgages advanced in the quarter was \$1.32 billion, a substantial increase of 82.6% over the \$725.8 million advanced for the same quarter in 2009 and a marginal decline of 5.0% over the \$1.39 billion advanced in the fourth quarter of 2009. Seasonal factors tend to result in relatively lower originations in the first quarter of the year compared to the fourth quarter.

Total residential mortgage advances of \$1.23 billion for the quarter have increased \$543.7 million, or 78.8% compared to the \$690.2 million advanced in the three month period ended March 31, 2009. This growth reflects significant success in the fully insured Accelerator mortgage program and a cautious expansion in the traditional portfolio as the economy and real estate conditions improve. The Company's continued focus on service and broker relationships, as well as the breadth of mortgage product offerings, are leading to expanded market penetration. Residential mortgages originated under the Accelerator and multi-unit residential programs are insured mortgages that are subsequently securitized and sold through the Company's MBS program and CMB program.

The non-residential product advances of \$61.2 million remained consistent with the fourth quarter of 2009 and up \$38.9 million from the comparable quarter of 2009. 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 the first quarter of 2009. The Company is currently maintaining the overall balance in this portfolio.

The Company securitized \$1.02 billion of insured residential mortgage loans through the creation of MBS securities during the quarter, realizing total net gains from securitization of \$20.9 million for the quarter. Please see the Securitization Activity section of this MD&A and Note 5 of the unaudited 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 first

quarter of 2010 the Company held \$43.2 million in Secured Loans as Notes Receivable issued by Regency, compared to \$47.7 million at December 31, 2009 and \$69.6 million at March 31, 2009. These Notes yield 4.2% 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 to 0.2% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgage loans securing the Notes Receivable remains high, with only 1.6% of the portfolio in arrears over 60 days. This program has experienced minimal losses since inception.

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

Consumer lending continued to generate positive results in the first quarter of 2010. Net income for the quarter was \$6.2 million, compared to \$6.6 million for the fourth quarter of 2009 and \$4.8 million for the first quarter of 2009. Net interest income was up \$0.3 million and \$0.9 million over the fourth and first quarters of 2009, respectively.

During the first quarter of 2010, 1008 Equityline *Visa* accounts with \$37.8 million in authorized credit limits were issued, up from 936 Equityline *Visa* accounts with \$34.4 million in authorized credit limits issued in the fourth quarter of 2009 and up from 380 Equityline *Visa* accounts with \$16.2 million in authorized credit limits issued for the three months ended March 31, 2009. The balance in the Equityline *Visa* loans portfolio amounted to \$302.9 million at March 31, 2010 (\$297.3 million – Q4 2009: \$334.5 million – Q1 2009). Equityline *Visa* comprises 97.8% (97.6% – Q4 2009: 97.6% – Q1 2008) of the total gross credit card receivable balance of \$309.7 million, and bearing an average interest rate of 10.49% (10.8% – Q4 2009: 10.8% – Q1 2009) on outstanding balances. The Company had scaled back lending in the ELV product last year as a proactive measure to manage credit risk in during the economic downturn. The Company recently resumed its strategy to prudently increase this business line and through new marketing and product initiatives and has seen increased volumes and expects this trend to continue.

As announced in the fourth quarter of 2009 the Company entered into a long term financing agreement to finance current and future water heater installations. In the first quarter the Company closed \$59.1 million of existing financing under this program. The Company expects to continue to add to this portfolio each quarter, contributing to increased net interest margin over the year.

### **Other**

The Other segment is comprised of the operating results from the Company's securities portfolio and corporate activities. Net income for the quarter was \$5.6 million, up from \$1.6 million for the three months ended December 31, 2009 and \$1.9 million for the three months ended March 31, 2009. The increase from the prior periods was driven by a gain on the sale of certain securities offset by lower yields earned on the Company's fixed income and preferred shares portfolio.

## ACCOUNTING STANDARDS AND POLICIES

### Critical Accounting Estimates

Critical accounting estimates which require management to make significant judgements, some of which are inherently uncertain, are outlined on pages 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 March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

### Preliminary Impact of Securitization Changes on Net Income

The Company has completed a preliminary calculation of what the possible material IFRS securitization impacts would be for the first quarter of 2010. This analysis has not been audited by the Company's external auditors. The analysis suggests that if the income statement for the first quarter of 2010 were presented on an IFRS basis, net income and earnings per share would not be materially impacted compared to current net income and earnings per share.

The reason for this result is that in the quarter analyzed, when the mortgages that are currently off-balance are included on to the Company's balance sheet under IFRS, they earn net interest income that is not materially different from the securitization gains that were otherwise recognized in the first quarter under current Canadian GAAP. While this result would be expected to at least continue for future quarters, changes in interest rates, securitization spreads or securitization volumes could affect this conclusion.

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 the expected interpretation that all securitized assets are accounted for on-balance sheet. This section contains forward-looking statements. (Please see the Caution Regarding Forward-Looking Statements on page 5 of these unaudited interim consolidated financial statements.)

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.

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 over eight quarters. 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 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 in the process of implementing solutions to capture IFRS based accounting for the 2010 comparative periods and calculating the IFRS opening balance sheet adjustments as at January 1, 2010.

Key project milestones in 2010 include:

- quantification of the opening retained earnings adjustment – July 31, 2010;
- production of 2010 comparative IFRS financial information – Q3 2010; and,
- design and testing of revised disclosure controls and internal controls over financial reporting – Q3 and Q4 2010.

