

2010

FOURTH QUARTER REPORT



FINANCIAL HIGHLIGHTS

For the Period Ended December 31 (Unaudited)

Three Months Ended

Year Ended

(000s, except Per Share and Percentage Amounts)

| | 2010 | 2009 | 2010 | 2009 |
|--|-----------|-----------|-------------|--------------|
| OPERATING RESULTS | | | | |
| Net Income | \$ 50,382 | \$ 40,481 | \$ 180,944 | \$ 144,493 |
| Total Revenue | 144,743 | 121,381 | 533,937 | 489,179 |
| Earnings per Share – Basic | \$ 1.45 | \$ 1.17 | \$ 5.21 | \$ 4.19 |
| Earnings per Share – Diluted | 1.45 | 1.16 | 5.20 | 4.15 |
| Return on Shareholders' Equity | 28.0% | 28.4% | 27.2% | 28.2% |
| Return on Average Assets | 2.6% | 2.4% | 2.4% | 2.2% |
| Net Interest Margin | 2.6% | 2.8% | 2.7% | 2.8% |
| Spread of Loans over Deposits | 3.0% | 2.9% | 3.0% | 3.0% |
| Efficiency Ratio | 27.8% | 27.1% | 27.2% | 27.2% |
| Efficiency Ratio (TEB ¹) | 27.3% | 26.1% | 26.6% | 26.5% |
| (Non-interest Expense/Net Interest Income Plus Fee Income) | | | | |
| BALANCE SHEET HIGHLIGHTS | | | | |
| Total Assets | | | \$7,712,239 | \$ 7,360,874 |
| Loans | | | 5,832,569 | 5,440,747 |
| Deposits | | | 6,522,850 | 6,409,822 |
| Shareholders' Equity | | | 742,280 | 590,288 |
| Mortgage-Backed Security Assets Under Administration | | | 8,166,533 | 4,147,711 |
| FINANCIAL STRENGTH | | | | |
| Capital Measures² | | | | |
| Risk Weighted Assets | | | \$3,777,267 | \$ 3,227,155 |
| Tier 1 Capital Ratio | | | 18.1% | 16.4% |
| Total Capital Ratio | | | 19.4% | 18.0% |
| Credit Quality | | | | |
| Net Impaired Loans as a Percentage of Gross Loans | | | 0.58% | 0.85% |
| Allowance as a Percentage of Gross Impaired Loans | | | 88.1% | 62.1% |
| Provision as a Percentage of Gross Loans | | | 0.16% | 0.21% |
| Share Information | | | | |
| Book Value per Common Share | | | \$ 21.42 | \$ 17.00 |
| Common Share Price – Close | | | \$ 51.79 | \$ 41.85 |
| Market Capitalization | | | \$1,794,316 | \$ 1,452,739 |
| Number of Common Shares Outstanding | | | 34,646 | 34,713 |

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

² These figures relate to the Company's operating subsidiary, Home Trust Company.



Home Capital Group Inc. is a public company, traded on the Toronto Stock Exchange (HCG), operating through its principal subsidiary, Home Trust Company. Home Trust is a federally regulated trust company offering deposits, residential and non-residential mortgage lending, securitization of insured residential first mortgage products, consumer lending, *Visa* products and payment card services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia and Quebec.

Home Trust Company www.hometrusted.ca

Home Capital Group Inc. www.homecapital.com

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TO OUR SHAREHOLDERS

Home Capital Reports Record Results for 2010: Fourth Quarter Net Income Rises 24.5%; Return on Equity Strong at 28.0%; Basic Earnings per Share Increase to \$1.45

Home Capital today announced another period of record earnings and solid growth for the three months and year ended December 31, 2010. The Company's continued focus on increasing market share through superior service has resulted in strong mortgage originations, record securitizations and profitability, as well as increased assets under administration.

Key results for the fourth quarter of 2010 and year ended December 31, 2010 included:

- Net income, driven by growth in net interest income and record securitization income, rose to \$50.4 million in the fourth quarter and to \$180.9 million for the year, representing increases of 24.5% and 25.2% respectively over the comparable periods last year and well ahead of the 15-20% growth objective for 2010.
- Basic and diluted earnings per share were \$1.45 for the quarter and \$5.21 and \$5.20, respectively, for the year ended December 31, 2010. This represents an increase of 23.9% and 25.0%, respectively, from \$1.17 and \$1.16 per basic and diluted earnings per share reported in the fourth quarter of 2009, and increases of 24.3% and 25.3% from the basic and diluted earnings per share of \$4.19 and \$4.15 reported for the year ended December 31, 2009, exceeding the Company's target of 15%-20% annual growth for 2010.
- Net interest income was \$49.8 million in the fourth quarter and \$193.9 million for the year ended December 31, 2010, representing an increase of 9.9% and 17.5% respectively over the \$45.3 million and \$165.0 million recorded in the same periods in 2009.
- Return on equity continued to exceed the Company's performance objective of 20% for 2010 at 28.0% in the quarter and 27.2% for the year, compared to 28.4% and 28.2% recorded in the same periods of 2009. 2010 is the 13th consecutive year in which Home Capital has surpassed 20% return on equity, of which the last eight successive years have exceeded 25% return on equity.
- Total assets under administration, which included securitized off-balance sheet mortgages rose to \$15.88 billion at December 31, 2010 an increase of 38.0% from the \$11.51 billion at December 31, 2009, and rose 8.0% from the \$14.70 billion recorded at the end of third quarter of 2010, and exceeding the Company's target of 15%-20% growth for 2010.
- Total on-balance sheet assets were \$7.71 billion as at December 31, 2010 compared to \$7.36 billion at December 31, 2009 and \$7.87 billion at September 30, 2010.
- The total value of mortgages originated in the fourth quarter of 2010 was \$1.85 billion and \$6.87 billion for the year ended December 31, 2010, an increase of 32.7% over the \$1.39 billion originated in the fourth quarter of 2009 and an increase of 43.1% over the \$4.80 billion originated in 2009.
- Strong growth in residential mortgage originations continued in the fourth quarter with \$1.72 billion in originations and \$6.46 billion for the year ended December 31, 2010, representing increases of 32.9% over the \$1.30 billion advanced in the fourth quarter of 2009 and of 40.8% over the \$4.59 billion originated for the year ended December 31, 2009.
- The Company's traditional business of uninsured mortgages experienced solid growth in 2010 with increased originations of \$683.5 million in the fourth quarter of 2010 and \$2.85 billion for the year, up 32.0% and 60.4%, respectively, from the \$517.7 million and \$1.78 billion in the comparable periods of 2009. The Accelerator insured mortgage program continues to experience robust origination levels, with \$755.6 million in the fourth quarter of 2010 and \$2.84 billion for the year, up 56.2% and 86.9% from \$483.8 million and \$1.52 billion in the comparable periods of 2009.
- Residential originations also include multi-unit residential originations of \$285.0 million for the fourth quarter of 2010 and \$766.5 million for the year ended December 31, 2010 compared to \$296.8 million and \$1.24 billion in the same respective periods of 2009.
- Non-residential mortgage advances were \$72.8 million in the fourth quarter of 2010 and \$219.8 million for the year, compared to \$60.2 million and \$135.4 million in the comparable periods of 2009. Store and apartment advances were \$33.6 million for the quarter and \$108.8 million for the year compared to \$18.1 million and \$42.2 million, respectively. Warehouse commercial advances were \$20.8 million in the fourth quarter of 2010 and \$80.8 million for the year ended December 31, 2010, compared to \$18.3 million and \$34.5 million in the comparable periods of 2009.

- The Company securitized a record \$1.86 billion in the fourth quarter of 2010 and \$5.17 billion for the year, representing increases of 115.6% and 98.8% over the \$863.4 million and \$2.60 billion securitized in the comparable periods of 2009.
- Securitization income was \$37.4 million in the fourth quarter of 2010 and \$107.7 million for the year ended December 31, 2010 compared to \$24.3 million and \$92.4 million for the comparable periods of 2009. Gains relative to volume on securitization have moderated compared to the average gains generated last year.
- The success of the Equityline *Visa* program continued as 1,864 new accounts were opened in the fourth quarter for a total of 6,263 accounts in the year ended December 31, 2010, representing increases of 99.1% and 134.0%, respectively over the 936 and 2,677 accounts opened in the comparable periods of 2009.
- The credit performance of the loans portfolio remains strong with net impaired loans representing 0.58% of the total loans portfolio at December 31, 2010, consistent with the third quarter of 2010 and improved from 0.85% at December 31, 2009. Net write-offs of \$2.6 million for the fourth quarter of 2010 and \$5.7 million for the year ended December 31, 2010 have improved 24.4% and 38.1%, respectively from the \$3.4 million and \$9.3 million recorded in the same periods of 2009.
- Capital ratios remained strong with Tier 1 and Total capital ratios of 18.1% and 19.4% at December 31, 2010 compared to 16.4% and 18.0% at December 31, 2009. Based on the proposed Basel III requirements to enhance capital and liquidity requirements for all regulated financial institutions in Canada, management has determined that Home Trust could immediately adopt the Basel III capital and liquidity requirements and be fully compliant.

During the last half of 2010, the Company observed a modest slowing in residential real estate activity and a reduction in the pace of house price appreciation that, in the Company's view, is reflective of a more balanced and sustainable housing market across Canada. This was expected, as many home purchasers entered the market in the first half of 2010 ahead of CMHC qualification changes in addition to the introduction of the Harmonized Sales Tax in certain provinces and the anticipation of higher interest rates. These factors led to higher than expected activity in first half of 2010. Despite the more moderate real estate activity in the last half of 2010, the Company maintained growth in assets and profitability, through increased market share and a renewed emphasis on the Company's higher margin traditional uninsured lending programs across the country. The Company has experienced increased market penetration through innovative marketing programs, new product offerings, an expanded broker network, superior customer service and the Company's ability to offer a full-service one-stop shop to the mortgage broker community.

On January 1, 2011, the Company adopted International Financial Reporting Standards (IFRS), and as a result, the Company will report the first quarter of 2011 along with the comparative quarter of 2010 under IFRS. The primary impact of IFRS for the Company is a change in the accounting for securitization activities. Under IFRS, the Company will no longer report securitization income (the majority of which is gain on sale), as the mortgages securitized are not considered sold for accounting purposes. As such, the MBS pools will be recorded as mortgage assets on the balance sheet and the funds received will be recorded as secured borrowing bearing interest at the rate of the yield of the Canada Mortgage Bond (CMB) or Mortgage Backed Security (MBS). The mortgage assets and secured liabilities on the Company's balance sheet will each increase by approximately the amount of the MBS assets under administration. As at January 1, 2011 total loans on the balance sheet will be approximately \$14.0 billion under IFRS. Securitization income will be replaced with the interest income on the mortgages less the interest expense on the associated secured liability. This change impacts the timing of the recognition of income on the mortgages as the income is recognized over the life of the securitization. The total amount of income earned over time is unchanged. The Company expects that it will continue to generate growth in profitability on an IFRS basis.

The Company's earnings on an IFRS basis in 2010 will largely reflect the differences in the method of accounting for securitized assets and the related derivatives used to implement the securitization program and hedge the inherent interest rate risk. The Company currently estimates that the earnings for the 2010 year will be 8% to 12% lower when measured on an IFRS basis. This is lower than previously estimated, reflecting the significant increase in securitization activity in the fourth quarter as well as a significant unfavourable movement in the market value of interest rate swaps during the fourth quarter. Please see the IFRS section on page 31 of the MD&A for further discussion of this matter.

In 2011, the Company will develop its earnings comparisons to 2010 to remove the volatility introduced by the accounting framework change to IFRS. The Company expects that it will report steady increases in profitability in 2011 as the total assets of the Company continue to grow.

On December 16, Standard & Poor's (S&P), the international debt-rating agency, confirmed a rating upgrade for Home Capital Group and Home Trust, from BBB- to BBB and from BBB to BBB+, respectively, maintaining a rating outlook of Stable for both. In reporting on the upgrade, S&P cited the Company's robust growth in revenue and earnings, solid capital ratios and strong level of capital. S&P also commented favourably on the Company's risk management and credit loss performance. Management is pleased with this independent recognition of the Company's risk management and quality performance as well as its profitability.

The Company continued to strengthen its Board of Directors with the appointment of Ms. Leslie Thomson in December 2010. Ms. Thomson is President of LESRISK, Debt and Risk Management Inc. She is a risk management consultant with experience as a senior executive with both financial institutions and government in Canada and abroad. She also serves as corporate director on several boards in addition to Home Capital Group, including the Deposit Insurance Corporation of Ontario and the Ontario Municipal Employees' Retirement System (OMERS AC). Her credentials include a Master of Business Administration and the Institute of Corporate Directors Designation. We are confident that, with her extensive risk management experience, Ms. Thomson will be a valuable asset to the Board of Directors.

After the upcoming Annual Meeting on May 18, 2011 Cathy Sutherland, C.A., the Company's Senior Vice President, Finance, will retire from Home Capital. Ms. Sutherland has been with the company since 1990 taking on increasingly more responsibility and progressing from Controller to Treasurer, to Vice President, Finance and in 2009 to her current position as Senior Vice President, Finance. Ms. Sutherland has been an integral part of the success of the company and we are grateful for her dedication and leadership. Ms. Sutherland will continue to contribute to the Company through a variety of future projects on an as needed basis.

Robert Blowes, C.A., C.P.A. joined Home Capital as Senior Vice President, Finance in November 2010. Mr. Blowes is a seasoned financial executive, having recently retired as a Partner in Ernst & Young LLP, where he served a number of reporting issuers in the financial services and technology sectors over the course of a 35-year career. Mr. Blowes will assume full leadership of Home Capital's finance function in the first quarter of 2011. We look forward to his contribution to the future success of the Company.

Subsequent to the end of the quarter, and in light of the Company's continued strong growth, profitability and solid financial position, the Board of Directors declared quarterly dividend of \$0.18 per Common share payable on March 1, 2011 to shareholders of record at the close of business on February 18, 2011.

With strong origination growth throughout the fourth quarter of 2010, management is confident that the Company will continue to generate growth in profitability in 2011, enabling Home Capital to continue generating above average operating performance and shareholder returns.



GERALD M. SOLOWAY

Chief Executive Officer
February 9, 2011



NORMAN F. ANGUS

Chairman of the Board

Annual and Special Meeting Notice

The Annual and Special Meeting of Shareholders of Home Capital Group Inc. will be held at the Design Exchange, Trading Floor, Second Floor, 234 Bay Street, Toronto, Ontario, on Wednesday, May 18, 2011 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

Caution Regarding Forward-Looking Statements

From time to time Home Capital Group Inc. (the "Company" or "Home Capital") makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail on pages 32 through 41 of the Company's 2009 Annual Report, as well as its other publicly filed information, which may be located at www.sedar.com, 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 Report to the Shareholders and the Outlook Section in this quarterly report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "may," and "could" or other similar expressions.

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

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

Assumptions about the performance of the Canadian economy in 2011 and its effect on Home Capital's business are material factors the Company considers when setting its objectives and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical economic data provided by the Canadian government and its agencies. In setting the outlook for 2011, management's expectations assume:

- The Canadian economy will continue a modest recovery in 2011, but will be heavily influenced by the economic conditions in the US and international markets. Inflation will be within the Bank of Canada's target of 1-3%.
- If economic recovery remains on target, interest rates will begin to increase later in 2011 as the Bank of Canada raises its target for the overnight rate. However, interest rates remain low by historical standards.
- The housing market will continue moving towards balanced conditions between supply and demand in most regions. Declining housing starts and flat resale activity on stable prices will show the market cooling off from previous activity levels.
- Unemployment will improve slightly as the economy grows, while a larger labour force marginally offsets job growth.
- Net Interest Margins overall expected to decline as securitized mortgages will decrease the margins, while margins are expected to remain stable on the traditional portfolio throughout 2011 and yields on the securities portfolio may improve.
- Sound credit quality with actual losses within Home Capital's historical range of acceptable levels.

Non-GAAP Measures

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

Return on Shareholders' Equity

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

Return on Assets

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

Efficiency or Productivity Ratio

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

Net Interest Margin

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

Tier 1 and Total Capital Ratios

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

Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze and report their financial results on a TEB to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income from certain securities. The adjustment to TEB increases income and the provision for income taxes to what they would have been had the income from tax-exempt securities been taxed at the statutory tax rate. The TEB adjustments of \$1.8 million for the fourth quarter and \$7.9 million for the year of 2010 (\$2.8 million for the fourth quarter and \$7.9 million for the year of 2009) increased reported interest income. TEB does not have a standard meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Net interest income and income taxes are discussed on a TEB basis throughout this MD&A.

Regulatory Filings

The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's web site at www.homecapital.com, 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, 2010 included herein, and the audited consolidated financial statements and MD&A for the year ended December 31, 2009. These are available on the Canadian Securities Administrators' website at www.sedar.com and on pages 10 through 76 of the Company's 2009 Annual Report. Except as described in these unaudited interim consolidated financial statements and MD&A, all other factors discussed and referred to in the MD&A for fiscal 2009 remain substantially unchanged. These unaudited interim consolidated financial statements and MD&A have been prepared based on information available as at February 9, 2011. As in prior quarters, the Company's Audit Committee reviewed this document, and prior to its release the Company's Board of Directors approved it, on the Audit Committee's recommendation.

2010 Objectives and Performance

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

Table 1: 2010 Objectives and Performance

| | 2010 Objectives ¹ | Year ended December 31, 2010 Actual Results ¹ |
|--|---|---|
| Net Income | 15%-20% (\$166.2 million - \$173.4 million) | \$180.9 million , or 25.2% increase over the same period last year |
| Diluted Earnings per Share | 15%-20% (\$4.77 per share - \$4.98 per share) | \$5.20 per share, or 25.3% increase over the same period last year |
| Total Assets and Assets Under Administration | 15%-20% (\$13.23 billion - \$13.81 billion) | \$15.88 billion, or 38.0% increase over the same period last year |
| Return on Shareholders' Equity | 20.0% | 27.2% |
| Efficiency Ratio (TEB) | 28.0% to 34.0% | 26.6% |
| Capital Ratios ² | | |
| Tier 1 | Minimum of 10% | 18.1% |
| Total | Minimum of 12% | 19.4% |
| Provision for Loan Losses as a Percentage of Total Loans | 0.20% to 0.50% | 0.16% |

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.

Business Segments and Portfolios

The Company divides its business into three segments. These segments and the related activities and portfolios are described below.

Mortgage Lending

This segment comprises single family residential lending and multi-unit residential lending as well as non-residential lending. The single-family residential portfolio includes the Company's traditional or "Classic" mortgage loans, Accelerator mortgages loans and secured loans.

The Company's traditional mortgage portfolio consists of uninsured mortgages with loan to value ratios of less than 80%, where the focus is on serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. Accelerator mortgages are insured, with loan to value ratios generally exceeding 80%, at the time of origination, and are generally securitized and sold through CMHC sponsored MBS and CMB programs. Through Regency Finance Corporation (Regency) the Company acts as an agent in offering second mortgage loans. These mortgages are securitized and the Company purchases the investments, which are described as secured loans. This activity represents less than 1% of the Company's mortgage portfolio.

