

2009

FOURTH QUARTER REPORT



FINANCIAL HIGHLIGHTS

For the Period Ended December 31 (Unaudited)

<i>In Thousands of Dollars (Except Per Share and Percentage Amounts)</i>	Three Months Ended		Year Ended	
	2009	2008	2009	2008
OPERATING RESULTS				
Net Income	\$ 40,481	\$ 29,039	\$ 144,493	\$ 108,687
Total Revenue	121,381	117,996	489,179	454,695
Earnings per Share – Basic	\$ 1.17	\$ 0.84	\$ 4.19	\$ 3.15
Earnings per Share – Diluted	1.16	0.84	4.15	3.13
Return on Shareholders' Equity	28.4%	27.4%	28.2%	27.8%
Return on Average Assets	2.4%	2.0%	2.2%	2.0%
Efficiency Ratio	27.1%	27.5%	27.2%	28.5%
Efficiency Ratio (TEB ²) (Non-interest Expense/Net Interest Income Plus Fee Income)	26.1%	27.0%	26.5%	28.0%
BALANCE SHEET HIGHLIGHTS				
Total Assets			\$7,360,874	\$5,809,713
Loans			5,440,747	4,506,391
Deposits			6,409,822	5,102,781
Shareholders' Equity			590,288	432,753
Mortgage-Backed Security Assets Under Administration			4,147,711	2,614,258
FINANCIAL STRENGTH				
Capital Measures¹				
Risk Weighted Assets			\$3,227,155	\$ 2,985,750
Tier 1 Capital Ratio			16.4%	12.9%
Total Capital Ratio			18.0%	14.2%
Credit Quality				
Net Impaired Loans as a Percentage of Gross Loans			0.8%	0.9%
Allowance as a Percentage of Gross Impaired Loans			62.1%	66.7%
Annualized Provision as a Percentage of Gross Loans			0.2%	0.2%
Share Information				
Book Value per Common Share			\$ 17.00	\$ 12.57
Common Share Price – Close			\$ 41.85	\$ 19.80
Market Capitalization			\$1,452,739	\$ 681,793
Number of Common Shares Outstanding			34,713	34,434

¹ These figures relate to the Company's operating subsidiary, Home Trust Company.

² 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 deposit, mortgage lending, retail credit and payment card services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia and Quebec.

Home Trust Company www.hometrusted.ca

Home Capital Group Inc. www.homecapital.com

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TO OUR SHAREHOLDERS

Home Capital Reports Record Fourth Quarter and Year-End Results: Net Income Rises 39.4% for the Fourth Quarter; Return on Equity Remains Strong at 28.4%; Basic Earnings per Share Increase to \$1.17 for the Fourth Quarter and to \$4.19 for 2009

Home Capital Group Inc. (TSX: HCG) today announced another quarter of solid growth and record results for the year ended December 31, 2009. The Company's prudent strategies during the current global economic uncertainty have generated robust returns for shareholders and positioned Home for further growth as economic conditions improve.

Financial and Operating Highlights:

- Net income for the fourth quarter was \$40.5 million, a 39.4% increase over the \$29.0 million reported for the fourth quarter of 2008. Earnings for the year reached \$144.5 million, up 32.9% from 2008.
- Basic earnings per share were \$1.17 for the fourth quarter, up 39.3% from the \$0.84 reported in the fourth quarter of 2008. For the year basic earnings per share were \$4.19, 33.0% higher than the \$3.15 recorded in 2008. Diluted earnings per share were \$1.16 in the fourth quarter, an increase of 38.1% from the \$0.84 recorded in the same period last year. Diluted earnings per share for the year were \$4.15, 32.6% higher than the \$3.13 reported in 2008.
- Return on equity was 28.4% for the fourth quarter and 28.2% for year compared to 27.4% and 27.8%, respectively, for the comparable periods in 2008.
- Total assets under administration, including off-balance sheet securitized mortgages, crossed the \$10 billion mark and ended the year at \$11.51 billion. This is an increase of 36.6% from the \$8.42 billion reported one year ago.
- Total on-balance sheet assets at December 31, 2009 reached \$7.36 billion, 26.7% higher than the \$5.81 billion reported one year earlier.
- On-balance sheet residential mortgages increased by 6.8% to \$4.37 billion at December 31, 2009 from \$4.10 billion at September 30, 2009 and up 33.9% from the \$3.26 billion reported one year ago.
- Net interest income increased to \$45.3 million at December 31, 2009 from the \$43.0 million reported in the third quarter of 2009. The interest spread between the loans portfolio over deposits at the end of the fourth quarter of 2009 was 3.1%, consistent with the third quarter of 2009 and higher than the spread of 2.8% in the fourth quarter of 2008.
- Total mortgage originations were \$1.39 billion during the fourth quarter, an increase of 39.6% over the \$999.1 million advanced during the same period in 2008. Total originations for the year were \$4.80 billion a 24.4% increase over the \$3.86 billion originated during 2008. Of the total mortgage originations in 2009, 69.1% were insured compared to 50.9% in 2008, further reducing the Company's risk profile.
- Residential mortgage advances were \$1.30 billion during the fourth quarter, up 51.4% from the \$858.5 million advanced in the fourth quarter of 2008. During the fourth quarter of 2009, the Company advanced \$1.00 billion for single family mortgages, a 77.6% increase over the \$563.0 million in the fourth quarter of 2008. The success of the Accelerator mortgage program contributed significantly to this increase. Residential advances during the quarter included \$296.8 million for multi-unit residential mortgages consistent with the \$295.5 million advanced during the fourth quarter of 2008.
- Non-residential mortgage advances during the fourth quarter of 2009 were \$60.2 million an increase from the \$48.9 million advanced in the same period in 2008. For 2009 non-residential advances were \$135.4 million compared to \$442.4 million in 2008. The overall decline in the non-residential mortgage originations is consistent with the Company's stated prudent strategy to reduce the Company's exposure to this sector in light of the uncertainty in the commercial real estate markets. The non-residential mortgage portfolio at December 31, 2009 was \$708.4 million, down from \$826.9 million at the end of 2008.

- Mortgage securitization volumes remained strong as the Company sold \$863.4 million in CMHC-insured securities during the fourth quarter compared to \$620.6 million sold during the third quarter of 2009 and up from the \$557.7 million securitized and sold during the same period last year. The net gains on securitization during the fourth quarter were \$20.8 million compared to \$12.1 million in the third quarter of 2009 and \$16.4 million for the same period last year.
- Outstanding balances on the Equityline *Visa* portfolio were \$304.6 million, a decline of 17.4% from the \$369.0 million reported at the end of 2008. Although the Company is maintaining a prudent credit policy on the Equityline *Visa* product during the current economic climate, new marketing initiatives have recently been launched to grow the portfolio in 2010 in anticipation of an improving economy. There was an increase of 25.8% in newly issued Equityline *Visa* accounts in the fourth quarter compared to third quarter of 2009.
- Growth from the retail loan portfolio remained positive in the fourth quarter and is expected to continue growing in 2010. Total net income from the consumer lending segment contributed \$6.6 million during the fourth quarter, a 38.5% increase over the \$4.8 million recorded in the fourth quarter of 2008.
- Capital ratios for Home Trust remained strong in the fourth quarter of 2009 with Tier 1 and Total Capital ratios of 16.4% and 18.0%, respectively, compared to 16.6% and 18.2% at September 30, 2009, and 12.9% and 14.2% one year ago. The Company will continue to maintain a prudent approach to capital management while positioning Home Capital for future growth opportunities.
- Net impaired loans as a percentage of the total loans portfolio declined to 0.85% at December 31, 2009 from 1.2% at the end of the third quarter of 2009, 1.3% at June 30, 2009, and 0.86% at the end of 2008.

On December 4, 2009 the Board of Directors announced the appointment of Martin Reid as President of Home Capital Group and its wholly owned subsidiary Home Trust Company. Mr. Reid joined Home Capital in 2007 as Treasurer, and has been responsible for the Company's liquidity, market risk, securitization program, asset and liability management and banking relationships. He holds an Economics degree, and brings more than twenty years of financial services industry experience to his new position. The Board is very pleased to be strengthening the Company's management team through internal development, and is confident Mr. Reid's strong interpersonal skills and deep relationships within the Company, combined with his extensive industry knowledge and commitment to Home's strategic vision, will contribute immeasurably to solid growth and enhanced performance in the years ahead.

During the fourth quarter, Standard & Poor's (S&P) affirmed its long-term and short-term counterparty ratings issued to Home Trust (BBB/A-2) and Home Capital (BBB-/A-3), with a stable outlook for both companies.

On January 18, 2010 the Company announced that it had entered into a long-term financing agreement with National Energy Corporation which operates as National Home Services (NHS). The Company will finance current and future residential water heater installations by NHS. The initial funding, which closed in January was \$59.1 million and the Company expects total funding to be approximately \$90-100 million for 2010.

Subsequent to the end of the quarter, and in light of the Company's continued profitability and solid financial performance, the Board of Directors declared a quarterly cash dividend of \$0.16 per Common share payable on March 1, 2010 to shareholders of record at the close of business on February 19, 2010.

Home Capital continued to generate strong operating and financial performance through the fourth quarter of 2009, building on its proven strategy of long-term organic growth and increasing profitability. With the Company's continued growth, additional investments continue to be made in staffing in key business areas to manage further anticipated increases in business.

Looking ahead, we are confident that Home Capital remains well positioned to continue generating robust earnings and growth in 2010. As a result, the Board of Directors and management have established the following objectives for 2010: 15%-20% growth in each of total earnings, diluted earnings per share and total assets (including assets under administration), as well as a 20% return on equity.



GERALD M. SOLOWAY
Chief Executive Officer
February 9, 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 Fourth Quarter 2009.

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 28 through 38 of the Company's 2008 Annual Report, as well as its other publicly filed information, which may be located at 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, the Outlook Section and Future Accounting Changes 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 our expectations for economic growth, both broadly and in the financial services sector, we primarily consider 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 begin a slow recovery, with fragmented growth prospects across the country, and inflation will remain low;
- Unemployment levels will remain elevated 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 historic range of acceptable levels; and
- A compressed net interest margin and comparatively lower investment returns, reflecting the Company's shift to higher quality assets held in the security and liquidity portfolio and prudent levels of liquid assets being held in response to continuing uncertainty in the capital markets.

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 Ratio

Management uses the efficiency ratio as a measure of the Company's efficiency. This ratio represents non-interest expenses as a percentage of total revenue, less interest expense. The Company also looks at the same ratio on a taxable equivalent basis and will include the adjustment for non-taxable dividends 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 (Home Trust). 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 \$2.8 million for the fourth quarter and \$7.9 million twelve months ended December 31, 2009 (\$1.2 million – Q4 2008 and \$4.4 million – twelve months of 2008) 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 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, and on the Canadian Securities Administrators' website at 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 December 31, 2009 included herein, and the audited consolidated financial statements and MD & A for the year ended December 31, 2008. These are available on the Canadian Securities Administrators' website at www.sedar.com and on pages 8 through 72 of the Company's 2008 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 2008 remain substantially unchanged. These unaudited interim consolidated financial statements and MD & A have been prepared based on information available as at February 9, 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.

2009 Objectives and Performance

Home Capital published its financial objectives for 2009 on page 11 of the Company's 2008 Annual Report. The following table compares actual performance to date against each of these objectives.

Table 1: 2009 Objectives and Performance

	2009 Objectives ¹	Year ended December 31, 2009 Actual Results ¹
Net Income	10%-15% (\$119.6 million - \$125.0 million)	\$144.5 million, or 32.9% increase over the same period last year
Diluted Earnings per Share	10%-15% (\$3.44 per share - \$3.60 per share)	\$4.15 per share, or 32.6% increase over the same period last year
Total Assets and Assets Under Administration	10%-15% (\$9.27 billion - \$9.69 billion)	\$11.51 billion, or 36.6% increase over the same period last year
Return on Shareholders' Equity	20.0%	28.2%
Efficiency Ratio (TEB)	28.0% to 34.0%	26.5%
Capital Ratios ²		
Tier 1	Minimum of 10%	16.4%
Total	Minimum of 12%	18.0%
Provision for Loan Losses as a Percentage of Total Loans	0.2% to 0.5%	0.2%

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

² Based on the Company's wholly owned subsidiary, Home Trust Company.

FINANCIAL HIGHLIGHTS

The Company generated positive growth and robust earnings across all lines of business during the fourth quarter and the year ended December 31, 2009, while continuing to reduce the overall risk profile of the loan portfolio by holding more insured mortgages on its balance sheet. The Company continues to operate from a strong capital base and maintains prudent liquidity levels, providing the necessary financial resources and flexibility to navigate the current uncertainty in the global economy and capital markets and benefit from an improving economy. The Company's key financial highlights for the fourth quarter and year ended December 31, 2009 are summarized below.

