HOME CAPITAL GROUP INC.

2012

SECOND QUARTER REPORT

FINANCIAL HIGHLIGHTS

(Unaudited)		For the three months ended			For the six months ended
(000s, except Per Share and Percentage Amounts)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
OPERATING RESULTS					
Net Income	**$ 53,230**	$ 52,534	$ 48,206	**$ 105,764**	$ 91,384
Adjusted Net Income[1]	**53,230**	52,534	48,206	**105,764**	93,809
Total Revenue	**218,751**	214,682	198,568	**433,433**	383,181
Earnings per Share - Basic/Diluted	**$ 1.54/1.54**	$ 1.52/1.52	$ 1.39/1.38	**$ 3.07/3.07**	$ 2.63/2.62
Adjusted Earnings per Share - Basic/Diluted[1]	**1.54/1.54**	1.52/1.52	1.39/1.38	**3.07/3.07**	2.70/2.69
Return on Shareholders' Equity	**25.1%**	26.2%	28.2%	**25.7%**	27.5%
Return on Average Assets	**1.2%**	1.2%	1.2%	**1.2%**	1.1%
Net Interest Margin (TEB)[2]	**2.09%**	2.02%	2.06%	**2.05%**	2.03%
Net Interest Margin Non-Securitized Assets (TEB)[2]	**3.05%**	3.06%	3.04%	**3.06%**	3.00%
Net Interest Margin Securitized Assets	**1.05%**	0.97%	1.28%	**1.00%**	1.24%
Provision as a Percentage of Gross Loans (annualized)	**0.05%**	0.11%	0.03%	**0.08%**	0.03%
Efficiency Ratio (TEB)[2]	**27.8%**	27.7%	27.9%	**27.8%**	28.6%

As at	**June 30 2012**	March 31 2012	December 31 2011	June 30 2011
BALANCE SHEET HIGHLIGHTS				
Total Assets	**$ 18,526,458**	$ 17,995,256	$ 17,696,471	$ 16,434,599
Total Loans[3]	**16,966,961**	16,403,745	16,089,648	15,319,145
Securitized Loans On-Balance Sheet	**7,582,154**	7,953,414	8,243,350	8,623,284
Loans Under Administration	**17,039,727**	16,403,745	16,089,648	15,319,145
Liquid Assets	**677,908**	691,416	814,918	864,142
Deposits	**9,007,464**	8,297,126	7,922,124	6,734,129
Shareholders' Equity	**869,439**	828,036	774,785	701,935
FINANCIAL STRENGTH				
Capital Measures[4]				
Risk-Weighted Assets	**$ 5,003,579**	$ 4,704,529	$ 4,549,696	$ 3,981,958
Tier 1 Capital Ratio	**17.1%**	17.5%	17.3%	18.4%
Total Capital Ratio	**21.1%**	21.6%	20.5%	22.1%
Credit Quality				
Non-Performing Loans as a Percentage of Gross Loans	**0.31%**	0.28%	0.25%	0.23%
Allowance as a Percentage of Gross Non-Performing Loans	**58.7%**	67.6%	74.9%	86.1%
Share Information				
Book Value per Common Share	**$ 25.05**	$ 23.83	$ 22.38	$ 20.24
Common Share Price – Close	**$ 45.18**	$ 50.34	$ 49.10	$ 51.75
Market Capitalization	**$ 1,568,243**	$ 1,749,365	$ 1,700,088	$ 1,794,897
Number of Common Shares Outstanding	**34,711**	34,751	34,625	34,684

[1] See definition of Adjusted Net Income under Non-GAAP Measures of this unaudited interim consolidated financial report and reconciliation to net income in Table 2 of the Management's Discussion and Analysis.
[2] See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures of this unaudited interim consolidated financial report. The net interest margin non-securitized assets for March 31, 2012 was amended from the previously disclosed amount of 3.00%.
[3] Total loans include loans held for sale.
[4] 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, Quebec and Manitoba.

Home Trust Company www.hometrust.ca **Home Capital Group Inc. www.homecapital.com**

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TO OUR SHAREHOLDERS

Home Capital Reports Strong Performance for the Second Quarter:
Basic Earnings per Share of $1.54, or $1.60 excluding second quarter tax adjustments;
Return on Equity of 25.1%;
Second Quarter Net Income Increases 10.4%, or 14.5% excluding second quarter tax adjustments, over 2011 Net Income

Home Capital today reported another quarter of strong results for the three months ended June 30, 2012. Key results for the second quarter of 2012 included:

- Net income increased to $53.2 million in the second quarter and to $105.8 million for the six months ended June 30, 2012. Second quarter results included an unfavourable adjustment to taxes of $2.0 million due to Ontario tax rate changes announced earlier this year and substantively enacted during the quarter. Excluding this tax adjustment, net income for the quarter was $55.2 million representing an increase of 14.5% over 2011 second quarter net income of $48.2 million, and 5.1% (or 20.4% annualized) over first quarter of 2012 net income of $52.5 million. Net income of $107.8 million, excluding the tax adjustment, for the six months ending June 30, 2012 increased 17.9% over the $91.4 million recorded in the same period last year. Including the tax adjustment net income is up 15.7% year over year. These results put the Company solidly within the 13%-18% net income growth target for 2012.
- Diluted earnings per share were $1.54 for the quarter and $3.07 for the first six months of 2012 representing increases of 11.6% and 17.2% from $1.38 and $2.62 of the respective periods of 2011. Excluding the tax adjustment, diluted earnings per share were $1.60 for the quarter and $3.13 for the first six months of 2012 representing increases of 15.9% and 19.5% over the respective periods of 2011. Diluted earnings per share for the second quarter, excluding the tax adjustment, also increased by 5.3% from $1.52 diluted earnings per share in the first quarter of 2012.
- Net interest income reached record levels of $93.9 million in the second quarter, increasing 15.4% over the $81.3 million recorded in the second quarter of 2011 and 6.4% over the $88.2 million earned last quarter, reflecting solid loan growth and strong demand for the Company's products.
- Net interest margin (TEB) rose to 2.09% in the second quarter from 2.06% in the second quarter of 2011 and 2.02% in the first quarter of 2012, primarily due to the benefit of the rebalancing of the portfolio towards the higher yielding traditional mortgage portfolio. On a year to date basis, net interest margin (TEB) increased to 2.05% compared to 2.03% in the same period last year. Net interest margin (TEB) on non-securitized assets was 3.05% compared to 3.04% in the second quarter of 2011 and 3.06% in the first quarter of 2012.
- Net interest margin on securitized assets was 1.05%, representing a decline from 1.28% one year ago and an increase from 0.97% last quarter. During the second quarter the Company benefited from higher than expected prepayment penalties in the securitized portfolio resulting in an increase in the net interest margin. Compared to a year ago, the utilization of lower yielding assets as replacement assets in the CMB program is the primary contributor to lower margins.
- Return on equity at 25.1% for the quarter and 25.7% year to date remains solid and continues well in excess of the Company's minimum performance objective of 20%.
- During the quarter the Company securitized and sold $72.8 million in insured multi-unit residential mortgages that qualified for off-balance sheet and gain on sale accounting under current accounting standards. This resulted in a securitization gain of $1.3 million in the quarter.
- The credit quality of the loans portfolio remains solid. Net non-performing loans ended the quarter at 0.31% of the total loans portfolio and, while up from 0.25% at December 31, 2011 and 0.28% at the end of the first quarter of 2012, the ratio remains well within the Company's expectations and reflects the strategic shift towards a higher proportion of traditional mortgages. The provision for credit losses continues at a low level and was 0.05% of gross loans on an annualized basis in the quarter, compared to 0.03% in the second quarter of 2011 and 0.11% in the first quarter of 2012. The provision for credit losses ratio is within the Company's objective of 0.05% to 0.15% of gross loans.
- Tier 1 and Total capital ratios of 17.1% and 21.1%, respectively, at June 30, 2012 remain very conservative and well above the Company's minimum targets. Home Trust's asset to capital multiple was 13.8 at the end of the quarter compared to 14.4 at December 31, 2011 and 13.6 at the end of the first quarter. The Company is well positioned to continue growing its assets, revenue and net income while meeting or exceeding the Company's 2012 targets and maintaining prudent levels of capital.
- Total assets were $18.53 billion at the end of the second quarter, an increase of $2.09 billion or 12.7% from $16.43 billion one year ago, $0.83 billion or 4.7% from $17.70 billion at the end of 2011 and $0.53 billion or 3.0% over $18.0 billion at the end of the first quarter of 2012.

- Total loans grew to $16.97 billion, an increase of $1.65 billion or 10.8% from $15.32 billion one year ago, $0.88 billion or 5.5% from $16.09 billion at the end of 2011 (10.9% on an annualized basis) and $0.56 billion or 3.4% over $16.40 billion at the end of last quarter. While annualized loan growth year to date has been below the Company's growth target due to net reduction of insured loans, demand is strong and the Company continues to expect year-over-year loan growth to be within the target range of 13%-18% for 2012.
- The total value of mortgages originated in the second quarter rose to $1.67 billion from $1.20 billion originated in the second quarter of 2011 and $1.19 billion in originations in the first quarter of 2012. Originations were $2.85 billion for the first six months of the year compared to $2.57 billion in the same period last year. Origination volumes and weightings continue to reflect the Company's strategy to increase focus on originations of higher yielding traditional mortgages.
- Originations of traditional mortgages increased to $1.21 billion in the second quarter from $870.8 million in the second quarter of 2011 and $921.1 million originated in the first quarter of 2012. The Company is experiencing strong demand for its traditional product offerings combined with high credit quality. This continues to enhance profitability.
- Accelerator (insured) mortgage originations increased to $221.1 million in the second quarter from $172.4 million in the second quarter of 2011 and from $172.7 million in the first quarter of 2012. The Company continues to pursue opportunities that may lead to future growth in this product segment in 2012.
- Multi-unit residential originations were $87.8 million in the quarter compared to $34.5 million in the second quarter of 2011 and $27.5 million in the first quarter of 2012. The Company anticipates continued funding of multi-unit residential mortgages through the second half of 2012 and plans to securitize these mortgages through programs that qualify for off-balance sheet accounting.
- Non-residential mortgage advances were $86.0 million in the quarter compared to $59.5 million in the second quarter of 2011 and $25.2 million in the first quarter of 2012. The Company continues to be very selective and focuses on opportunities that present strong margins and risk profiles that are within the Company's risk tolerance.
- Store and apartment advances were $37.8 million for the quarter compared to $35.5 million in the second quarter of 2011 and $37.9 million last quarter.
- The Company opened 1,793 new *Visa* accounts in the second quarter compared to 2,389 accounts opened in the second quarter of 2011 and 1,383 accounts last quarter. The decline through the current year reflects the Company's increased conservatism in approvals and advances and the anticipated adoption of OSFI's B-20 draft guideline provisions limiting home equity lines of credit (HELOC). The final guideline is less restrictive than the Company's expectation and the Company is exploring strategies, within its risk tolerance and OSFI's guidelines, to enhance growth in this portfolio.

Consistent with the first quarter of 2012, the Company is delivering solid performance despite the persistent international economic instability and muted economic improvement in Canada. The Company's performance reflects the strength, and the successful execution, of the Company's core strategy.

As discussed in the first quarter of 2012, the Company continues to see resilient and relatively stable real estate markets across most of Canada, with a few areas of continuing concern, where the Company has already scaled back. The Company expects real estate demand to remain relatively stable in 2012 with potentially modest declines in some of the larger markets. This is expected to result in relatively balanced real estate market conditions and lead to continued healthy demand for the Company's products, consistent with the first half of the year. The Company has not seen evidence of a "real-estate bubble" in Canada. Low interest rates and stable employment have maintained housing affordability. The Company expects interest rates to remain at current levels or experience very modest increases into 2013 and that Canadian employment levels will remain relatively stable in 2012. The Company maintains a solid capital position and prudent liquidity and expects that it is well positioned to deal with the impact of uncertainty that may affect the Canadian economy.