Multi-unit residential lending includes both insured and uninsured mortgage loans. Non-residential lending includes store and apartment mortgages, commercial mortgages and warehouse commercial mortgages.

Consumer Lending

Consumer lending includes Visa lending and other consumer retail lending for durable household goods, such as water heaters and larger ticket home improvement items. Consumer retail lending loans are supported by holdbacks or guarantees from the distributors of such items. The Company's Equityline Visa product secured by real property represents 97.5% of the Visa portfolio. The Company also offers Cash secured Visa products. The Consumer lending segment also includes the operations of PSiGate which offers payment card services.

Other

The Company's other segment includes management of the Company's treasury portfolio and general corporate activities.

FINANCIAL HIGHLIGHTS

Net income reached \$50.4 million for the fourth quarter of 2010 driven by continued growth in net interest income and record securitization volumes and income. Shareholder returns remain strong with a return on equity of 28.0% for the quarter. Loan origination volumes maintained momentum in the quarter, while the Company maintained a prudent risk profile in the loan portfolio and a strong capital base. The Company's key financial highlights for the fourth quarter of 2010 are summarized below.

Income Statement Highlights

- Net income grew to \$50.4 million for the fourth quarter and \$180.9 for the twelve months ended December 31, 2010, an increase of 24.5% and 25.2% over the comparable three and twelve months of 2009.
- Net interest income reached \$49.8 million and \$193.9 million for the three and twelve months ended December 31, 2010, an increase of 9.9% and 17.5%, respectively over the comparable periods of 2009.
- Diluted earnings per share for the fourth quarter increased 25.0% to \$1.45 compared to \$1.16 in the fourth quarter of 2009 and increased 25.3% to \$5.20 for the twelve months ended December 31, 2010 compared to \$4.15 in the same period of 2009.
- Provisions for credit losses were \$5.8 million compared to \$2.3 million the fourth quarter of 2009, and declining to \$9.4 million for the twelve months of 2010, compared to \$11.5 million for the same period last year. Provisions as a percentage of gross loans remain low at 0.16% for the year-ended December 31, 2010 compared to 0.21% for the year ended December 31, 2009. Additional specific provisions were identified in the fourth quarter related to a small number of credit card accounts. General provisions decreased by \$1.3 million compared to the fourth quarter and twelve months of 2009.
- Securitization income was \$37.4 million in the fourth quarter and \$107.7 million for the year, compared to \$24.3 million and \$92.4 million in the same periods of 2009, representing increases of 54.1% and 16.6% over the same periods, respectively. Securitization volumes were \$1.86 billion and \$5.17 billion for the three and twelve months ended December 31, 2010, compared to \$863.4 million and \$2.60 billion in the same periods of 2009 representing increases of 115.6% and 98.8%, respectively. Market spreads earned on securitization transactions continue to reflect normalized levels in this quarter compared to 2009.
- The efficiency ratio (TEB) remained low (the lower the better) at 27.3% for the quarter and 26.6% for the year compared to 26.1% and 26.5% in the comparable 2009 periods, reflecting the Company's continued diligence in expense management.
- Return on average shareholders' equity continued to exceed the Company's performance objectives at 28.0% for the quarter and 27.2% for the year compared to 28.4% and 28.2% for the same periods last year.

Balance Sheet Highlights

- Total assets under administration, including the off-balance sheet securitized mortgages, reached \$15.88 billion in the fourth quarter, an increase of 38.0% over the \$11.51 billion recorded at December 31, 2009, reflective of continued robust growth in residential mortgage originations spanning across both the traditional and Accelerator mortgage products.
- Total on-balance sheet assets ended the quarter at \$7.71 billion compared to \$7.36 billion at December 31, 2009. The increase reflects growth in the on-balance sheet loan portfolio of 4.8% compared to December 31, 2009.
- Liquid assets at December 31, 2010 were \$951.3 million, down from \$1.20 billion at December 31, 2009. While the Company continues to reduce liquidity levels toward normalized levels, the timing of securitization transactions close to quarter ends will increase the level of liquid assets. During the fourth quarter, the Company maintained a monthly average of \$864.6 million in liquid assets and an average of \$783.6 million for the twelve months ended December 31, 2010.
- The Company's capital position remains strong with Tier 1 and Total capital ratios of 18.1% and 19.4%, respectively, at the end of the quarter compared to 16.4% and 18.0% at December 31, 2009 respectively. This reflects increased profitability while the risk weighting of the assets remained relatively unchanged year over year.
- Deposit liabilities at December 31, 2010 were \$6.52 billion, an increase of 1.8% million from the \$6.41 billion at December 31, 2009. Deposit liabilities remained relatively unchanged year over year as securitization and a reduction in liquidity funded most origination growth.

EARNINGS REVIEW

Net Interest Income

Table 2: Net Interest Income

| (000s, except %) | For the three months ended | | | | | For the year ended | | | |
|---|----------------------------|------------------------------|--------------------|------------------------------|--------------------|------------------------------|--------------------|------------------------------|--|
| | December 31, 2010 | | December 31, 2009 | | December 31, 2010 | | December 31, 2009 | | |
| | 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 | \$ 1,938 | 1.6% | \$ 3,023 | 1.9% | \$ 5,342 | 1.2% | \$ 5,650 | 1.8% | |
| Securities | 5,436 | 3.0% | 6,031 | 4.3% | 22,668 | 3.2% | 25,306 | 4.2% | |
| Loans | 90,447 | 5.9% | 84,312 | 6.1% | 354,222 | 5.9% | 334,148 | 6.8% | |
| Taxable equivalent adjustment | 1,779 | - | 2,842 | - | 7,900 | - | 7,949 | - | |
| Total on interest earning assets | 99,600 | 5.4% | 96,208 | 5.9% | 390,132 | 5.5% | 373,053 | 6.4% | |
| Other assets | - | - | - | - | - | - | - | - | |
| Total Assets | \$ 99,600 | 5.1% | \$ 96,208 | 5.6% | \$ 390,132 | 5.2% | \$ 373,053 | 6.1% | |
| Liabilities and Shareholders' Equity | | | | | | | | | |
| Deposits | \$ 47,988 | 2.9% | \$ 48,030 | 3.2% | \$ 188,370 | 2.9% | \$ 200,093 | 3.8% | |
| Other liabilities | - | - | - | - | - | - | - | - | |
| Shareholders' equity | - | - | - | - | - | - | - | - | |
| Total Liabilities and Shareholders' Equity | \$ 47,988 | 2.5% | \$ 48,030 | 2.8% | \$ 188,370 | 2.5% | \$ 200,093 | 3.3% | |
| Net Interest Income | \$ 51,612 | - | \$ 48,178 | - | \$ 201,762 | - | \$ 172,960 | - | |
| Tax Equivalent Adjustment | (1,779) | - | (2,842) | - | (7,900) | - | (7,949) | - | |
| Net Interest Income per Financial Statements | \$ 49,833 | | \$ 45,336 | | \$ 193,862 | | \$ 165,011 | | |
| Net Interest Margin² | | 2.6% | | 2.8% | | 2.7% | | 2.8% | |
| Spread of Loans over Deposits Only | | 3.0% | | 2.9% | | 3.0% | | 3.0% | |

¹ The average rate is an average calculated with reference to opening and closing monthly 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.

Table 3: Interest Income and Average Rate by Loan Portfolio

| (000s, except %) | For the three months ended | | | | | | For the year ended | |
|---|-----------------------------|------------------|---------------------------|-----------------------------|-------------------|---------------------------|--------------------|--|
| | December 31, 2010 | | | | | | December 31, 2010 | |
| | Average Assets ¹ | Interest Income | Average Rate ¹ | Average Assets ¹ | Interest Income | Average Rate ¹ | | |
| Traditional single family residential mortgages | \$ 3,994,514 | \$ 58,340 | 5.9% | \$ 3,879,119 | \$ 230,183 | 5.9% | | |
| Accelerator single family residential mortgages | 568,698 | 3,692 | 2.6% | 710,597 | 21,971 | 3.1% | | |
| Multi-unit residential mortgages | 295,893 | 4,530 | 6.1% | 251,498 | 12,992 | 5.2% | | |
| Non-residential mortgages | 812,681 | 12,756 | 6.3% | 746,801 | 46,574 | 6.2% | | |
| Personal and credit card loans | 443,238 | 11,129 | 9.9% | 418,539 | 42,502 | 10.2% | | |
| Total Average Loans | \$ 6,115,024 | \$ 90,447 | 5.9% | \$ 6,006,554 | \$ 354,222 | 5.9% | | |

| (000s, except %) | For the three months ended | | | | | | For the year ended | |
|---|-----------------------------|------------------|---------------------------|-----------------------------|-------------------|---------------------------|--------------------|--|
| | December 31, 2009 | | | | | | December 31, 2009 | |
| | Average Assets ¹ | Interest Income | Average Rate ¹ | Average Assets ¹ | Interest Income | Average Rate ¹ | | |
| Traditional single family residential mortgages | \$ 3,554,480 | \$ 55,446 | 6.3% | \$ 3,182,091 | \$ 225,448 | 7.1% | | |
| Accelerator single family residential mortgages | 568,438 | 5,140 | 3.6% | 313,706 | 12,514 | 4.0% | | |
| Multi-unit residential mortgages | 351,582 | 3,174 | 3.6% | 302,925 | 12,186 | 4.0% | | |
| Non-residential mortgages | 714,382 | 10,736 | 6.0% | 765,765 | 44,254 | 5.8% | | |
| Personal and credit card loans | 339,709 | 9,816 | 11.4% | 349,455 | 39,746 | 11.4% | | |
| Total Average Loans | \$ 5,528,591 | \$ 84,312 | 6.1% | \$ 4,913,942 | \$ 334,148 | 6.8% | | |

¹ The average is an average calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

As noted in Table 2, net interest income was \$49.8 million in the fourth quarter of 2010, an increase of 9.9% over the \$45.3 million recorded in the fourth quarter of 2009. The increase in net interest income over the comparable quarter is due to an increase in the average on-balance sheet loans portfolio of \$586.4 million compared to the fourth quarter of 2009, dampened marginally by a slight decline in the net interest margin.

Net interest margin and spread of loans over deposits were 2.6% and 3.0% respectively compared to the 2.8% and 2.9% in the same quarter of 2009 and 2.6% and 2.8% in the third quarter of this year. The spread of loans over deposits has improved over last quarter due to originations of higher yielding multi-unit residential and non-residential mortgages, pushing up the average rate earned on the loan portfolio combined with stable average deposit rates. Overall, net interest margin has declined due to a reduction in the average rate earned on the cash and securities portfolio consistent with a lower interest rate environment in 2010.

The average rate on the total loans portfolio declined year over year as new mortgages are originated in a lower rate environment and higher rate mortgages are renewed at lower rates. Additionally, the Company's Accelerator mortgages, which carry lower interest rates than the traditional portfolio and are predominately earmarked for securitization, remain on the balance sheet until they are funded through securitization. The Company continues to originate a significant volume of Accelerator mortgages and, prior to securitization which tends to occur late in the quarter, these mortgages will decrease the average rate earned on mortgages.

As noted in Table 3 above, the average rate earned on the traditional single family residential portfolio mortgages was 5.9% for the fourth quarter and 5.9% for the twelve months ended December 31, 2010 compared to 6.3% and 7.1% for the comparable periods of 2009. The average rate for deposits, which fund the traditional single-family residential portfolio, also declined year over year.

The Accelerator portfolio earns a lower average rate than the traditional portfolio, but is largely earmarked for securitization and ultimately funded at the market rate of CMB and MBS at the time of securitization. The Company economically hedges its exposure to interest rate fluctuations between the time the mortgages are committed and securitized. Please see the Derivatives section of the MD&A for more information. The average rates for Accelerator mortgages declined from 2009,

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

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

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

Upon adoption of IFRS on January 1, 2011 net interest income will include interest income from the insured mortgages underlying the MBS under administration and interest expense will include on the respective secured borrowing costs resulting in increased net interest income. The overall net interest margin will be lower as the spread between insured mortgages and the secured borrowing is lower than the spread between current on-balance sheet assets and deposits.

Non-Interest Income

Total non-interest income was \$46.9 million for the fourth quarter and \$151.7 million for the twelve months ended December 31, 2010 compared to \$28.0 million and \$124.1 million for the comparable periods of 2009. Securitization income, the largest component of non-interest income, is discussed in the Securitization Activity section that follows.

Fees and other income was \$8.6 million for the fourth quarter and \$30.7 million for the twelve months ended December 31, 2010 compared to \$7.1 million and \$29.3 million recorded in the comparable periods of 2009. The increased relative volumes of products with lower fee structures, such as Accelerator mortgage products, does not provide the same rate of growth in this income stream as the overall rate of growth in on- and off-balance sheet assets.

The Company recognized a net loss of \$1.0 million on securities during the quarter and a net gain of \$9.0 million for the twelve months ended December 31, 2010, compared to a net loss of \$0.4 million and gain of \$2.1 million in the comparable periods of 2009. The Company takes advantage of improvements in securities markets and will rebalance the investment portfolio as market conditions warrant. Included in the amounts above are other than temporary impairments on certain equity securities classified as available for sale. In the fourth quarter of 2010 and for the year, the Company recognized \$0.4 million and \$0.7 million respectively in other than temporary impairments, compared to \$nil and \$9.3 million for the comparable periods of 2009.

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

Non-interest income includes unrealized gains and losses due to the changes in the fair value of the derivatives used to hedge certain risks associated with the securitization program. The Company recognized \$1.9 million in net unrealized gains in the fourth quarter and net unrealized gains of \$0.4 million for the twelve months ended December 31, 2010 compared to \$3.0 million of net unrealized losses and \$0.3 million in net unrealized gains in the comparable periods of 2009. Current quarter unrealized gains are reflective of market changes in the spread between MBS and CMB prices used as an input in the model that calculates the fair value of interest rate swaps. Please see the Derivatives section of this MD&A for additional information.

Table 4: Securitization Activity

The following table summarizes the securitization activities during the fourth quarter of 2010 and for the year compared to the same periods of 2009:

For the three months ended December 31, 2010

| <i>(000s, except %)</i> | Single Family Residential MBS Under 1 year | Single Family Residential MBS Over 1 year | Multi-Unit Residential MBS | Total |
|--|---|--|-----------------------------------|--------------|
| Book value of mortgages securitized | \$ 139,415 | \$ 1,595,185 | \$ 126,950 | \$ 1,861,550 |
| Net gain on sale of mortgages ¹ | 2,461 | 31,783 | 331 | 34,575 |
| Estimated average prepayment rate | 17.3% | 14.8% | 0.0% | 13.9% |
| Average excess spread ² | 3.1% | 1.5% | 0.7% | 1.6% |
| Average discount rate | 1.5% | 1.9% | 2.7% | 2.0% |

For the three months ended December 31, 2009

| <i>(000s, except %)</i> | Single Family Residential MBS Under 1 year | Single Family Residential MBS Over 1 year | Multi-Unit Residential MBS | Total |
|--|---|--|-----------------------------------|--------------|
| Book value of mortgages securitized | \$ 73,898 | \$ 368,643 | \$ 420,897 | \$ 863,438 |
| Net gain on sale of mortgages ¹ | 2,005 | 10,137 | 8,669 | 20,811 |
| Estimated average prepayment rate | 4.5% | 13.5% | 0.0% | 6.1% |
| Average excess spread ² | 4.5% | 2.1% | 1.3% | 2.0% |
| Average discount rate | 1.1% | 2.3% | 3.4% | 2.0% |

For the year ended December 31, 2010

| <i>(000s, except %)</i> | Single Family Residential MBS Under 1 year | Single Family Residential MBS Over 1 year | Multi-Unit Residential MBS | Total |
|--|---|--|-----------------------------------|--------------|
| Book value of mortgages securitized | \$ 423,823 | \$ 4,217,235 | \$ 526,472 | \$ 5,167,530 |
| Net gain on sale of mortgages ¹ | 7,778 | 79,500 | 4,255 | 91,533 |
| Estimated average prepayment rate | 17.9% | 15.8% | 0.0% | 14.4% |
| Average excess spread ² | 3.2% | 1.6% | 0.8% | 1.6% |
| Average discount rate | 1.4% | 1.8% | 3.1% | 1.9% |

For the year ended December 31, 2009

| <i>(000s, except %)</i> | Single Family Residential MBS Under 1 year | Single Family Residential MBS Over 1 year | Multi-Unit Residential MBS | Total |
|--|---|--|-----------------------------------|--------------|
| Book value of mortgages securitized | \$ 163,974 | \$ 1,374,616 | \$ 1,061,151 | \$ 2,599,741 |
| Net gain on sale of mortgages ¹ | 5,194 | 43,032 | 31,825 | 80,051 |
| Estimated average prepayment rate | 4.2% | 12.9% | 0.0% | 7.1% |
| Average excess spread ² | 4.8% | 2.0% | 1.4% | 1.9% |
| Average discount rate | 1.1% | 2.7% | 2.9% | 2.7% |

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

² The excess spread is gross of hedging activity.

The Company sold \$1.86 billion in mortgages through MBS pools during the fourth quarter of 2010 and \$5.17 billion in the twelve months ended December 31, 2010 representing an increase of \$998.1 million or 115.6% and \$2.57 billion or 98.8%, respectively, over the same periods of 2009.

The growth in securitized volumes was focused in the single family residential MBS during the period and is indicative of strong residential mortgage origination volumes along with continued success of the Accelerator product. The Accelerator mortgages are the primary source for securitization although the Company will securitize a small portion of the traditional portfolio that is eligible for insurance, if market conditions are favourable. There was a decline in multi-unit residential securitization as fewer mortgages are available in the marketplace and the spreads earned on this product have narrowed.

The Company's securitization activities include participation in CMHC CMB program, administered through the Canada Housing Trust (CHT). This program provides the Company with an additional channel to diversify its funding stream for MBS pools. The Company sold \$1.16 billion of MBS pools through the CMB program, including replacement assets, in the fourth quarter and \$3.18 billion for the twelve months ended December 31, 2010 compared to \$730.0 million and \$1.96 billion in the comparable periods of 2009. If the available CMB funding is lower than the value of pooled mortgages the Company has available for the program, the Company continues to sell MBS pools directly into the market.

The average prepayment rate assumption for the fourth quarter was 13.9%, and 14.4% for the twelve months ended December 31, 2010 reflecting increases over the same periods last year. In the third quarter of 2010, the Company increased its prepayment assumption on MBS less than 1 year as market data, the Company's current experience and mix of mortgages indicated a higher prepayment rate was likely for these shorter duration pools. The average prepayment rate for MBS pools greater than 1 year has increased primarily due to the higher prepayment assumptions on variable rate mortgage pools. In the fourth quarter, the Company securitized and sold \$730.0 million of variable rate mortgages, for a total of \$2.0 billion in 2010 and representing 39.2% of the mortgages securitized and sold in the quarter and 38.7% for the year. There were no variable rate mortgages securitized and sold prior to 2010. Additionally in the fourth quarter of 2009 the relatively higher proportion of multi-unit residential MBS, which have no prepayment privileges and the lower rate on MBS pools less than one year, resulted in lower average prepayment assumptions.