Income Statement Highlights

- Net income in the fourth quarter of 2009 was 39.4% higher than the fourth quarter of 2008 while earnings for the year ended December 31, 2009 were 32.9% higher than 2008.
- Net interest income for the fourth quarter of 2009 was \$45.3 million, compared to \$43.0 million for the third quarter of 2009, \$40.5 million for the second quarter of 2009, \$36.2 million for first quarter of 2009 and \$35.2 million in the fourth quarter of 2008. The increasing trend in net interest income is attributed to growth in the lending portfolio and the Company's ongoing strategy to maintain margins over the past several quarters.
- Non-interest income in the quarter was 7.7% higher than the fourth quarter of 2008 and was 53.8% higher than the year ended December 31, 2008. The quarter-over-quarter growth is attributed to increased securitization gains marginally offset by mark-to-market adjustments on the hedging instruments associated with the Canada Mortgage Bond (CMB) program. Year-over-year growth is attributed to a marked increase in securitization volumes compared to 2008 and improvement in the performance of the securities portfolio.
- The efficiency ratio (TEB) (the lower the better) reflects the Company's cost management leadership within the banking industry. The ratio was 26.1% for the fourth quarter and 26.5% for the year ended December 31, 2009, compared to 27.0% for the fourth quarter of 2008 and 28.0% for 2008.

- During 2009, the Company recognized \$9.8 million reduction in future tax provisions which reflected declining federal and provincial tax rates and the extension of maturities on the net underlying liabilities. Of this total, \$4.7 million is attributed to the Province of Ontario's November 2009 enactment of their reduced tax rates which are effective July 1, 2010.
- Diluted earnings per share for the quarter increased 38.1% to \$1.16 from \$0.84 in the fourth quarter of 2008. For year ended December 31, 2009, diluted earnings per share increased 32.6% to \$4.15 from the \$3.13 earned in 2008.
- Return on average shareholders' equity for the three and twelve months ended December 31, 2009 was 28.4% and 28.2%, respectively, compared to 27.4% and 27.8% for the same periods in 2008.

Balance Sheet Highlights

- Total on-balance sheet assets at December 31, 2009 rose 17.1% from the third quarter of 2009 and 26.7% year-over-year, to reach \$7.36 billion from the \$5.81 billion reported at December 31, 2008. Asset growth was achieved across the Company's core asset base including the Company's loans, securities and liquidity portfolios. The Company was able to achieve significant asset growth while reducing the overall risk profile of the mortgage portfolio as the percentage of insured mortgages grew to 31.0% at December 31, 2009 from 14.6% one year ago.
- Total assets under administration, including the off-balance sheet securitized mortgages, was \$11.51 billion at December 31, 2009, an increase of \$1.62 billion or 16.4% from September 30, 2009 and an increase of \$3.09 billion or 36.6% from December 31, 2008. A significant contributor to the growth in assets under administration is the success of the Accelerator mortgage program.
- Total on balance sheet residential mortgages increased \$277.0 million, or 6.8% over the third quarter of 2009 and \$1.11 billion and 33.9% over December 31, 2008. The growth reflects the Company's strategy to prudently grow its on-balance sheet loans portfolio and a cautious return to our traditional lending criteria.
- Liquid assets at December 31, 2009 increased to \$1.20 billion, compared to \$469.0 million at September 30, 2009 and \$880.7 million at December 31, 2008. The increase in liquid assets at end of the fourth quarter reflects the timing of certain securitization transactions, as well as the Company's strategy to hold prudent levels of liquidity as the economy slowly recovers and to maintain financial flexibility. The Company's access to funds through insured deposits and securitization markets remains strong and will continue to accommodate growth of the Company's loans portfolio.
- The Company's capital position remained strong in the fourth quarter with Tier 1 and Total Capital ratios of 16.4% and 18.0%, respectively, at December 31, 2009 compared to 16.6% and 18.2% at September 30, 2009 and 12.9% and 14.2% one year earlier. A strong balance sheet combined with robust capital ratios allows the Company to maintain financial flexibility to weather any remaining challenges in the economic environment and to capitalize on strategic opportunities that may arise.
- Deposit liabilities as at December 31, 2009 were \$6.41 billion, an increase of \$1.04 billion from the \$5.37 billion at September 30, 2009 and an increase of \$1.31 billion from the \$5.10 billion recorded December 31, 2008. Deposit liabilities continue as a stable and growing funding source for the growth in the Company's lending activity. The Company has grown debt free since September 2006.

EARNINGS REVIEW

Net Interest Income

Table 2: Net Interest Income

<i>In Thousands of Dollars (Except Percentage Amounts)</i>	For the three months ended				For the year ended			
	December 31, 2009		December 31, 2008		December 31, 2009		December 31, 2008	
	Income/ Expense	Average Rate ¹	Income/ Expense	Average Rate ¹	Income/ Expense	Average Rate ¹	Income/ Expense	Average Rate ¹
Assets								
Cash and cash resources	\$ 3,023	2.2%	\$ 2,178	1.8%	\$ 5,650	0.8%	\$ 10,504	2.3%
Securities	6,031	3.7%	7,123	5.7%	25,306	4.3%	24,257	4.9%
Loans	84,312	6.3%	82,672	7.3%	334,148	6.7%	339,242	8.0%
Taxable equivalent adjustment	2,842	-	1,205	-	7,949	-	4,353	-
Total interest earning assets	96,208	5.9%	93,178	6.8%	373,053	5.9%	378,356	7.3%
Other assets	-	-	-	-	-	-	-	-
Total Assets	\$ 96,208	5.6%	\$ 93,178	6.6%	\$ 373,053	5.7%	\$ 378,356	7.0%
Liabilities and Shareholders' Equity								
Deposits	\$ 48,030	3.3%	\$ 56,736	4.5%	\$ 200,093	3.5%	\$ 223,428	4.7%
Other liabilities	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	-	-
Total Liabilities and Shareholders' Equity	\$ 48,030	2.8%	\$ 56,736	4.0%	\$ 200,093	3.0%	\$ 223,428	4.1%
Net Interest Income	\$ 48,178	-	\$ 36,442	-	\$ 172,960	-	\$ 154,928	-
Tax Equivalent Adjustment	(2,842)	-	(1,205)	-	(7,949)	-	(4,353)	-
Net Interest Income per Financial Statements	\$ 45,336		\$ 35,237		\$ 165,011		\$ 150,575	
Net Interest Margin²		2.8%		2.6%		2.7%		2.9%
Spread of Loans over Deposits Only		3.0%		2.8%		3.2%		3.3%

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

² Net interest margin is calculated on a tax equivalent basis.

As noted in Table 2, net interest income of \$45.3 million was reported for the fourth quarter and \$165.0 million for the year compared to \$35.2 million for the fourth quarter of 2008 and \$150.6 million for 2008. Net interest income continues to improve quarter-over-quarter as fourth quarter net interest income surpassed the third, second and first quarter figures of \$43.0 million, \$40.5 million and \$36.2 million, respectively. The improvement is the result of portfolio growth as well as lower overall funding costs. The decline in the average cost of funding is attributed to new deposit rates since the second half of 2008 which reflect the significant reduction in interest rates. The decline in the average rate for the loans portfolio from 7.3% at the end of December 2008 to 6.3% reflects the current low interest rate environment where lower rates on new and renewed loans are replacing higher rate maturing loans.

The interest spread between the loans portfolio over deposits at the end of the fourth quarter of 2009 was 3.0%, consistent with the third quarter of 2009 and higher than the spread of 2.8% in the fourth quarter of 2008. The Company continues to benefit from lower rates on new deposits. The Company expects residential mortgage spreads to continue improving as the Company renews its focus on its core product again. The Company continues to prudently diversify its lending portfolio as it adds higher spread products.

For the year the spread between the loans portfolio and deposits was 3.2% compared to 3.3% for 2008. Cuts in the prime lending rate beginning late in 2008 continued to impact the average rate for loans and, while the Company was able to re-price deposits, some spread compression was still experienced during the year.

The net interest margin (TEB) for the Company's assets and liabilities for the fourth quarter of 2009 was 2.8%, which is higher than the 2.6% reported in the fourth quarter of 2008. The increase is partly due to the re-pricing of deposits and also because the net interest margin calculation is impacted by the level of assets the Company holds

at the beginning and end of the quarter. As the margin is calculated using a simple average asset balance at the end of Q3 2009, the Company held a relatively lower liquidity portfolio which lowered the average cash and cash equivalent asset balance compared to Q4 2008 thus increasing the net interest margin.

For the year the net interest margin (TEB) was 2.7% compared to 2.9% for 2008. This margin declined in part due to the modest decline in the interest spreads between deposits and loans but also, as described above the level of assets held in the liquidity portfolio at the beginning and end of 2009. These liquidity portfolio balances were high at the beginning and end of 2009 due the timing of securitization transactions and the strategy to hold a prudent level of liquidity thus reducing overall interest margin earned on cash and cash resources.

Non-Interest Income

Total non-interest income was \$28.0 million for the fourth quarter and \$124.1 million for 2009, a \$2.0 million or 7.7% increase over the fourth quarter of 2008 and a \$43.4 million or 53.8% increase over 2008. Yearly growth over 2008 was driven by an increase in the Company's securitization activity from sales of Mortgage-Backed Securities (MBS) which includes participation in the CMB program partially offset by mark-to-market valuation adjustments on the Company's hedging instruments as noted below.

The fees and other income components of non-interest income for the quarter were \$7.2 million and \$29.3 million for 2009, consistent with fourth quarter of 2008 and an increase of \$0.9 million or 3.1% over 2008.

Table 3: Securitization Activity

The following table summarizes the securitization activities during the fourth quarter of 2009 compared to the same period in 2008:

	December 31, 2009				Three months ended December 31, 2008			
	Single Family Residential MBS Under 1 year	Single Family Residential MBS Over 1 year	Multi-Unit Residential MBS	Total	Single Family Residential MBS Under 1 year	Single Family Residential MBS Over 1 year	Multi-Unit Residential MBS	Total
<i>In Thousands of Dollars, except %</i>								
Highlights of Securitization Activity								
Book value of mortgages securitized	\$ 73,898	\$ 368,643	\$ 420,897	\$ 863,438	\$ 105,631	\$ 182,308	\$ 269,781	\$ 557,720
Net gain on sale of mortgages ¹	\$ 2,005	\$ 10,137	\$ 8,669	\$ 20,811	\$ 2,911	\$ 10,111	\$ 3,376	\$ 16,398
Prepayment rate	4.5%	13.5%	0.0%	6.1%	4.2%	12.8%	0.0%	5.0%
Excess spread	4.5%	2.1%	1.3%	2.0%	4.3%	3.1%	1.7%	2.7%
Discount rate	1.1%	2.3%	3.4%	2.0%	2.6%	2.7%	3.0%	2.8%

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

The Company sold MBS pools during the fourth quarter of 2009, consisting of \$863.4 million of Canada Mortgage and Housing Corporation (CMHC) insured residential mortgages for a total of \$2.60 billion for 2009. Fourth quarter volumes represent an increase of \$305.7 million from the \$557.7 million in MBS pools issued in the fourth quarter of 2008 and an increase of \$1.10 billion over the \$1.50 billion issued in 2008.

The growth in securitization volumes was greatest in the Multi-Unit Residential MBS and the Single Family Residential MBS Over 1 Year which are categories with lower excess spreads and this lowered the overall excess spreads in the fourth quarter of 2009 compared to the fourth quarter of 2008.

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.

<i>In Thousands of Dollars</i>	For the three months ended		For the year ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Securitization gains	\$ 29,156	\$ 25,699	\$ 80,113	\$ 61,314
Securitization hedging activity	(8,345)	(9,301)	(62)	(12,521)
Securitization gains, net of hedge costs	20,811	16,398	80,051	48,793
Recurring securitization income	3,472	4,552	12,346	9,789
Net securitization income	\$ 24,283	\$ 20,950	\$ 92,397	\$ 58,582

Net securitization income was \$24.3 million during the quarter and \$92.4 million for the year compared to \$21.0 million for the fourth quarter of 2008 and \$58.6 million for 2008.

Securitization income in the fourth quarter increased \$3.3 million or 15.9% million compared to the comparable quarter in 2008 while the book value of mortgages securitized increased 54.8% or \$305.7 million. The relative decline in securitization gains is a function of narrowing spreads particularly in the multi-unit residential category. For the quarter ended December 31, 2009 the excess spread realized through securitization gains was 2.0% compared to 2.8% for the comparable quarter of 2008. (For additional information refer to Note 5 of these unaudited interim consolidated financial statements).

As described in the Derivatives and Off-Balance Sheet Arrangements section 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 unwound at the time of securitization and any realized gain or loss is then included in the securitization gain as shown above. In the fourth quarter of 2009, an \$8.3 million hedging loss was recorded in the consolidated statement of income through securitization income leaving the securitization hedging activity costs relatively flat for 2009. In the fourth quarter of 2008, a \$9.3 million hedging loss was recorded resulting in a net hedging loss of \$12.5 million for 2008. The hedging loss in the fourth quarter of 2009 is a result of the downward movement in bond yields while the Company held the contracts.