Favourable market opportunities have supported the Company's strategy of renewed focus on the traditional mortgage portfolio with record levels of originations in this product category. While the Company has increased lending in this product category it has been able to do so with improving credit quality. The average credit score for traditional mortgage originations for the first half of 2012 is up from the same period of 2011 while loan to value ratios are down. The Company remains proactive and prudent in its lending practices, taking into account local economic and market conditions. The credit quality of the loan portfolio remains strong, reflecting the Company's focus on diligent underwriting combined with strong collection standards and loan resolution strategies.

During the second quarter, OSFI released Final Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures requiring full implementation by the end of 2012. Additionally, the Canadian government announced rule changes associated with mortgages insured through CMHC that became effective in early July 2012. The Company supports the changes announced and expects that these measures will serve to enhance the safety and soundness of the Canadian real estate market, mortgage insurers and the economy, while potentially tempering real estate demand in the short term. The Company has already made changes, where required, to comply with a significant number of the B-20 guidelines and will be fully compliant before the end of 2012. The changes required for B-20 are not expected to materially affect the Company's growth or progress. There may be a small segment of the Company's borrowers who will be impacted by the B-20 changes and may need to seek alternative funding. The Company was fully compliant with the required changes to the insured mortgage rules before the early July 2012 deadline.

Subsequent to the end of the quarter, and in light of the Company's solid performance, profitability and strong financial position, the Board of Directors declared a quarterly dividend of $0.22 per Common share, payable on September 1, 2012 to shareholders of record at the close of business on August 15, 2012.

With solid performance in all aspects of Home Capital's business, management expects that the Company will continue to generate above average earnings and shareholder performance for 2012, and will meet or exceed all of its stated objectives for 2012.

GERALD M. SOLOWAY
Chief Executive Officer
August 1, 2012

KEVIN P.D. SMITH
Chairman of the Board

Additional information concerning the Company's targets and related expectations for 2012, including the risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis (MD&A) of this quarterly report.

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 48 through 58 of the Company's 2011 Annual Report, as well as its other publicly filed information, which are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, liquidity and funding risk, structural interest rate risk, operational risk, investment risk, strategic and business risk, reputational risk and regulatory and legal risk along with additional risk factors that may affect future results. 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 2012 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 and reviewing the outlook and objectives for 2012, management's expectations continue to assume:

- The Canadian economy will produce modest growth in 2012, but will be heavily influenced by the economic conditions in the United States and global markets. Inflation will generally be within the Bank of Canada's target of 1%-3%.
- Interest rates will remain at current rates or increase marginally in 2012 as the Bank of Canada leaves its target for the overnight rate at its current level or modestly increases the rate later in 2012.
- The housing market will remain resilient to global uncertainty with balanced supply and demand conditions in most regions. Declining housing starts and flat resale activity on stable prices through most of Canada will continue with the market activity moderating from previous activity levels.
- Unemployment will remain stable or improve slightly as the economy grows, while a larger labour force will tend to offset job growth.
- Consumer debt levels will remain serviceable by Canadian households.
- Net interest margins overall are expected to remain in the current range. Margins are expected to remain stable as returns on the increased traditional portfolio offset declining returns on the securitized portfolio throughout 2012.
- Credit quality will remain sound with actual losses within the low end of Home Capital's historical range.
- The recent changes to Canada Mortgage and Housing Corporation (CMHC) policies will help to temper the real estate market.

Non-GAAP Measures

The Company applies IFRS which are the generally accepted accounting principles (GAAP) for Canadian publically accountable enterprises. The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with 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:

Adjusted Net Income and Adjusted Earnings per Share

Gains (losses), net of tax, that are associated with unmatched derivative volatility related to realigning its hedging strategy due to the implementation of IFRS, are adjusted against net income to present adjusted net income. The reconciliation of net income to adjusted net income is presented in Table 2 to this MD&A.

Core Earnings

Core earnings is a profitability measure that presents core earnings from lending operations. The Company calculates this measure as net interest income after provision for credit losses plus fees and other income.

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 annualized net income as a percentage of the average total assets for the period deployed to earn the income.

Efficiency or Productivity Ratio

Management uses the efficiency ratio as a measure of the Company's efficiency in generating revenue. 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. A lower ratio indicates better efficiency.

Net Interest Margin

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

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 9(C) of the Unaudited Interim Consolidated Financial Statements included in this report.

Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze and discuss their financial results on a taxable equivalent basis (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 principally from preferred and common equity securities. The adjustment to TEB used in this MD&A 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. TEB adjustments of $1.3 million for the second quarter of 2012 ($1.4 million last quarter and $1.8 million in the second quarter of 2011) increased interest income as used in the calculation of net interest margin. TEB does not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Net interest margin is discussed on a TEB throughout this MD&A. See Table 4 for the calculation of net interest income on a tax equivalent basis.

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 website 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 June 30, 2012 included herein, and the audited consolidated financial statements and MD&A for the year ended December 31, 2011. These are available on the Canadian Securities Administrators' website at www.sedar.com and on pages 10 through 116 of the Company's 2011 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 2011 remain substantially unchanged. These unaudited interim consolidated financial statements and MD&A have been prepared based on information available as at August 1, 2012. 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.

BUSINESS PROFILE

Home Capital is a holding company that operates primarily through its principal, federally regulated subsidiary, Home Trust Company (Home Trust), which offers insured deposits, residential and non-residential mortgage lending and consumer lending. The Company's subsidiary Payment Services Interactive Gateway Inc. (PSiGate) provides payment card services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba.

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 and Accelerator mortgages. The Company's traditional mortgage portfolio consists of mortgages with loan to value ratios of 80% or less, 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 Canada Mortgage and Housing Corporation (CMHC) sponsored mortgage-backed securities (MBS) and Canada Mortgage Bond (CMB) programs.

Multi-unit residential lending includes both insured and uninsured mortgage loans. Non-residential lending includes store and apartment mortgages and 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 and/or collateral charges on real property. The Company's Equityline *Visa* product, secured by real property, represents almost all of the *Visa* portfolio. The Company also offers cash secured *Visa* products. The consumer lending segment includes the operations of PSiGate.