The Company has not yet identified significant changes to information technology required for IFRS adoption nor has it identified significant changes required to the disclosure controls and internal controls over financial reporting.

## Summary of IFRS Impacts

The table below provides a preliminary high-level summary of the more significant IFRS impacts identified by the Company.

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. Based on the current structure of these programs, and the IFRS in effect at transition, the Company expects that it will no longer account for these transactions as sales of mortgages. 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 and the associated liability to the security holders.</p> <p>Future securitization transactions undertaken through the current CMHC CMB and MBS structure, 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.</p> <p>The Company is in the process of calculating the impact on opening retained earnings and will provide further information as it becomes available.</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 offset by an increase in provisions for credit losses.</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 has not yet quantified the potential 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. The Company has not quantified the IFRS income tax accounting differences.</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>

## 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 impact the ACM. The Company believes that the proposed ACM rules for securitization will not materially impact participation in the CMB and NHA MBS programs, nor affect the Company's ability to continue offering these competitive mortgage products which 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.

## UPDATED SHARE INFORMATION

As at March 31, 2010 the Company had issued 34,732,090 Common Shares. In addition, outstanding employee stock options amounted to 814,250 (924,750 – Q4 2009; 1,446,750 – Q1 2009) of which 381,750 were exercisable as of the quarter-end (458,000 – Q4 2009; 724,250 – Q1 2009) for proceeds to the Company upon exercise of \$12.5 million (\$15.0 million – Q4 2009; \$14.9 million – Q1 2009).

Subsequent to the end of the first quarter, the Board of Directors declared a quarterly cash dividend of \$0.16 per common share payable on June 1, 2010 to shareholders of record at the close of business on May 14, 2010.

## QUARTERLY FINANCIAL HIGHLIGHTS

(000s, except % and per share amounts)	2010				2009			2008	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Net interest income (TEB) <sup>1</sup>	\$ 49,591	\$ 48,178	\$ 45,254	\$ 42,024	\$ 37,505	\$ 36,442	\$ 39,478	\$ 40,418	
Less TEB adjustment	2,096	2,842	2,300	1,535	1,273	1,205	1,130	1,056	
Net interest income per financial statements	47,495	45,336	42,954	40,489	36,232	35,237	38,348	39,362	
Non-interest income	29,826	28,015	33,589	30,437	32,034	26,023	23,013	17,318	
Non-interest expense	20,101	19,856	21,674	18,222	18,849	16,852	16,953	17,443	
Total revenues	122,673	121,381	125,299	121,778	120,721	117,996	116,950	112,953	
Net income	41,719	40,481	38,243	34,351	31,418	29,039	27,939	26,550	
Return on common shareholders' equity	27.4%	28.4%	28.7%	27.9%	27.9%	27.4%	27.6%	27.7%	
Return on average assets	2.3%	2.4%	2.5%	2.3%	2.2%	2.0%	2.0%	2.0%	
Earnings per common share									
Basic	\$ 1.20	\$ 1.17	\$ 1.11	\$ 1.00	\$ 0.91	\$ 0.84	\$ 0.81	\$ 0.77	
Diluted	\$ 1.20	\$ 1.16	\$ 1.10	\$ 0.99	\$ 0.91	\$ 0.84	\$ 0.81	\$ 0.76	
Book value per common share	\$ 18.08	\$ 17.00	\$ 15.99	\$ 14.99	\$ 13.62	\$ 12.57	\$ 12.07	\$ 11.44	
Efficiency ratio (TEB) <sup>1</sup>	25.3%	26.1%	27.5%	25.1%	27.1%	27.0%	27.1%	30.2%	
Efficiency ratio	26.0%	27.1%	28.3%	25.7%	27.6%	27.5%	27.6%	30.8%	
Tier 1 capital ratio <sup>2</sup>	16.5%	16.4%	16.6%	15.2%	13.8%	12.9%	12.7%	12.5%	
Total capital ratio <sup>2</sup>	17.9%	18.0%	18.2%	16.7%	15.2%	14.2%	14.0%	13.8%	
Net impaired loans as a % of gross loans	0.9%	0.8%	1.2%	1.3%	1.2%	0.9%	0.7%	0.7%	
Annualized provision as a % of gross loans	0.1%	0.2%	0.2%	0.3%	0.3%	0.2%	0.3%	0.1%	

<sup>1</sup> TEB - taxable equivalent basis, see definition in Non-GAAP Measures section of this unaudited quarterly report.

<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. The increase in 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 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 in the first quarter of 2010. The increase over 2008 and through much of 2009 was due to the effect of the economic slowdown in Canada driving higher unemployment levels. Modest improvements are expected to continue as the portfolio performance benefits from the underlying credit quality and cautious lending policies of 2008 and 2009. Net impaired loans as a percentage of gross loans remained stable through much of 2009 and have increased marginally in the first quarter of 2010 due to seasonal factors. However, the Company continues to take proactive steps to manage the impaired loans, including maintaining a strong mortgage servicing department to support clients in payment management.

## OUTLOOK

Home Capital's core business consists of the classic mortgage lending programs that have successfully operated for over 20 years. 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 continue growing the insured mortgage portfolio and offering competitive, well-serviced mortgage products. The focus on diversification of the loans portfolio will continue through cautious and strategic geographical diversification 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 position and no external debt needed for organic growth, positioning the Company to continue generating above-average returns and capitalize on market opportunities where they arise.