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

Recurring securitization income earned from excess spreads, net of servicing fees, was \$3.5 million for the fourth quarter of 2009, a decrease of \$1.1 million from the \$4.6 million earned in the fourth quarter of 2008. For 2009, \$12.3 million in recurring securitization income was earned, up \$2.5 million over the \$9.8 million earned in 2008. Recurring securitization income is most affected by the level of the excess spreads and level of servicing income earned. Overall excess spreads have declined, particularly in multi-unit residential MBS and through maturing MBS being replaced with lower spread MBS leading to a relative decline in recurring securitization income in the fourth quarter.

The Company's securitization activities include participation in CMHC's CMB program, administered through the Canada Housing Trust. 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 fourth quarter and during 2009, pools with a book value of \$730.0 million for total of \$1.96 billion in 2009 were securitized through the CMB program. This resulted in net securitization gains of \$16.9 million and \$62.1 million, respectively. This compares to the comparable period in 2008, when pools with a book value of \$452.1 million for a total of \$1.09 billion in 2008 were sold into the CMB program resulting in net securitization gains of \$13.4 million and \$36.4 million, respectively.

The Company also holds longer term derivative contracts to hedge its obligations for pools previously sold to Canada Housing Trust under the CMB program. These hedging instruments do not qualify for hedge accounting treatment under current generally accepted accounting principles 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 section of this MD & A).

Non-Interest Expenses

Total non-interest expenses for the fourth quarter were \$19.9 million and \$78.6 million for 2009 compared to \$16.9 million for the fourth quarter of 2008 and \$66.0 million for 2008. Fourth quarter expenses increased 17.8% over the comparable period in 2008, and increased 19.1% for 2009 compared to 2008. The total increase over 2008 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 expenses.

During the fourth quarter, salaries and staff benefits were \$10.0 million for a total of \$41.6 million for the year. Annual staff expenses increased \$5.4 million, or 14.9% over 2008 as the Company added employees to facilitate current and future growth. The Company ended the year with 491 employees, up from 395 employees one year ago.

Premises expenses were \$1.5 million during the quarter for a total of \$5.9 million for 2009. Premises expenses increased by \$0.4 million over the fourth quarter of 2008 and increased by \$1.5 million over 2008. Growth is attributed to rent increases and new equipment leases. The Company did not take on any additional premises during the quarter.

General and administration expenses were \$8.3 million during the quarter for a total of \$31.1 million for the year. The expenses increased by \$1.2 million or 16.5% over the fourth quarter of 2008 and increased by \$5.7 million or 22.6% over 2008. The growth in this area of expenses is attributed to growth in computing costs and professional fees to support the current and future growth of the Company and the transition to a new core banking system.

The efficiency ratio (TEB) for the quarter was 26.1% and 26.5% for the year (the lower the better), compared to 27.0% in the fourth quarter of 2008 and 28.0% for 2008. The annual ratio is better than the Company's stated objective for the year, reflecting the Company's consistent and prudent cost management leadership within the industry. The Company is successfully growing revenue at a stronger pace than expenses.

Provision for Credit Losses

At December 31, 2009 net impaired loans amounted to \$46.3 million (0.8% of gross loans), compared to \$63.5 million (1.2% of gross loans) at September 30, 2009, \$61.1 million (1.3% of gross loans) at June 30, 2009, \$52.9 million (1.2% of gross loans) at March 31, 2009 and \$39.2 (0.9% of gross loans) one year ago (refer to Note 4 of these unaudited interim consolidated financial statements). The decline in net impaired loans in fourth quarter is an encouraging sign that credit losses may have stabilized and the Company is cautiously optimistic that they are showing signs of returning to the Company's historic averages.

The expense for the provision for credit losses was \$2.3 million in the fourth quarter and \$11.5 million for the year. This compares to \$2.9 million for the third quarter of 2009, \$3.1 million for the second quarter of 2009, \$3.3 million for the first quarter of 2009 and \$6.6 million for all of 2008. Annual expense represented 0.2% (0.2% - 2008) of total gross loans consistent with the 0.2% average for the previous five years. The increase in the year-over-year expense is due to the economic downturn which took hold in the third quarter of 2008 combined with the increased size of the Company's loans portfolio. The declining expense for the provision for credit losses in each quarter of 2009 is a function of the improving performance of the portfolio due to the Company's diligent efforts to maintain the credit quality of the loans portfolio during the downturn in the economy.

The general allowance balance at December 31, 2009 is \$27.8 million, an increase of \$1.3 million for the quarter and a year-to-date total increase in the allowance of \$2.6 million. The change in the level of the general allowance reflects the overall growth in the Company's loans portfolios, the current economic conditions, as well as changes in the overall risk profile of portfolio including the reduction of non-residential loans and the additional prudence in extending credit during the economic downturn. The general allowance was 86.1 basis points of the Company's risk-weighted assets at December 31, 2009 compared to 84.0 basis points at December 31, 2008 and 88.8 basis points at September 30, 2009.

The balance in specific provisions at December 31, 2009 is \$2.6 million, a decrease of \$2.4 million during the fourth quarter of 2009 for a year-to-date total decrease of \$0.3 million. The decrease in specific provisions is the result of the improvement in the performance of the portfolio as described above, a decline in net impaired loans as a percentage of gross loans to 0.8% in the fourth quarter from 1.2% in the third quarter, and a focused and successful effort to work out non-performing loans.

Total loans written-off net of recoveries during the quarter were \$3.4 million and \$9.3 million for 2009 compared to \$1.3 million in the fourth quarter of 2008 and \$2.9 million for 2008. Write-offs were experienced across the Company's loan product offerings and reflect the challenging economic conditions in Canada during 2009. The Company continues to monitor non-performing loans closely and takes proactive measures to minimize losses, as

described under the Credit Risk section of this MD & A and in the 2008 Annual Report under the heading Risk Management.

Income Taxes

The income tax expense amounted to \$10.7 million (effective tax rate of 21.0%) for the fourth quarter and \$54.5 million (effective tax rate of 27.4%) for 2009, compared to \$13.4 million (effective tax rate of 31.5%) for the fourth quarter and \$49.9 million (effective tax rate of 31.5%) for 2008. The lower effective tax rate during the fourth quarter is attributed to the effect of the Ontario provincial rate future tax rate reductions that were substantively enacted in November 2009, which had the effect of lowering the future tax provision by \$4.7 million in the fourth quarter.

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 24.9% for the fourth quarter and 30.0% for 2009, compared to 33.4% for the fourth quarter and 33.3% for 2008.

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Total comprehensive income was \$44.2 million for the fourth quarter of 2009 and \$176.8 million for 2009, reflecting increases of \$22.8 million over the fourth quarter of 2008 and \$72.9 million over 2008.

The Company's OCI includes changes in unrealized income on available for sale securities, valuation changes on the securitization receivables and transfers of previously unrealized net gains and losses to net income once they have been realized. During the fourth quarter of 2009, OCI of \$3.7 million was reported for a total of \$32.3 million for the year compared with loss of \$7.7 million for the fourth quarter of 2008 and a loss of \$4.8 million for the twelve months ended December 31, 2008. During the fourth quarter, net unrealized income of \$6.8 million on securities available for sale was recognized for a total of \$22.1 million for the year. In the fourth quarter of 2009 there were no other than temporary impairment losses identified and recognized in net income.

BALANCE SHEET REVIEW

Assets

Total on-balance sheet assets at December 31, 2009 were \$7.36 billion, an increase of \$1.55 billion or 26.7% over the \$5.81 billion reported at December 31, 2008 and an increase of \$1.1 billion or 17.1% over the \$6.28 billion reported at September 30, 2009.

The growth in total assets over December 31, 2008 has been generated from growth in the Company's securities portfolio and cash resources, loans portfolio and securitization receivables. The loans portfolio increased by \$934.4 million with positive growth experienced in residential mortgages offset by declines in non-residential mortgages, personal and credit card loans, and secured loans.

The Company's cash resources and securities portfolio increased 67.8% and 25.2%, respectively, year-over-year to \$930.1 million and \$650.1 million at December 31, 2009. This is due to the timing of securitization transactions, increased deposit activity and the Company's strategy to hold prudent levels of liquid assets.

The Company's on-balance sheet residential mortgage portfolio increased \$1.10 billion or 33.9% during 2009. This growth does not factor in the \$2.60 billion that the Company securitized in 2009, which results in total assets under administration of \$11.51 billion at the end of 2009 compared to \$8.42 billion at the end of 2008, an increase of 36.6% year-over-year. The robust securitization activity has resulted in an increase in securitization receivables of \$89.5 million or 64.0% compared to December 31, 2008.

The non-residential mortgage portfolio decreased by \$118.5 million or 14.3% year-over-year, as the Company continued to focus on residential mortgage lending during the challenging economic environment.

The consumer lending portfolio, which includes the Equityline Visa portfolio, has declined to \$342.9 million from \$369.0 million at December 31, 2008 due to the Company's tightened lending standards throughout 2009 in response to the economic climate.

Other assets increased by \$20.9 million compared to December 31, 2008. Much of this increase is due to a \$25.4 million increase in intangible assets for the development of the Company's new core banking system.

The growth in assets over September 30, 2009 has been generated primarily from an increase in the residential mortgage portfolio which grew by \$277.0 million or 6.8% and an increase in securitization receivables of \$33.4 million or 17.0% compared to the third quarter 2009. Deposits with regulated financial institutions in the liquidity portfolio also increased significantly by \$787.2 million compared to the third quarter 2009. The increase is primarily attributable to cash received for mortgages securitized and sold near the end of 2009, increased deposits and the Company's strategy to hold prudent levels of liquid assets.

Liabilities

Total liabilities at December 31, 2009 were \$6.77 billion, an increase of \$1.39 billion or 25.9% over the \$5.38 billion reported at December 31, 2008 and an increase of \$1.04 billion or 18.1% over the \$5.73 billion reported at September 30, 2009.

Much of the increase from December 31, 2008 resulted from an increase in deposit liabilities of \$1.31 billion. The growth in the deposit liabilities funded the growth in the on-balance sheet loans portfolio. Other liabilities (refer to Note 7 of these unaudited interim consolidated financial statements) increased by \$86.8 million or 32.2% over the \$269.4 million reported at December 31, 2008. Consistent with the growth in the Company's securitization activities, there was an increase of \$50.9 million from the timing of payments due to MBS investors and an increase of \$20.1 million in the servicing liability related to the Company's ongoing administration of the off-balance sheet residential mortgage loans. Additionally there was a net increase of \$20.6 million in the Company's future income tax liabilities offset by a decline in accrued interest payable of \$21.1 million reflective of lower deposit rates.

The increase in liabilities from September 30, 2009 was primarily due to an increase in deposit liabilities of \$1.04 billion or 19.3% as deposit liabilities funded the on-balance sheet growth in the Company's residential loans portfolios. Other liabilities of \$356.1 million at December 31, 2009 were consistent with the \$355.6 million reported at September 30, 2009. Changes within this balance included a decrease of \$4.0 million in liabilities resulting from the timing of payments due to MBS investors, a decrease in accrued interest payable of \$9.6 million offset by an increase of \$6.9 million in the servicing liability relating to Company's ongoing administration of the off-balance sheet residential mortgage loans and an increase in other payables and accruals of \$5.7 million.

Shareholders' Equity

Total shareholders' equity at December 31, 2009 increased by \$157.5 million or 36.4% to \$590.3 million from the \$432.8 million reported at December 31, 2008. The increase since December 31, 2008 was internally generated from net income through 2009 of \$144.5 million, less \$21.4 million for dividends to shareholders, and a significant favourable movement in accumulated OCI of \$32.3 million from the Company's available for sale financial assets representing an increase in the fair value of the available for sale assets as a whole. The remaining changes were due to the amortization of stock based compensation and proceeds of options exercised offset by net changes in the Company's common shares through the Normal Course Issuer Bid.

Total shareholders' equity at the end of 2009 rose by \$39.5 million or 7.2% compared to the \$550.8 million reported at September 30, 2009. This growth was driven by internally generated earnings and positive movements in accumulated OCI, offset by dividends and reduction of capital stock through the Company's Normal Course Issuer Bid.

At December 31, 2009 the book value per common share was \$17.00 compared to \$12.57 at December 31, 2008 and \$15.99 at September 30, 2009.