Other

In addition to its operating segments, the Company accounts for treasury portfolio and general corporate activities.

Mission, Governing Objectives and Values

The Company's mission is to focus on well-defined niches in the Canadian financial marketplace that generate above average returns, have below average residual risk profiles, and are not adequately served by traditional financial institutions.

The Company's objectives are to deliver superior shareholder value, and ensure that depositors are protected at all times, without exception, as measured by:

- a return on common equity of at least 20%
- capital aligned with the risk profile of the business and the needs of the Company's depositor base

The Company has a set of values that are integral to its day-to-day business. These values are the cornerstone of Home Capital's vision and play a key role in the Company achieving both its strategic and financial performance goals:

- consistently enhance shareholder value by adhering to our strategies and principles with a focus on customer service
- act with respect, trust and integrity in all interactions with our customers, employees and business partners
- personal responsibility to deliver the highest level of customer service to our clients, supported by our enthusiasm, teamwork and desire for continuous improvement
- make a positive difference to our community and environment through fundraising, community involvement and sustainable environmental initiatives

The Company's key long-term objective is to deliver superior shareholder value.

The Company seeks to achieve a return on common equity of at least 20%, and has exceeded this benchmark in each of the past 14 years without exception. Management also seeks to align its capital with the risk profile of the business through an understanding of the nature and level of risk being taken and how these risks attract regulatory and risk-based capital.

Risk-taking Philosophy

Home Trust's core strategy focuses on serving a large portion of the Canadian financial services market that has traditionally not been adequately served by larger financial institutions. Our strategy provides opportunity for higher returns but carries an inherently different risk profile than one serving the broader market and requires an integrated risk management strategy. Home Capital recognizes this risk and proactively seeks to reduce overall risk exposure to a low level through:

- active Board and senior management development, monitoring and timely revision of corporate strategies, risk appetite and risk mitigation activities;
- promotion of a sound risk management culture and awareness throughout the entire organization;
- adoption of a conservative financial risk profile, comprising prudent levels of liquidity; capital levels in excess of regulatory and risk based minimums; and reserves that account for all incurred losses;
- extensive, customized risk evaluation practices and controls at the transactional level executed by experienced personnel and supported by effective and efficient processes and technology; and
- proactive, independent and timely monitoring and assessment of all risk exposures, regardless of source, by the Enterprise Risk Management (ERM) group.

2012 OBJECTIVES AND PERFORMANCE

Home Capital published its financial objectives for 2012 on page 15 of the Company's 2011 Annual Report. The following table compares actual performance to date against each of these objectives.

Table 1: 2012 Targets and Performance

		For the six months ended June 30, 2012		
	2012 Targets[1]	**Actual Results[1]**	**Amount**	**Increase over 2011**
Growth in net income	13%-18%	**15.7%**	**$ 105,764**	**$ 14,380**
Growth in diluted earnings per share	13%-18%	**17.2%**	**3.07**	**0.45**
Growth in total loans[2]	13%-18%	**10.9%**	**16,966,961**	**877,313**
Return on shareholders' equity	20.0%	**25.7%**		
Efficiency ratio (TEB)[3]	28.0% - 34.0%	**27.8%**		
Capital ratios[4]				
Tier 1	Minimum of 13%	**17.1%**		
Total	Minimum of 14%	**21.1%**		
Provision as a percentage of gross loans (annualized)	0.05% - 0.15%	**0.08%**		

[1] Objectives and results for net income and diluted earnings per share are for the current year.
[2] Change represents growth over December 31, 2011 on an annualized basis and includes loans held for sale.
[3] See definition of TEB under Non-GAAP Measures in this report.
[4] Based on the Company's wholly owned subsidiary, Home Trust Company.

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

(000s, except % and per share amounts)	Quarter					Year to date		
	Q2 2012	Q1 2012	% Change	Q2 2011	% Change	**2012**	2011	% Change
Net Interest Income Non-Securitized Assets								
Interest from loans	**$ 125,576**	$ 117,565	6.8%	$ 96,262	30.5%	**$ 243,141**	$ 187,315	29.8%
Dividends and other interest	**4,463**	5,011	(10.9)%	5,932	(24.8)%	**9,474**	11,883	(20.3)%
Interest on deposits	**56,043**	53,128	5.5%	47,242	18.6%	**109,171**	92,208	18.4%
Interest on senior debt	**1,705**	1,653	3.1%	1,047	62.8%	**3,358**	1,047	220.7%
	72,291	67,795	6.6%	53,905	34.1%	**140,086**	105,943	32.2%
Net Interest Income Securitized Loans and Assets								
Interest income from securitized loans and assets	**76,286**	76,616	(0.4)%	83,920	(9.1)%	**152,902**	164,420	(7.0)%
Interest expense on securitization liabilities	**54,723**	56,192	(2.6)%	56,503	(3.2)%	**110,915**	112,435	(1.4)%
	21,563	20,424	5.6%	27,417	(21.4)%	**41,987**	51,985	(19.2)%
Total Net Interest Income	**93,854**	88,219	6.4%	81,322	15.4%	**182,073**	157,928	15.3%
Provision for credit losses	**2,298**	4,498	(48.9)%	1,217	88.8%	**6,796**	2,191	210.2%
	91,556	83,721	9.4%	80,105	14.3%	**175,277**	155,737	12.5%
Non-Interest Income								
Fees and other income	**12,025**	10,897	10.4%	8,646	39.1%	**22,922**	17,006	34.8%
Realized net gains and unrealized losses on securities and mortgages	**1,676**	308	444.2%	2,141	(21.7)%	**1,984**	4,170	(52.4)%
Net realized and unrealized (loss) gain on derivatives	**(1,275)**	4,285	(129.8)%	1,667	(176.5)%	**3,010**	(1,613)	(286.6)%
	12,426	15,490	(19.8)%	12,454	(0.2)%	**27,916**	19,563	42.7%
Non-Interest Expenses								
Salaries and benefits	**14,501**	13,999	3.6%	13,253	9.4%	**28,500**	25,830	10.3%
Premises	**1,977**	1,998	(1.1)%	1,900	4.1%	**3,975**	3,772	5.4%
Other operating expenses	**13,404**	13,171	1.8%	11,490	16.7%	**26,575**	22,257	19.4%
	29,882	29,168	2.4%	26,643	12.2%	**59,050**	51,859	13.9%
Income Before Income Taxes	**74,100**	70,043	5.8%	65,916	12.4%	**144,143**	123,441	16.8%
Income taxes	**20,870**	17,509	19.2%	17,710	17.8%	**38,379**	32,057	19.7%
NET INCOME	**$ 53,230**	$ 52,534	1.3%	$ 48,206	10.4%	**$ 105,764**	$ 91,384	15.7%
Basic Earnings per Share	**$ 1.54**	$ 1.52	1.3%	$ 1.39	10.8%	**$ 3.07**	$ 2.63	16.7%
Diluted Earnings per Share	**$ 1.54**	$ 1.52	1.3%	$ 1.38	11.6%	**$ 3.07**	$ 2.62	17.2%