Real estate markets have shown robust growth in the first quarter of 2010 and the Company has observed healthier and more stable real estate conditions across the country. The Company expects the relative increase in new and resale home sales and price appreciation will begin to slow into the second half of 2010 due to expected interest rate increases from the Bank of Canada, changes in CMHC insurance requirements and the introduction of the Harmonized Sales Tax (HST) in Ontario and British Columbia. However, the Company still believes the housing market will continue to strengthen in 2010.

Even if there is a modest slowing of the growth rate in the housing markets, it is not expected to impact 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 product offerings and expansion of broker networks and market penetration. The stabilization of housing markets has allowed for renewed focus on growth in the Company's traditional mortgage portfolio, Equityline *Visa* and geographic diversification strategies. The Company expects volume increases in the traditional portfolio and further geographical diversification of its mortgage portfolio during the year.

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. The arrears continued to drop from that point to December 31, 2009 when total arrears over 30 days were \$49.8 million and \$43.6 million non-performing. Adjusting for seasonal factors, the overall downward trend in arrears has continued into 2010 and management has observed the same trending into the second quarter of 2010. Management believes that this downward trend will continue throughout 2010.

As a result of the transition to the HST regime, the Company anticipates certain expenses to increase due to the additional tax being introduced. Most notably, the Company forecasts higher rent, consulting fees, legal and audit fees as they are currently subject to GST at a rate of 5%. Effective July 1, 2010, these expenditures will increase by 8% for a total of 13% HST.

Looking ahead the Board of Directors and management are confident that Home Capital is well positioned to continue generating strong earnings and growth in 2010, 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 5 of these unaudited interim consolidated financial statements).**

## Consolidated Statements of Income

	For the three months ended		
	March 31	December 31	March 31
<i>000s, except per share amounts (Unaudited)</i>	2010	2009	2009
<b>Income</b>			
Interest from loans	\$ 85,757	\$ 84,312	\$ 81,327
Dividends from equity securities	4,832	6,343	2,840
Other interest	2,258	2,711	4,520
	<b>92,847</b>	93,366	88,687
<b>Interest Expense</b>			
Interest on deposits	45,352	48,030	52,455
Net interest income	47,495	45,336	36,232
Provision for credit losses (note 4(E))	967	2,282	3,283
	<b>46,528</b>	43,054	32,949
<b>Non-interest Income</b>			
Fees and other income	7,816	7,182	7,322
Securitization income on mortgage-backed securities (note 5)	22,167	24,283	27,655
Net gain (loss) realized and unrealized on securities	3,146	(431)	(943)
Gain (loss) on derivatives	(3,303)	(3,019)	(2,000)
	<b>29,826</b>	28,015	32,034
	<b>76,354</b>	71,069	64,983
<b>Non-interest Expenses</b>			
Salaries and staff benefits	10,775	10,045	10,084
Premises	1,641	1,546	1,356
General and administration	7,685	8,265	7,409
	<b>20,101</b>	19,856	18,849
<b>Income Before Income Taxes</b>	<b>56,253</b>	51,213	46,134
Provision for income taxes (note 11(A))	14,534	10,732	14,716
<b>NET INCOME</b>	<b>\$ 41,719</b>	\$ 40,481	\$ 31,418
<b>NET INCOME PER COMMON SHARE</b>			
Basic	\$ 1.20	\$ 1.17	\$ 0.91
Diluted	\$ 1.20	\$ 1.16	\$ 0.91
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>			
Basic	34,723	34,552	34,410
Diluted	34,814	34,756	34,625
Total number of outstanding common shares	34,732	34,713	34,355
Book value per common share	\$ 18.08	\$ 17.00	\$ 13.62

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

## Consolidated Statements of Comprehensive Income

For the three months ended

<i>000s (Unaudited)</i>	<b>March 31 2010</b>	December 31 2009	March 31 2009
<b>NET INCOME</b>	<b>\$ 41,719</b>	\$ 40,481	\$ 31,418
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>			
<b>Unrealized income on available for sale securities</b>			
Net unrealized income on securities available for sale, net of \$2,439 tax (\$362 - December 31, 2009; \$(2,422) - March 31, 2009)	<b>3,709</b>	6,812	3,630
Reclassification of (gains) losses in respect of available for sale securities, net of \$1,166 tax (\$3,085 - December 31, 2009; \$188 - March 31, 2009)	<b>(2,622)</b>	(3,138)	6,009
Total other comprehensive income	<b>1,087</b>	3,674	9,639
<b>COMPREHENSIVE INCOME</b>	<b>\$ 42,806</b>	\$ 44,155	\$ 41,057