The Company has observed an average excess spread for securitization transactions in line with historical levels compared to higher spreads in 2008 and the first half of 2009 and expects this to continue. Average excess spreads on securitizations, gross of hedging activity, were 1.6% for the fourth quarter consistent with average of 1.6% for the 12 months ended December 31, 2010 and down from 2.0% in the comparable quarter of 2009 and 1.9% for the 12 months ended December 31, 2009.

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

Table 5: Reconciliation of Securitization Activity

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

| | For the three months ended | | For the year ended | |
|--|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| (000s) | | | | |
| Securitization gains | \$ 29,125 | \$ 29,156 | \$ 98,684 | \$ 80,113 |
| Securitization hedging activity | 5,450 | (8,345) | (7,151) | (62) |
| Securitization gains, net of hedge costs | 34,575 | 20,811 | 91,533 | 80,051 |
| Recurring securitization income | 2,840 | 3,472 | 16,190 | 12,346 |
| Net securitization income | \$ 37,415 | \$ 24,283 | \$ 107,723 | \$ 92,397 |

Net securitization income of \$37.4 million for the quarter is 54.1% higher than the comparable quarter of 2009. Year-to-date securitization income is \$107.7 million or 16.6% higher than the comparable period of 2009.

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

For the fourth quarter of 2010 securitization gains, gross of hedging activity, were close to the comparable quarter of 2009 despite an 115.6% increase in volumes over the fourth quarter of 2009. The gross gains were impacted by a 40 basis points decline in average excess spreads, lower average durations of 4.0 years compared to 5.6 years in the fourth quarter of 2009, and a 7.8% increase in average prepayment assumptions over the comparable quarter of 2009.

For the twelve months ended December 31, 2010, securitization gains, gross of hedging activity, were up \$18.6 million or 23.1% over the comparable period of 2009. The increase over 2009 reflects 98.8% in higher volumes offset by a lower average duration of 4.2 years compared to 5.0 years last year, a 30 basis points decrease in average excess spreads, and a 7.3% increase in prepayment assumptions.

Securitization hedging activity reflects the Company's utilization of derivative contracts to manage exposure to movements in interest rates prior to the setting of the coupon rate on MBS and CMB securities. Generally, the Company has short positions in Government of Canada bonds during these periods though bond forward sale contracts. The realized gains and losses of these contracts are included in securitization hedging activity above. During the fourth quarter of 2010, bond yields increased over the period that the hedges were in place and therefore a realized gain was recognized on settlement and included in securitization gains. The realized gain on settlement offsets what would have been an otherwise lower

securitization gain. Securitization hedging activity on a year-to-date basis is a realized loss of \$7.2 million compared to a realized loss of \$0.06 million in 2009. Recurring securitization income primarily represents servicing income, net of servicing fees, accretion of the discount rate and changes in estimated excess spread. The income will also include the impact of any changes in management's estimation of prepayments. If actual prepayment patterns are similar to management's prepayment assumptions, there will be less volatility in the additional excess spread.

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

Upon adoption of IFRS on January 1, 2011 the Company will no longer recognize securitization gains when mortgages are securitized and sold as the underlying mortgages will not be considered sold for accounting purposes and will remain on balance sheet. Securitization gains will be replaced by interest income on the mortgages and interest expense at the CMB or MBS rate as the funds received in the securitization transaction will be recorded as secured borrowing. This change impacts the timing of the recognition of income on the mortgages as the income is recognized over the life of the securitization, but the total amount of income earned over time is unchanged.

Non-Interest Expenses

Total non-interest expenses incurred in the fourth quarter were \$26.9 million and \$93.9 million for the year compared to \$19.9 million and \$78.6 million for the comparable periods of 2009.

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

During the fourth quarter, salaries and staff benefits were \$12.4 million and \$46.7 million for the year compared to \$10.0 million and \$41.6 million in the comparable periods of 2009. The Company anticipates modest increases in staff levels to continue into 2011 to accommodate growth objectives and new initiatives. At December 31, 2010, the Company employed 560 staff compared to 491 staff one year ago.

Premises expenses were \$1.8 million during the quarter, slightly increased from the \$1.5 million in the fourth quarter of 2009 due to lease renewals and increased space in Toronto as compared to last year and the impact of the harmonized sales tax (HST) effective July 1, 2010. There were no changes to premises during the quarter.

General and administration expenses were \$12.6 million during the quarter, and \$40.3 million for the year compared to \$8.3 million and \$31.1 million in the comparable periods of 2009. These expenses increased over the comparable periods to support managed growth. In particular, the Company has experienced increased information technology costs reflective of additional employees, additional costs associated with the implementation of a new core banking system that are not eligible for capitalization and advisory and audit costs associated with the implementation of IFRS. The Company also undertook additional marketing and business development activities. Additionally, HST has increased certain costs.

The efficiency ratio (TEB) remains low and for the three and twelve months ended December 31, 2010 was 27.3% and 26.6%, respectively, compared to 26.1% and 26.5% for the comparable period of 2009. The ratio indicates that non-interest expenses are just over one quarter of net operating income and continues to reflect the Company's consistent and prudent cost management leadership within the industry.

Provision for Credit Losses

Table 6: Provision for Credit Losses

| (000s, except %) | For the three months ended | | | | | | For the year ended | | | |
|---|----------------------------|-------|-------------|----------|-------------|----|--------------------|----------|--------|---------|
| | December 31 | | December 31 | % Change | December 31 | | December 31 | % Change | | |
| | 2010 | | 2009 | | 2010 | | 2009 | | | |
| Specific provision | \$ | 5,752 | \$ | 1,009 | 470.0% | \$ | 8,051 | \$ | 8,910 | (9.6)% |
| General provision | | 7 | | 1,273 | (99.4)% | | 1,360 | | 2,616 | (92.3)% |
| Total provision | \$ | 5,759 | \$ | 2,282 | 152.4% | \$ | 9,411 | \$ | 11,526 | (18.3)% |
| Provision as % of gross loans (annualized) | | 0.39% | | 0.17% | | | 0.16% | | 0.21% | |
| Net write-offs | \$ | 2,569 | \$ | 3,400 | (24.4)% | \$ | 5,733 | \$ | 9,257 | (38.1)% |
| Net write-offs as % of gross loans (annualized) | | 0.18% | | 0.25% | | | 0.10% | | 0.17% | |

Table 7: Net Impaired Loans & Allowances

(000s, except %)

| | December 31 | | December 31 | |
|----------------------------------|-------------|-----------|-------------|-----------|
| | 2010 | | 2009 | |
| Net impaired loans | \$ | 34,225 | \$ | 46,306 |
| Gross loans | | 5,866,619 | | 5,471,119 |
| Net impaired as % of gross loans | | 0.58% | | 0.85% |
| General allowance | \$ | 29,153 | \$ | 27,793 |
| Specific allowance | | 4,897 | | 2,579 |
| Total allowance | \$ | 34,050 | \$ | 30,372 |

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

The Company's specific provisions for the fourth quarter of 2010 were \$4.7 million greater than the provision made in the fourth quarter of 2009 and the total provisions for the year ended December 31, 2010 were \$0.8 million less than the twelve months of 2009. The Company saw a decline in credit impairments through most of the year. However, during the fourth quarter, the Company identified an issue with an isolated group credit card accounts and designated these accounts, totalling \$3.2 million as impaired. Specific allowances of \$1.9 million were provided in the quarter in connection with these accounts.

The general allowance balance at December 31, 2010 increased \$1.4 million over the fourth quarter of 2009 while the general provision for credit losses for the fourth quarter decreased \$1.3 million from the comparable quarter in 2009 and \$1.3 million on a year-to-date basis compared to 2009. The general allowance was 77.2 basis points of the Company's risk-weighted assets at December 31, 2010 compared to 86.1 basis points at December 31, 2009. The relative decline reflects the following factors:

- An observed decline in the rate of loan impairments. Net impaired loans as a percentage of gross loans ended the year at 0.58% which is at a low point when compared to 2009 and 2008. The overall trend in net impaired loans has been downward since a peak in mid-2009. Credit losses and impaired loans are now in the range of the Company's historical averages. Proactive strategies employed by the Company to tighten underwriting standards and to take into account local market conditions in the early days of the economic and credit crisis have lead to reduced arrears and credit losses. Further, the Company continues to employ prudent strategies to maintain the credit quality of the loans portfolio.

- An overall decline in the level of net write-offs over 2009. This reflects an improvement in recoveries early in 2010 due to improving real estate markets, lower overall net write-offs and a continued focused effort at working out non-performing loans. Write-offs in the residential mortgage portfolio have improved over comparable periods and have returned to levels that are consistent with the Company's experience over the long term. Personal and credit card loans and secured loans net write-offs are within expected levels. The Company's ongoing risk management philosophy includes close monitoring of non-performing loans and the employment of proactive measures to minimize losses, as described under the Credit Risk section of this MD&A and in the 2009 Annual Report under the heading Risk Management.
- An improvement in the overall risk profile of the loan portfolio and general Canadian economic factors that influence management's assessment of the level of general allowance (please see the Credit Risk section of this MD&A for more information).

During the quarter, the Company further refined its credit performance data capturing, tracking, analytics and forecasting capabilities. This resulted in a reallocation of the general allowance between the residential and non-residential portfolios, but did not result in a significant change to the overall level of the allowance. The reallocation took into account the change in product composition, credit profile and average size of individual exposures within the portfolios.

Income Taxes

The income tax expense amounted to \$13.7 million (effective tax rate of 21.4%) for the fourth quarter of 2010 and \$61.3 million (effective tax rate of 25.3%) for the twelve months of 2010, compared 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 same period in 2009. The lower effective tax rate during the quarter is attributed to Canadian dividend income which is non-taxable to financial institutions resulting in a lower effective income tax rate relative to the statutory rate, the anticipated lower tax rates on the recognition of timing differences adjusted during the quarter. In the third quarter of 2010 the Company made adjustments to the tax provision to effectively report the current assessed tax liability which in turn reduced the effective tax rate. In the absence of these items, the tax rates would have been 31.0% for the fourth quarter of 2010 and 31.2% for the twelve months of 2010, compared to 33.8% for the fourth quarter and 33.6% for the twelve months of 2009. Due to the nature of the Company's revenue and expense streams, an effective tax rate of 26.5% to 28.0% should be sustainable.

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

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income was \$54.7 million for the quarter and \$178.4 million for the year compared to \$44.2 million and \$176.8 million in the comparable periods of 2009. OCI was a gain of \$4.3 million for the quarter and a loss of \$2.5 million for the year compared to gains of \$3.7 million and \$32.3 million for the comparable periods in 2009.

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

In the quarter, the Company recognized a net transfer of a \$0.5 million realized loss from OCI to net income related to sale of securities and other than temporary impairment of available for sale securities for a total net transfer of \$5.5 million gain year-to-date. This compares to a net transfer of a \$3.1 million gain to net income in the comparable quarter of 2009 and \$10.2 million loss for the twelve months ended December 31, 2009.

There was a net increase in market value on securities available for sale, including fixed income, preferred and equity securities of \$3.8 million for the quarter and a net increase of \$3.0 million for the year compared to a net increase of \$6.8 million and \$22.1 million for the comparable periods of 2009. This net increase in market value is predominately a result of market value increases in the preferred share portfolio.

BALANCE SHEET REVIEW

Assets

Table 8: Assets

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

| | As at | | | % Change | |
|--|--------------|---------------|--------------|---------------------|--------------------|
| | December 31, | September 30, | December 31, | December 31, 2010 | December 31, 2010 |
| (000s, except %) | 2010 | 2010 | 2009 | -September 30, 2010 | -December 31, 2009 |
| Cash resources | \$ 846,824 | \$ 712,587 | \$ 930,134 | 18.8% | (9.0)% |
| Securities | 543,892 | 825,716 | 650,597 | (34.1)% | (16.4)% |
| Residential mortgages | 4,570,130 | 4,709,360 | 4,417,197 | (3.0)% | 3.5% |
| Non-Residential mortgages | 838,253 | 774,580 | 708,425 | 8.2% | 18.3% |
| Personal and credit card loans | 453,340 | 428,207 | 342,918 | 5.9% | 32.2% |
| General allowance | (29,153) | (29,146) | (27,793) | 0.02% | 4.9% |
| Total on-balance sheet loans | 5,832,569 | 5,883,001 | 5,440,747 | (0.9)% | 7.2% |
| Other assets | 488,954 | 450,115 | 339,396 | 8.6% | 44.0% |
| Total on-balance sheet assets | 7,712,239 | 7,871,419 | 7,360,874 | (2.0)% | 4.8% |
| Mortgage-backed security assets under administration | 8,166,533 | 6,831,290 | 4,147,711 | 19.5% | 96.9% |
| Total on-balance sheet and off-balance sheet assets | 15,878,772 | 14,702,709 | 11,508,585 | 8.0% | 38.0% |
| Total on-balance sheet and off-balance sheet loans | 13,999,102 | 12,714,291 | 9,588,458 | 10.1% | 46.0% |

Combined cash resources and securities as at December 31, 2010 decreased by \$0.1 million and \$0.2 million from September 30, 2010 and December 31, 2009 respectively. The Company continued to reduce liquidity levels, leading to lower cash resources compared to the end of 2009. The Company had been maintaining higher liquidity levels in 2009 in response to market uncertainty. The volume and timing of securitizations resulted in an increase in cash resources from September 30, 2010.

The securities portfolio has decreased by \$281.8 million and \$106.7 million from September 30, 2010 and December 31, 2009 respectively, partly due to the purchase of treasury bills with shorter maturities, which are included in cash resources and not securities, and the sale of MBS securities, which the Company holds for replacement assets in the CMB program. The Company continues to invest in conservative assets while balancing appropriate returns. During the year, the Company took advantage of market opportunities and sold certain securities for a net pre-tax gain of \$10.0 million, which includes net pre-tax losses of \$1.0 million for the fourth quarter.

Continued strong residential mortgage originations, even when offset by securitization sales of \$5.17 billion led to the increase in the residential mortgage balance compared to December 31, 2009. Higher securitization volumes during the fourth quarter led to the decrease in the residential mortgage balance compared to September 30, 2010. Strong originations in Equityline Visa and consumer lending have driven personal and credit card loan balances higher compared to September 30, 2010 and December 31, 2009. Please see the Results by Business Segment section of this MD&A for further discussion.

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

Other assets include the Company's securitization receivable, capital assets and other assets. Growth in the securitization receivable of \$28.2 million over September 30, 2010 and \$114.0 million over December 31, 2009 is the primary driver of the increase in other assets. The securitization receivable balance, which represents the Company's right to the future cash flows of securitizations transactions, increases with new securitization volumes and reduces as the actual cash flows are collected over time. Additionally, other assets increased due to an increase in intangible assets of \$3.7 million and \$21.1 million over September 30, 2010 and December 31, 2009, respectively, related to the development of the Company's new core banking system, combined with increases in income taxes receivable and other prepaid assets and deferred items.

The increase in total on-balance sheet and off-balance sheet loans, which include the MBS assets under administration, is due to strong origination volumes in the residential mortgage portfolio.

Upon adoption of IFRS on January 1, 2011, the Company's on-balance sheet assets will include the mortgages underlying the MBS assets under administration and will exclude the securitization receivable, net of future taxes, as the securitized assets are not considered sold for accounting purposes under IFRS.

Table 9: Liabilities & Shareholders' Equity

| | As at | | | | | % Change |
|--|----------------------|-----------------------|----------------------|--|---|----------|
| | December 31, 2010 | September 30, 2010 | December 31, 2009 | December 31, 2010 -September 30, 2010 | December 31, 2010 -December 31, 2009 | |
| (000s, except %) | | | | | | |
| Deposits | \$ 6,522,850 | \$ 6,720,825 | \$ 6,409,822 | (2.9)% | 1.8% | |
| Other liabilities | 447,109 | 454,746 | 360,764 | (1.7)% | 23.9% | |
| Shareholders' equity | 742,280 | 695,848 | 590,288 | 6.7% | 25.7% | |
| Total liabilities and shareholders' equity | 7,712,239 | 7,871,419 | 7,360,874 | (2.0)% | 4.8% | |

The increase in deposit liabilities from December 31, 2009 was relatively less than the increase in loans as the Company also utilized excess liquidity and securitization proceeds to fund originations in 2010. The use of excess liquidity and securitization proceeds also led to the decrease in deposits from September 30, 2010.

Growth in other liabilities over December 31, 2009 was principally driven by the growth of the business resulting in increased liability balances in accrued interest, servicing liabilities, future tax liabilities, payable to CMB and MBS holders and other accrued liabilities. The decrease in other liabilities from September 30, 2010 is primarily attributed to decreases in accounts payable and accrued liabilities during the fourth quarter, partially offset by decreases in payables to CMB and MBS holders.

The increase in total shareholders' equity since December 31, 2009 was internally generated from net income over the year of \$180.9 million, \$5.6 million in amounts related to the exercise of options and the amortization of the fair value of options less \$23.2 million for dividends paid and payable to shareholders. This increase was offset by a reduction in accumulated other comprehensive income of \$2.5 million from unrealized losses on available for sale securities and the repurchase of shares of \$8.5 million.

The increase in total shareholders' equity since September 30, 2010 was internally generated from net income over the quarter of \$50.4 million, \$0.2 million in amounts related to the exercise of options and the amortization of the fair value of options less \$6.9 million for dividends paid and payable to shareholders. Shareholders' equity was further increased by an addition to accumulated OCI of \$4.3 million from unrealized gains on available for sale securities offset by the repurchase of shares of \$1.5 million as the Company has continued to utilize a normal course issuer bid.

At December 31, 2010, the book value per common share was \$21.42, compared to \$20.07 at September 30, 2010 and \$17.00 at December 31, 2009.

Upon adoption of IFRS on January 1, 2011, the Company's liabilities will include a liability related to funding received through the CMB and MBS securitizations and exclude the securitization servicing liabilities. Additionally, because of the retrospective application of IFRS, Shareholder's equity at January 1, 2010, the transition date to IFRS, will be reduced by an IFRS transition adjustment to retained earnings in the range of \$75 million - \$85 million. The adjustment represents the accumulated difference between earnings measured using IFRS and Canadian GAAP earnings to the transition date.