Reconciliation of Net Income to Adjusted Net Income								
Net income per above	$ 53,230	$ 52,534	1.3%	$ 48,206	10.4%	$ 105,764	$ 91,384	15.7%
Adjustment for unmatched derivative positions (net of tax)	-	-	-	-	-	-	2,425	(100.0)%
Adjusted Net Income[1]	$ 53,230	$ 52,534	1.3%	$ 48,206	10.4%	$ 105,764	$ 93,809	12.7%
Adjusted Basic Earnings per Share	$ 1.54	$ 1.52	1.3%	$ 1.39	10.8%	$ 3.07	$ 2.70	13.7%
Adjusted Diluted Earnings per Share	$ 1.54	$ 1.52	1.3%	$ 1.38	11.6%	$ 3.07	$ 2.69	14.1%

[1] Adjusted net income is defined in the Non-GAAP Measures section of this MD&A.

Table 3: Net Interest Margin

	For the three months ended			For the six months ended	
	June 30 2012	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Net interest margin non-securitized interest earning assets (TEB)	**3.05%**	3.06%	3.04%	**3.06%**	3.00%
Net interest margin non-securitized interest earning assets (non-TEB)	**3.00%**	3.00%	2.94%	**3.00%**	2.90%
Net interest margin securitized assets	**1.05%**	0.97%	1.28%	**1.00%**	1.24%
Total net interest margin (TEB)	**2.09%**	2.02%	2.06%	**2.05%**	2.03%
Total net interest margin (non-TEB)	**2.06%**	1.98%	2.02%	**2.02%**	1.98%
Spread of non-securitized loans over deposits only	**3.07%**	3.13%	3.02%	**3.10%**	3.06%

Net Interest Income

Q2 2012 v Q2 2011

Net interest income increased 15.4% or $12.5 million due to an increase in average asset balances of $2.06 billion and an increase in total net interest margin of 3 basis points due to a higher weighting of traditional mortgages. Net interest income for non-securitized assets increased $18.4 million or 34.1% reflecting an increase of $2.31 billion of increased interest earning average assets combined with relatively consistent net interest margins (TEB) of 3.05%, representing the success of the Company's strategy to focus in this segment. This was offset by a decline in securitized net interest income of $5.9 million due to net interest margin declines on average balances which were $283.5 million lower than the prior year.

The increase in total net interest margin (TEB) of 3 basis points to 2.09% from 2.06% continues to primarily reflect the Company's proactive strategic shift to traditional mortgages relative to insured securitized mortgages. Securitized assets declined from 56.3% of the portfolio at the end of the second quarter of 2011 to 51.2% at the end of 2011 and to 44.7% at the end of the second quarter of 2012.

Non-TEB net interest margin was 2.06%, compared to 2.02% in the comparable quarter of 2011. The favorable TEB adjustment declined to $1.3 million from $1.8 million as the Company divests itself of preferred shares in financial institutions ahead of the Basel III rules that treat these securities unfavorably from a capital perspective.

Net interest margin (TEB) on non-securitized interest earning assets has remained relatively consistent with the comparable quarter as an increase in the average spread of non-securitized loans over deposits of 5 basis points was offset by lower average rates on the liquidity and securities portfolio and a lower TEB adjustment.

Net interest margin on securitized assets was down 23 basis points to 1.05% due to a decline in the average rate earned on securitized assets. The average rate earned declined 23 basis points to 3.67% from 3.90% while the average rate on the securitized liabilities remained consistent at 2.62%. As expected, older vintage higher yielding mortgages are maturing in the MBS portfolio and in the CMB program these have been replaced by lower yielding eligible replacement assets reflective of the current persistent low interest rate environment. The Company has been successful in increasing focus on the traditional mortgage portfolio and maintaining overall net interest margins. Continued focus on the traditional mortgage product along with strategies to improve the securitized mortgage portfolio net interest margin should keep the total net interest margin within its current range and lead to continued growth in total net interest income.

Q2 2012 v Q1 2012

Second quarter net interest income increased $5.6 million or 6.4% over the first quarter of 2012 reflecting increases in net interest income in both the non-securitized mortgage portfolio and the securitized portfolio. Total net interest margin (TEB) was up 7 basis points quarter over quarter primarily on an increase in the securitized portfolio net interest margin of 8 basis points. The securitized net interest margin benefitted in the quarter from higher than expected prepayment penalties in the multi-unit residential property portfolio.

Net interest income on the non-securitized portfolio was up $4.5 million or 6.6% quarter over quarter on higher average balances of $591.8 million and relatively steady net interest margin (TEB) of 3.05% compared to 3.06% last quarter. The average spread of non-securitized loans declined to 3.07% from 3.13% last quarter but was offset by 5 basis points in higher average rates on the cash and securities portfolio combined with a decline in the average balance in this portfolio of $116.1 million.

While net interest margin on securitized assets was up by 8 basis points in the quarter due to the larger than average prepayment penalty income, the margin remains under some pressure due to the use of lower yielding eligible replacement assets in the CMB program, and the maturity of some higher yielding MBS late in 2011. As discussed above, the Company has initiated strategies, including the use of repurchase agreements, which are intended to stabilize the net interest margin on securitized assets.