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

## Consolidated Balance Sheet

<i>000s (Unaudited)</i>	<b>March 31</b>	December 31	March 31
	<b>2010</b>	2009	2009
<b>ASSETS</b>			
<b>Cash Resources (note 3)</b>			
Deposits with regulated financial institutions	\$ 452,315	\$ 912,169	\$ 312,172
Restricted cash	19,565	17,965	2,380
	<b>471,880</b>	930,134	314,552
<b>Securities (note 3)</b>			
Held for trading	99,961	99,938	-
Available for sale	611,051	550,659	539,904
	<b>711,012</b>	650,597	539,904
<b>Loans (note 4)</b>			
Residential mortgages	4,333,685	4,369,458	3,286,025
Non-residential mortgages	714,880	708,425	815,483
Personal and credit card loans	414,190	342,918	361,348
Secured loans	43,246	47,739	69,623
General allowance for credit losses	(28,514)	(27,793)	(25,802)
	<b>5,477,487</b>	5,440,747	4,506,677
<b>Other</b>			
Securitization receivable (note 5)	274,021	229,418	175,734
Capital assets	5,220	4,863	5,160
Other assets (note 6)	107,547	105,115	88,566
	<b>386,788</b>	339,396	269,460
	<b>\$ 7,047,167</b>	\$ 7,360,874	\$ 5,630,593
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits			
Payable on demand	\$ 12,873	\$ 38,223	\$ 22,934
Payable on a fixed date	6,022,719	6,371,599	4,800,698
	<b>6,035,592</b>	6,409,822	4,823,632
<b>Other</b>			
Cheques and other items in transit	6,148	4,617	9,944
Other liabilities (note 7)	377,440	356,147	329,078
	<b>383,588</b>	360,764	339,022
	<b>6,419,180</b>	6,770,586	5,162,654
<b>Shareholders' Equity</b>			
Capital stock (note 8)	48,348	45,396	39,006
Contributed surplus	3,366	3,606	3,670
Retained earnings	553,918	520,018	426,677
Accumulated other comprehensive income (loss) (note 10)	22,355	21,268	(1,414)
	<b>627,987</b>	590,288	467,939
	<b>\$ 7,047,167</b>	\$ 7,360,874	\$ 5,630,593

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		
	March 31	December 31	March 31
<i>000s (Unaudited)</i>	2010	2009	2009
<b>CAPITAL STOCK</b> (note 8)			
Balance at beginning of the period	\$ 45,396	\$ 41,888	\$ 39,094
Proceeds of options exercised	3,029	3,572	-
Normal course issuer bid	(77)	(64)	(88)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 48,348</b>	<b>\$ 45,396</b>	<b>\$ 39,006</b>
<b>CONTRIBUTED SURPLUS</b>			
Balance at beginning of the period	\$ 3,606	\$ 3,948	\$ 3,283
Amortization of fair value of employee stock options (note 9)	279	349	387
Employee stock options exercised	(519)	(691)	-
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 3,366</b>	<b>\$ 3,606</b>	<b>\$ 3,670</b>
<b>RETAINED EARNINGS</b>			
Balance at beginning of the period	\$ 520,018	\$ 487,393	\$ 401,429
Normal course issuer bid	(2,259)	(1,912)	(1,361)
Net income for the period	41,719	40,481	31,418
Dividends paid or declared during the period	(5,560)	(5,944)	(4,809)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 553,918</b>	<b>\$ 520,018</b>	<b>\$ 426,677</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Balance at beginning of the period	\$ 21,268	\$ 17,594	\$ (11,053)
Other comprehensive income, net of \$1,274 tax (\$2,724 - December 31, 2009; \$(2,610) - March 31, 2009)	1,087	3,674	9,639
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 22,355</b>	<b>\$ 21,268</b>	<b>\$ (1,414)</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

	March 31	December 31	March 31
<i>000s (Unaudited)</i>	2010	2009	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the period	\$ 41,719	\$ 40,481	\$ 31,418
Adjustments to determine cash flows relating to operating activities:			
Future income taxes	7,419	5,458	9,578
Amortization	649	(261)	1,020
Provision for credit losses (note 4(E))	967	2,282	3,283
Change in accrued interest payable	9,268	(9,619)	(2,375)
Change in accrued interest receivable	113	(607)	1,142
Net loss (gain) realized and unrealized on investment securities	(3,018)	(1,001)	(589)
Loss (gain) on derivatives	3,303	3,019	2,000
Securitization income on mortgage-backed securities	(22,167)	(24,283)	(27,655)
Amortization of fair value of employee stock options (note 9)	279	349	387
Change in payments received for securitized pools	(6,599)	2,937	43,075
Other	14,617	2,452	15,485
Cash flows from operating activities	46,550	21,207	76,769
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net (decrease) increase in deposits	(374,230)	1,036,360	(279,149)
Issuance of capital stock	3,029	3,572	-
Normal course issuer bid	(2,336)	(1,976)	(1,449)
Exercise of employee stock options	(519)	(691)	-
Dividends paid	(5,557)	(5,555)	(4,475)
Cash flows from financing activities	(379,613)	1,031,710	(285,073)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Activity in available for sale and held for trading securities			
Purchases	(188,274)	(291,767)	(253,299)
Proceeds from sales	116,531	187,460	234,967
Proceeds from maturities	10,293	110,440	5,344
Activity in mortgages			
Net increase	(995,127)	(1,129,982)	(474,078)
Proceeds from securitization of mortgage-backed securities	1,011,283	843,710	450,833
Change in mortgage-backed securities receivable	(4,062)	13,279	4,034
Net (increase) decrease in personal and credit card loans	(71,577)	(394)	7,071
Net decrease in secured loans	4,293	5,735	2,814
Net change in restricted cash	(1,600)	(1,800)	(2,380)
Purchases of capital assets	(819)	(580)	(328)
Purchases of intangible assets	(7,732)	(6,643)	(8,924)
Cash flows used in investing activities	(126,791)	(270,542)	(33,946)
Net increase in cash and cash equivalents during the period	(459,854)	782,375	(242,250)
Cash and cash equivalents at beginning of the period	912,169	129,794	554,422
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 452,315</b>	<b>\$ 912,169</b>	<b>\$ 312,172</b>
<b>Supplementary Disclosure of Cash Flow Information</b>			
Interest paid	\$ 36,085	\$ 57,648	\$ 54,829
Income taxes paid	13,095	14,563	11,242

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.