Derivatives

From time to time, the Company enters into hedging transactions to manage interest rate exposure on outstanding loan commitments. The Company uses forward contracts to sell Government of Canada bonds to hedge the impact of movements in interest rates between the time mortgage commitments are made and the time the mortgages are funded and/or securitized. The intent of the forward bond contracts is to have the fair value movements of the forward bond contracts offset, within a reasonable range, the changes in the fair value of the pool of fixed rate mortgages due to interest rate fluctuations of the pool of fixed rate mortgages. This period is generally 60 to 150 days. For this purpose, during the fourth quarter of 2010, the Company entered into \$726.1 million of forward bond contracts.

The forward bond contracts settle at the time of funding or securitization of the underlying mortgages. For the fourth quarter of 2010, a net realized gain of \$5.4 million was recognized in the income statement through securitization income compared to a net loss of \$8.3 million in the fourth quarter of 2009. The gain or loss realized on settlement of these contracts is dependant upon interest rate movements on the underlying bonds while the Company holds the forward bond contracts. If bond rates increase, as they did in the fourth quarter of 2010, the Company will realize a gain on settlement that is offset by a decrease in the gross securitization gain.

At December 31, 2010, the Company continued to hold notional forward bond sale contracts of \$252.2 million in anticipation of future securitizations compared to \$183.8 million at December 31, 2009. These contracts had a negative fair value of \$0.7 million at December 31, 2010 compared to a positive fair value of \$2.4 million at the end of 2009. The fair value changes in these contracts create unrealized gains or losses that are included in income statement through (Loss) Gain on derivatives. Once the securitization transaction occurs, the gain or loss realized on the bond forward is included in the securitization gain.

The Company participates in the CMB program sponsored by CMHC, and administered by CHT. Through this program, the Company becomes obligated to manage the cash flow mismatch between the CMB interest rate payment obligation and the amortizing MBS pools interest payments. The Company is obligated to enter into interest rate swaps (seller swap) in which, for fixed rate MBS, the Company pays the fixed interest payments on the CMB and receives the total return on the underlying MBS. For variable rate MBS, the Company enters into interest rate swaps (seller swap), where the Company pays the variable rate interest rate payments on the CMB and receives the variable rate total return on the underlying MBS. As well, for fixed rate MBS the Company enters into accreting interest rate swaps (hedge swaps) to manage the reinvestment risk between the amortizing fixed rate MBS and the bullet fixed rate CMB. From time to time, the Company may utilize variable rate MBS pools in a fixed rate CMB issues. In these cases, the Company remains obligated to enter into a seller swap, but also may hedge the interest rate risk between the variable rate MBS and the fixed rate CMB coupon by entering into a fixed notional interest rate where the Company pay variables and receives fixed interest rate payments (hedge swap).

The total notional value of the seller swaps and hedge swaps at December 31, 2010 was \$6.53 billion (\$3.20 billion – Q4 2009). These swaps, including both the seller and hedge swaps, had a negative fair value of \$4.4 million at December 31, 2010 (\$10.7 million negative fair value – Q4 2009). Unrealized gains (losses) due to changes in fair value are recorded in the consolidated statements of income through (loss) gain on derivatives. Unrealized gains (losses) from the fair value changes of these swaps are impacted primarily by the total notional amount outstanding, changes in interest rates, spreads between CMB and MBS, and changes in prepayment rates. Each of these factors creates some volatility in the fair value, which, over time, should stabilize.

From time to time, the Company may enter into interest rate swaps to manage the duration risk between the seller and the hedge swaps described in the above paragraph. At the time of entering into the hedge swap, management must estimate the expected rate of prepayment of the underlying securitized pool. Where actual prepayments differ from the original expectation, an un-hedged reinvestment risk exposure will emerge. The Company enters into interest rate swaps to hedge this exposure. At December 31, 2010, the total notional value of these interest rate swaps was \$75.0 million. The interest rate swap had a negative fair value of \$2.0 million at December 31, 2010. There were no similar positions at December 31, 2009. For additional information, refer to Note 12 of these unaudited interim consolidated financial statements.

Upon adoption of IFRS on January 1, 2011, the Company will no longer account for the seller swaps at fair value. The underlying cash flows of these swaps will be captured on an accrued basis by the interest income on the securitized mortgages and the interest expense on the related securitization liabilities. The hedge swaps and the bond forwards will be accounted for at fair value and the Company intends to designate these derivatives into hedge accounting relationships which should lessen the impact of fair value volatility in net income.

Off-Balance Sheet Arrangements

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

As at December 31, 2010 outstanding securitized mortgage loans under administration amounted to \$8.17 billion (\$4.15 billion – Q4 2009) with retained interest of \$343.4 million (\$229.4 million – Q4 2009). The off-balance sheet portfolio continues to perform well, with 99.3% of the portfolio current and 0.2% greater than 60 days in arrears compared to 97.9% current and 0.9% over 60 days at December 31, 2009.

In the normal course of its business, the Company offers credit products to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to \$459.0 million at December 31, 2010 (\$380.8 million – Q4 2009). Included within the outstanding commitments are unutilized non-residential loan advances of \$45.4 million at December 31, 2010 (\$48.6 million – Q4 2009). Commitments for the loans remain open for various dates through November 2011. As at December 31, 2010, unutilized credit card balances amounted to \$76.5 million (\$52.8 million – Q4 2009). Outstanding commitments for future advances for the Equityline Visa portfolio were \$5.1 million at December 31, 2010 (\$2.9 million – Q4 2009).

CAPITAL MANAGEMENT

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

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

Table 10: Regulatory Capital

| | As at | | |
|--|-----------------------------|-----------------------|---------------------|
| <i>(000s, except % and multiples)</i> | December 31 2010 | September 30, 2010 | December 31 2009 |
| Capital Stock | \$ 23,497 | \$ 23,497 | \$ 23,497 |
| Retained earnings | 658,530 | 615,786 | 505,808 |
| Contributed surplus | 951 | 951 | 951 |
| Net tier 1 capital | \$ 682,978 | \$ 640,234 | \$ 530,256 |
| Subordinated debt | 15,000 | 15,000 | 15,000 |
| Accumulated (net after tax) unrealized gains on available for sale equity securities | 4,545 | 2,646 | 7,987 |
| Eligible general allowance for credit losses | 29,053 | 29,146 | 27,793 |
| Total Capital | \$ 731,576 | \$ 687,026 | \$ 581,036 |
| Risk-weighted assets for: | | | |
| Credit risk | \$ 3,423,017 | \$ 3,453,515 | \$ 2,913,092 |
| Operational risk | 354,250 | 340,363 | 314,063 |
| Total Risk-weighted Assets¹ | \$ 3,777,267 | \$ 3,793,878 | \$ 3,227,155 |
| Tier 1 Capital Ratio | 18.1% | 16.9% | 16.4% |
| Total Capital Ratio | 19.4% | 18.1% | 18.0% |
| Asset to Capital Multiple | 10.5 | 11.5 | 12.7 |

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

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

The Company continues to maintain its conservative approach to capital and to build capital through the growth of retained earnings. The strong capital position affords the Company the flexibility to maintain and grow operations, both organically and, if the opportunity should arise, through strategic acquisitions.

In the fourth quarter, additional clarification was provided on the proposed Basel III requirements, which will replace the current Basel II. As anticipated, Basel III will affect the capital and liquidity requirements in Canada. The Company has completed a preliminary analysis of the proposed Basel III requirements and has determined the Home Trust could immediately adopt the Basel III capital requirements and would currently exceed the Basel III minimum liquidity requirements.

Upon adoption of IFRS on January 1, 2011, Home Trust's on-balance sheet assets increased by the amount of MBS assets under administration. For purposes of the Asset to Capital Multiple (ACM) calculation, OSFI permitted the grandfathering of mortgages sold through CMHC-sponsored securitizations entered into on or before March 31, 2010 from inclusion in assets for purposes of the ACM calculation. Mortgages securitized after March 31, 2010 will be included in the calculation of ACM and therefore Home Trust's ACM will increase as a result of the adoption of IFRS, but will remain within the authorized limits. The Company does not anticipate that Home Trust's Tier 1 and Total capital ratios will be materially impacted by the adoption of IFRS.

RISK MANAGEMENT

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

Credit Risk

This is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties, for any reason, to honour their financial or contractual obligations to the Company. Senior management, the ERM function, the Audit Committee and the Risk and Capital Committee of the Board of Directors, monitor the Company's exposure to credit risk. These parties undertake reviews of credit policies, lending practices, the adequacy of loan loss reserves and credit risk based capital. It is the Company's policy that different levels of senior management approve credit, based upon the level of risk and amount of the loan. The Risk and Capital Committee and the Board of Directors review compliance with credit risk requirements on a quarterly basis.

As part of credit risk management of the mortgage portfolio, senior management and the ERM function monitor various portfolio characteristics, including the characteristics in the table below.

Table 11: Mortgage Portfolio

| | As at | |
|--|---------------------|---------------------|
| | December 31 2010 | December 31 2009 |
| <i>(000s, except %)</i> | | |
| Total on balance sheet mortgage portfolio balance (net of specific allowance) | \$ 5,407,383 | \$ 5,125,622 |
| Percentage residential mortgages | 84.5% | 86.2% |
| Percentage non-residential mortgages | 15.5% | 13.8% |
| Percentage insured residential mortgages | 23.4% | 31.0% |
| Percentage first mortgages | 99.7% | 99.7% |
| Percentage mortgages current | 96.5% | 95.5% |
| Percentage mortgages over 60 days past due | 0.9% | 1.1% |
| Percentage of new residential originations insured (for the three months ended) | 62.2% | 60.7% |

The composition of the mortgage portfolio is well within the internal policy limits approved by the Company's Risk and Capital Committee. The relative proportion of non-residential mortgages has increased over December 2009 due to a measured and prudent approach to growth of this portfolio when appropriate and high quality assets are available. As a proportion of the total portfolio, the Company anticipates that the non-residential portfolio will remain stable or decline modestly.

Refer to Note 4 of these unaudited interim consolidated financial statements for a further breakdown of the loan portfolio by geographic region.

Insured mortgages reduce the credit risk to the Company. The insured on-balance sheet mortgage balance has decreased from December 31, 2009 due to a high volume of insured mortgage securitizations in the fourth quarter, which reduces the proportion of insured mortgages on balance sheet at the period end. The percentage of insured mortgages originated was slightly higher than the three months ended December 31, 2009 and consistent with increases in the Accelerator origination volumes in the fourth quarter.

The Company also reduces credit risk on residential mortgages through collateral in the form of real property. In that regard, first mortgages continue to represent almost the entire portfolio. The average loan to value at origination, which includes both insured and uninsured originations, for the Company's residential mortgage loans portfolio for the three months ended December 31, 2010 was 77.1% compared to 76.7% for the comparable period of 2009. For the on-balance sheet residential mortgages loans at December 31, 2010, the average loan to value was 67.0% compared to 68.6% one year ago.

Senior management and ERM closely monitor the credit performance of the mortgage loans portfolio. The portfolio continues to perform well with arrears returning to historical norms and showing signs of stability. The total mortgage loans portfolio under administration, which includes the off-balance sheet securitized mortgages, is also performing well with 98.2% of the portfolio current and 0.7% over 60 days in arrears.

At December 31, 2010 the gross credit card receivable balance totalled \$339.9 million, of which 99.9% was secured either by cash deposits or residential property. Within the secured credit card portfolio, Equityline *Visa* credit cards represent the principal driver of receivable balances. Equityline *Visa* credit cards are secured by collateral residential mortgages, and this portfolio segment amounted to \$331.4 million or 97.5% of the total credit card receivable balance as at December 31, 2010 compared to 97.6% at December 31, 2009. Cash deposits securing credit card accounts amounted to \$12.1 million and are included in the Company's deposits. Additionally, the Equityline *Visa* portfolio has a loan to value of 72.3% at December 31, 2010 up slightly from a loan to value of 69.3% at December 31, 2009. At December 31, 2010, \$8.1 million or 2.4% of the credit card portfolio was over 60 days in arrears compared to \$7.5 million or 2.5% at December 31, 2009.

Included in the residential mortgage portfolio is a secured loan portfolio of \$38.8 million which decreased by \$9.0 million from December 31, 2009. These loans are secured by second mortgages on residential properties. At December 31, 2010, 97.2% of the secured loan portfolio was current while \$0.3 million or 0.8% was over 60 days in arrears or non-performing. This compares to 96.6% of the secured loan portfolio being current while \$0.5 million or 0.9% was over 60 days in arrears or non-performing at December 31, 2009.

Total net impaired loans have stabilized after reaching a peak in the second quarter of 2009. The Company continues to benefit from its early implementation of strategies to minimize loss exposure during the economic challenges. These strategies included the tightening of its underwriting criteria taking into account local market conditions. While the Company began prudently re-entering certain markets in 2010, including markets outside Ontario, its ongoing business strategy ensures that experienced employees of the Company undertake reviews of all non-performing loans greater than 60 days to analyze patterns and drivers, and then reflect emerging drivers in the Company's lending criteria going forward. This analytical approach and attention to emerging trends has resulted in continued low write-offs relative to the gross loans portfolio.

Write-offs net of recoveries during the quarter totalled \$2.6 million and \$5.7 million for the year, down from \$3.4 million and \$9.3 million for the comparable periods of 2009. The Company continually monitors arrears and write-offs very carefully, and deals prudently and effectively with impaired loans.

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

The total general allowance was 77.2 basis points of the Company's risk-weighted assets at December 31, 2010 compared to 86.1 basis points at December 31, 2009. The decrease in basis points of risk-weighted assets reflects the overall improvement in the credit performance of the portfolio and improving economic conditions.

Liquidity Risk

This is the risk that the Company would be unable to generate or obtain cash or equivalents in a timely manner, and at a reasonable cost, to meet its commitments (both on- and off-balance sheet) as they become due.

The Company's liquidity management framework includes a policy relating to several key elements. These include the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by senior management and the ERM function, and quarterly reporting to the Risk and Capital Committee of the Board of Directors.

The Company holds liquid assets in the form of cash and bank deposits, treasury bills, bankers' acceptances, government bonds and debentures, and Canadian bank bonds to comply with its liquidity policy. At December 31, 2010, liquid assets amounted to \$951.3 million, compared to \$1.20 billion recorded at December 31, 2009. The average month-end liquidity for the fourth quarter of 2010 was \$864.6 million or 46.0% of 100-day liabilities.

The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets and at December 31, 2010, the Company had 63.1% of 100-day liabilities in liquid assets. For the year ended December 31, 2010, the Company maintained a monthly average of \$783.6 million or 43.0% of 100-day obligations in liquid assets compared to \$646.5 million or 44.8% for the twelve months ended December 31, 2009.

Another tool used in managing liquidity is a model that considers two stress scenarios. In the "immediate" scenario, the Company experiences a significant decline in new deposits over a one-month period. In the "ongoing" scenario, the situation is similarly stressed but is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet the potential and certain obligations for a period of one year beyond the time frame of the scenario. These scenarios require the Company to make assumptions regarding the probable behaviour and timing of cash flows for each type of asset and liability. The Company's liquidity ratio is the total of liquid assets, adjusted by the estimates in each scenario, divided by the adjusted liabilities. At December 31, 2010 liquid assets amounted to 174% under the immediate scenario and 137% under the ongoing scenario compared to 165% and 139%, respectively, at December 31, 2009. The Company continues to monitor these scenarios and will take appropriate actions should the need arise.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to sudden changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions that is designed to provide reasonable assurance that interest rate fluctuations will not materially impact future earnings, and to the best of its abilities matches liabilities to assets through its actions in the deposit market in priority to accessing off-balance sheet solutions. The Company's Asset Liability Management Committee (ALCO) manages exposure arising from interest rate and liquidity risk, and reports quarterly to the Board of Directors.

The interest rate sensitivity position as at December 31, 2010 is presented under Note 13 in these unaudited interim consolidated financial statements. The table provided there represents the Company's position at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. Note 13 summarizes assets and liabilities, in terms of their contractual amounts. Over the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be extended but not materialize. In measuring its interest rate risk exposure, the Company will make assumptions about these factors, taking into account aspects such as past borrower history.

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

Table 13: Impact of Interest Rate Shifts

| (000s) | December 31 | December 31 | December 31 | December 31 |
|--|----------------------------|-------------|----------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| | Increase in interest rates | | Decrease in interest rates | |
| 100 basis point shift | | | | |
| Impact on net interest income, after tax (for the next 12 months) | \$ 9,250 | \$ 7,418 | \$ (9,250) | \$ (7,418) |
| Impact on net present value of shareholders' equity | 7,619 | (7,837) | (7,862) | 9,245 |
| 200 basis point shift | | | | |
| Impact on net interest income, after tax (for the next 12 months) | \$ 18,499 | \$ 14,835 | \$ (18,499) | \$ (14,835) |
| Impact on net present value of shareholders' equity | 15,003 | (14,410) | (15,976) | 20,059 |

As described in the Derivatives section of this MD&A, the Company may enter into derivative contracts to economically hedge the interest rate risk on loan commitments. The purpose is to manage interest rate exposures during the period between when a mortgage commitment is made and when the mortgage loan is funded or securitized. At December 31, 2010, the Company held notional \$252.2 million (\$183.8 million – Q4 2009) in bond forward contracts for the sale of Government of Canada bond positions to hedge this risk. Through the Company's participation in CMHC's CMB program, the Company is also required to enter into specific interest rate swap contracts to hedge interest rate risk and the reinvestment risk between the amortizing MBS pool and the CMB. Refer to Derivatives section of this MD&A and Note 12 of these unaudited interim consolidated financial statements for additional information.

RESULTS BY BUSINESS SEGMENT

The following section discusses the mortgage lending, consumer lending and other segments for the three and twelve-month periods ended December 31, 2010 (refer to Note 14 of these unaudited interim consolidated financial statements). The mortgage-lending segment continues to be the primary driver of the Company's overall growth while the consumer lending segment continues to provide a diversified income source.

Mortgage Lending

Table 14: Summary of Mortgage Lending Results

| (000s, except %) | For the three months ended | | | For the year ended | | |
|---------------------|----------------------------|---------------------|----------|---------------------|---------------------|----------|
| | December 31 2010 | December 31 2009 | % Change | December 31 2010 | December 31 2009 | % Change |
| Net interest income | \$ 33,572 | \$ 28,303 | 18.6% | \$ 130,691 | \$ 100,268 | 30.3% |
| Net income | 44,948 | 32,214 | 39.5% | 138,841 | 111,651 | 24.3% |
| Total assets | 5,990,623 | 5,510,368 | 8.7% | 5,990,623 | 5,510,368 | 8.7% |

Net income has grown in the fourth quarter and for the year compared to 2009 primarily due to increases in net interest income and securitization income.

The increase in net interest income for the three months and year ended December 31, 2010 over the comparable periods of 2009 results from higher average mortgage loan balances than the comparable periods. Average loan balances were \$482.0 million and \$1.02 billion higher in the fourth quarter and for the twelve months ending December 31, 2010 compared to the same periods of 2009. Average loan balances include loans that are eventually securitized but have generated interest income prior to securitization. Other income in the fourth quarter and for the year has increased compared to the same periods of 2009 mainly due to \$13.1 million and \$15.3 million increases in securitization income, respectively. In the fourth quarter, gains and losses on derivatives was a gain of \$1.9 million compared to a loss of \$3.0 million in the same quarter of 2009. For the twelve months ended December 31, 2010, gains on these derivative instruments were \$0.4 million compared to \$0.2 million last year.