YTD 2012 v YTD 2011

Net interest income increased $24.1 million or 15.3% reflecting an increase in average assets of $2.05 billion and an increase in net interest margin (TEB) of 2 basis points. An increase in net interest income on non-securitized assets of $34.1 million was offset by a decline of $10.0 million in the securitized portfolio net interest income.

Total net interest margin (TEB) of 2.05% improved from 2.03% last year. This improvement is due to the shift toward the higher yielding traditional portfolio, combined with higher average net interest margin (TEB) on the traditional portfolio of 3.06% versus 3.00% last year and an increase of 10 basis points on a non-TEB. Average rates earned on traditional mortgages have not declined as quickly as the deposit rates over the period. This is offset by the decline in the securitized assets net interest margin to 1.00% from 1.24%, due the factors discussed above.

Table 4: Net Interest Income

	For the three months ended June 30, 2012			For the three months ended March 31, 2012		
(000s, except %)	**Average Balance[1]**	**Income/ Expense**	**Average Rate[1]**	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets						
Cash resources and securities	**$ 781,391**	**$ 4,463**	**2.28%**	$ 897,495	$ 5,011	2.23%
Traditional single-family residential mortgages	**6,689,985**	**91,451**	**5.47%**	6,113,939	84,637	5.54%
Accelerator single-family residential mortgages	**498,039**	**4,183**	**3.36%**	435,639	3,568	3.28%
Multi-unit residential mortgages	**107,029**	**1,238**	**4.63%**	90,599	1,314	5.80%
Non-residential mortgages	**995,689**	**15,237**	**6.12%**	945,991	14,518	6.14%
Personal and credit card loans	**566,579**	**13,467**	**9.51%**	563,260	13,528	9.61%
Total non-securitized loans	**8,857,321**	**125,576**	**5.67%**	8,149,428	117,565	5.77%
Taxable equivalent adjustment	**-**	**1,255**	**-**	-	1,407	-
Total on non-securitized interest earning assets	**9,638,712**	**131,294**	**5.45%**	9,046,923	123,983	5.48%
Securitized loans and pledged assets	**8,324,308**	**76,286**	**3.67%**	8,510,773	76,616	3.60%
Other assets	**249,172**	**-**	**-**	249,623	-	-
Total Assets	**$ 18,212,192**	**$ 207,580**	**4.56%**	$ 17,807,319	$ 200,599	4.51%
Liabilities and Shareholders' Equity						
Deposits	**$ 8,611,778**	**$ 56,043**	**2.60%**	$ 8,060,589	$ 53,128	2.64%
Securitization liabilities	**8,348,296**	**54,723**	**2.62%**	8,547,938	56,192	2.63%
Other liabilities and shareholders' equity	**1,252,118**	**1,705**	**4.45%**	1,198,792	1,653	4.28%
Total Liabilities and Shareholders' Equity	**$ 18,212,192**	**$ 112,471**	**2.47%**	$ 17,807,319	$ 110,973	2.49%
Net Interest Income (TEB)		**$ 95,109**			$ 89,626	
Tax Equivalent Adjustment		**(1,255)**			(1,407)	
Net Interest Income per Financial Statements		**$ 93,854**			$ 88,219	

	For the three months ended June 30, 2011		
(000s, except %)	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets			
Cash resources and securities	$ 831,603	$ 5,932	2.85%
Traditional single-family residential mortgages	4,464,544	62,307	5.58%
Accelerator single-family residential mortgages	413,841	3,638	3.52%
Multi-unit residential mortgages	189,854	2,885	6.08%
Non-residential mortgages	928,254	15,024	6.47%
Personal and credit card loans	505,335	12,408	9.82%
Total non-securitized loans	6,501,828	96,262	5.92%
Taxable equivalent adjustment	-	1,799	-
Total on non-securitized interest earning assets	7,333,431	103,993	5.67%
Securitized loans and pledged assets	8,607,774	83,920	3.90%
Other assets	215,973	-	-
Total Assets	$ 16,157,178	$ 187,913	4.65%
Liabilities and Shareholders' Equity			
Deposits	$ 6,518,602	$ 47,242	2.90%
Securitization liabilities	8,610,243	56,503	2.62%
Other liabilities and shareholders' equity	1,028,333	1,047	5.59%
Total Liabilities and Shareholders' Equity	$ 16,157,178	$ 104,792	2.59%
Net Interest Income (TEB)		$ 83,121	
Tax Equivalent Adjustment		(1,799)	
Net Interest Income per Financial Statements		$ 81,322	

Table 4: Net Interest Income (Continued)

(000s, except %)	For the six months ended June 30, 2012 Average Balance[1]	Income/ Expense	Average Rate[1]	For the six months ended June 30, 2011 Average Balance[1]	Income/ Expense	Average Rate[1]
Assets						
Cash resources and securities	$ 839,446	$ 9,474	2.26%	$ 898,404	$ 11,883	2.65%
Traditional single-family residential mortgages	6,401,887	176,088	5.50%	4,253,802	118,236	5.56%
Accelerator single-family residential mortgages	466,839	7,751	3.32%	479,691	9,046	3.77%
Multi-unit residential mortgages	98,814	2,552	5.17%	232,119	7,433	6.40%
Non-residential mortgages	970,840	29,755	6.13%	897,355	28,677	6.39%
Personal and credit card loans	564,920	26,995	9.56%	488,255	23,923	9.80%
Total non-securitized loans	8,503,300	243,141	5.72%	6,351,222	187,315	5.90%
Taxable equivalent adjustment	-	2,662	-	-	3,893	-
Total on non-securitized interest earning assets	9,342,746	255,277	5.46%	7,249,626	203,091	5.60%
Securitized loans and pledged assets	8,417,537	152,902	3.63%	8,458,670	164,420	3.89%
Other assets	249,053	-	-	252,200	-	-
Total Assets	$ 18,009,336	$ 408,179	4.53%	$ 15,960,496	$ 367,511	4.61%
Liabilities and Shareholders' Equity						
Deposits	$ 8,336,184	$ 109,171	2.62%	$ 6,500,541	$ 92,208	2.84%
Securitization liabilities	8,448,117	110,915	2.63%	8,472,947	112,435	2.65%
Other liabilities and shareholders' equity	1,225,035	3,358	4.37%	987,008	1,047	5.59%
Total Liabilities and Shareholders' Equity	$ 18,009,336	$ 223,444	2.48%	$ 15,960,496	$ 205,690	2.58%
Net Interest Income (TEB)		$ 184,735			$ 161,821	
Tax Equivalent Adjustment		(2,662)			(3,893)	
Net Interest Income per Financial Statements		$ 182,073			$ 157,928	

[1] The average is an average calculated with reference to opening and closing monthly asset and liability balances.