Derivatives and Off-Balance Sheet Arrangements

From time to time, the Company enters into hedging transactions to mitigate the interest exposure on outstanding loan commitments. For example, the Company utilizes forward contracts to sell Government of Canada bonds to hedge the economic exposure to movements in interest rates between the time that mortgages are committed to being funded and the time those mortgages are actually sold through securitization. The intent of the forward bond contracts is to have the fair value movements of these instruments be effective in offsetting the fair value movements within a pool of mortgages during the period in which the fixed rate pool may be exposed to movements in interest rates, generally 60 to 150 days. During the fourth quarter of 2009, the Company entered into \$771.6 million in notional forward bond contracts to hedge the commitment risk on the Company's securitization activities.

Forward bond contracts are unwound at the time of securitization. A net realized loss of \$8.3 million for the fourth quarter of 2009 and net realized gain of less than \$0.1 million for the year on unwound forward bond contracts was included in the income statement in securitization income on MBS (refer to Table 4 of this MD&A).

At December 31, 2009 the Company continued to hold notional forward bond contracts of \$183.8 million in consideration of future securitization. At December 31, 2009 the fair value of the forward bond contracts was a \$2.4 million unrealized gain compared to \$34.3 million in notional forward bond contracts with a fair value unrealized loss of \$0.6 million at December 31, 2008. Unrealized gains and losses from fair valuing the forward bond contracts are included in the consolidated income statement through gain (loss) on derivatives.

The Company participates in the CMB program sponsored by CMHC, and administered by Canada Housing Trust. Through this program, the Company must manage the mismatch and reinvestment risk between the amortizing MBS pool and the CMB. As part of this arrangement, the Company enters into a seller swap which has the effect of paying the fixed interest payments on the CMB and receiving the total return on the MBS pool. As well, the Company entered into a hedge swap to manage the reinvestment risk between the amortizing MBS pool and the CMB.

The notional values of the swaps, including both seller and hedge swaps at December 31, 2009, were \$3.20 billion (\$1.26 billion - December 31, 2008; \$2.53 billion - Q3 2009). The swaps were marked to market at December 31, 2009 for an unrealized loss of \$10.7 million (unrealized gain of \$0.4 million - Q4 2008; unrealized gain \$2.8 million - Q3 2009). Cumulative realized and unrealized gains and losses on the swaps are recorded in the consolidated statements of income through the gain (loss) on derivatives. Unrealized fair value changes on these derivatives are impacted by the total notional amount outstanding, changes in interest rates and changes in prepayment rates, each of which create 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.

When the Company originates and securitizes insured residential mortgage loans through sales of MBS and through participation in the CMB program, the Company retains rights to certain excess interest spreads less servicing liabilities, which constitute retained interests which are recorded on the consolidated balance sheet as securitization receivables. The Company periodically reviews the fair value of securitization receivables, and any other than temporary impairment in value is charged to income. The Company continues to administer almost all 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 December 31, 2009 outstanding securitized mortgage loans under administration amounted to \$4.15 billion (\$2.61 billion - Q4 2008; \$3.61 billion - Q3 2009) with a securitization receivable of \$229.4 million (\$139.9 million - Q4 2008; \$196.0 million - Q3 2009). The off-balance sheet securitized mortgage portfolio continues to perform well, with 97.9% of the portfolio current and 0.9% greater than 60 days in

arrears. For additional information, refer to Note 6 in the consolidated financial statements of the 2008 Annual Report, and Note 5 of these unaudited interim consolidated financial statements.

In the normal course of its business, the Company offers credit products to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to \$380.8 million at December 31, 2009 compared to \$242.4 million at December 31, 2008 and \$382.1 million at September 30, 2009. Included within the outstanding commitments are unutilized non-residential advances of \$48.6 million at December 31, 2009 compared to \$89.6 million at December 31, 2008 and \$39.9 million at September 30, 2009. Commitments for the loans remain open for various dates through December 2010. As at December 31, 2009 unutilized credit card balances amounted to \$52.8 million, compared to \$62.9 million at December 31, 2008 and \$52.0 million at September 30, 2009. Outstanding commitments for future advances for the Equityline Visa portfolio were \$2.9 million at December 31, 2009 compared to \$2.4 million at December 31, 2008 and \$3.9 million at September 30, 2009.

CAPITAL MANAGEMENT

Home Trust's capital ratios are calculated using the guidance of OSFI. Effective January 1, 2008, Home Trust began calculating its regulatory capital under the new capital adequacy rules issued by OSFI, which are based under the "International Convergence on Capital Management and Capital Standard – A Revised Framework" (Basel II).

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

Table 5: Risk-weighted Assets

<i>In Thousands of Dollars</i>	As at December 31, 2009	As at September 30, 2009	As at December 31, 2008
Risk-weighted assets for:			
Credit risk	\$ 2,913,092	\$ 2,688,064	2,711,583
Operational risk	314,063	300,363	274,167
Total Risk-weighted Assets¹	\$ 3,227,155	\$ 2,988,427	2,985,750

¹ Based on the Company's wholly owned subsidiary, Home Trust Company.

The capital base of Home Trust remains strong. The Tier 1 capital ratio at the end of 2009 was 16.4%, compared to 16.6% recorded in the third quarter of 2009 and up from the 12.9% reported at December 31, 2008. The Total Capital ratio was 18.0% at December 31, 2009 compared to 18.2% in the third quarter of 2009 and up from the 14.2% reported at December 31, 2008.

The Company continues to build its capital base through retained earnings. The Company's strong capital position affords additional flexibility to maintain and grow operations, both organically and, if the opportunity arose, through strategic acquisitions. These ratios both continue to substantially 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.

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 risk. The Company's ERM structure is supported by a governance framework which includes Board of Directors' and Senior Management oversight, 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 28 through 38 in the MD & A section of the Company's 2008 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 December 31, 2009 the composition of the total mortgage portfolio was 86.0% residential and 14.0% non-residential, compared to a composition of 85.0% residential and 15.0% non-residential at September 30, 2009 and a composition of 79.8% residential and 20.2% non-residential one year ago. The composition is well within the internal policy limits the Company's Risk and Capital Committee and the Board of Directors have approved.

Within the Company's residential mortgage portfolio, 31.0% of the loans were insured by either CMHC or other approved insurers at the end of the quarter, compared to 28.8% at September 30, 2009 and 14.6% one year ago reflecting the Company's strategic shift to reduce credit exposure. First mortgages represented 99.7% of the total mortgage portfolio at December 31, 2009, consistent with comparable periods. Through its Accelerator Program the Company continues a trend of originating higher volumes of government-insured mortgages. Of all residential mortgage originations and renewals in the fourth quarter of 2009, 60.7% were government-insured for a year-to-date total of 69.1% compared to the three-month period of September 30, 2009 where 68.3% of all residential mortgage originations and renewals were insured and up from 50.9% for 2008. At December 31, 2009 the average loan to value on origination of the Company's non-insured residential mortgage loans portfolio was 68.8% compared to 66.6% at December 31, 2008. Refer to Note 4 of these unaudited interim consolidated financial statements for a further breakdown by geographic region.

The mortgage loans portfolio is showing signs of improvement with 95.4% of the portfolio current and 1.1% of the portfolio over 60 days in arrears at the end of 2009, comparing favourably to 94.5% of the portfolio current and 1.6% of the portfolio over 60 days in arrears at the end of 2008.

As at December 31, 2009 the gross credit card receivable balance totalled \$304.6 million, of which \$304.2 million or 99.9% of the portfolio was secured either by cash deposits or residential property, and \$0.4 million or 0.1% was unsecured. The total credit approved included \$356.9 million in secured and \$0.5 million in unsecured credit, compared to \$364.4 million in secured and \$0.5 million in unsecured credit at September 30, 2009, and \$414.3 million in secured and \$0.7 million in unsecured credit at December 31, 2008. 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 \$297.3 million or 97.6% of the total credit card receivable balance as at December 31, 2009 compared to \$305.4 million or 97.6% at September 30, 2009 and \$342.9 million or 97.4% at December 31, 2008. Cash deposits securing credit card accounts amounted to \$12.5 million, and are included in the Company's deposits. Further, the Equityline Visa portfolio has a loan to value of 69.3% at December 31, 2009, comparable to the loan to value of 69.4% and 69.5% at September 30, 2009 and December 31, 2008, respectively. At December 31, 2009, \$7.5 million or 2.5% of the credit card portfolio was over 60 days in arrears, improving from the \$8.4 million or 2.7% at September 30, 2009 and \$10.6 million or 3.0% at December 31, 2008.

The secured loan portfolio of \$47.7 million decreased by \$24.8 million from the December 31, 2008 balance of \$72.5 million, and decreased \$5.8 million from the September 30, 2009 balance of \$53.5 million. These loans are secured by second mortgages on residential properties. At December 31, 2009, 96.6% of the secured loan portfolio was current while \$0.5 million or 0.9% was over 60 days in arrears. This compares to 97.1% of the secured loan portfolio being current while \$1.0 million or 1.4% was over 60 days in arrears at December 31, 2008. As at

September 30, 2009, 96.3% of the secured loan portfolio was current while \$1.1 million or 2.1% was over 60 days in arrears.

The Company experienced an improvement in net impaired loans in the fourth quarter to \$46.3 million from \$63.5 million at September 30, 2009. Net impaired loans were \$39.2 million at December 31, 2008. Although impaired loans have increased over December 2008, the percentage of gross loans declined from 1.3% at June 30, 2009 to 1.2% at September 30, 2009 and 0.8% at December 31, 2009. The Company tightened its underwriting criteria, taking into account local market conditions in order to minimize potential loss exposure. The Company's strategy to have experienced employees of the Company undertake reviews of all non-performing loans greater than 60 days to analyze patterns and drivers, and reflect emerging drivers in the Company's lending criteria going forward has contributed to the improvement in net impaired loans. This analytical approach and attention to emerging trends has resulted in continued low write-offs relative to the gross loans portfolio. Net write-offs applied against the accumulated allowance for credit losses realized on loans during the three-month period ended December 31, 2009 totalled \$3.4 million and for a full year total of \$9.3 million, up from the write-offs incurred in the third quarter of 2009 of \$2.1 million and \$2.9 million for the year ended December 31, 2008. The Company continues to monitor this area, and is dealing prudently and effectively with impaired loans and maximizing recoverability. Additional experienced personnel have been hired during 2009 to manage the increased workload and the Company is working with clients to manage their payments through the challenging economic conditions.

The Company continues to be well positioned to absorb probable losses in its loans portfolio, holding general allowances of \$27.8 million at December 31, 2009 as compared to \$25.2 million at December 31, 2008 and \$26.5 million at September 30, 2009. The Company routinely monitors the adequacy of the general allowance. The Company has security in the form of real property or cash deposits against loans totalling 99.5% of the total loans portfolio. The Company's evaluation of the adequacy of the general allowance takes into account asset quality, borrowers' creditworthiness, property location and past loss experience. The Company periodically reviews the methods utilized in reviewing the general allowance, giving due consideration to changes in economic conditions, interest rates and local housing market conditions.

The total general allowance was 86.1 basis points of the Company's risk-weighted assets (RWA) at December 31, 2009 compared to 84.0 basis points at December 31, 2008 and 88.8 basis points at September 30, 2009. The decrease in the ratio quarter-over-quarter reflects the increase in RWA mostly due to the increase in liquid asset holdings. The general allowance did not increase at the same rate as the overall asset growth as the loan portfolio mix is more heavily weighted to the residential portfolios which are lower risk assets thereby reducing the requirement for increased general reserves. The year-over-year increase reflects the increase in the general allowance even though the increase in the RWA was less due to the move to a more residential loan portfolio and reduced exposure to non-residential.

Liquidity Risk

This is the risk the Company is 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, the ERM function and quarterly reporting to the Risk and Capital Committee of the Board of Directors. 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 December 31, 2009 liquid assets amounted to 165% under the immediate scenario and 139% under the ongoing scenario compared to 147% and 134%, respectively, at December 31, 2008 and 163% and 141%, respectively, as at September 31, 2009. The Company continues to monitor these scenarios and will take appropriate actions should the need arise.

The Company holds liquid assets in the form of cash and bank deposits, treasury bills, bankers' acceptances, government bonds and debentures to comply with its liquidity policy. At December 31, 2009 liquid assets amounted to \$1.2 billion or 83.7% of 100-day obligations, compared to \$880.7 million and 66.0% recorded at December 31, 2008, and \$469.0 million and 29.6% at September 30, 2009. The increased liquidity levels year-over-year reflect the on-balance sheet growth of the core mortgage loans portfolio and the timing of securitization transactions close

to the end of the quarter. The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets.

For the twelve months ended December, 31 2009 the Company maintained a monthly average of \$646.5 million or 44.8% of 100-day obligations in liquid assets, compared to \$598.2 million or 46.2% for the twelve months ended December 31, 2008.

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 to prevent interest rate fluctuations from materially impacting 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 December 31, 2009 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 an interest rate risk sensitivity model that measures the relationship between changes in interest rates and the resulting impact on both future net interest income and the economic value of shareholders' equity. Limits based on these models are set and monitored by senior management, the ERM function, ALCO and the Risk and Capital Committee of the Board. The following table provides the potential after tax impact of immediate and sustained 100 basis point, and 200 basis point increases and decreases in interest rates on net interest income and on the economic value of shareholders' equity.