### 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 starting on page 23 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)	March 31 2010	December 31 2009	March 31 2009
Deposits with regulated financial institutions <sup>1</sup>	\$ 452,315	\$ 912,169	\$ 312,172
Restricted cash <sup>2</sup>	19,565	17,965	2,380
	\$ 471,880	\$ 930,134	\$ 314,552

<sup>1</sup> This includes a deposit of \$46.1 million (December 31, 2009 - \$46.1 million, March 31, 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 (loss) is disclosed in Note 10.

(000s)	March 31 2010	December 31 2009	March 31 2009
Securities issued or guaranteed by:			
Canada	\$ (94)	\$ 3	\$ 474
Corporations	(89)	(35)	2,485
Equity securities			
Common	271	360	(1,730)
Fixed rate preferred	6,133	8,105	(24,383)
Floating rate preferred	-	-	(1,169)
Income trusts	183	2,317	(88)
Mutual funds	43	(55)	(439)
	\$ 6,447	\$ 10,695	\$ (24,850)

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 March 31, 2010, the Company determined that \$0.3 million (\$4.1 million – Q1 2009; nil – Q4 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 March 31, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	%
British Columbia	\$ 365,377	\$ 9,710	\$ 20,441	\$ 8	\$ 395,536	7.2%
Alberta	341,170	32,686	49,469	4,815	428,140	7.8%
Ontario	3,293,975	622,714	337,409	37,002	4,291,100	77.9%
Quebec	155,450	29,307	1,577	-	186,334	3.4%
Maritimes	87,169	11,122	3,942	1,421	103,654	1.9%
Manitoba and Saskatchewan	90,544	9,341	1,352	-	101,237	1.8%
	\$ 4,333,685	\$ 714,880	\$ 414,190	\$ 43,246	\$ 5,506,001	100.0%
As % of portfolio	78.7%	13.0%	7.5%	0.8%	100.0%	

As at December 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	%
British Columbia	\$ 476,418	\$ 9,270	\$ 22,617	\$ 7	\$ 508,312	9.3%
Alberta	358,683	76,424	54,209	5,367	494,693	9.0%
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	2.0%
Manitoba and Saskatchewan	70,929	9,333	1,451	-	81,713	1.5%
	\$ 4,369,458	\$ 708,425	\$ 342,918	\$ 47,739	\$ 5,468,550	100.0%
As % of portfolio	79.9%	12.9%	6.3%	0.9%	100.0%	

As at March 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	%
British Columbia	\$ 338,624	\$ 9,509	\$ 30,543	\$ 10	\$ 378,686	8.4%
Alberta	388,189	112,241	73,531	8,220	582,181	12.8%
Ontario	2,297,198	624,132	248,763	59,254	3,229,347	71.2%
Quebec	112,132	44,414	1,660	-	158,206	3.5%
Maritimes	82,203	12,218	5,536	2,139	102,096	2.3%
Manitoba and Saskatchewan	67,679	12,969	1,315	-	81,963	1.8%
	\$ 3,286,025	\$ 815,483	\$ 361,348	\$ 69,623	\$ 4,532,479	100.0%
As % of portfolio	72.5%	18.0%	8.0%	1.5%	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 March 31, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1 - 30 days	\$ 93,642	\$ 2,963	\$ 3,560	\$ 337	\$ 100,502
31 - 60 days	36,423	491	1,260	130	38,304
61 - 90 days	5,732	495	1,518	-	7,745
91 - 120 days	11,971	-	1,515	-	13,486
	\$ 147,768	\$ 3,949	\$ 7,853	\$ 467	\$ 160,037

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 March 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1 - 30 days	\$ 126,068	\$ 5,055	\$ 3,484	\$ 854	\$ 135,461
31 - 60 days	7,672	668	1,838	568	10,746
61 - 90 days	42,151	-	3,158	160	45,469
91 - 120 days	7,758	-	1,795	-	9,553
	\$ 183,649	\$ 5,723	\$ 10,275	\$ 1,582	\$ 201,229

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

As at March 31, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	\$ 44,094	\$ 3,315	\$ 4,700	\$ 758	\$ 52,867
Specific allowances	(1,197)	(295)	(1,035)	(219)	(2,746)
	\$ 42,897	\$ 3,020	\$ 3,665	\$ 539	\$ 50,121

As at December 31, 2009

(000s)	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)
	\$ 39,803	\$ 2,282	\$ 3,886	\$ 335	\$ 46,306

As at March 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	\$ 44,940	\$ 3,610	\$ 7,762	\$ 725	\$ 57,037
Specific allowances	(2,439)	(430)	(776)	(487)	(4,132)
	\$ 42,501	\$ 3,180	\$ 6,986	\$ 238	\$ 52,905

**(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 March 31, 2010, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, is \$388.4 million. For impaired mortgages, the total appraised value of collateral at March 31, 2010 is \$78.3 million.