The Company recorded increases in expenses of \$5.3 million and \$11.1 million for the three months and twelve months ended December 31, 2010 compared to the same periods of 2009. The increases relate to higher costs associated with a significant growth in mortgage loans under administration. There were accompanying increases in income tax associated with higher income. Provisions for credit losses for the mortgage-lending segment were \$2.3 million for the fourth quarter and \$5.3 million for the year. This compares to \$2.3 million for the fourth quarter of 2009 and \$9.7 million for the twelve months of 2009. The decline in the provision year-over-year was in both the specific provision and general provision reflecting lower write-offs, lower impaired loans and improved credit quality of the mortgage lending portfolio. Please see the Provision for Credit Losses section of this MD&A.

The table below provides a breakdown of specific residential and non-residential advances made during the quarter and the year ended December 31, 2010 compared to the comparable periods of 2009.

Table 15: Mortgage Production

| (000s) | For the three months ended | | For the year ended | |
|---|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| Traditional single family residential mortgages | \$ 683,511 | \$ 517,668 | \$ 2,853,385 | \$ 1,778,575 |
| Accelerator single family residential mortgages | 755,632 | 483,809 | 2,839,394 | 1,519,024 |
| Multi-unit residential mortgages | 285,042 | 296,834 | 766,483 | 1,239,352 |
| Warehouse residential mortgages | - | - | - | 49,951 |
| Non-residential mortgages | 72,855 | 60,156 | 219,760 | 135,380 |
| Store and apartments | 33,623 | 18,109 | 108,769 | 42,161 |
| Warehouse commercial mortgages | 20,750 | 18,251 | 80,800 | 34,500 |
| Total Mortgage Advances | \$ 1,851,413 | \$ 1,394,827 | \$ 6,868,591 | \$ 4,798,943 |

The mortgage lending segment advanced \$1.85 billion in the fourth quarter of 2010 and a record \$6.87 billion for the twelve months ended December 31, 2010 representing growth of 32.7% and 43.1% over the comparable periods in 2009. Compared to third quarter of 2010 originations of \$1.68 billion, fourth quarter originations increased 10.0% or \$168.7 million.

While the fully insured Accelerator mortgage program was a key contributor to growth, the careful expansion in the traditional portfolio provided increased origination volumes over 2009. Originations for the traditional product for the fourth quarter and for the year increased 32.0% and 60.4% over the comparable periods of 2009. For the year, traditional mortgage originations represented 41.5% of total originations compared to 37.5% last year.

The Company continues to prudently act on geographic expansion strategies resulting in mortgage originations outside of Ontario increasing by \$132.3 million or 32.6% compared to the fourth quarter of 2009. Ontario originations remained strong, growing 24.8% over the fourth quarter of 2009, resulting in little change to the geographic distribution of the on-balance sheet mortgage portfolio.

The momentum in Accelerator originations continued in the fourth quarter of 2010, with growth of 56.2% over the comparable quarter of 2009 and growth for the year of 86.9% compared to 2009. The Company anticipates growth rates in Accelerator mortgages to moderate into 2011, reflecting a modest slowing in housing market activity.

The Company's focus on customer service and broker relationships, as well as the breadth of mortgage product offerings, is leading to expanded market penetration and continued growth in mortgage originations. The Company began offering Equityline *Visa* products along with mortgages as a packaged product to qualified customers in 2010. Through this, and other initiatives, the Company has been able to offer a "one stop" lending solution to brokers and customers, driving both increased mortgage originations and new Equityline *Visa* accounts, which are included in the consumer lending line of business. During the quarter, the Company's senior executive and key management hosted a series of well-attended and well-received broker events in cities across Canada including, Vancouver, Calgary, Edmonton, Ottawa, Montreal, Halifax, London, Kitchener, Barrie and several Greater Toronto area cities. Management has been pleased with the level of response and new broker relationships from these initiatives.

Fourth quarter and 2010 non-residential product advances of \$72.8 million and \$219.8 million have increased over the comparable periods of 2009. Reflected in the lower volumes of 2009 was the Company's focused effort in early 2009 to reduce the level of exposure to non-residential mortgages. The Company is currently maintaining the portfolio and will prudently grow it, if appropriate, and high quality assets are available.

The Company securitized and sold \$1.86 billion of insured residential mortgage loans through the creation of MBS securities during the quarter and \$5.17 billion in 2010. Continued strong Accelerator mortgage originations drove this record level of securitization. Securitization income was \$37.4 million for the quarter and \$107.7 million for the year compared to \$24.3 million and \$92.4 million in the comparable periods last year. Refer to the Securitization Activity section of this MD&A and Note 5 of the unaudited interim consolidated financial statements for additional information.

Consumer Lending – Credit Cards and Retail Services

Table 16: Summary of Consumer Lending Results

| | For the three months ended | | | For the year ended | | |
|-------------------------|----------------------------|---------------------|----------|---------------------|---------------------|----------|
| | December 31 2010 | December 31 2009 | % Change | December 31 2010 | December 31 2009 | % Change |
| <i>(000s, except %)</i> | | | | | | |
| Net interest income | \$ 8,990 | \$ 9,073 | (0.9%) | \$ 35,761 | \$ 36,738 | (2.7%) |
| Net income | 3,846 | 6,638 | (42.0 %) | 24,706 | 23,415 | 5.5% |
| Total assets | 514,872 | 384,528 | 33.9% | 514,872 | 384,528 | 33.9% |

Consumer lending, which includes *Visa* and retail lending, continues to generate positive returns for the Company. Net interest income for the fourth quarter of 2010 and for the year declined compared to the same periods in 2009 due to a reduction in the yield on the portfolio as the Company began to issue lower rate Equityline *Visa* cards to high quality borrowers. The Company anticipates net interest income in this portfolio to grow into 2011 as loan balances in this portfolio grow. The average yield earned on the consumer lending portfolio was 9.9% for the fourth quarter and 10.2% for the year compared to 11.4% for the comparable periods of 2009. Net income in the fourth quarter declined over the comparable quarter of 2009 partially due to an increase in the specific allowance and provision in the fourth quarter of \$1.9 million as the Company identified and provided for specific issues identified within a small number of Equityline *Visa* accounts. Provisions for credit losses in the fourth quarter of 2009 were generally lower as the Company's write-offs and net impaired loans were low in that quarter. Additionally, expenses have increased across all categories to support growth in this segment including expenses related to the implementation of chip technology for the *Visa* products.

During the fourth quarter of 2010, 1,864 Equityline *Visa* accounts with \$54.7 million in authorized credit limits were issued, up from 1,796 accounts with \$49.0 million in authorized credit limits issued in the third quarter of 2010 and up from 936 accounts with \$34.4 million in authorized credit limits issued in the fourth quarter of 2009. For the twelve months ended

December 31, 2010, 6,263 accounts with \$186.6 million in authorized credit were issued compared to 2,677 accounts with \$100.5 million in authorized credit in 2009, representing an increase of 134.0% and 85.7% on an account and authorized credit basis, respectively. The Equityline *Visa* accounts are fully secured by residential real estate. The Company anticipates the momentum in this product line to continue building into 2011 through both, the “one stop” bundled mortgage with Equityline *Visa* discussed above and new strategic business and marketing initiatives.

The balance in the Equityline *Visa* loans portfolio amounted to \$331.4 million at December 31, 2010 (\$297.3 million – Q4 2009). Equityline *Visa* comprises 97.5% (97.6% – Q4 2009) of the total gross credit card receivable balance. The total credit card receivable balance was \$339.9 million at December 31, 2010, carrying an average interest rate of 10.0% (10.8% – Q4 2009) on outstanding balances. The Company had scaled back lending in the *Visa* products last year as a proactive measure to manage credit risk during the economic downturn. In 2010, the Company resumed its strategy to prudently increase this business line through new marketing and product initiatives, including packaging with the traditional mortgage products, resulting in increased volumes. The Company expects this momentum to continue into 2011.

In 2010 the Company's *Visa* portfolio became chip-compliant and the Company has issued chip-enabled credit cards to most of its *Visa* customers. Chip-enabled credit cards provide greater protection of cardholder information and include enhanced security features. In the absence of its own ATM infrastructure, the Company has implemented innovative PIN management solutions for its customers.

The Company's consumer lending portfolio also includes the results from its retail lending operations. The largest component of retail lending, representing 79.7% of the portfolio, is water heater loans. There were 9,397 new water heater accounts during the fourth quarter for a net increase in receivables over the third quarter of 2010 of \$9.3 million. The Company anticipates continued measured growth in the water heater line of business and is currently exploring this channel for other opportunities.

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

Other

Table 17: Summary of Other Results

| (000s, except %) | For the three months ended | | | | For the year ended | |
|---------------------|----------------------------|-------------|----------|-------------|--------------------|----------|
| | December 31 | December 31 | % Change | December 31 | December 31 | % Change |
| | 2010 | 2009 | | 2010 | 2009 | |
| Net interest income | \$ 7,271 | \$ 7,960 | (8.7%) | \$ 27,410 | \$ 28,005 | (2.1%) |
| Net income | 1,588 | 1,629 | (2.5%) | 17,397 | 9,427 | 84.5% |
| Total assets | 1,206,744 | 1,465,978 | (17.7%) | 1,206,744 | 1,465,978 | (17.7%) |

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

The decline in net interest income for the fourth quarter of 2010 compared to 2009 is reflective of a decrease in the securities portfolio size. Total assets have declined as the Company reduced its liquidity portfolio and inventory of MBS used as replacement assets for the CMB program.

Net income declined marginally in the fourth quarter compared to the fourth quarter of 2009 as the Company recognized net losses on securities, offset by favourable tax recoveries related to the treatment of dividends on preferred shares. For the year, net income has increased over 2010 primarily as a result of the sale of certain securities which resulted in a net gain of \$9.0 million.

Expenses in the corporate segment have remained relatively flat year-over-year while revenue has grown.

ACCOUNTING STANDARDS AND POLICIES

Critical accounting estimates which require management to make significant judgements, some of which are inherently uncertain, are outlined on pages 44 through 45 of the 2009 Annual Report. These estimates are critical as they involve material amounts and require management to make determinations that, by their very nature, include uncertainties. The preparation of unaudited interim consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported. Actual results could differ from those estimates.

Accounting policies requiring critical accounting estimates include the allowance for credit losses, securitization of residential mortgages, financial instruments measured at fair value, other than temporary impairment of available for sale securities, goodwill and future income tax liabilities. Further information can be found under Notes 3, 4, 5, 11, and 12 of these unaudited interim consolidated financial statements. There have been no subsequent changes to the critical accounting estimates disclosed on pages 44 through 45 of the 2009 Annual Report.

Controls over Financial Reporting

No changes were made in the Company's internal controls over financial reporting during the interim period ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS Project

The Company will change its accounting framework from Canadian GAAP 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. Consequently, January 1, 2010 is the Company's transition date.

A project team that includes representatives from various areas of the organization is working towards a smooth transition to IFRS. The Company engaged outside consultants to provide technical assistance and additional resources. The IFRS project team provides regular progress reports to the Audit Committee of the Board of Directors on the status of the IFRS implementation project.

Most adjustments required on transition to IFRS will be made retrospectively, against opening retained earnings as of January 1, 2010, the date of the first comparative balance sheet. The presentation is on the IFRS 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, generally January 1, 2011.

The Company's analysis of IFRS and comparison with currently applied accounting principles 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 are significant accounting changes flowing from the IFRS accounting principles related to securitization activities and the provisions for first-time adoption of IFRS standards on these activities, as described below.

IFRS 1 "First-Time Adoption of International Financial Reporting Standards", provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, to the general requirement for full retrospective application of IFRS. The Company has analyzed the various accounting policy choices available and has made preliminary conclusions on the accounting policy choices.

The Company is in the process of compiling the IFRS based accounting for the 2010 comparative periods. The calculation of the IFRS opening balance sheet, assuming all securitized and sold mortgages are on-balance sheet under IFRS is complete, please see below for the opening adjustment to shareholders' equity.

Key remaining project milestones include:

- production of 2010 comparative IFRS financial disclosure – Q1 2011 – Q3 2011
- development and documentation of revised accounting processes and controls – Q1 2011
- additional training of accounting and finance personnel – Q4 2010 – Q2 2011
- ongoing senior management and board awareness sessions – December 2010 – December 2011
- design of revised disclosure controls and internal controls over financial reporting – Q1 2011
- testing of revised disclosure controls and internal controls over financial reporting – Q1 2011 – Q1 2012

Transition Adjustment at January 1, 2010

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

The Company estimates an opening retained earnings adjustment reducing retained earnings as at January 1, 2010 by \$75.0 million - \$85.0 million and reducing AOCI by \$11.0 million – \$14.0 million. The opening retained earnings adjustment will be recovered through earning for future periods under IFRS reporting.

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

The Company's estimates of income, assets, liabilities and equity under IFRS have not yet been audited and may be subject to further revision.

Impact of Securitization Accounting Changes on IFRS Net Income in 2010

The Company's earnings on an IFRS basis in 2010 will largely reflect the differences in the method of accounting for securitized assets and the related derivatives used to implement the securitization program and hedge the inherent interest rate risk. The Company currently estimates that the earnings for the 2010 year will be 8% to 12% lower when measured on an IFRS basis. This is lower than previously estimated, reflecting the significant increase in securitization activity in the fourth quarter as well as a significant unfavourable movement in the market value of certain interest rate swaps during the fourth quarter.

In the fourth quarter of 2010, the Company securitized significantly more than in the third quarter of 2010, or in the fourth quarter of 2009. The Company's gain on securitization in the fourth quarter of 2010 was 75% greater than the amount recorded in the third quarter of 2010 and 54% greater than the amount recorded in the fourth quarter of 2009. Under IFRS, this income is recorded over the term of the related MBS, rather than in the quarter of securitization. Consequently, the amount of earnings for the fourth quarter is less when measured using IFRS as compared to the reported Canadian GAAP earnings. Also during the fourth quarter, there was a significant unfavourable movement in the market value of swaps used to hedge interest rate risk in the CMB program. Although, on an economic basis (and under CGAAP), this was offset by favourable movement in the fair value of the CMB seller swap, under IFRS accounting, the unfavourable movement in the fair value of the interest rate swap cannot be offset by favourable movement in the seller swap. This mismatch occurs because the Company could not meet the requirements for hedge accounting in 2010 or earlier periods under both CGAAP and IFRS. However, these swaps were a requirement for the securitization program and were a sound business decision. The unmatched accounting for these movements in fair value has a significant unfavourable impact on the measurement of fourth quarter income under IFRS, versus favourable measurements during the first nine months.

In general, Company's earnings from quarter to quarter for 2010, measured under IFRS, will exhibit volatility due to the impact of significant changes in the fair value of interest rate swaps used to hedge the interest rate risk associated with the CMB program. This volatility was not measured under Canadian GAAP, as changes in the fair value of these instruments were offset with changes in the fair value of the seller swaps, matching the economic behaviour of the arrangement. However, under IFRS the seller swaps are not carried at fair value and do not offset the accounting for the changes in the fair value of the interest rate swap. This mismatch in the IFRS accounting causes volatility in the 2010 earnings.

In 2011 and subsequent years, the Company will be able to apply hedge accounting under IFRS, by designating the interest rate swaps as hedges of interest rate risk in the CMB program. The Company will be able to use the hedge accounting option within IFRS, which will remove much of the measurement volatility associated with the interest rate swaps which provide the risk coverage on the interest rate exposure under the program for which they are intended.

In 2011, the Company will develop its earnings comparisons to 2010 to remove the volatility introduced by this accounting framework change. The Company expects that it will report steady increases in profitability in 2011 as the total assets of the Company continue to grow.

The Company's estimates of income, assets, liabilities and equity under IFRS have not yet been audited and may be subject to further revision.

Summary of IFRS Impacts

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

| IFRS Area | Identified Impact on Home |
|--------------------------------------|--|
| Securitization Accounting | <p>The most significant IFRS implication for the Company is the accounting for the securitization and sale of mortgages under the CMHC sponsored CMB and MBS programs.</p> <p>The Company securitizes and sells insured mortgages through two programs, the NHA MBS program and the CMB program sponsored by CMHC. Under currently applicable IFRS, mortgages securitized and sold under both programs would no longer qualify as sales for accounting purposes as they do under current GAAP and would remain on the Company's balance sheet.</p> <p>The Company has elected to apply the currently applicable IFRS 1 and apply IFRS prospectively to securitization transactions occurring after January 1, 2004. The Company does not have any outstanding securitization transactions prior to this date. As such, at the transition date to IFRS (January 1, 2010), all previously recognized securitization gains will be reversed through opening retained earnings partially offset by the interest income that would have been recognized if the mortgages had not been considered sold for accounting purposes, less the interest cost of the securitization funding.</p> <p>The Company's balance sheet on January 1, 2011 will also include the amortized cost of mortgages previously securitized and sold under the MBS and CMB programs of approximately \$8.17 billion and the associated MBS and CMB liabilities (securitization funding). Additionally, for comparative purposes the Company's IFRS balance sheet at January 1, 2010 will include the amortized cost of securitized and sold mortgages of approximately \$4.15 million and the associated MBS and CMB liabilities (securitization funding).</p> <p>Future income under IFRS on securitized mortgages will be recognized as interest income on the underlying mortgages less the interest expense on the securitization funding, compared to the current gain on sale under current GAAP.</p> |
| Accounting for Loans | <p>The Company anticipates that accounting for the measurement of loans to remain generally unchanged under IFRS accounting policies. However, non-performing loans will continue to accrue interest, partially offset by an increase in provisions for credit losses where appropriate. This affects the timing of income recognition, but not the total amount over time. The net amount associated with this change is not anticipated to be material in any period.</p> |
| Accounting for Investments | <p>The Company expects to continue accounting for its securities portfolio as available for sale with fair value changes recorded through OCI. Other than temporary impairments on available for sale securities may be recognized earlier on an IFRS basis.</p> |
| First-time Adoption of IFRS (IFRS 1) | <p>Except for the election noted above for securitization transactions, the Company does not expect elections under IFRS 1 to have a material financial impact on the Company. The Company will provide the additional reconciliations and disclosures required by IFRS 1 throughout 2011.</p> |
| Stock-based Compensation | <p>The Company has identified differences in the way the vesting of options is treated under IFRS. This may lead to acceleration in the recognition of the expense under IFRS. The amount is not anticipated to be material to net income or to the opening adjustment.</p> |
| Income Tax Impact of IFRS | <p>Any financial statement adjustment under IFRS will have a related income tax accounting impact. The Company has identified tax accounting differences between Canadian GAAP and IFRS but they are not applicable to the Company.</p> |
| Additional Disclosure | <p>There are a number of IFRS that require additional disclosures when compared to Canadian GAAP. Further, any changes to the financial statement balances will change the related financial statement note disclosure on a comparative basis.</p> |
| Hedge Accounting | <p>The Company will apply hedge accounting on an IFRS basis to better reflect the economic purpose of certain derivatives that are hedges against changes in fair value of balances or transactions. The Company intends on applying hedge accounting on an IFRS basis to its forward bond sale contracts and to certain interest rate swaps, where possible.</p> |

Information Technology Impacts

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

Disclosure Controls and Internal Controls over Financial Reporting Impacts

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

IFRS Education and Corporate Governance

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

Regulatory and Capital Considerations

In March 2010 OSFI released a Final Advisory on the conversion to IFRS by Federally Regulated Entities that among other items provided guidance on the capital treatment under IFRS of securitization activities under the CMHC-sponsored 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 Final Advisory requires that these activities be included in the calculation of ACM when these activities are accounted for on-balance sheet under IFRS. OSFI allowed for the exclusion of assets securitized through CMHC-sponsored securitizations entered into on or before March 31, 2010 for purposes of calculating assets for the ACM. This multiple limits the financial leverage of regulated financial institutions. Additionally, OSFI's Final Advisory provided transitional relief for the opening IFRS capital adjustment for certain items, including the impact of mortgages securitized through CMHC programs. Based on the regulatory relief, Home Trust will be permitted to transition the difference between Canadian GAAP retained earnings and IFRS retained earnings at December 31, 2010 over eight quarters beginning March 31, 2011.