Table 6: Impact of Interest Rate Shifts

<i>In Thousands of Dollars</i>	December 31	December 31	December 31	December 31
	2009	2008	2009	2008
	Increase in interest rates		Decrease in interest rates	
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	\$ 7,418	\$ 3,917	\$ (7,418)	\$ (3,917)
Impact on net present value of shareholders' equity	(7,837)	(7,157)	9,245	7,589
200 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	\$ 14,835	\$ 7,835	\$ (14,835)	\$ (7,835)
Impact on net present value of shareholders' equity	(14,410)	(13,909)	20,059	15,637

The Company may enter into derivative transactions for the purpose of hedging commitment risk. The purpose is to manage interest rate exposures during the period between when a mortgage commitment is made and when this mortgage loan is securitized into an MBS pool. The Company held notional \$183.8 million in forward bond contracts specifically to hedge commitment risk at December 31, 2009 in anticipation of future securitization activities compared to \$519.4 million at September 30, 2009 and \$34.3 million at December 31, 2008. Through the Company's participation in CMHC's CMB program, the Company was required to enter into specific swap agreements to hedge interest rate risk and the reinvestment risk between the amortizing MBS pool and the CMB. Refer to Note 12 of these unaudited interim consolidated financial statements for additional information.

RESULTS BY BUSINESS SEGMENT

The following section discusses the mortgage lending, consumer lending and other business segments for the three-month period and year ended December 31, 2009 (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 and earnings while the consumer lending segment continues to provide an increasing diversified income source.

Mortgage Lending

The Company's mortgage lending business contributed \$32.2 million of net income during the fourth quarter of 2009 and \$111.7 million for 2009, as compared to \$21.6 million and \$79.7 million, respectively, for the comparable periods in 2008. Growth over the prior periods was driven primarily by loan originations which drive higher interest and fee income plus a significant contribution to income through securitization activities. Net interest income for the quarter was \$28.3 million, compared with \$18.9 million for the three-month period ended December 31, 2008.

The table below provides a breakdown of specific residential and non-residential advances made during the quarter and year-to-date with prior year comparables.

Table 7: Mortgage Production

<i>In Thousands of Dollars</i>	For the three months ended		For the year ended	
	December 31	December 31	December 31	December 31
	2009	2008	2009	2008
Traditional single family residential mortgages ¹	\$ 517,668	\$ 432,543	\$ 1,778,575	\$ 2,164,395
Accelerator single family residential mortgages ¹	483,809	130,431	1,519,024	236,935
Multi-unit residential mortgages ¹	296,834	295,508	1,239,352	546,382
Warehouse residential mortgages ¹	-	35,477	49,951	296,744
Non-residential mortgages	60,156	48,861	135,380	442,356
Store and apartments	18,109	21,252	42,161	78,838
Warehouse commercial mortgages	18,251	35,000	34,500	93,273
Total Mortgage Advances	\$ 1,394,827	\$ 999,072	\$ 4,798,943	\$ 3,858,923

¹ As defined by OSFI

The total value of new mortgages advanced in the quarter was \$1.39 billion, an increase of 39.6% over the \$999.1 million advanced for the same quarter in 2008. Total value of new mortgages advanced for 2009 was \$4.80 billion, an increase of 24.4% over the \$3.86 billion advanced for in 2008.

During the fourth quarter of 2009, single family residential advances increased by 77.9% or \$438.5 million over the comparable quarter in 2008. Total annual single family residential advances increased \$896.3 million or 37.3% over 2008. Accelerator mortgages, which are fully insured prime mortgages, continue to show strong growth on a volume basis and as a percentage of residential originations, contributing to overall lowering of the risk profile and diversification of the mortgage lending business. Accelerator originations increased \$353.4 million over the comparable quarter in 2008 and \$1.28 billion year-over-year. Accelerator represented 48.3% of single family residential originations in the fourth quarter of 2009, up from 23.1% over the comparable quarter in 2008.

During the fourth quarter, advances for non-residential mortgages increased \$11.2 million or over the comparable quarter in 2008 while total 2009 advances declined by \$307.0 million or 69.3% compared to 2008. This decline is consistent with the Company's stated strategy of reducing its exposure to non-residential mortgages.

During the quarter, the Company sold \$863.4 million of MBS created through CMHC's insured residential mortgage securitization program for a total of \$2.60 billion in 2009. Total gains realized from securitization were \$20.8 million for the quarter and \$80.1 million for 2009. This compares to \$557.7 million securitized for the fourth quarter of 2008 and \$1.50 billion in 2008, resulting in gains of \$16.4 million and \$48.8 million, respectively. The growth in securitization activity reflects the increased origination of insured mortgages and economic circumstances which caused origination funding through securitization to be less costly than traditional deposits. The Company anticipates that its funding split between traditional deposits and securitization will be responsive to relative changes in spreads. For additional information on securitization activity refer to Note 5 of these unaudited interim consolidated financial statements.

The Company's second mortgage program, (recorded as Secured Loans), is conducted through an agreement with a Trustee operating through the trust of Regency Finance Corp. (Regency), whereby the Company acts as Regency's agent in offering residential second mortgage loans. These mortgage loans are securitized and the investments are purchased by the Company. At the end of the fourth quarter of 2009 the Company held \$47.7 million in Secured Loans as Notes Receivable issued by Regency, compared to \$53.5 million at September 30, 2009 and \$72.5 million at December 31, 2008. These Notes yield 5.3% 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 0.3% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgage loans securing the Notes Receivable remains high, with 0.9% of the portfolio in arrears over 60 days. This program has experienced minimal losses since inception. The Company had decided to discontinue advancing funds under this program during the economic downturn and recently resumed marketing of this product in anticipation of the improved housing markets.

Consumer Lending – Credit Cards and Retail Services

Consumer lending again generated positive results during the fourth quarter of 2009 while continuing to diversify the Company's sources of income. Net income for the quarter was \$6.6 million for a total of \$23.4 million in 2009, compared to \$4.8 million for the fourth quarter of 2008 and \$19.1 million in 2008.

Growth in the Company's retail loan portfolio has contributed favourably to the overall results of this segment as net interest income increased 38.8% year-over-year and 29.4% quarter-over-quarter. This increase is despite the decline in the Equityline *Visa* portfolio during the economic downturn. Spreads on the portfolio improved due to short term interest rates remaining low throughout much of the year. The Company has commenced new marketing initiatives, in anticipation of economic recovery, to resume long term plans to grow this part of the business.

The Equityline *Visa* loans portfolio amounted to \$297.3 million at December 31, 2009 (\$305.4 million – Q3 2009; \$342.9 million – Q4 2008) comprising 97.6% (97.4% – Q4 2008; 97.6% – Q3 2009) of the total gross credit card receivable balance of \$304.6 million, and bearing an average interest rate of 10.8% (10.3% – Q4 2008; 10.8% – Q3 2009) on outstanding balances.

During the fourth quarter of 2009, 936 Equityline *Visa* accounts with \$34.4 million in authorized credit limits were issued, up from the third quarter of 2009 where 744 Equityline *Visa* accounts with \$26.7 million in authorized credit limits were issued. The increase is consistent with the Company's strategy to resume cautious growth in this product line. For all of 2009, a total of 2,677 Equityline *Visa* accounts with \$100.5 million in authorized credit limits were issued compared to 3,864 Equityline *Visa* accounts with \$172.0 million in authorized credit limits issued in 2008. The decrease in new accounts from the prior year periods was due to ongoing careful management of credit in certain geographical locations during the current economic environment; however, as mentioned above, the Company has initiated new growth in this product.

Also included in the operating results of the consumer lending segment are the operations of PSiGate which contributed \$0.4 million of net income during the quarter and \$1.5 million in 2009.

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 \$1.6 million for a year-to-date total of \$9.4 million compared with \$2.6 million for the three months ended December 31, 2008 and \$9.9 million for 2008. The decline quarter-over-quarter is due to a decrease in overall yields in the Company's available for sale securities 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 40 through 42 of the 2008 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 40 through 42 of the 2008 Annual Report.

Change in Accounting Policy

The significant accounting policies the Company follows are detailed in Note 1 to the Company's December 31, 2008 consolidated financial statements.

Effective January 1, 2009 the Company adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA), Section 3064, Goodwill and Intangible Assets. The implementation of this standard did not have a material impact on the Company's consolidated financial position and results of operations. For further details, see Note 2 to these unaudited interim consolidated financial statements.

Effective January 1, 2009, the Company adopted CICA Emerging issues Committee Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the financial position or earnings of the Company.

Future Accounting Changes

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures that provides improved disclosures for liquidity risk and fair value measurement. The Company will adopt the amendments for its December 31, 2009 annual financial statements. The new standard will not have a material effect on the financial position or earnings of the Company as the standard impacts disclosures only.

In August 2009, the CICA issued various amendments to Section 3855, Financial Instruments – Recognition & Measurement that will reduce differences with International Financial Reporting Standards (IFRS). The amendments include changes to the classification of certain debt securities where there is no active market for those securities and how impairment is measured for those debt securities. Impairment on debt securities will be reversed if the conditions for reversal are met. The changes also permit the reclassification from the held for trading and available for sale classifications in certain limited circumstances. Additionally, the amendments remove exemption for loans and receivables to be categorized as held for trading. The Company will adopt the amendments, which are retroactive, in its December 31, 2009 annual financial statements. The Company does not expect these amendments to have a material impact on the financial position or earnings of the Company.

International Financial Reporting Standards (IFRS)

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

The Company will change over to IFRS starting with interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of

amounts reported by the Company for the interim periods and the year ended December 31, 2010. The Company has commenced the process of transition from current Canadian GAAP to IFRS. It has established a project team which includes representatives from various areas of the organization as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted.

The implementation project consists of three primary phases, which will in many instances occur concurrently as the IFRS standards are applied to specific areas from start to finish:

- Research, diagnostic and planning phase – This phase includes performing a high-level assessment to identify key implications of the transition to IFRS. As a result of these procedures the potential issues and implications are ranked as high, medium or low priority and assigned to the relevant teams. The core IFRS team has undergone training to effectively carry out the remaining phases of the project.
- Impact analysis, evaluation and design phase – In this phase, each area identified from the research, diagnostic and planning phase will be addressed in order of priority with project team members assigned accordingly. This phase includes specification of changes required to existing accounting policies, information systems, internal controls over financial reporting and other operations business processes. Following an analysis of policy alternatives allowed under IFRS, preliminary IFRS financial statement content will be drafted.
- Implementation and review phase – This phase includes execution of changes to information systems and business process, completing formal authorization processes to approve recommended accounting policy choices and training programs across the Company's finance group and other staff, as necessary. The resulting efforts from the other phases of the project will culminate with the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS standards in business process and related controls for certification of internal controls over financial reporting and Audit Committee approval of IFRS financial statements.

The Company completed the research, diagnostic and planning phase and started working on the impact analysis, evaluation and design phase during the fourth quarter of 2008. For certain key topics, including securitization accounting, the Company has begun the implementation and review phase.

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 changes following from the IFRS accounting principles and provisions for first-time adoption of IFRS standards on certain areas as described below.

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.

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 is analyzing the various accounting policy choices available and will implement those determined to be most appropriate for the Company's specific circumstances. The Company has completed preliminary conclusions on these choices but this is subject to ongoing assessment during the transition year.

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 will no longer account for these transactions as sales of mortgages. As such, at the transition date to IFRS, all previously recognized securitization gains will be reversed through opening retained earnings. This reversal will be 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 IFRS balance sheet will include the mortgages previously securitized and sold, as well as any future securitization transactions undertaken through the current CMHC CMB and MBS structure. The balance sheet will also include a liability representing the funding provided through the securitization transaction. As such, upfront securitization gains related to transactions using this structure will no longer be recognized and instead will be replaced by the interest income on the mortgages less the interest expense on the funding. The Company has not yet quantified the impact on opening retained earnings or ongoing earnings.

In October 2009 OSFI released a Draft 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 CMB and 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 Draft Advisory proposes that these activities be included in the calculation of ACM when these activities are accounted for on-balance sheet under IFRS. Securitizations entered into on or before December 31, 2009 would be grandfathered for purposes of the ACM calculation. The Company believes that the proposed ACM rules for securitization will not materially impact our participation in the CMB and MBS NHA 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 Draft Advisory clarified that FREs cannot early adopt IFRS that are not mandatory on transition to IFRS.

Controls over Financial Reporting

No changes were made in the Company's internal controls over financial reporting during the interim period ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

UPDATED SHARE INFORMATION

As at December 31, 2009 the Company had issued 34,713,190 Common Shares. In addition, outstanding director and employee stock options amounted to 924,750 (1,271,750 – Q3 2009, and 1,406,750 – Q4 2008) of which 458,000 were exercisable as of December 31, 2009 (755,500 – Q3 2009, and 661,125 – Q4 2008) for proceeds to the Company upon exercise of \$15.8 million (\$18.3 million – Q3 2009, and \$12.4 million – Q4 2008).