**(E) Allowance for Credit Losses**

For the three months ended March 31, 2010

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 1,346	\$ 135	\$ 961	\$ 137	\$ 2,579
Provisions for credit losses	(419)	160	305	200	246
Write-offs	(822)	-	(289)	(131)	(1,242)
Recoveries	1,093	-	57	13	1,163
	<b>1,198</b>	<b>295</b>	<b>1,034</b>	<b>219</b>	<b>2,746</b>
<b>General allowance</b>					
Balance at the beginning of the period	19,461	4,398	3,447	487	27,793
Provisions for credit losses	1,131	(293)	(81)	(36)	721
	<b>20,592</b>	<b>4,105</b>	<b>3,366</b>	<b>451</b>	<b>28,514</b>
<b>Total allowance</b>	<b>\$ 21,790</b>	<b>\$ 4,400</b>	<b>\$ 4,400</b>	<b>\$ 670</b>	<b>\$ 31,260</b>

For the three months ended December 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
<b>Specific allowances</b>					
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
	<b>1,346</b>	<b>135</b>	<b>961</b>	<b>137</b>	<b>2,579</b>
<b>General allowance</b>					
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
	<b>19,461</b>	<b>4,398</b>	<b>3,447</b>	<b>487</b>	<b>27,793</b>
<b>Total allowance</b>	<b>\$ 20,807</b>	<b>\$ 4,533</b>	<b>\$ 4,408</b>	<b>\$ 624</b>	<b>\$ 30,372</b>

For the three months ended March 31, 2009

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
<b>Specific allowances</b>					
Balance at the beginning of the period	\$ 1,680	\$ -	\$ 547	\$ 699	\$ 2,926
Provisions for credit losses	1,604	430	543	81	2,658
Write-offs	(845)	-	(335)	(293)	(1,473)
Recoveries	-	-	21	-	21
	<b>2,439</b>	<b>430</b>	<b>776</b>	<b>487</b>	<b>4,132</b>
<b>General allowance</b>					
Balance at the beginning of the period	16,136	4,580	3,700	761	25,177
Provisions for credit losses	680	74	(75)	(54)	625
	<b>16,816</b>	<b>4,654</b>	<b>3,625</b>	<b>707</b>	<b>25,802</b>
<b>Total allowance</b>	<b>\$ 19,255</b>	<b>\$ 5,084</b>	<b>\$ 4,401</b>	<b>\$ 1,194</b>	<b>\$ 29,934</b>

## 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		
	March 31 2010	December 31 2009	March 31 2009
Book value of mortgages securitized	\$ 1,024,704	\$ 863,438	\$ 460,624
Securitization receivable	43,623	60,623	42,910
Servicing liability	5,445	9,268	4,567
Net proceeds received on securitized mortgages	1,011,283	843,710	450,833
Net gain on sale of mortgages, net of hedging	20,900	20,811	24,262
Prepayment rate	14.6%	6.1%	8.1%
Excess spread	1.5%	2.0%	3.1%
Weighted average life in years	5.14	5.6	5.0
Discount rate	1.7%	2.0%	2.3%

During the first quarter of 2010, the Company securitized insured residential mortgages through CMHC's Canada Mortgage Bond Program with a book value of \$617.9 million (\$330.6 million in Q1 2009 and \$730.0 million in Q4 2009). The gain on sale was \$13.9 million during the first quarter (\$18.3 million in Q1 2009 and \$16.9 million in Q4 2009). These figures are included in the table above.

## 6. OTHER ASSETS

<i>(000s)</i>	March 31 2010	December 31 2009	March 31 2009
Accrued interest receivable	\$ 26,040	\$ 26,153	\$ 26,719
Income taxes receivable	3,577	-	14,959
Goodwill	15,752	15,752	15,752
Intangible assets	34,543	26,811	9,332
Other prepaid assets and deferred items	27,635	36,399	21,804
	\$ 107,547	\$ 105,115	\$ 88,566

## 7. OTHER LIABILITIES

<i>(000s)</i>	March 31 2010	December 31 2009	March 31 2009
Accrued interest payable	\$ 147,766	\$ 138,498	\$ 157,240
Dividends payable	5,904	5,901	4,810
Future income tax liability (note 11)	64,978	57,559	47,585
Income taxes payable	-	3	-
Securitization servicing liability	34,409	30,389	14,549
Payable to MBS and CMB holders	72,427	92,896	52,523
Other, including accounts payable and accrued liabilities	51,956	30,901	52,371
	\$ 377,440	\$ 356,147	\$ 329,078

## 8. CAPITAL

### (A) Common Shares Issued and Outstanding

For the three months ended

(000s)	March 31, 2010		December 31, 2009		March 31, 2009	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	34,713	\$ 45,396	34,450	\$ 41,888	34,434	\$ 39,094
Options exercised	75	3,029	312	3,572	-	-
Normal course issuer bid	(56)	(77)	(49)	(64)	(79)	(88)
Outstanding at end of period	34,732	\$ 48,348	34,713	\$ 45,396	34,355	\$ 39,006

The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between capital stock and retained earnings.

### (B) Share Purchase Options

For the three months ended

(000s, except per share amounts)	March 31, 2010		December 31, 2009		March 31, 2009	
	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	925	\$ 31.32	1,272	\$ 25.49	1,407	\$ 25.08
Granted	-	-	58	40.84	60	17.78
Exercised	(76)	33.46	(312)	9.22	-	-
Forfeited	(35)	39.23	(93)	31.85	(20)	37.91
Outstanding at end of period	814	\$ 30.78	925	\$ 31.32	1,447	\$ 24.60
Exercisable, end of period	382	\$ 32.72	458	\$ 32.84	724	\$ 20.57

### (C) Capital Management

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

The Company's subsidiary Home Trust Company is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions Canada (OSFI).