Upon adoption of IFRS on January 1, 2011, the inclusion of mortgages securitized after March 31, 2010 will increase Home Trust's ACM to approximately 15 times and will remain within authorized limits. The Company will continue to offer insured mortgage products and participate in the CMB and NHA MBS securitization programs when market conditions are favourable. The transition to IFRS will not materially affect the Tier 1 and Total capital ratios and strong capital position of Home Trust.

UPDATED SHARE INFORMATION

As at December 31, 2010, the Company had issued 34,645,990 Common Shares. In addition, outstanding employee stock options amounted to 1,065,500 (748,750 – Q3 2010, and 924,750 – Q4 2009) of which 421,250 were exercisable as of the quarter-end (434,100 – Q3 2010, and 458,000 – Q4 2009) for proceeds to the Company upon exercise of \$13.9 million (\$14.4 million – Q3 2010, and \$15.0 million – Q4 2009).

Subsequent to the end of the fourth quarter, the Board of Directors declared a quarterly cash dividend of \$0.18 per common share payable on March 1, 2011 to shareholders of record at the close of business on February 18, 2011.

QUARTERLY FINANCIAL HIGHLIGHTS

Table 18: Summary of Quarterly Results

| (000s, except per share and %) | 2010 | | | | 2009 | | | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Net interest income (TEB ¹) | \$ 51,612 | \$ 51,092 | \$ 49,467 | \$ 49,591 | \$ 48,178 | \$ 45,254 | \$ 42,024 | \$ 37,505 |
| Less TEB adjustment | 1,779 | 1,993 | 2,032 | 2,096 | 2,842 | 2,300 | 1,535 | 1,273 |
| Net interest income per financial statements | 49,833 | 49,099 | 47,435 | 47,495 | 45,336 | 42,954 | 40,489 | 36,232 |
| Non-interest income | 46,922 | 36,808 | 38,149 | 29,826 | 28,015 | 33,589 | 30,437 | 32,034 |
| Non-interest expense | 26,868 | 23,535 | 23,435 | 20,101 | 19,856 | 21,674 | 18,222 | 18,849 |
| Total revenues | 144,743 | 133,753 | 132,768 | 122,673 | 121,381 | 125,299 | 121,778 | 120,721 |
| Net income | 50,382 | 45,450 | 43,393 | 41,719 | 40,481 | 38,243 | 34,351 | 31,418 |
| Return on common shareholders' equity | 28.0% | 27.0% | 27.1% | 27.4% | 28.4% | 28.7% | 27.9% | 27.9% |
| Return on average total assets | 2.6% | 2.4% | 2.4% | 2.3% | 2.4% | 2.5% | 2.3% | 2.2% |
| Earnings per common share | | | | | | | | |
| Basic | \$ 1.45 | \$ 1.31 | \$ 1.25 | \$ 1.20 | \$ 1.17 | \$ 1.11 | \$ 1.00 | \$ 0.91 |
| Diluted | \$ 1.45 | \$ 1.31 | \$ 1.25 | \$ 1.20 | \$ 1.16 | \$ 1.10 | \$ 0.99 | \$ 0.91 |
| Book value per common share | \$ 21.42 | \$ 20.07 | \$ 18.78 | \$ 18.08 | \$ 17.00 | \$ 15.99 | \$ 14.99 | \$ 13.62 |
| Efficiency ratio (TEB) ¹ | 27.3% | 26.8% | 26.7% | 25.3% | 26.1% | 27.5% | 25.1% | 27.1% |
| Efficiency ratio | 27.8% | 27.4% | 27.4% | 26.0% | 27.1% | 28.3% | 25.7% | 27.6% |
| Tier 1 capital ratio ² | 18.1% | 16.9% | 16.7% | 16.5% | 16.4% | 16.6% | 15.2% | 13.8% |
| Total capital ratio ² | 19.4% | 18.1% | 17.9% | 17.9% | 18.0% | 18.2% | 16.7% | 15.2% |
| Net impaired loans as a % of gross loans | 0.58% | 0.57% | 0.67% | 0.91% | 0.85% | 1.22% | 1.26% | 1.17% |
| Annualized provision as a % of gross loans | 0.39% | 0.14% | 0.04% | 0.07% | 0.17% | 0.22% | 0.26% | 0.29% |

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 revenue growth in mortgage lending, and continued low efficiency ratios. Tier 1 and total capital ratios throughout 2009 and into 2010 reflect the Company's prudent capital management strategies and the proactive approach to increase the capital base during the economic downturn.

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

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

OUTLOOK

The Company will continue to focus on its core mortgage lending business, including its traditional mortgage lending programs which have successfully operated for over 20 years, as well as, developing new products in this suite of offerings. These products serve selected segments of the Canadian financial services marketplace which are generally not the focus of the major financial institutions. Additionally, the Company will continue offering insured mortgage portfolio through the offering of competitive, well-serviced mortgage products. The Company will continue to participate in the CMB and NHA MBS securitization programs when market conditions are favourable. Growth of the overall loans portfolio will continue through cautious and strategic geographic penetration combined with ongoing measured growth of the consumer portfolio, while maintaining the Company's prudent credit policies.

The Company is committed to maintaining its financial strength through a strong capital base and conservative liquidity. The Company believes that this positions the Company to continue generating above-average returns and capitalize on market opportunities where they arise, at controlled, acceptable levels of risk.

Real estate markets showed robust growth in early 2010 and began to slow later in 2010. The Company has observed healthier and more stable real estate conditions across the country. As expected, the relative increase in new and resale home sales and price appreciation continued to slow to more sustainable and balanced levels in the quarter. As anticipated, it appears that much of the pent up demand that was leading the robust real estate growth in late 2009 and the first part of 2010 has been satisfied. The Company still believes the housing market will remain healthy into 2011. Canadian housing market activity is expected to slow modestly into 2011 compared to 2010 although there may be a slight pick-up in the first quarter of 2011 ahead of changes in CMHC insured mortgage requirements. The Company does not expect recently announced changes to the CMHC insurance rules which limit the amortization period and reduce the loan to value on refinances, will negatively affect its current origination objectives. The elimination of eligibility of home equity lines of credit (HELOCs) for CMHC insurance does not impact the Company as its Equityline *Visa* accounts are not insured.

Despite recent modest slowing in the real estate market, the Company has maintained growth in its profitability by adapting its strategies as the market changes. The stabilization of housing markets has allowed for renewed focus on the Company's traditional mortgage portfolio, Equityline *Visa* and geographic growth strategies. The Company intends to continue focusing on superior customer and broker service, diverse and new product offerings and expansion of broker networks and increased market penetration. The Company expects origination volume increases in the traditional mortgage portfolio, increased originations outside Ontario and continued growth in consumer lending, which includes Equityline *Visa*, through 2011.

The Company expects that the rate of growth in the total mortgage loan portfolio and net income will moderate in 2011 compared to the record increases in 2009 and 2010 that exceeded all annual objectives. Net interest income will remain strong, including the interest income on securitized mortgages. The Company will continue to securitize insured mortgages but at slower pace than 2010. Securitization volumes will reflect stable to modest declines in Accelerator originations. Spreads earned on Accelerator and traditional mortgages are anticipated to remain relatively stable into 2011.

Arrears in the Company's mortgage portfolio reached a high water mark in the second quarter of 2009 when the total arrears over 30 days reached \$71.3 million and \$56.3 million non-performing at June 30, 2009. At December 31, 2010 arrears over 30 days were \$40.2 million and \$33.9 million were non-performing. Non-performing loans as a percentage of gross loans were 0.58% at December 31, 2010 compared to 0.85% one year ago. Management believes these levels are within a low range and the Company expects arrears levels and non-performing loans to remain stable on a relative basis through 2011.

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

Looking ahead, the Board of Directors and management are confident that Home Capital is well positioned to continue generating improved earnings and growth through 2011. **This Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements on page 6 of these unaudited interim consolidated financial statements.**

Consolidated Statements of Income

| | For the three months ended | | For the year ended | |
|--|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| <i>000s except per share amounts (Unaudited)</i> | | | | |
| Income | | | | |
| Interest from loans | \$ 90,447 | \$ 84,312 | \$ 354,222 | \$ 334,148 |
| Dividends from equity securities | 4,098 | 6,343 | 18,204 | 17,742 |
| Other interest | 3,276 | 2,711 | 9,806 | 13,214 |
| | 97,821 | 93,366 | 382,232 | 365,104 |
| Interest Expense | | | | |
| Interest on deposits | 47,988 | 48,030 | 188,370 | 200,093 |
| Net interest income | 49,833 | 45,336 | 193,862 | 165,011 |
| Provision for credit losses (note 4(E)) | 5,759 | 2,282 | 9,411 | 11,526 |
| | 44,074 | 43,054 | 184,451 | 153,485 |
| Non-interest Income | | | | |
| Fees and other income | 8,621 | 7,182 | 30,690 | 29,326 |
| Securitization income on mortgage-backed securities (note 5) | 37,415 | 24,283 | 107,724 | 92,397 |
| Gain on sale of loan portfolio (note 4(F)) | - | - | 3,917 | - |
| Net (loss) gain realized and unrealized on securities | (1,033) | (431) | 8,953 | 2,097 |
| (Loss) Gain on derivatives | 1,919 | (3,019) | 421 | 255 |
| | 46,922 | 28,015 | 151,705 | 124,075 |
| | 90,996 | 71,069 | 336,156 | 277,560 |
| Non-interest Expenses | | | | |
| Salaries and staff benefits | 12,405 | 10,045 | 46,739 | 41,559 |
| Premises | 1,820 | 1,546 | 6,894 | 5,916 |
| General and administration | 12,643 | 8,265 | 40,306 | 31,126 |
| | 26,868 | 19,856 | 93,939 | 78,601 |
| Income Before Income Taxes | 64,128 | 51,213 | 242,217 | 198,959 |
| Provision for income taxes (note 11(A)) | 13,746 | 10,732 | 61,273 | 54,466 |
| NET INCOME | \$ 50,382 | \$ 40,481 | \$ 180,944 | \$ 144,493 |
| NET INCOME PER COMMON SHARE | | | | |
| Basic | \$ 1.45 | \$ 1.17 | \$ 5.21 | \$ 4.19 |
| Diluted | \$ 1.45 | \$ 1.16 | \$ 5.20 | \$ 4.15 |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | | | | |
| Basic | 34,685 | 34,552 | 34,697 | 34,450 |
| Diluted | 34,778 | 34,756 | 34,776 | 34,795 |
| Total number of outstanding common shares (note 8) | 34,646 | 34,713 | 34,646 | 34,713 |
| Book value per common share | \$ 21.42 | \$ 17.00 | \$ 21.42 | \$ 17.00 |

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

Consolidated Statements of Comprehensive Income

| | For the three months ended | | For the year ended | |
|---|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| <i>000s (Unaudited)</i> | | | | |
| NET INCOME | \$ 50,382 | \$ 40,481 | \$ 180,944 | \$ 144,493 |
| OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX | | | | |
| Unrealized income on available for sale securities (note 10) | | | | |
| Net unrealized (loss) income on available for sale securities and securitization receivable, net of \$(658) tax (\$362) – three months ended December 31, 2009; \$(221) – twelve months ended December 31, 2010; \$8,739 – twelve months ended December 31, 2009) | 3,822 | 6,813 | 3,003 | 22,092 |
| Reclassification of losses (gain) in respect of available for sale securities, net of \$284 tax (\$3,085 – three months ended December 31, 2009; \$2,728 – twelve months ended December 31, 2010; \$4,941 – twelve months ended December 31, 2009) | 510 | (3,139) | (5,542) | 10,229 |
| Total other comprehensive (loss) income | 4,332 | 3,674 | (2,539) | 32,321 |
| COMPREHENSIVE INCOME | \$ 54,714 | \$ 44,155 | \$ 178,405 | \$ 176,814 |

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

Consolidated Balance Sheets

| <i>000s (Unaudited)</i> | December 31 2010 | September 30 2010 | December 31 2009 |
|--|-----------------------------|----------------------|---------------------|
| ASSETS | | | |
| Cash Resources (note 3(a)) | \$ 846,824 | 712,587 | 930,134 |
| Securities (note 3(b)) | | | |
| Held for trading | - | 49,651 | 99,938 |
| Available for sale | 543,892 | 776,065 | 550,659 |
| | 543,892 | 825,716 | 650,597 |
| Loans (note 4) | | | |
| Residential mortgages | 4,570,130 | 4,709,360 | 4,417,197 |
| Non-residential mortgages | 838,253 | 774,580 | 708,425 |
| Personal and credit card loans | 453,339 | 428,207 | 342,918 |
| General allowance for credit losses | (29,153) | (29,146) | (27,793) |
| | 5,832,569 | 5,883,001 | 5,440,747 |
| Other | | | |
| Securitization receivable (note 5) | 343,402 | 315,203 | 229,418 |
| Capital assets | 4,894 | 5,250 | 4,863 |
| Other assets (note 6) | 140,658 | 129,662 | 105,115 |
| | 488,954 | 450,115 | 339,396 |
| | \$ 7,712,239 | \$ 7,871,419 | \$ 7,360,874 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities | | | |
| Deposits | | | |
| Payable on demand | \$ 50,359 | \$ 20,827 | \$ 38,223 |
| Payable on a fixed date | 6,472,491 | 6,699,998 | 6,371,599 |
| | 6,522,850 | 6,720,825 | 6,409,822 |
| Other | | | |
| Cheques and other items in transit | 5,241 | 9,908 | 4,617 |
| Other liabilities (note 7) | 441,868 | 444,838 | 356,147 |
| | 447,109 | 454,746 | 360,764 |
| | 6,969,959 | 7,175,571 | 6,770,586 |
| Shareholders' Equity | | | |
| Capital stock (note 8) | 50,427 | 50,475 | 45,396 |
| Contributed surplus | 3,649 | 3,452 | 3,606 |
| Retained earnings | 669,475 | 627,524 | 520,018 |
| Accumulated other comprehensive income (note 10) | 18,729 | 14,397 | 21,268 |
| | 742,280 | 695,848 | 590,288 |
| | \$ 7,712,239 | \$ 7,871,419 | \$ 7,360,874 |

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

Consolidated Statements of Changes in Shareholders' Equity

| | For the three months ended | | For the year ended | |
|--|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| <i>000s (Unaudited)</i> | | | | |
| CAPITAL STOCK (note 8) | | | | |
| Balance at beginning of the period | \$ 50,475 | \$ 41,888 | \$ 45,396 | \$ 39,094 |
| Proceeds of options exercised | - | 3,572 | 5,309 | 6,498 |
| Repurchase of shares | (48) | (64) | (278) | (196) |
| BALANCE AT END OF THE PERIOD | \$ 50,427 | \$ 45,396 | \$ 50,427 | \$ 45,396 |
| CONTRIBUTED SURPLUS | | | | |
| Balance at beginning of the period | \$ 3,452 | \$ 3,948 | \$ 3,606 | \$ 3,283 |
| Amortization of fair value of employee stock options (note 9) | 291 | 349 | 1,203 | 1,543 |
| Exercise of stock appreciation rights | (94) | - | (280) | - |
| Employee stock options exercised | - | (691) | (880) | (1,220) |
| BALANCE AT END OF THE PERIOD | \$ 3,649 | \$ 3,606 | \$ 3,649 | \$ 3,606 |
| RETAINED EARNINGS | | | | |
| Balance at beginning of the period | \$ 627,524 | \$ 487,393 | \$ 520,018 | \$ 401,429 |
| Repurchase of shares | (1,501) | (1,912) | (8,246) | (4,469) |
| Net income for the period | 50,382 | 40,481 | 180,944 | 144,493 |
| Dividends paid or declared during the period | (6,930) | (5,944) | (23,241) | (21,435) |
| BALANCE AT END OF THE PERIOD | \$ 669,475 | \$ 520,018 | \$ 669,475 | \$ 520,018 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Balance at beginning of the period | \$ 14,397 | \$ 17,594 | \$ 21,268 | \$ (11,053) |
| Other comprehensive (loss) income, net of \$(374) tax; (\$2,723 – three months ended December 31, 2009; \$2,507 – twelve months ended December 31, 2010; \$13,680 – twelve months ended December 31, 2009) | 4,332 | 3,674 | (2,539) | 32,321 |
| BALANCE AT END OF THE PERIOD | \$ 18,729 | \$ 21,268 | \$ 18,729 | \$ 21,268 |