Subsequent to the end of the fourth quarter, the Board of Directors declared a quarterly cash dividend of \$0.16 per common share payable on March 1, 2010 to shareholders of record at the close of business on February 19, 2010.

QUARTERLY FINANCIAL HIGHLIGHTS

Table 8: Summary of Quarterly Results

<i>In Thousands of Dollars</i>	2009								2008
<i>(Except Per Share and Percentage Amounts)</i>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
Net interest income (TEB) ¹	\$ 48,178	\$ 45,254	\$ 42,024	\$ 37,505	\$ 36,442	\$ 39,478	\$ 40,418	\$ 38,590	
Less TEB adjustment	2,842	2,300	1,535	1,273	1,205	1,130	1,056	962	
Net interest income per financial statements	45,336	42,954	40,489	36,232	35,237	38,348	39,362	37,628	
Non-interest income	28,015	33,589	30,437	32,034	26,023	23,013	17,318	14,338	
Non-interest expense	19,856	21,674	18,222	18,849	16,852	16,953	17,443	14,763	
Total revenues	121,381	125,299	121,778	120,721	117,996	116,950	112,953	106,796	
Net income	40,481	38,243	34,351	31,418	29,039	27,939	26,550	25,159	
Return on common shareholders' equity	28.4%	28.7%	27.9%	27.9%	27.4%	27.6%	27.7%	27.9%	
Return on average total assets	2.4%	2.5%	2.3%	2.2%	2.0%	2.0%	2.0%	1.9%	
Earnings per common share									
Basic	\$ 1.17	\$ 1.11	\$ 1.00	\$ 0.91	\$ 0.84	\$ 0.81	\$ 0.77	\$ 0.73	
Diluted	\$ 1.16	\$ 1.10	\$ 0.99	\$ 0.91	\$ 0.84	\$ 0.81	\$ 0.76	\$ 0.72	
Book value per common share	\$ 17.00	\$ 15.99	\$ 14.99	\$ 13.61	\$ 12.57	\$ 12.08	\$ 11.44	\$ 10.79	
Efficiency ratio (TEB) ¹	26.1%	27.5%	25.1%	27.1%	27.0%	27.1%	30.2%	27.9%	
Efficiency ratio	27.1%	28.3%	25.7%	27.6%	27.5%	27.6%	30.8%	28.4%	
Tier 1 capital ratio ²	16.4%	16.6%	15.2%	13.8%	12.9%	12.7%	12.5%	12.0%	
Total capital ratio ²	18.0%	18.2%	16.7%	15.2%	14.2%	14.0%	13.8%	13.4%	
Net impaired loans as a % of gross loans	0.8%	1.2%	1.3%	1.2%	0.9%	0.7%	0.7%	0.7%	
Annualized provision as a % of gross loans	0.2%	0.2%	0.3%	0.3%	0.2%	0.3%	0.1%	0.1%	

¹ TEB - Taxable Equivalent Basis, see definition on page 7

² 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 strong growth in net interest income in all business segments and robust securitization volumes combined with continued low efficiency ratios (where the lower the ratio the better). The increase in Tier 1 and Total Capital ratios throughout 2008 and 2009 reflect the Company's continuing efforts to preserve its capital base and maintain financial flexibility during uncertain economic and capital markets. The net impaired loans as a percentage of gross loans trended upwards over the last half of 2008 and into 2009; however, it is beginning to show improvement in the fourth quarter of 2009. 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 declined during the fourth quarter, however, the Company continues to take proactive steps to manage the higher than average level of impaired loans, including maintaining a strong mortgage servicing department to support clients in payment management.

Outlook

Home Capital remains committed to serving selected segments of the Canadian financial services marketplace that are not the focus of the country's major financial institutions. The Company also remains committed to continued diversification of its mortgage and consumer product offerings while prudently widening its geographical distribution, in particular, through the Accelerator product introduced in the second half of 2008. Additionally, Home Capital will continue seeking market opportunities and strategic partnerships in conjunction with the development of new products. This is expected to contribute to the Company meeting its strategy of growth and diversification within both mortgage lending and consumer lending, while continuing to reduce its overall risk profile.

Home Capital's financial strength is grounded in a solid capital base, robust liquidity reserves and no external debt which position the Company to capitalize on market opportunities as Canada emerges from the current economic downturn.

While many indications point to the beginning of a recovery for the Canadian economy, there are a number of factors that lead the Company to remain cautious about where and to whom it provides mortgage advances. Canadian unemployment has not yet seen signs of improvement as key sectors of the Canadian economy, such as manufacturing, have not yet increased their payrolls. This sector will continue to struggle so long as the outlook for the United States economy remains uncertain, which constrains Canadian exports. This lack of job security and uncertainty regarding the pace of economic recovery will continue to curb consumer confidence into 2010. Until these issues are resolved, maintaining a prudent approach to measured growth and capital preservation are warranted.

The Company expects market conditions to show slow improvement throughout 2010. While the increase in housing demand in the second half of 2009 exceeded expectations, it is not anticipated to continue growing at these levels throughout all of 2010. Increasing interest rates and home prices may slow the rate of increase in demand in the second half of 2010. Potential changes by the Federal Government to increase minimum downpayment and decrease maximum amortization periods is not expected to adversely impact the Company's growth expectations. The Company has considered these factors in its planning and strategies for 2010 and continues to manage its business prudently with a strong commitment to measured growth, profitability and creating long-term shareholder value. The Company has a proven track record of achieving its strategic objectives while remaining committed to its proprietary risk management framework. This approach has served management well to lead the Company through an uncertain economic period, and positions the Company for future opportunities.

Looking ahead, the Board of Directors and Management are confident that Home Capital is well positioned to continue generating robust earnings and growth in 2010, and have established the following objectives for 2010: 15-20% growth in each of total earnings, diluted earnings per share and total assets (including assets under administration), as well as, 20% return on equity.

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

Consolidated Statements of Income

<i>In Thousands of Dollars, except for per Share Amounts (Unaudited)</i>	For the three months ended		For the year ended	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008
Income				
Interest from loans	\$ 84,312	\$ 82,672	\$ 334,148	\$ 339,242
Dividends from equity securities	6,343	2,491	17,742	9,237
Other interest	2,711	6,810	13,214	25,524
	93,366	91,973	365,104	374,003
Interest Expense				
Interest on deposits	48,030	56,736	200,093	223,428
Net interest income	45,336	35,237	165,011	150,575
Provision for credit losses (note 4(d))	2,282	1,988	11,526	6,638
	43,054	33,249	153,485	143,937
Non-interest Income				
Fees and other income	7,182	7,104	29,326	28,452
Securitization income on mortgage-backed securities (note 5)	24,283	20,950	92,397	58,582
Net gain (loss) realized and unrealized on securities	(431)	(795)	2,097	(5,365)
Gain (loss) on derivatives	(3,019)	(1,236)	255	(1,046)
Net gain on sale of subsidiary	-	-	-	69
	28,015	26,023	124,075	80,692
	71,069	59,272	277,560	224,629
Non-interest Expenses				
Salaries and staff benefits	10,045	8,564	41,559	36,182
Premises	1,546	1,192	5,916	4,439
General and administration	8,265	7,096	31,126	25,390
	19,856	16,852	78,601	66,011
Income Before Income Taxes	51,213	42,420	198,959	158,618
Provision for income taxes (note 11(a))	10,732	13,381	54,466	49,931
NET INCOME	\$ 40,481	\$ 29,039	\$ 144,493	\$ 108,687
NET INCOME PER COMMON SHARE				
Basic	\$ 1.17	\$ 0.84	\$ 4.19	\$ 3.15
Diluted	\$ 1.16	\$ 0.84	\$ 4.15	\$ 3.13
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (thousands)				
Basic	34,552	34,501	34,450	34,512
Diluted	34,756	34,724	34,795	34,669
Total number of outstanding common shares (thousands)	34,713	34,434	34,713	34,434
Book value per common share	\$ 17.00	\$ 12.57	\$ 17.00	\$ 12.57

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

Consolidated Statements of Comprehensive Income

<i>In Thousands of Dollars (Unaudited)</i>	For the three months ended		For the year ended	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008
NET INCOME	\$ 40,481	\$ 29,039	\$ 144,493	\$ 108,687
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Unrealized income on available for sale securities				
Net unrealized income on securities available for sale, net of \$362 tax ((\$4,395) - three months ended December 31, 2008; \$8,739 – year ended December 31, 2009; (\$4,049) – year ended December 31, 2008)	6,812	(10,271)	22,092	(10,463)
Reclassification of earnings in respect of available for sale securities, net of \$3,085 tax (\$312 - three months ended December 31, 2008; \$4,941 – year ended December 31, 2009; \$1,796 – year ended December 31, 2008)	(3,139)	2,613	10,229	5,707
Total other comprehensive income	3,674	(7,658)	32,321	(4,756)
COMPREHENSIVE INCOME	\$ 44,155	\$ 21,381	\$ 176,814	\$ 103,931

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

Consolidated Balance Sheets

<i>In Thousands of Dollars (Unaudited)</i>	December 31 2009	September 30 2009	December 31 2008
ASSETS			
Cash Resources (note 3)			
Deposits with regulated financial institutions	\$ 912,169	\$ 129,794	\$ 554,422
Restricted cash	17,965	16,165	-
	930,134	145,959	554,422
Securities (note 3)			
Held for trading	99,938	199,908	-
Available for sale	550,659	453,470	519,477
	650,597	653,378	519,477
Loans (note 4)			
Residential mortgages	4,369,458	4,092,476	3,263,206
Non-residential mortgages	708,425	719,838	826,882
Personal and credit card loans	342,918	342,539	368,962
Secured loans	47,739	53,493	72,518
General allowance for credit losses	(27,793)	(26,520)	(25,177)
	5,440,747	5,181,826	4,506,391
Other			
Securitization receivable (note 5)	229,418	196,013	139,870
Capital assets	4,863	5,201	5,325
Other assets (note 6)	105,115	102,215	84,228
	339,396	303,429	229,423
	\$ 7,360,874	\$ 6,284,592	\$ 5,809,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Payable on demand	\$ 38,223	\$ 15,867	\$ 34,808
Payable on a fixed date	6,371,599	5,357,595	5,067,973
	6,409,822	5,373,462	5,102,781
Other			
Cheques and other items in transit	4,617	4,671	4,811
Other liabilities (note 7)	356,147	355,636	269,368
	360,764	360,307	274,179
	6,770,586	5,733,769	5,376,960
Shareholders' Equity			
Capital stock (note 8)	45,396	41,888	39,094
Contributed surplus	3,606	3,948	3,283
Retained earnings	520,018	487,393	401,429
Accumulated other comprehensive income (loss) (note 10)	21,268	17,594	(11,053)
	590,288	550,823	432,753
	\$ 7,360,874	\$ 6,284,592	\$ 5,809,713

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

Consolidated Statements of Changes in Shareholders' Equity

<i>In Thousands of Dollars (Unaudited)</i>	For the three months ended		For the year ended	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008
CAPITAL STOCK (note 8)				
Balance at beginning of the period	\$ 41,888	\$ 39,142	\$ 39,094	\$ 38,899
Proceeds of options exercised	3,572	-	6,498	318
Normal course issuer bid	(64)	(48)	(196)	(123)
BALANCE AT END OF THE PERIOD	\$ 45,396	\$ 39,094	\$ 45,396	\$ 39,094
CONTRIBUTED SURPLUS				
Balance at beginning of the period	\$ 3,948	\$ 2,910	\$ 3,283	\$ 1,818
Amortization of fair value of employee stock options (note 9)	349	373	1,543	1,516
Employee stock options exercised	(691)	-	(1,220)	(51)
BALANCE AT END OF THE PERIOD	\$ 3,606	\$ 3,283	\$ 3,606	\$ 3,283
RETAINED EARNINGS				
Balance at beginning of the period	\$ 487,393	\$ 377,638	\$ 401,429	\$ 313,620
Normal course issuer bid	(1,912)	(773)	(4,469)	(2,940)
Net income for the period	40,481	29,039	144,493	108,687
Dividends paid or declared during the period	(5,944)	(4,475)	(21,435)	(17,938)
BALANCE AT END OF THE PERIOD	\$ 520,018	\$ 401,429	\$ 520,018	\$ 401,429
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance at beginning of the period	\$ 17,594	\$ (3,395)	\$ (11,053)	\$ (6,297)
Other comprehensive income (loss), net of \$2,724 tax (((\$4,083) - three months ended December 31, 2008; \$13,680 - year ended December 31, 2009; (\$2,253) - year ended December 31, 2008)	3,674	(7,658)	32,321	(4,756)
BALANCE AT END OF THE PERIOD	\$ 21,268	\$ (11,053)	\$ 21,268	\$ (11,053)