Non-Interest Income

Q2 2012 v Q2 2011

Total non-interest income was $12.4 million in the quarter compared to $12.5 million last year. Fees and other income of $12.0 million was 39.1% higher than the $8.6 million earned last year and includes $1.3 million in securitization gains from the sale of $72.8 million in multi-unit residential mortgages that qualify for off-balance sheet accounting. The remaining increase in fees and other income is due to a higher number of loans generating fees. Fees and other income amounts include net mortgage and *Visa* account administration fees and increase as the size of the loan portfolio increases and are also influenced by the overall mix of the portfolio. The continued growth in the traditional mortgage product improves fee growth as these mortgages tend to earn higher fees.

The increase in fees and other income was offset by declines in both net gains on derivatives and net gains on securities and mortgages. A $1.3 million derivative loss was recorded in the second quarter compared to a gain of $1.7 million last year. This was primarily due to the impact of changing interest rates on certain derivatives outside hedge accounting relationships resulting in unrealized losses of $2.1 million, combined with $0.8 million in unrealized gains due to hedge ineffectiveness associated with fair value hedge accounting relationships compared to unrealized gains of $0.6 million and $1.1 million last year, respectively. The Company sold fewer securities resulting in net gains on securities of $1.2 million compared to $2.1 million last year. The Company recognized $0.1 million in further impairments on available sale securities in the quarter compared to impairments of $1.1 million last year. There were no new securities identified as impaired in the quarter.

Q2 2012 v Q1 2012

Non-interest income declined $3.1 million from $15.5 million last quarter, primarily due to the recognition last quarter of $1.5 million in unrealized derivative gains recognized on certain derivatives outside hedge accounting relationships and $2.8 million of unrealized gains due to hedge ineffectiveness associated with fair value hedge accounting relationships, compared to unrealized losses of $2.1 million and unrealized gains of $0.8 million this quarter, respectively. This was offset by an increase in fees and other income of $1.1 million reflecting the $1.3 million securitization gain and increases in fee revenue.

YTD 2012 v YTD 2011

Non-interest income of $27.9 million increased $8.4 million over $19.6 million earned in the first six months of 2011. Fees and other income increased to $22.9 million from $17.0 million, an increase of $5.9 million. Part of the increase is attributed to $1.3 million in securitization gains, with the remainder due to an increase in fee revenue derived from higher levels of fee earning loans. Net unrealized gain on derivatives increased to a gain $3.0 million compared to a loss of $1.6 million last year. In the first quarter of 2011 there was a $3.3 million derivative loss associated with the resetting of certain derivatives used in the CMB program to comply with IFRS hedge accounting. Compared to last year, the Company sold fewer securities leading to lower net gains on securities in 2012.

Non-Interest Expenses

Q2 2012 v Q2 2011

Non-interest expenses of $29.9 million increased $3.2 million from $26.6 million last year while the efficiency ratio remained relatively stable and low at 27.8%, compared to 27.9% last year. These levels reflect continued low costs compared to revenues net of interest expense. The Company continues to manage expenses in a disciplined and measured manner and aligns its expense management strategy with its growth targets and objectives. Enhancing the Company's operational effectiveness and efficiency combined with cost management remains a strategic priority for the Company and this focus is expected to contribute to a continued low efficiency ratio. The Company's investment in a new banking platform is contributing to improved efficiency and enhanced customer service.

Operating expenses were up $1.9 million and include $1.6 million in amortization for the new banking platform. Amortization commenced late in 2011 and no amount was included in the comparative period. Salaries and benefits increased by $1.2 million in part because the Company ceased capitalization of a portion of salaries of employees who were working on the core banking project. Additionally, the increase reflects modest increases in the number employees combined with some realignment in staffing structures and continued enhancement of risk management, governance and compliance functions, leading to higher average salaries.

Q2 2012 v Q1 2012

Non-interest expenses increased $0.7 million from $29.2 million last quarter while the efficiency ratio remained relatively stable and low at 27.8% compared to 27.7% last quarter. The increase in expenses is primarily related to a modest increase of $0.5 million in salaries reflecting an increase in active employees to 554 from 547 last quarter and an increase in variable compensation accruals based on operating results of the Company.

YTD 2012 v YTD 2011

Non-interest expenses of $59.1 million increased $7.2 million from $51.9 in the first six months of 2011 while the efficiency ratio improved to 27.8% from 28.6% last year. Operating expenses were increased primarily by $3.2 million in amortization for the new banking platform, along with general increases in expenses to support business growth. Salaries and benefits increased $2.7 million as the Company ceased capitalization of a portion of salaries of employees who were working on the core banking project and reflect merit and bonus increases combined with some realignment in staffing structures leading to higher average salaries.