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

(000s, except ratios and multiple)	March 31 2010	December 31 2009	March 31 2009
Regulatory capital			
Tier 1	\$ 565,488	\$ 530,256	\$ 417,778
Total	613,226	581,036	458,580
Regulatory ratios			
Tier 1	16.5%	16.4%	13.8%
Total	17.9%	18.0%	15.2%
Assets to capital multiple	11.5	12.7	12.3

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 first quarter of 2010, \$278,500 was recorded as an expense (\$349,300 – Q4 2009; \$387,000 – Q1 2009) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus. During the first quarter of 2010, no options were granted (57,500 – Q4 2009 and 60,000 – Q1 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 March 31, 2010 there were 7,239 deferred share units issued with the associated liability of \$0.30 million recorded in other liabilities on the consolidated balance sheet.

## 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

<i>(000s)</i>	<b>March 31 2010</b>	December 31 2009	March 31 2009
Unrealized gains and (losses) on			
Available for sale securities	<b>\$ 6,448</b>	\$ 10,695	\$ (24,850)
Income taxes recovery (expenses)	<b>(2,352)</b>	(2,733)	8,894
	<b>4,096</b>	7,962	(15,956)
Unrealized gains and (losses) on			
Securitization receivables	<b>26,380</b>	19,772	21,565
Income tax expense	<b>(8,121)</b>	(6,466)	(7,023)
	<b>18,259</b>	13,306	14,542
Accumulated other comprehensive income (loss)	<b>\$ 22,355</b>	\$ 21,268	\$ (1,414)

## 11. INCOME TAXES

### (A) Reconciliation of income taxes

(000s)	For the three months ended		
	March 31 2010	December 31 2009	March 31 2009
Income before income taxes	\$ 56,253	\$ 51,213	\$ 46,134
Income taxes at statutory combined federal and provincial income tax rates	\$ 17,326	\$ 16,773	\$ 15,033
Increase (decrease) in income taxes at statutory income tax rates resulting from			
Tax-exempt income	(1,450)	(2,205)	(856)
Non-deductible expenses	171	(19)	1,212
Future tax rate changes	(816)	(5,797)	(1,484)
Other	(697)	1,980	811
Income tax	\$ 14,534	\$ 10,732	\$ 14,716

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

(000s)	For the three months ended		
	March 31 2010	December 31 2009	March 31 2009
Future income tax liabilities			
Deferred agent commissions and other charges	\$ 19,843	\$ 18,761	\$ 9,774
Mortgage-backed securities receivable	59,035	49,560	49,895
	78,878	68,321	59,669
Future income tax assets			
Allowance for credit losses	7,757	7,549	8,086
Deferred commitment fees and other charges	6,143	3,213	3,998
	13,900	10,762	12,084
	\$ 64,978	\$ 57,559	\$ 47,585

## 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 to be funded under asset securitization, and the time the mortgages are actually sold (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 \$292.1 million in bond forward contracts realizing a loss of \$2.4 million. This realized gain (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 interest mismatch and reinvestment risk between the amortizing MBS pool and the bullet Canada Mortgage Bond. To hedge these risks 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.

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

<i>(000s)</i>	March 31, 2010		December 31, 2009		March 31, 2009	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Swaps						
1 to 5	\$ 3,151,009	\$ (1,470)	\$ 2,710,744	\$ 1,331	\$ 1,433,598	1,366
6 to 10	626,772	(11,071)	491,498	(11,988)	168,268	(3,540)
	<b>\$ 3,777,781</b>	<b>\$ (12,541)</b>	<b>\$ 3,202,242</b>	<b>\$ (10,657)</b>	<b>\$ 1,601,866</b>	<b>(2,174)</b>
Bonds <sup>1</sup>						
1 to 5	\$ 5,600	\$ 91	\$ 17,200	\$ 307	\$ 144,600	(480)
6 to 10	17,600	328	166,600	2,130	-	-
	<b>\$ 23,200</b>	<b>\$ 419</b>	<b>\$ 183,800</b>	<b>\$ 2,437</b>	<b>\$ 144,600</b>	<b>(480)</b>

<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 gain (loss) on derivatives in the consolidated income statement.

### 13. INTEREST RATE SENSITIVITY

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

As at March 31, 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	\$ 45,889	\$ 1,818,134	\$ 1,204,049	\$ 2,314,381	\$ 1,220,414	\$ 444,300	\$ 7,047,167
Total liabilities and equity	(6)	(648,166)	(2,499,030)	(2,081,588)	(772,353)	(1,046,024)	(7,047,167)
Off-balance sheet items		(975,730)	140,437	414,815	420,478	-	-
Interest rate sensitive gap	\$ 45,895	\$ 194,238	\$ (1,154,544)	\$ 647,608	\$ 868,539	\$ (601,724)	\$ -
Cumulative gap	\$ 45,895	\$ 240,121	\$ (914,423)	\$ (266,815)	\$ 601,724	\$ -	\$ -
Cumulative gap as a % of total assets	0.7%	3.4%	(13.0 %)	(3.8 %)	8.5%	-	-

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	\$ 1,530,430	\$ 1,426,143	\$ 2,138,737	\$ 1,806,267	\$ 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	-	(307,594)	100,114	207,322	158	-	-
Interest rate sensitive gap	\$ 68,935	\$ 654,594	\$ (1,238,887)	\$ 105,845	\$ 1,020,335	\$ -	\$ -
Cumulative gap	\$ 68,935	\$ 723,529	\$ (515,358)	\$ (409,513)	\$ 610,822	\$ -	\$ -
Cumulative gap as a % of total assets	0.9%	9.8%	(7.0%)	(5.6%)	8.3%	-	-