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

Consolidated Statements of Cash Flows

<i>In Thousands of Dollars (Unaudited)</i>	For the three months ended		For the year ended	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	\$ 40,481	\$ 29,039	\$ 144,493	\$ 108,687
Adjustments to determine cash flows relating to operating activities:				
Future income taxes	5,458	5,170	26,641	14,397
Amortization	(2,693)	19,042	(43,053)	29,392
Provision for credit losses (note 4(d))	2,282	1,988	11,526	6,638
Change in accrued interest payable	(9,618)	431	(21,116)	23,965
Change in accrued interest receivable	(606)	(958)	1,709	(2,553)
Net loss (gain) realized and unrealized on investment securities	431	795	(2,097)	5,365
Loss (gain) on derivatives	3,019	1,236	(255)	1,046
Securitization income on mortgage-backed securities	(24,287)	(20,950)	(92,396)	(58,582)
Amortization of fair value of employee stock options (note 9)	349	373	1,543	1,516
Change in payments received for securitized pools	2,937	-	57,836	-
Other	(13,711)	(10,143)	24,721	(14,960)
Cash flows from operating activities	4,042	26,023	109,552	114,911
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase in deposits	1,036,360	158,742	1,307,041	688,797
Issuance of capital stock	3,572	-	6,498	318
Normal course issuer bid	(1,976)	(821)	(4,665)	(3,063)
Exercise of stock options	(691)	-	(1,220)	(51)
Dividends paid	(5,555)	(4,481)	(20,010)	(17,260)
Cash flows from financing activities	1,031,710	153,440	1,287,644	668,741
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in available for sale and held for trading securities				
Purchases	(287,627)	(227,538)	(954,444)	(555,804)
Proceeds from sales	184,322	151,570	767,516	385,792
Proceeds from maturities	110,440	14,146	135,615	73,313
Activity in mortgages				
Net increase	(1,129,982)	(551,833)	(3,593,849)	(1,954,052)
Proceeds from securitization of mortgage-backed securities	843,710	548,807	2,550,007	1,478,138
Change in mortgage-backed securities receivable	13,278	8,382	53,800	28,031
Net (increase) decrease in personal and credit card loans	(395)	(5,139)	23,918	(44,506)
Net increase in restricted cash	(1,800)	-	(17,965)	-
Net decrease in secured loans	5,736	5,889	24,308	8,833
Purchases of capital assets	(580)	(613)	(2,181)	(3,311)
Purchases of intangible assets	(6,644)	-	(26,174)	-
Cash flows used in investing activities	(269,542)	(56,329)	(1,039,449)	(583,566)
Net increase in cash and cash equivalents during the period	766,210	123,134	357,747	200,086
Cash and cash equivalents at beginning of the period	145,959	431,288	554,422	354,336
Cash and cash equivalents at end of the period	\$ 912,169	\$ 554,422	\$ 912,169	\$ 554,422
Supplementary Disclosure of Cash Flow Information				
Interest paid	\$ 57,648	\$ 56,281	\$ 221,209	\$ 199,440
Income taxes paid	14,563	4,345	45,506	43,055

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, 2008 as set out in the 2008 Annual Report, on pages 46 through 72. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Except as disclosed in Note 2, the accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in Home Capital Group Inc.'s (the "Company") most recent annual audited financial statements. These unaudited interim consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

2. CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009 the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangibles Assets. Section 3064 replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs and provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The new guidance did not have a material effect on the financial position or earnings of the Company.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 1, 2009, the Company adopted CICA Emerging issues Committee Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The abstract clarifies how the Company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivatives. The new guidance did not have a material effect on the Company's financial position or earnings.

3. CASH RESOURCES AND SECURITIES

Cash resources include deposits with regulated financial institutions and restricted cash held for collateral against interest rate swaps used the CMB hedging activities.

Available for Sale Securities - Net Unrealized Gains and Losses

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

<i>In Thousands of Dollars</i>	December 31 2009	September 30 2009	December 31 2008
Securities issued or guaranteed by:			
Canada	\$ 3	\$ (2)	\$ 1,546
Corporations	(35)	109	2,345
Equity securities			
Common	360	440	(2,106)
Fixed rate preferred	8,105	6,319	(29,918)
Floating rate preferred	-	-	(2,370)
Income trusts	2,317	1,536	(2,745)
Mutual funds	(55)	(129)	(367)
	\$ 10,695	\$ 8,273	\$ (33,615)

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.

During 2009, the Company recognized \$9.3 million (\$1.8 million in 2008) of unrealized losses on available for sale securities which are other than temporary in nature, and have been transferred to net income. These unrealized losses are not included in the table above. The Company did not recognize any other than temporary unrealized losses in net income on available for sale securities during the fourth quarter of 2009 (\$0.8 million gain - Q4 2008).

4. LOANS

(A) Loans by Geographic Region and Type

As at December 31, 2009						
<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	\$ 297,185	\$ 807	\$ 22,617	\$ 7	\$ 320,616	5.9%
Alberta	277,386	5,019	54,209	5,367	341,981	6.3%
Ontario	3,634,463	699,274	258,952	40,749	4,633,438	84.7%
Quebec	79,754	-	1,594	-	81,348	1.5%
Maritimes	69,776	3,325	4,095	1,616	78,812	1.4%
Manitoba and Saskatchewan	10,894	-	1,451	-	12,345	0.2%
	\$ 4,369,458	\$ 708,425	\$ 342,918	\$ 47,739	\$ 5,468,540	100.0%

As at September 30, 2009						
<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	\$ 366,503	\$ 9,786	\$ 25,069	\$ 7	\$ 401,365	7.7%
Alberta	356,646	89,369	60,537	5,738	512,290	9.8%
Ontario	3,026,518	571,304	249,516	45,971	3,893,309	74.8%
Quebec	149,198	28,967	1,686	-	179,851	3.5%
Maritimes	87,626	11,805	4,315	1,777	105,523	2.0%
Manitoba and Saskatchewan	105,985	8,607	1,416	-	116,008	2.2%
	\$ 4,092,476	\$ 719,838	\$ 342,539	\$ 53,493	\$ 5,208,346	100.0%

As at December 31, 2008						
<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	\$ 333,668	\$ 8,998	\$ 31,118	\$ 9	\$ 373,793	8.2%
Alberta	398,939	115,336	78,157	8,319	600,751	13.3%
Ontario	2,267,199	630,953	250,611	61,929	3,210,692	70.9%
Quebec	105,236	48,701	1,477	-	155,414	3.4%
Maritimes	90,167	12,408	6,002	2,261	110,838	2.4%
Manitoba and Saskatchewan	67,997	10,486	1,597	-	80,080	1.8%
	\$ 3,263,206	\$ 826,882	\$ 368,962	\$ 72,518	\$ 4,531,568	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 December 31, 2009

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

As at September 30, 2009

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

As at December 31, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1 - 30 days	\$ 142,287	\$ 4,406	\$ 3,365	\$ 973	\$ 151,031
31 - 60 days	9,249	2,407	1,896	98	13,650
61 - 90 days	31,828	647	2,527	-	35,002
91 - 120 days	-	-	1,887	-	1,887
	\$ 183,364	\$ 7,460	\$ 9,675	\$ 1,071	\$ 201,570

(C) Impaired Loans and Specific Allowances for Credit Losses**As at December 31, 2009**

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

As at September 30, 2009

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

As at December 31, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	\$ 34,643	\$ 164	\$ 6,309	\$ 1,007	\$ 42,123
Specific allowances	(1,680)	-	(547)	(699)	(2,926)
	\$ 32,963	\$ 164	\$ 5,762	\$ 308	\$ 39,197

(D) Allowance for Credit Losses**For the three months ended December 31, 2009**

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

For the three months ended September 30, 2009

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

For the three months ended December 31, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 1,950	\$ 5	\$ 349	\$ 67	\$ 2,371
Provisions for credit losses	838	(5)	438	617	1,888
Write-offs	(1,135)	-	(277)	(3)	(1,415)
Recoveries	27	-	37	18	82
	1,680	-	547	699	2,926
General allowance					
Balance at the beginning of the period	16,694	3,907	3,651	825	25,077
Provisions for credit losses	(558)	673	49	(64)	100
	16,136	4,580	3,700	761	25,177
Total allowance	\$ 17,816	\$ 4,580	\$ 4,247	\$ 1,460	\$ 28,103

(D) Allowance for Credit Losses (Continued)

For the year ended December 31, 2009

<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 1,680	\$ -	\$ 547	\$ 699	\$ 2,926
Provisions for credit losses	6,178	135	2,125	472	8,910
Write-offs	(7,676)	-	(1,913)	(1,146)	(10,735)
Recoveries	1,164	-	202	112	1,478
	1,346	135	961	137	2,579
General allowance					
Balance at the beginning of the period	16,136	4,580	3,700	761	25,177
Provisions for credit losses	3,325	(182)	(253)	(274)	2,616
	19,461	4,398	3,447	487	27,793
Total allowance	\$ 20,807	\$ 4,533	\$ 4,408	\$ 624	\$ 30,372

For the year ended December 31, 2008

<i>In Thousands of Dollars</i>	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the period	\$ 634	\$ -	\$ 128	\$ 231	\$ 993
Provisions for credit losses	2,972	-	937	952	4,861
Write-offs	(2,177)	-	(644)	(540)	(3,361)
Recoveries	251	-	126	56	433
	1,680	-	547	699	2,926
General allowance					
Balance at the beginning of the period	17,127	2,216	3,201	856	23,400
Provisions for credit losses	(991)	2,364	499	(95)	1,777
	16,136	4,580	3,700	761	25,177
Total allowance	\$ 17,816	\$ 4,580	\$ 4,247	\$ 1,460	\$ 28,103

(E) Collateral

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant it or if a mortgage becomes impaired. At December 31, 2009, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, was \$361.7 million. For impaired mortgages, the total appraised value of collateral at December 31, 2009 was \$71.5 million.

5. LOAN SECURITIZATION

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

<i>In Thousands of Dollars, Except Percentages and Number of Years</i>	For the three months ended		For the year ended	
	December 31	December 31	December 31	December 31
	2009	2008	2009	2008
Book value of mortgages securitized	\$ 863,438	\$ 557,720	\$ 2,599,741	\$ 1,498,866
Securitization receivable	\$ 60,623	\$ 43,573	\$ 156,996	\$ 96,193
Servicing liability	\$ 9,268	\$ 6,254	\$ 24,362	\$ 8,934
Net proceeds received on securitized mortgages	\$ 843,710	\$ 548,807	\$ 2,550,007	\$ 1,478,138
Net gain on sale of mortgages ¹	\$ 20,811	\$ 16,398	\$ 80,051	\$ 48,793
Prepayment rate	6.1%	5.0%	7.1%	7.6%
Excess spread	2.0%	2.7%	1.9%	2.6%
Weighted average life in years	5.6	4.8	5.0	4.0
Discount rate	2.0%	2.8%	2.7%	3.4%

¹ The gain on sale of mortgages is net of hedging activities; see Table 4 in the MD & A

During the fourth quarter of 2009, the Company securitized insured residential mortgages through CMHC's CMB program with a book value of \$730.0 million for a total of \$1.96 billion in 2009 (\$452.1 million in Q4 2008 for a total of \$1.09 billion in 2008). The gain on sale was \$16.9 million during the fourth quarter for a total of \$62.1 million in 2009 (\$13.4 million in Q4 2008 for a total of \$36.4 million in 2008). These figures are included in the table above.