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

Consolidated Statements of Cash Flows

| | For the three months ended | | For the year ended | |
|--|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| <i>000s (Unaudited)</i> | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income for the period | \$ 50,382 | \$ 40,481 | \$ 180,944 | \$ 144,493 |
| Adjustments to determine cash flows relating to operating activities: | | | | |
| Future income taxes | 3,800 | 5,458 | 26,042 | 26,641 |
| Amortization | 1,091 | (2,693) | 5,031 | 1,573 |
| Provision for credit losses (note 4 (E)) | 5,759 | 2,282 | 9,411 | 11,526 |
| Change in accrued interest payable | (2,091) | (9,618) | 7,261 | (21,117) |
| Change in accrued interest receivable | 468 | (606) | 165 | 1,708 |
| Net gain realized and unrealized on investment securities | 1,033 | 431 | (8,953) | (2,097) |
| (Loss) Gain on derivatives | (1,919) | 3,019 | (421) | (255) |
| Gain on sale of portfolio | - | - | (3,917) | - |
| Securitization gain on mortgage-backed securities | (34,575) | (20,811) | (91,533) | (80,051) |
| Amortization of fair value of employee stock options (note 9) | 291 | 349 | 1,203 | 1,543 |
| Change in payments received for securitized pools | 2,820 | 2,937 | 32,683 | 50,883 |
| Other | (18,358) | (13,711) | 6,855 | (12,949) |
| Cash flows used in operating activities | 8,701 | 7,518 | 164,771 | 121,898 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Net increase (decrease) in deposits | (197,975) | 1,036,360 | 113,028 | 1,307,041 |
| Repurchase of shares | (1,549) | (1,976) | (8,524) | (4,665) |
| Exercise of employee stock options and stock appreciation rights | (94) | 2,881 | 4,149 | 5,278 |
| Dividends paid | (6,595) | (5,555) | (22,906) | (20,010) |
| Cash flows from financing activities | (206,213) | 1,031,710 | 85,747 | 1,287,644 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Activity in available for sale and held for trading securities | | | | |
| Purchases | (441,442) | (287,627) | (1,804,301) | (954,444) |
| Proceeds from sales | 633,510 | 184,322 | 1,409,583 | 767,516 |
| Proceeds from maturities | 91,306 | 110,440 | 503,873 | 135,615 |
| Activity in mortgages | | | | |
| Net increase | (1,789,304) | (1,124,246) | (5,453,526) | (3,569,541) |
| Proceeds from securitization of mortgage-backed securities | 1,833,624 | 843,710 | 5,091,160 | 2,550,007 |
| Change in mortgage-backed securities receivable | 36,096 | 9,802 | 54,799 | 41,454 |
| Net (increase) decrease in personal and credit card loans | (27,673) | (395) | (111,321) | 23,918 |
| Net (increase) in restricted cash | (24,500) | (26,300) | (28,190) | (42,465) |
| Purchases of capital assets | (775) | (580) | (2,989) | (2,181) |
| Purchases of intangible assets | (3,693) | (6,644) | (21,106) | (26,174) |
| Cash flows from investing activities | 307,249 | (297,518) | (362,018) | (1,076,295) |
| Net (decrease) increase in cash and cash equivalents during the period | 109,737 | 741,710 | (111,500) | 333,247 |
| Cash and cash equivalents at beginning of the period | 644,832 | 124,359 | 866,069 | 532,822 |
| Cash and cash equivalents at end of the period (note 3) | \$ 754,569 | \$ 866,069 | \$ 754,569 | \$ 866,069 |
| Supplementary Disclosure of Cash Flow Information | | | | |
| Interest paid | \$ 50,078 | \$ 57,648 | \$ 181,109 | \$ 221,209 |
| Income taxes paid | 10,321 | 14,563 | 42,114 | 45,506 |

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

Notes to the Unaudited Interim Consolidated Financial Statements

1. ACCOUNTING POLICIES USED TO PREPARE THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009 as set out in the 2009 Annual Report, on pages 50 through 76. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods of application used in the preparation of these unaudited interim consolidated financial statements are consistent with the accounting policies used in Home Capital Group Inc.'s (the "Company") most recent annual audited financial statements. These unaudited interim consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

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

2. FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants will transition financial reporting for Canadian public entities to International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. Please see the discussion regarding IFRS in the MD&A and pages 46 – 48 of the 2009 Annual Report for additional information on the Company's transition to IFRS.

3. CASH RESOURCES AND SECURITIES

(A) Cash Resources

| (000s) | December 31 | September 30 | December 31 |
|--|-------------|--------------|-------------|
| | 2010 | 2010 | 2009 |
| Deposits with regulated financial institutions | \$ 347,631 | \$ 494,020 | \$ 866,069 |
| Treasury bills guaranteed by government | 406,938 | 150,812 | - |
| Cash and cash equivalent | 754,569 | 644,832 | 866,069 |
| Restricted cash ¹ | 92,255 | 67,755 | 64,065 |
| | \$ 846,824 | \$ 712,587 | \$ 930,134 |

¹ This includes a deposit of \$70.0 million (September 30, 2010 - \$46.1 million, December 31, 2009 - \$46.1 million) and \$22.5 million (September 30, 2010 - \$21.6 million, December 31, 2009 - \$17.8 million) held as collateral for the Company's securitization activities and the Company's interest rate swap transactions.

(B) Available for Sale Securities - Net Unrealized Gains and Losses

| (000s) | December 31 | September 30 | December 31 |
|-------------------------------------|-------------|--------------|-------------|
| | 2010 | 2010 | 2009 |
| Securities issued or guaranteed by: | | | |
| Canada | \$ (133) | \$ (1,208) | \$ 3 |
| Corporations | 130 | 282 | (35) |
| Equity securities | | | |
| Common | 313 | 131 | 360 |
| Fixed rate preferred | 6,282 | 5,054 | 8,105 |
| Income trusts | (458) | (550) | 2,317 |
| Mutual funds | 115 | (4) | (55) |
| | \$ 6,249 | \$ 3,705 | \$ 10,695 |

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.

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

For the three months ended December 31, 2010, the Company determined \$0.4 million with a year-to-date total of \$0.7 million (\$nil – Q4 2009 and \$9.3 million – for the year 2009) of unrealized losses on available for sale securities were other than temporary in nature, and charged that amount against net income. These unrealized losses are not included in the previous table.

4. LOANS

(A) Loans by Geographic Region and Type

As at December 31, 2010

| <i>(000s, except %)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total | Percentage of Portfolio |
|---------------------------|-----------------------|---------------------------|--------------------------------|--------------|-------------------------|
| British Columbia | \$ 303,458 | \$ 9,580 | \$ 15,921 | \$ 328,959 | 5.6% |
| Alberta | 297,544 | 31,813 | 39,090 | 368,447 | 6.3% |
| Ontario | 3,592,856 | 736,310 | 391,976 | 4,721,142 | 80.5% |
| Quebec | 154,793 | 34,710 | 1,482 | 190,985 | 3.3% |
| Maritimes | 124,980 | 25,840 | 3,661 | 154,481 | 2.6% |
| Manitoba and Saskatchewan | 96,499 | - | 1,209 | 97,708 | 1.7% |
| | \$ 4,570,130 | \$ 838,253 | \$ 453,339 | \$ 5,861,722 | 100.0% |
| As a % of portfolio | 78.0% | 14.3% | 7.7% | 100.0% | |

As at September 30, 2010

| <i>(000s, except %)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total | Percentage of Portfolio |
|---------------------------|-----------------------|---------------------------|--------------------------------|--------------|-------------------------|
| British Columbia | \$ 323,300 | \$ 9,627 | \$ 16,798 | \$ 349,725 | 5.9% |
| Alberta | 289,872 | 30,287 | 41,435 | 361,594 | 6.1% |
| Ontario | 3,766,186 | 683,459 | 363,666 | 4,813,311 | 81.4% |
| Quebec | 147,153 | 34,119 | 1,389 | 182,661 | 3.1% |
| Maritimes | 89,413 | 15,725 | 3,675 | 108,813 | 1.9% |
| Manitoba and Saskatchewan | 93,436 | 1,363 | 1,244 | 96,043 | 1.6% |
| | \$ 4,709,360 | \$ 774,580 | \$ 428,207 | \$ 5,912,147 | 100.00% |
| As a % of portfolio | 79.6% | 13.1% | 7.3% | 100.0% | |

As at December 31, 2009

| <i>(000s, except %)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total | Percentage of Portfolio |
|---------------------------|-----------------------|---------------------------|--------------------------------|--------------|-------------------------|
| British Columbia | \$ 476,425 | \$ 9,270 | \$ 22,617 | \$ 508,312 | 9.3% |
| Alberta | 364,050 | 76,424 | 54,209 | 494,683 | 9.0% |
| Ontario | 3,281,896 | 570,339 | 258,952 | 4,111,187 | 75.2% |
| Quebec | 131,776 | 31,660 | 1,594 | 165,030 | 3.0% |
| Maritimes | 92,121 | 11,399 | 4,095 | 107,615 | 2.0% |
| Manitoba and Saskatchewan | 70,929 | 9,333 | 1,451 | 81,713 | 1.5% |
| | \$ 4,417,197 | \$ 708,425 | \$ 342,918 | \$ 5,468,540 | 100.00% |
| As a % of portfolio | 80.8% | 12.9% | 6.3% | 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, 2010

| <i>(000s, except %)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|-------------------------|-----------------------|---------------------------|--------------------------------|------------|
| 1 - 30 days | \$ 108,842 | \$ 4,671 | \$ 4,706 | \$ 118,219 |
| 31 - 60 days | 26,027 | 1,022 | 1,922 | 28,971 |
| 61 - 90 days | 6,038 | - | 1,857 | 7,895 |
| 91 - 120 days | 7,080 | - | 1,384 | 8,464 |
| | \$ 147,987 | \$ 5,693 | \$ 9,869 | \$ 163,549 |

As at September 30, 2010

| <i>(000s, except %)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|-------------------------|-----------------------|---------------------------|--------------------------------|------------|
| 1 - 30 days | \$ 94,753 | \$ 1,719 | \$ 4,238 | \$ 100,710 |
| 31 - 60 days | 25,726 | 1,506 | 1,191 | 28,423 |
| 61 - 90 days | 5,953 | 537 | 1,751 | 8,241 |
| 91 - 120 days | 7,338 | - | 1,150 | 8,488 |
| | \$ 133,770 | \$ 3,762 | \$ 8,330 | \$ 145,862 |

As at December 31, 2009

| <i>(000s, except %)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|-------------------------|-----------------------|---------------------------|--------------------------------|------------|
| 1 - 30 days | \$ 134,925 | \$ 4,058 | \$ 5,204 | \$ 144,187 |
| 31 - 60 days | 36,149 | 1,910 | 1,428 | 39,487 |
| 61 - 90 days | 3,080 | - | 2,162 | 5,242 |
| 91 - 120 days | 8,911 | - | 749 | 9,660 |
| | \$ 183,065 | \$ 5,968 | \$ 9,543 | \$ 198,576 |

(C) Impaired Loans and Specific Allowances for Credit Losses

As at December 31, 2010

| <i>(000s)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--------------------------------|--------------------------|------------------------------|-----------------------------------|-----------|
| Gross amount of impaired loans | \$ 29,586 | \$ 2,295 | \$ 7,241 | \$ 39,122 |
| Specific allowances | (1,757) | - | (3,140) | (4,897) |
| Net | \$ 27,829 | \$ 2,295 | \$ 4,101 | \$ 34,225 |

As at September 30, 2010

| <i>(000s)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--------------------------------|--------------------------|------------------------------|-----------------------------------|-----------|
| Gross amount of impaired loans | \$ 30,497 | \$ 1,148 | \$ 3,983 | \$ 35,628 |
| Specific allowances | (1,183) | (60) | (471) | (1,714) |
| Net | \$ 29,314 | \$ 1,088 | \$ 3,512 | \$ 33,914 |

As at December 31, 2009

| <i>(000s)</i> | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--------------------------------|--------------------------|------------------------------|-----------------------------------|-----------|
| Gross amount of impaired loans | \$ 41,621 | \$ 2,417 | \$ 4,847 | \$ 48,885 |
| Specific allowances | (1,483) | (135) | (961) | (2,579) |
| Net | \$ 40,138 | \$ 2,282 | \$ 3,886 | \$ 46,306 |

(D) Collateral

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant it or if a mortgage becomes impaired. At December 31, 2010, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, was \$380.8 million. For impaired mortgages, the total appraised value of collateral at December 31, 2010 was \$49.3 million.

(E) Allowance for Credit Losses and Provision

For the three months ended December 31, 2010

| (000s) | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--|-----------------------|---------------------------|--------------------------------|-----------|
| Specific allowances | | | | |
| Balance at the beginning of the period | \$ 1,183 | \$ 60 | \$ 471 | \$ 1,714 |
| Provisions for credit losses | 2,370 | (60) | 3,442 | 5,752 |
| Write-offs | (1,970) | - | (863) | (2,833) |
| Recoveries | 174 | - | 90 | 264 |
| | 1,757 | - | 3,140 | 4,897 |
| General allowance | | | | |
| Balance at the beginning of the period | 21,462 | 4,184 | 3,500 | 29,146 |
| Provisions for credit losses | (5,163) | 5,173 | (3) | 7 |
| | 16,299 | 9,357 | 3,497 | 29,153 |
| Total allowance | \$ 18,056 | \$ 9,357 | \$ 6,637 | \$ 34,050 |
| Total provision | \$ (2,793) | \$ 5,113 | \$ 3,439 | \$ 5,759 |

For the three months ended September 30, 2010

| (000s) | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--|-----------------------|---------------------------|--------------------------------|-----------|
| Specific allowances | | | | |
| Balance at the beginning of the period | \$ 725 | \$ 145 | \$ 699 | \$ 1,569 |
| Provisions for credit losses | 1,636 | (85) | 360 | 1,911 |
| Write-offs | (1,361) | - | (649) | (2,010) |
| Recoveries | 183 | - | 61 | 244 |
| | 1,183 | 60 | 471 | 1,714 |
| General allowance | | | | |
| Balance at the beginning of the period | 21,464 | 4,100 | 3,380 | 28,944 |
| Provisions for credit losses | (2) | 84 | 120 | 202 |
| | 21,462 | 4,184 | 3,500 | 29,146 |
| Total allowance | \$ 22,645 | \$ 4,244 | \$ 3,971 | \$ 30,860 |
| Total provision | \$ 1,634 | \$ (1) | \$ 480 | \$ 2,113 |

For the three months ended December 31, 2009

| (000s) | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--|-----------------------|---------------------------|--------------------------------|-----------|
| Specific allowances | | | | |
| Balance at the beginning of the period | \$ 3,220 | \$ 418 | \$ 1,332 | \$ 4,970 |
| Provisions for credit losses | 1,277 | (283) | 15 | 1,009 |
| Write-offs | (3,790) | - | (467) | (4,257) |
| Recoveries | 776 | - | 81 | 857 |
| | 1,483 | 135 | 961 | 2,579 |
| General allowance | | | | |
| Balance at the beginning of the period | 18,918 | 4,156 | 3,446 | 26,520 |
| Provisions for credit losses | 1,030 | 242 | 1 | 1,273 |
| | 19,948 | 4,398 | 3,447 | 27,793 |
| Total allowance | \$ 21,431 | \$ 4,533 | \$ 4,408 | \$ 30,372 |
| Total provision | \$ 2,307 | \$ (41) | \$ 16 | \$ 2,282 |

(E) Allowance for Credit Losses and Provision (Continued)

For the year ended December 31, 2010

| (000s) | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--|-----------------------|---------------------------|--------------------------------|------------------|
| Specific allowances | | | | |
| Balance at the beginning of the period | \$ 1,483 | \$ 135 | \$ 961 | \$ 2,579 |
| Provisions for credit losses | 4,109 | (135) | 4,077 | 8,051 |
| Write-offs | (6,345) | - | (2,177) | (8,522) |
| Recoveries | 2,510 | - | 279 | 2,789 |
| | 1,757 | - | 3,140 | 4,897 |
| General allowance | | | | |
| Balance at the beginning of the period | 19,948 | 4,398 | 3,447 | 27,793 |
| Provisions for credit losses | (3,649) | 4,959 | 50 | 1,360 |
| | 16,299 | 9,357 | 3,497 | 29,153 |
| Total allowance | \$ 18,056 | \$ 9,357 | \$ 6,637 | \$ 34,050 |
| Total provision | \$ 460 | \$ 4,824 | \$ 4,127 | \$ 9,411 |

For the year ended December 31, 2009

| (000s) | Residential Mortgages | Non-residential Mortgages | Personal and Credit Card Loans | Total |
|--|-----------------------|---------------------------|--------------------------------|------------------|
| Specific allowances | | | | |
| Balance at the beginning of the period | \$ 2,379 | \$ - | \$ 547 | \$ 2,926 |
| Provisions for credit losses | 6,650 | 135 | 2,125 | 8,910 |
| Write-offs | (8,822) | - | (1,913) | (10,735) |
| Recoveries | 1,276 | - | 202 | 1,478 |
| | 1,483 | 135 | 961 | 2,579 |
| General allowance | | | | |
| Balance at the beginning of the period | 16,897 | 4,580 | 3,700 | 25,177 |
| Provisions for credit losses | 3,051 | (182) | (253) | 2,616 |
| | 19,948 | 4,398 | 3,447 | 27,793 |
| Total allowance | \$ 21,431 | \$ 4,533 | \$ 4,408 | \$ 30,372 |
| Total provision | \$ 9,701 | \$ (47) | \$ 1,872 | \$ 11,526 |

(F) Sale of loan portfolio

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

5. LOAN SECURITIZATION

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

| (000s, except % and number of years) | For the three months ended | | For the year ended | |
|--|----------------------------|-------------|--------------------|--------------|
| | December 31 | December 31 | December 31 | December 31 |
| | 2010 | 2009 | 2010 | 2009 |
| Book value of mortgages securitized | \$ 1,861,550 | \$ 863,438 | \$ 5,167,530 | \$ 2,599,741 |
| Securitization receivable | \$ 63,076 | \$ 60,623 | \$ 193,362 | \$ 156,996 |
| Servicing liability | \$ 6,025 | \$ 9,268 | \$ 18,433 | \$ 24,362 |
| Net proceeds received on securitized mortgages | \$ 1,833,624 | \$ 843,710 | \$ 5,091,160 | \$ 2,550,007 |
| Net gain on sale of mortgages ¹ | \$ 34,575 | \$ 20,811 | \$ 91,533 | \$ 80,051 |
| Prepayment rate | 13.9% | 6.1% | 14.4% | 7.1% |
| Excess spread | 1.6% | 2.0% | 1.6% | 1.9% |
| Weighted average life in years | 4.0 | 5.6 | 4.2 | 5.0 |
| Discount rate | 2.0% | 2.0% | 1.9% | 2.7% |

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

The Company securitized insured residential mortgages through CMHC's CMB program with a book value of \$1.16 billion for the quarter and a total book value of \$3.18 billion for the twelve months ended December 31, 2010 (\$730.0 million in Q4 2009 and a total of \$1.96 billion for the twelve months ended December 31, 2009). The net gain on sale was \$9.2 million during the fourth quarter and \$36.7 million for the twelve months ended December 31, 2010 (\$16.9 million in Q4 2009 and \$62.1 million for the twelve months ended December 31, 2009). These figures are included in the table above.