As at March 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	\$ 40,648	\$ 1,217,760	\$ 1,451,549	\$ 1,364,780	\$ 1,236,133	\$ 319,723	\$ 5,630,593
Total liabilities and equity	(6)	(606,855)	(2,320,439)	(1,419,129)	(440,580)	(843,584)	(5,630,593)
Off-balance sheet items	-	(299,126)	22,177	260,316	16,633	-	-
Interest rate sensitive gap	\$ 40,642	\$ 311,779	\$ (846,713)	\$ 205,967	\$ 812,186	\$ (523,861)	\$ -
Cumulative gap	\$ 40,642	\$ 352,421	\$ (494,292)	\$ (288,325)	\$ 523,861	\$ -	\$ -
Cumulative gap as a % of total assets	0.7%	6.3%	(8.8%)	(5.1%)	9.3%	-	-

Based on the current interest rate gap position at March 31, 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 \$4.3 million and \$8.7 million, respectively. A 100 basis point increase in interest rates would increase net income and other comprehensive income after tax over the next twelve months by a similar amount.

#### 14. EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two business segments - mortgage lending and consumer lending. The mortgage lending operation consists of core residential mortgage lending, securitization of insured mortgage loans, non-residential 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 March 31, 2010

(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	\$ 31,738	\$ 9,333	\$ 6,424	\$ 47,494
Provision for credit losses	(743)	(224)	-	(967)
Fees and other income	4,275	3,472	69	7,816
Net gain on securities, mortgage-backed securities and disposition of subsidiary	18,864	-	3,146	22,011
Non-interest expenses	(12,997)	(3,594)	(3,510)	(20,101)
Income before income taxes	41,137	8,987	6,129	56,253
Income taxes	(11,249)	(2,781)	(504)	(14,534)
Net income	\$ 28,888	\$ 6,206	\$ 5,625	\$ 41,719
Goodwill	\$ 2,324	\$ 13,428	\$ -	\$ 15,752
Total assets	\$ 5,521,535	\$ 454,017	\$ 1,071,615	\$ 7,047,167

For the three months ended December 31, 2009

(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	\$ 28,303	\$ 9,073	\$ 7,960	\$ 45,336
Provision for credit losses	(2,266)	(16)	-	(2,282)
Fees and other income	3,973	3,076	133	7,182
Net gain on securities, mortgage-backed securities and disposition of subsidiary	21,264	-	(431)	20,833
Non-interest expenses	(11,911)	(2,328)	(5,617)	(19,856)
Income before income taxes	39,363	9,805	2,045	51,213
Income taxes	(7,150)	(3,166)	(416)	(10,732)
Net income	\$ 32,213	\$ 6,639	\$ 1,629	\$ 40,481
Goodwill	\$ 2,324	\$ 13,428	\$ -	\$ 15,752
Total assets	\$ 5,510,368	\$ 384,528	\$ 1,465,978	\$ 7,360,874

For the three months ended March 31, 2009

(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	\$ 20,457	\$ 8,424	\$ 7,351	\$ 36,232
Provision for credit losses	(2,815)	(468)	-	(3,283)
Fees and other income	4,750	2,462	110	7,322
Net gain on securities, mortgage-backed securities and disposition of subsidiary	25,655	-	(943)	24,712
Non-interest expenses	(11,675)	(3,157)	(4,017)	(18,849)
Income before income taxes	36,372	7,261	2,501	46,134
Income taxes	(11,704)	(2,444)	(568)	(14,716)
Net income	\$ 24,668	\$ 4,817	\$ 1,933	\$ 31,418
Goodwill	\$ 2,324	\$ 13,428	\$ -	\$ 15,752
Total assets	\$ 4,562,997	\$ 379,778	\$ 687,818	\$ 5,630,593

## 15. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

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

# 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*

Micheline Bouchard  
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,  
St. Catharines, Ontario

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

**Capital Stock**  
As at March 31, 2010 there  
were 34,732,090 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  
Micheline Bouchard  
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Robert A. Mitchell, C.A.

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*Senior Credit Manager*

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*Vice President, Administration and  
Relationship Manager*

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Management and Chief Risk Officer*

Dinah Henderson, CGA  
*Vice President, Accounting*

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

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

Norm Thacker  
*Vice President,  
Information Technology*

Donald Correia  
*Asst. Vice President, Credit*

**Commercial Mortgage Lending**  
Shaun Gonsalves  
*Asst. Vice President*

**Residential Mortgage Lending**  
Armando Diseri  
*Vice President*

Laurie Chalabardo  
Michael Forshee  
Alex Godfrey  
James Hill  
Bobby Ramgoolam  
Marguerite Ryan  
Agostino Tuzi  
*Asst. Vice Presidents*

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

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*Asst. Vice President*

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

**Deposits**  
Yin Tan  
*Manager*

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*Business Development Manager*

**Visa Operations**  
Raymond St. Aubin  
*Senior Operations Manager*

**Equityline Visa**  
Greg Schultz  
*Senior Manager*

**PSiGate**  
Thom Gallagher  
*Director, Merchant Acquiring*

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Scott Congdon  
*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, May 5, 2010 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**  
**is a CDIC Member**