6. OTHER ASSETS

<i>In Thousands of Dollars</i>	December 31	September 30	December 31
	2009	2009	2008
Accrued interest receivable	\$ 26,153	\$ 25,546	\$ 27,861
Income taxes receivable	-	2,712	10,472
Goodwill	15,752	15,752	15,752
Intangible assets ¹	26,811	20,340	1,449
Other prepaid assets and deferred items	36,399	37,865	28,694
	\$ 105,115	\$ 102,215	\$ 84,228

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

7. OTHER LIABILITIES

<i>In Thousands of Dollars</i>	December 31	September 30	December 31
	2009	2009	2008
Accrued interest payable	\$ 138,498	\$ 148,117	\$ 159,615
Dividends payable	5,901	5,512	4,476
Future income tax liability (note 11)	57,559	57,329	36,974
Income taxes payable	3	-	-
Securitization servicing liability	30,389	23,512	10,288
Payable to MBS and CMB holders	92,896	96,912	42,013
Other, including accounts payable and accrued liabilities	30,901	24,254	16,002
	\$ 356,147	\$ 355,636	\$ 269,368

8. CAPITAL

(A) Common Shares Issued and Outstanding

<i>In Thousands</i>	For the three months ended						For the year ended	
	December 31, 2009		December 31, 2008		December 31, 2009		December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	34,450	\$ 41,888	34,476	\$ 39,142	34,434	\$ 39,094	34,532	\$ 38,899
Options exercised	312	3,572	-	-	445	6,498	10	318
Normal course issuer bid	(49)	(64)	(42)	(48)	(166)	(196)	(108)	(123)
Outstanding at end of period	34,713	\$ 45,396	34,434	\$ 39,094	34,713	\$ 45,396	34,434	\$ 39,094

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

(B) Share Purchase Options

<i>In Thousands Except Per Share Amounts</i>	For the three months ended						For the year ended	
	December 31, 2009		December 31, 2008		December 31, 2009		December 31, 2008	
	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of period	1,272	\$ 25.49	1,227	\$ 26.73	1,407	\$ 25.08	1,294	\$ 27.15
Granted	58	40.84	205	16.27	168	30.12	205	16.27
Exercised	(312)	9.22	-	-	(445)	11.86	(10)	18.12
Forfeited	(93)	31.85	(25)	33.95	(205)	29.76	(82)	35.32
Outstanding at end of period	925	\$ 31.32	1,407	\$ 25.08	925	\$ 31.32	1,407	\$ 25.08
Exercisable, end of period	458	\$ 34.60	661	\$ 18.73	458	\$ 34.60	661	\$ 18.73

(C) Capital Management

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

The Company's subsidiary Home Trust Company is subject to the regulatory capital requirements governed by OSFI.

<i>In Thousands of Dollars, Except Ratios and Multiple</i>	December 31 2009	September 30 2009	December 31 2008
Regulatory capital			
Tier 1	\$ 530,256	\$ 496,388	\$ 384,025
Total	581,036	544,801	424,202
Regulatory ratios			
Tier 1	16.4%	16.6%	12.9%
Total	18.0%	18.2%	14.2%
Assets to capital multiple	12.7	11.5	13.7

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 fourth quarter of 2009, \$349,300 was recorded as an expense for a year-to-date total of \$1,543,000 (\$373,000 – Q4 2008 and \$1,170,000 – twelve months of 2008) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus. During the fourth quarter of 2009, 57,500 options were granted for a year-to-date total of 167,500. During the fourth quarter of 2008, 205,000 options were granted for a total of 205,000 in 2008.

(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 December 31, 2009 there were 6,468 deferred share units issued with the associated liability of \$0.27 million recorded in other liabilities on the consolidated balance sheet.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

<i>In Thousands of Dollars</i>	December 31 2009	September 30 2009	December 31 2008
Unrealized gains and (losses) on			
Available for sale securities	\$ 10,695	\$ 8,273	\$ (33,615)
Income taxes recovery (expenses)	(2,733)	(1,312)	10,473
	7,962	6,961	(23,142)
Unrealized gains and (losses) on			
Securitization receivables	19,772	15,796	18,080
Income tax expense	(6,466)	(5,163)	(5,991)
	13,306	10,633	12,089
Accumulated other comprehensive income (loss)	\$ 21,268	\$ 17,594	\$ (11,053)

11. INCOME TAXES

(A) Reconciliation of income taxes

<i>In Thousands of Dollars</i>	For the three months ended		For the twelve months ended	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008
Income before income taxes	\$ 51,213	\$ 42,420	\$ 198,959	\$ 158,618
Income taxes at statutory combined federal and provincial income tax rates	\$ 16,773	\$ 14,060	\$ 65,082	\$ 52,565
Increase (decrease) in income taxes at statutory income tax rates resulting from				
Tax-exempt income	(2,205)	(765)	(5,657)	(2,835)
Non-deductible expenses	(19)	707	1,792	1,491
Future tax rate changes	(5,797)	(502)	(9,762)	(1,378)
Other	1,980	(119)	3,011	88
Income tax	\$ 10,732	\$ 13,381	\$ 54,466	\$ 49,931

(B) Sources of Future Income Tax Balances

<i>In Thousands of Dollars</i>	December 31 2009	September 30 2009	December 31 2008
Future income tax liabilities			
Deferred agent commissions and other charges	\$ 18,761	\$ 15,398	\$ 7,761
Mortgage-backed securities receivable	49,560	53,166	40,828
	68,321	68,564	48,589
Future income tax assets			
Allowance for credit losses	7,549	2,668	7,776
Deferred commitment fees and other charges	3,213	8,567	3,839
	10,762	11,235	11,615
	\$ 57,559	\$ 57,329	\$ 36,974

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilized derivative financial instruments during 2009. The Company utilized forward bond 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 forward bond 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 \$587.8 million in forward bond contracts realizing a loss of \$8.3 million. This realized loss is included in the consolidated income statement through securitization income.

The Company participates in the CMB program sponsored by CMHC. Under this program, the Company sells MBS pools to Canada Housing Trust (CHT) which finances the purchase by issuing a bullet CMB. Under this program, the Company must manage the mismatch and reinvestment risk between the amortizing MBS pool and the bullet CMB. As part of this arrangement, the Company entered into seller swaps which have the effect of paying the fixed interest payments on the CMB, and receiving the total return on the MBS pool. As well, the Company entered into accreting hedge swaps to manage the reinvestment risk between the amortizing MBS pool and the CMB

As at December 31, 2009, September 30, 2009 and December 31, 2008, the outstanding seller and hedge swap contracts (swaps) and forward contracts (bonds) positions were as follows:

<i>In Thousands of Dollars</i>	December 31, 2009		September 30, 2009		December 31, 2008	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
<i>Term (years)</i>						
Swaps						
1 to 5	\$ 2,710,744	\$ 1,331	\$ 2,299,270	\$ (1,375)	\$ 1,194,043	\$ 1,380
6 to 10	491,498	(11,988)	234,082	4,151	68,814	(947)
	\$ 3,202,242	\$ (10,657)	\$ 2,533,352	\$ 2,776	\$ 1,262,857	\$ 433
Bonds ¹						
1 to 5	\$ 17,200	\$ 307	\$ 192,700	\$ (310)	\$ 34,300	\$ (636)
6 to 10	166,600	2,130	326,700	(1,360)	-	-
	\$ 183,800	\$ 2,437	\$ 519,400	\$ (1,670)	\$ 34,300	\$ (636)

¹ The term of the forward bond contracts is based on the term of the underlying bonds.

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

13. INTEREST RATE SENSITIVITY

The Company's exposure to interest rate risk results from the difference, or gap between the maturity or re-pricing dates of interest sensitive assets and liabilities, including off-balance sheet items. The following table shows the gap positions at December 31, 2009, September 30, 2009 and December 30, 2008 for selected period intervals. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

As at December 31, 2009							
<i>In Thousands of Dollars, Except Percentages</i>	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	\$(610,822)	\$ -
Cumulative gap	\$ 68,935	\$ 723,529	\$(515,358)	\$(409,513)	\$ 610,822	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.9%	9.8%	(7.0%)	(5.6%)	8.3%		

As at September 30, 2009							
<i>In Thousands of Dollars, Except Percentages</i>	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	\$ 47,364	\$ 929,196	\$ 1,540,687	\$ 1,717,352	\$ 1,671,016	\$ 378,977	\$ 6,284,592
Total liabilities and equity	6	945,948	1,982,433	1,854,920	561,835	939,450	6,284,592
Off-balance sheet items	-	(276,587)	77,508	198,934	145	-	-
Interest rate sensitive gap	\$ 47,358	\$(293,339)	\$(364,238)	\$ 61,366	\$ 1,109,326	\$(560,473)	\$ -
Cumulative gap	\$ 47,358	\$(245,981)	\$(610,219)	\$(548,853)	\$ 560,473	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.8%	(3.9%)	(9.7%)	(8.7%)	8.9%		

As at December 31, 2008							
<i>In Thousands of Dollars, Except Percentages</i>	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	\$ 29,006	\$ 1,442,867	\$ 1,506,606	\$ 1,601,438	\$ 965,500	\$ 264,296	\$ 5,809,713
Total liabilities and equity	6	923,590	2,359,833	1,318,924	451,102	756,258	5,809,713
Off-balance sheet items	-	(145,838)	64,955	80,837	46	-	-
Interest rate sensitive gap	\$ 29,000	\$ 373,439	\$(788,272)	\$ 363,351	\$ 514,444	\$(491,962)	\$ -
Cumulative gap	\$ 29,000	\$ 402,439	\$(385,833)	\$(22,482)	\$ 491,962	\$ -	\$ -
Cumulative gap as a percentage of total assets	0.5%	6.9%	(6.6%)	(0.4%)	8.5%		

Based on the current interest rate gap position at December 31, 2009, 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 \$7.4 million and \$9.2 million, respectively. A 100 basis point increase in interest rates would increase net interest income and other comprehensive income after tax over the next twelve months by \$7.4 million and \$7.8 million, respectively.

14. EARNINGS BY BUSINESS SEGMENT

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

<i>In Thousands of Dollars</i>	For the three months ended							
	Mortgage Lending		Consumer Lending		Other		Total	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008	December 31 2009	December 31 2008	December 31 2009	December 31 2008
Net interest income	\$ 28,303	\$ 18,933	\$ 9,073	\$ 7,011	\$ 7,960	\$ 9,293	\$ 45,336	\$ 35,237
Provision for credit losses	(2,265)	(1,501)	(17)	(487)	-	-	(2,282)	(1,988)
Fees and other income	3,973	3,899	3,076	3,123	133	82	7,182	7,104
Net gain on securities, mortgage-backed securities and disposition of subsidiary	21,264	19,714	-	-	(431)	(795)	20,833	18,919
Non-interest expenses	(11,911)	(9,145)	(2,328)	(2,406)	(5,617)	(5,301)	(19,856)	(16,852)
Income before income taxes	39,364	31,900	9,804	7,241	2,045	3,279	51,213	42,420
Income taxes	(7,150)	(10,297)	(3,166)	(2,448)	(416)	(636)	(10,732)	(13,381)
Net income	\$ 32,214	\$ 21,603	\$ 6,638	\$ 4,793	\$ 1,629	\$ 2,643	\$ 40,481	\$ 29,039
Goodwill	\$ 2,324	\$ 2,324	\$ 13,428	\$ 13,428	\$ -	\$ -	\$ 15,752	\$ 15,752
Total assets	\$5,510,368	\$4,709,331	\$384,528	\$392,458	\$1,465,978	\$707,924	\$7,360,874	\$5,809,713

<i>In Thousands of Dollars</i>	For the twelve months ended							
	Mortgage Lending		Consumer Lending		Other		Total	
	December 31 2009	December 31 2008	December 31 2009	December 31 2008	December 31 2009	December 31 2008	December 31 2009	December 31 2008
Net interest income	\$ 100,268	\$ 89,505	\$ 36,738	\$ 26,459	\$ 28,005	\$ 34,611	\$ 165,011	\$ 150,575
Provision for credit losses	(9,653)	(5,202)	(1,873)	(1,436)	-	-	(11,526)	(6,638)
Fees and other income	18,145	15,163	11,043	12,888	138	401	29,326	28,452
Net gain on securities, mortgage-backed securities and disposition of subsidiary	92,652	57,536	-	-	2,097	(5,296)	94,749	52,240
Non-interest expenses	(48,482)	(39,528)	(10,862)	(9,000)	(19,257)	(17,483)	(78,601)	(66,011)
Income before income taxes	152,930	117,474	35,046	28,911	10,983	12,233	198,959	158,618
Income taxes	(41,279)	(37,749)	(11,631)	(9,849)	(1,556)	(2,333)	(54,466)	(49,931)
Net income	\$ 111,651	\$ 79,725	\$ 23,415	\$ 19,062	\$ 9,427	\$ 9,900	\$ 144,493	\$ 108,687
Goodwill	\$ 2,324	\$ 2,324	\$ 13,428	\$ 13,428	\$ -	\$ -	\$ 15,752	\$ 15,752
Total assets	\$5,510,368	\$4,709,331	\$384,528	\$392,458	\$1,465,978	\$707,924	\$7,360,874	\$5,809,713

15. FUTURE ACCOUNTING CHANGES

Financial Instruments

In August 2009, the CICA issued various amendments to Section 3855, Financial Instruments - Recognition and Measurement. The Company will adopt the amendments, which are retroactive, in its December 31, 2009 annual financial statements. The Company does not expect the changes to have a material impact on the financial position or earnings of the Company. Please see page 23 of the MD & A for more information on the amendments.

International Financial Reporting Standards

The CICA will transition financial reporting for Canadian public entities to International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. The Company is currently in phase two of the project which includes a detailed analysis and evaluation of the impact of the relevant standards expected to impact the Company's consolidated financial statements. The Company expects to be able to quantify the preliminary impact on the January 1, 2010 opening retained earnings in the first half of 2010. Please see page 23 of the MD & A for more information on the transition to IFRS.

16. 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 2009 interim unaudited consolidated financial statements.