6. OTHER ASSETS

| (000s) | December 31 | September 30 | December 31 |
|---|-------------|--------------|-------------|
| | 2010 | 2010 | 2009 |
| Accrued interest receivable | \$ 25,988 | \$ 26,456 | \$ 26,153 |
| Income taxes receivable | 9,451 | 10,002 | - |
| Goodwill | 15,752 | 15,752 | 15,752 |
| Intangible assets ¹ | 47,917 | 44,224 | 26,811 |
| Other prepaid assets and deferred items | 41,550 | 33,228 | 36,399 |
| | \$ 140,658 | \$ 129,662 | \$ 105,115 |

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

7. OTHER LIABILITIES

| (000s) | December 31 | September 30 | December 31 |
|---|-------------|--------------|-------------|
| | 2010 | 2010 | 2009 |
| Accrued interest payable | \$ 145,759 | \$ 147,850 | \$ 138,498 |
| Dividends payable | 6,236 | 5,548 | 5,901 |
| Future income tax liability (note 11) | 88,562 | 84,393 | 57,559 |
| Securitization servicing liability | 41,594 | 38,349 | 30,389 |
| Payable to MBS and CMB holders | 125,579 | 88,102 | 92,896 |
| Other, including accounts payable and accrued liabilities | 34,138 | 80,596 | 30,904 |
| | \$ 441,868 | \$ 444,838 | \$ 356,147 |

8. CAPITAL

(A) Common Shares Issued and Outstanding

| (000s) | For the three months ended | | | | | | For the year ended | |
|------------------------------------|----------------------------|-----------|-------------------|-----------|-------------------|-----------|--------------------|-----------|
| | December 31, 2010 | | December 31, 2009 | | December 31, 2010 | | December 31, 2009 | |
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount |
| Outstanding at beginning of period | 34,679 | \$ 50,475 | 34,450 | \$ 41,888 | 34,713 | \$ 45,396 | 34,434 | \$ 39,094 |
| Options exercised | - | - | 312 | 3,572 | 130 | 5,309 | 445 | 6,498 |
| Repurchase of shares | (33) | (48) | (49) | (64) | (197) | (278) | (166) | (196) |
| Outstanding at end of period | 34,646 | \$ 50,427 | 34,713 | \$ 45,396 | 34,646 | \$ 50,427 | 34,713 | \$ 45,396 |

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

(B) Share Purchase Options

| (000s, except per share amounts) | For the three months ended | | | | | | For the year ended | |
|------------------------------------|----------------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|--------------------|---------------------------------|
| | December 31, 2010 | | December 31, 2009 | | December 31, 2010 | | December 31, 2009 | |
| | Number of Shares | Weighted-average Exercise Price | Number of Shares | Weighted-average Exercise Price | Number of Shares | Weighted-average Exercise Price | Number of Shares | Weighted-average Exercise Price |
| Outstanding at beginning of period | 749 | \$ 30.80 | 1,272 | \$ 25.49 | 925 | \$ 31.32 | 1,407 | \$ 25.08 |
| Granted | 333 | 47.92 | 58 | 40.84 | 343 | 47.82 | 168 | 30.12 |
| Exercised | (16) | 35.97 | (312) | 9.22 | (147) | 34.17 | (445) | 11.86 |
| Forfeited | - | - | (93) | 31.85 | (55) | 34.66 | (205) | 29.76 |
| Outstanding at end of period | 1,066 | \$ 36.07 | 925 | \$ 31.32 | 1,066 | \$ 36.07 | 925 | \$ 31.32 |
| Exercisable, end of period | 421 | \$ 33.06 | 458 | \$ 32.84 | 421 | \$ 33.06 | 458 | \$ 32.84 |

During the fourth quarter, the Company settled the exercise of 10,000 share options by cash payment of \$0.1 million for a total year to date of 23,750 shares for \$0.3 million (nil -2009).

(C) Capital Management

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

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

| (000s, except ratios and multiple) | December 31 | September 30 | December 31 |
|------------------------------------|-------------|--------------|-------------|
| | 2010 | 2010 | 2009 |
| Regulatory capital | | | |
| Tier 1 | \$ 682,978 | \$ 640,234 | \$ 530,256 |
| Total | 731,576 | 687,026 | 581,036 |
| Regulatory ratios | | | |
| Tier 1 | 18.1% | 16.9% | 16.4% |
| Total | 19.4% | 18.1% | 18.0% |
| Assets to capital multiple | 10.5 | 11.5 | 12.7 |

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 2010, \$291,174 was recorded as an expense for a year-to-date total of \$1,202,618 (\$349,300 – Q4 2009 and \$1,543,000 – twelve months of 2009) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus. During the fourth quarter of 2010, 333,000 options were granted for a year-to-date total of 343,000. During the fourth quarter of 2009, 57,500 options were granted for a total of 167,500 in 2009.

(B) Deferred Share Unit Plan

Effective January 1, 2009 the Board of Directors approved a deferred share unit plan (DSU). The plan is open to Directors of the Company who elect to accept remuneration in the form of cash, cash and DSUs or DSUs. At December 31, 2010 there were 9,670 deferred share units issued with the associated liability of \$0.4 million recorded in other liabilities on the consolidated balance sheet.

(C) Stock Appreciation Rights

During 2010, the Company approved an amendment to the employee share option plan to allow cash settlement of vested stock options, at the Company's discretion. 10,000 options were settled in the fourth quarter and 23,750 options were settled during the year. The Company does not anticipate additional cash settlement except in isolated circumstances.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

| | December 31 | September 30 | December 31 |
|--|-------------|--------------|-------------|
| (000s) | 2010 | 2010 | 2009 |
| Unrealized gains on | | | |
| Available for sale securities | \$ 6,249 | \$ 3,705 | \$ 10,695 |
| Income taxes expense | (1,706) | (1,701) | (2,733) |
| | 4,543 | 2,004 | 7,962 |
| Unrealized gains on | | | |
| Securitization receivables | 19,172 | 17,010 | 19,772 |
| Income tax expense | (4,986) | (4,617) | (6,466) |
| | 14,186 | 12,393 | 13,306 |
| Accumulated other comprehensive income | \$ 18,729 | \$ 14,397 | \$ 21,268 |

11. INCOME TAXES

(A) Reconciliation of Income Taxes

| | For the three months ended | | For the year ended | |
|--|----------------------------|---------------------|---------------------|---------------------|
| | December 31 2010 | December 31 2009 | December 31 2010 | December 31 2009 |
| (000s) | | | | |
| Income before income taxes | \$ 64,128 | \$ 51,213 | \$ 242,217 | \$ 198,959 |
| Income taxes at statutory combined federal and provincial income tax rates | \$ 19,906 | \$ 16,773 | \$ 74,719 | \$ 65,082 |
| Increase (decrease) in income taxes at statutory income tax rates resulting from | | | | |
| Tax-exempt income | (1,242) | (2,205) | (5,473) | (5,657) |
| Non-deductible expenses | 120 | (19) | 468 | 1,792 |
| Future tax rate changes | (5,205) | (5,797) | (7,056) | (9,762) |
| Other | 167 | 1,980 | (1,385) | 3,011 |
| Income tax provision | \$ 13,746 | \$ 10,732 | \$ 61,273 | \$ 54,466 |
| Current income taxes | 9,946 | 5,274 | 35,231 | 27,825 |
| Future income taxes | 3,800 | 5,458 | 26,042 | 26,641 |

(B) Sources of Future Income Tax Balances

| | December 31 | September 30 | December 31 |
|--|-------------|--------------|-------------|
| | 2010 | 2010 | 2009 |
| (000s) | | | |
| Future income tax liabilities | | | |
| Deferred agent commissions and other charges | \$ 21,204 | \$ 22,234 | \$ 18,761 |
| Mortgage-backed securities receivable | 79,532 | 76,827 | 49,560 |
| | 100,736 | 99,061 | 68,321 |
| Future income tax assets | | | |
| Allowance for credit losses | 7,781 | 7,652 | 7,549 |
| Deferred commitment fees and other charges | 4,393 | 7,016 | 3,213 |
| | 12,174 | 14,668 | 10,762 |
| | \$ 88,562 | \$ 84,393 | \$ 57,559 |

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes derivative financial instruments to hedge economic exposures.

For example, the Company uses bond forward contracts to hedge the economic value exposure of movements in interest rates between the time that the mortgages are committed and the time the mortgages are securitized (these mortgages qualify for government insurance). The intent of the bond forward contract is to have fair value movements offset the fair value movements in the pool of mortgages over the period in which the fixed rate pool may be exposed to movements in interest rates, generally 60 to 150 days. During the quarter, the Company unwound \$645.6 million in bond forward contracts, realizing a gain of \$5.5 million. This realized gain is included in the consolidated income statement through securitization income. The table below includes bond forwards that remain outstanding at the end of the reporting period.

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

Additionally, the Company may utilize variable rate MBS pools in a fixed rate CMB issues. In these cases, the Company remains obligated to enter into a seller swap, but also may hedge the interest rate risk between the variable rate MBS and the fixed rate CMB coupon by entering into a fixed notional pay variable receive fixed interest rate swap (hedge swap).

The Company may also from time to time enter into interest rate swaps to manage the interest rate risk that may emerge over time between the seller and the accreting hedge swaps described above. At December 31, 2010 the total notional value of these interest rate swaps was \$75.0 million. The interest swap had a negative fair value of \$2.0 million at December 31, 2010. There were no similar positions at December 31, 2009.

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

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

| (000s) | December 31, 2010 | | September 30, 2010 | | December 31, 2009 | |
|---------------------|---------------------|----------------|---------------------|-------------------|---------------------|--------------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value | Notional Amount | Fair Value |
| <i>Term (years)</i> | | | | | | |
| Swaps | | | | | | |
| 1 to 5 | \$ 5,534,024 | 4,205 | \$ 3,923,988 | \$ (143) | \$ 2,710,744 | \$ 1,332 |
| 6 to 10 | 998,555 | (8,638) | 1,482,128 | (7,155) | 491,498 | (11,989) |
| | \$ 6,532,579 | (4,433) | \$ 5,406,116 | \$ (7,298) | \$ 3,202,242 | \$ (10,657) |
| Bonds ¹ | | | | | | |
| 1 to 5 | \$ 36,300 | (48) | \$ 44,000 | \$ (279) | \$ 17,200 | \$ 307 |
| 6 to 10 | 215,900 | (681) | 127,700 | (970) | 166,600 | 2,130 |
| | \$ 252,200 | (729) | \$ 171,700 | \$ (1,249) | \$ 183,800 | \$ 2,437 |
| Total | \$ 6,784,779 | (5,162) | \$ 5,577,816 | \$ (8,547) | \$ 3,386,042 | \$ (8,220) |

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

13. INTEREST RATE SENSITIVITY

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

| As at December 31, 2010 | | | | | | | |
|--|---------------|---------------|--------------------|--------------|--------------|------------------------|--------------|
| (000s, except %) | Floating Rate | 0 to 3 Months | 3 Months to 1 Year | 1 to 3 Years | Over 3 Years | Non-interest Sensitive | Total |
| Total assets | \$ 82,211 | \$ 1,767,798 | \$ 1,871,212 | \$ 2,315,169 | \$ 1,153,566 | \$ 522,283 | \$ 7,712,239 |
| Total liabilities and equity | (6) | (462,017) | (2,960,053) | (2,406,527) | (631,754) | (1,251,882) | (7,712,239) |
| Off-balance sheet items | - | (411,111) | 16,408 | 179,836 | 214,867 | - | - |
| Interest rate sensitive gap | \$ 82,205 | \$ 894,670 | \$(1,072,433) | \$ 88,478 | \$ 736,679 | \$(729,599) | \$ - |
| Cumulative gap | \$ 82,205 | \$ 976,875 | \$(95,558) | \$(7,080) | \$ 729,599 | \$ - | \$ - |
| Cumulative gap as a percentage of total assets | 1.1% | 12.7% | (1.2%) | (0.1%) | 9.5% | - | - |

| As at September 30, 2010 | | | | | | | |
|--|---------------|---------------|--------------------|--------------|--------------|------------------------|--------------|
| (000s, except %) | Floating Rate | 0 to 3 Months | 3 Months to 1 Year | 1 to 3 Years | Over 3 Years | Non-interest Sensitive | Total |
| Total assets | \$ (2,329) | \$ 1,811,584 | \$ 1,674,970 | \$ 2,533,127 | \$ 1,371,943 | \$ 482,124 | \$ 7,871,419 |
| Total liabilities and equity | (6) | (1,209,212) | (2,326,380) | (2,420,191) | (732,315) | (1,183,315) | (7,871,419) |
| Off-balance sheet items | - | (419,973) | 9,850 | 164,632 | 245,491 | - | - |
| Interest rate sensitive gap | \$ (2,335) | \$ 182,399 | \$(641,560) | \$ 277,568 | \$ 885,119 | \$(701,191) | \$ - |
| Cumulative gap | \$ (2,335) | \$ 180,064 | \$(461,496) | \$(183,928) | \$ 701,191 | \$ - | \$ - |
| Cumulative gap as a percentage of total assets | 0.0% | 2.3% | (5.9%) | (2.3%) | 8.9% | - | - |

| As at December 31, 2009 | | | | | | | |
|--|---------------|---------------|--------------------|--------------|--------------|------------------------|--------------|
| (000s, except %) | Floating Rate | 0 to 3 Months | 3 Months to 1 Year | 1 to 3 Years | Over 3 Years | Non-interest Sensitive | Total |
| Total assets | \$ 68,941 | \$ 2,346,017 | \$ 1,313,090 | \$ 2,076,689 | \$ 1,165,781 | \$ 390,356 | \$ 7,360,874 |
| Total liabilities and equity | (6) | (568,242) | (2,765,144) | (2,240,214) | (786,090) | (1,001,178) | (7,360,874) |
| Off-balance sheet items | - | (307,364) | 100,114 | 207,266 | (16) | - | - |
| Interest rate sensitive gap | \$ 68,935 | \$ 1,470,411 | \$(1,351,940) | \$ 43,741 | \$ 379,675 | \$(610,822) | \$ - |
| Cumulative gap | \$ 68,935 | \$ 1,539,346 | \$ 187,406 | \$ 231,147 | \$ 610,822 | \$ - | \$ - |
| Cumulative gap as a percentage of total assets | 0.9% | 20.9% | 2.5% | 3.1% | 8.3% | - | - |

Based on the current interest rate gap position at December 31, 2010, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income and other comprehensive income after tax over the next twelve months by \$9.3 million and \$3.1 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 \$9.3 million and \$3.1 million, respectively.

14. EARNINGS BY BUSINESS SEGMENT

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

| For the three months ended | | | | | | | | |
|-----------------------------------|------------------|--------------|------------------|-------------|--------------|--------------|--------------|--------------|
| | Mortgage Lending | | Consumer Lending | | Other | | Total | |
| | December 31 | December 31 | December 31 | December 31 | December 31 | December 31 | December 31 | December 31 |
| (000s) | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Net interest income | \$ 33,572 | \$ 28,303 | \$ 8,990 | \$ 9,073 | \$ 7,271 | \$ 7,960 | \$ 49,833 | \$ 45,336 |
| Provision for credit losses | (2,320) | (2,265) | (3,439) | (17) | - | - | (5,759) | (2,282) |
| Fees and other income | 4,624 | 3,973 | 3,928 | 3,076 | 69 | 133 | 8,621 | 7,182 |
| Securitization income | 37,415 | 24,283 | - | - | - | - | 37,415 | 24,283 |
| Net gain on securities and others | 1,919 | (3,019) | - | - | (1,033) | (431) | 886 | (3,450) |
| Non-interest expenses | (17,207) | (11,911) | (3,853) | (2,328) | (5,808) | (5,617) | (26,868) | (19,856) |
| Income before income taxes | 58,003 | 39,364 | 5,626 | 9,804 | 499 | 2,045 | 64,128 | 51,213 |
| Income taxes | (13,055) | (7,150) | (1,780) | (3,166) | 1,089 | (416) | (13,746) | (10,732) |
| Net income | \$ 44,948 | \$ 32,214 | \$ 3,846 | \$ 6,638 | \$ 1,588 | \$ 1,629 | \$ 50,382 | \$ 40,481 |
| Goodwill | \$ 2,324 | \$ 2,324 | \$ 13,428 | \$ 13,428 | \$ - | \$ - | \$ 15,752 | \$ 15,752 |
| Total assets | \$ 5,990,623 | \$ 5,510,368 | \$ 514,872 | \$ 384,528 | \$ 1,206,744 | \$ 1,465,978 | \$ 7,712,239 | \$ 7,360,874 |

| For the year ended | | | | | | | | |
|-----------------------------------|------------------|--------------|------------------|-------------|--------------|--------------|--------------|--------------|
| | Mortgage Lending | | Consumer Lending | | Other | | Total | |
| | December 31 | December 31 | December 31 | December 31 | December 31 | December 31 | December 31 | December 31 |
| (000s) | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Net interest income | \$ 130,691 | \$ 100,268 | \$ 35,761 | \$ 36,738 | \$ 27,410 | \$ 28,005 | \$ 193,862 | \$ 165,011 |
| Provision for credit losses | (5,284) | (9,653) | (4,127) | (1,873) | - | - | (9,411) | (11,526) |
| Fees and other income | 15,243 | 18,145 | 15,229 | 11,043 | 218 | 138 | 30,690 | 29,326 |
| Securitization income | 107,724 | 92,397 | - | - | - | - | 107,724 | 92,397 |
| Net gain on securities and others | 421 | 255 | 3,917 | - | 8,953 | 2,097 | 13,291 | 2,352 |
| Non-interest expenses | (59,577) | (48,482) | (14,945) | (10,862) | (19,417) | (19,257) | (93,939) | (78,601) |
| Income before income taxes | 189,218 | 152,930 | 35,835 | 35,046 | 17,164 | 10,983 | 242,217 | 198,959 |
| Income taxes | (50,377) | (41,279) | (11,129) | (11,631) | 233 | (1,556) | (61,273) | (54,466) |
| Net income | \$ 138,841 | \$ 111,651 | \$ 24,706 | \$ 23,415 | \$ 17,397 | \$ 9,427 | \$ 180,944 | \$ 144,493 |
| Goodwill | \$ 2,324 | \$ 2,324 | \$ 13,428 | \$ 13,428 | \$ - | \$ - | \$ 15,752 | \$ 15,752 |
| Total assets | \$ 5,990,623 | \$ 5,510,368 | \$ 514,872 | \$ 384,528 | \$ 1,206,744 | \$ 1,465,978 | \$ 7,712,239 | \$ 7,360,874 |

CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

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

Directors
Norman F. Angus
Chairman of the Board

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

William A. Dimma
Chairman Emeritus

Officers
Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

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

Pino Decina
*Senior Vice President,
Residential Mortgage Lending*

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

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

Robert Blowes, C.A., C.P.A.
Senior Vice President, Finance

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

Auditors
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Home Trust Company
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

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

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

Capital Stock
As at December 31, 2010 there were 34,645,990 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange
Ticker Symbol: HCG

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

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

Norman F. Angus
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Brian R. Mosko

Martin Reid
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Home Capital Group Inc. has established an e-mail investor information service. Sign up at www.homecapital.com to receive quarterly reports, press releases, the annual report, the management information circular, and other information pertaining to the Company.

Quarterly Conference Call & Webcast
Our quarterly conference call and live audio webcast with management took place on Thursday, February 10 10:30 AM ET. The webcast will be archived at www.homecapital.com for 90 days.

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