Provision and Allowance for Credit Losses

Table 5: Provision for Credit Losses

	For the three months ended			For the six months ended	
(000s, except %)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Collective provision	**$ -**	$ 60	$ 150	**$ 60**	$ 237
Individual provision	**2,298**	4,438	1,067	**6,736**	1,954
Total provision	**$ 2,298**	$ 4,498	$ 1,217	**$ 6,796**	$ 2,191
Provision as % of gross loans (annualized)	**0.05%**	0.11%	0.03%	**0.08%**	0.03%
Net write-offs	**$ 2,999**	$ 3,013	$ 2,155	**$ 6,012**	$ 3,660
Net write-offs as % of gross loans (annualized)	**0.07%**	0.07%	0.06%	**0.07%**	0.05%

Table 6: Net Non-Performing Loans & Allowances

(000s, except %)	**June 30 2012**	March 31 2012	December 31 2011
Net non-performing loans	**$ 52,784**	$ 45,779	$ 40,297
Gross loans (excluding allowances)	**16,938,992**	16,406,453	16,091,162
Net non-performing loans as % of gross loans	**0.31%**	0.28%	0.25%
Collective allowance	**$ 29,500**	$ 29,500	$ 29,440
Individual allowance	**2,583**	3,284	1,859
Total allowance	**$ 32,083**	$ 32,784	$ 31,299

The provision for credit losses is charged to the income statement by an amount that brings the individual and collective allowances for credit losses to the level determined by management to be adequate to cover incurred losses, including losses that are not yet specifically identified. Factors which 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 collective and individual 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.

Individual provisions of $2.3 million are up from $1.1 million in the comparable quarter of 2011 and down from $4.4 million last quarter. In the first quarter of 2012, there was increased activity in the sale of properties in possession leading to a higher level of individual provision. The credit quality of the portfolio remains well within targets with the provision as a percentage of gross loans at 0.05% and at the low end of the targeted range of 0.05% to 0.15%; up from 0.03% in the comparable quarter of 2011 and down from 0.11% last quarter.

Net non-performing loans of $52.8 million or 0.31% of gross loans increased from $45.8 million or 0.28% of gross loans last quarter and from $40.3 million or 0.25% of gross loans at the end of 2011. Non-performing loans continue to include $4.6 million in loans with alleged irregularities, as discussed below. The levels of non-performing loans are within the Company's expectations and, considering the increase in the proportion of traditional mortgages over the period, the modest increase is reasonable. The increase in non-performing loans has not translated into higher write-offs. Net write-offs of $3.0 million or 0.07% of gross loans (annualized) for the quarter is consistent with last quarter and marginally higher than the $2.2 million or 0.06% of gross loans (annualized) in the second quarter of 2011. The Company remains pleased with these results and expects credit performance to remain favorable and within its targets, but is prepared for moderate volatility in the trend.

In 2011 the Company became aware of alleged irregularities regarding three of its loans with a total principal amount of $4.6 million. These loans were advanced to Toronto residential condominium corporations. The registered security documents associated with these loans provide the Company with secured priority claims against the condominium corporations, the condominium structures and the underlying residential units. Provided that the security is valid, the Company would expect to recover any losses on such loans. The borrowers are disputing the validity of the Company's security in the Ontario Court. It is not currently possible to reasonably determine the outcome of this matter or to estimate the amount of loss, if any. A specific provision has not been recorded for these loans but these loans continue being classified as non-performing within residential loans.

The collective allowance balance at the end of quarter was level with the end of the first quarter of 2012 and increased marginally over December 31, 2011 as the Company continues to observe strong credit performance in the loans portfolio. Please see Credit Risk section of this MD&A for more information.

Income Taxes

The income tax expense amounted to $20.9 million (effective tax rate of 28.2%) during the second quarter. The increase in the Company's effective tax rate is primarily attributed to the increase in Ontario's corporate income tax rates that became substantively enacted during the second quarter. These rate increases, which resulted from the 2012 provincial budget, affect income earned in the current year and income deferred from previous years for taxation in the future. As a result of the increase in Ontario corporate rates, the Company's future tax liability increased by $1.8 million and its current tax provision increased by $0.3 million. As in prior periods, the Company's effective tax rate is reduced by dividends from Canadian companies which are non-taxable. The effective tax rate was 26.9% for second quarter of 2011.

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income was $51.5 million compared to $45.0 million in the second quarter of 2011 and $55.7 million last quarter.

OCI in the current quarter includes changes in unrealized gains or losses on available for sale securities, transfers of previously unrealized net gains and losses to net income, once they have been realized, and the impact of cash flow hedges and transfers to income of unrealized losses on investments considered impaired.

OCI included net unrealized losses of $1.1 million compared to net unrealized gains of $0.4 million in the second quarter of 2011 and net unrealized gains of $4.4 million in the first quarter of 2012. These amounts reflect changes in fair value in available for sale securities due primarily to changes in interest rates, other than impairment charges, which are discussed below.

The Company recognized security related transfers to net income of $1.3 million in net gains for the quarter compared to $2.7 million in net gains in the second quarter of 2011 and $0.4 million in net gains in the first quarter of 2012. These transfers are related to the sale of certain available for sale securities and impairment charges on available for sale securities. Included in the transfer to net income for the quarter was $0.1 million in impairment losses for available for sale securities compared to $1.1 in the second quarter of 2011 and $0.1 million in losses in the first quarter of 2012.

There was also a net loss recorded in OCI of $0.04 million in the second quarter compared to net losses of $2.6 million in the second quarter of 2011 and $0.03 million of net gains last quarter related to cash flow hedging.

BALANCE SHEET REVIEW

Table 7: Balance Sheet Highlights

The table below presents the balance sheet position of the Company at June 30, 2012, March 31, 2012 and December 31, 2011, along with percentage changes.

	As at			% Change	
(000s, except %)	**June 30 2012**	March 31 2012	December 31 2011	June 30, 2012 - March 31, 2012	June 30, 2012 - December 31, 2011
Cash resources	**$ 301,330**	$ 421,397	$ 665,806	(28.5)%	(54.7)%
Available for sale securities	**425,834**	471,951	391,754	(9.8)%	8.7%
Pledged securities	**628,836**	493,889	341,588	27.3%	84.1%
Total cash resources and securities	**1,356,000**	1,387,237	1,399,148	(2.3)%	(3.1)%
Loans held for sale	**29,811**	-	-	-	-
Loans					
Residential mortgages	**7,749,484**	6,946,012	6,339,883	11.6%	22.2%
Securitized residential mortgages	**7,582,154**	7,953,414	8,243,350	(4.7)%	(8.0)%
Non-residential mortgages	**1,037,385**	940,055	946,222	10.4%	9.6%
Personal and credit card loans	**568,127**	564,264	560,193	0.7%	1.4%
Total loans	**16,937,150**	16,403,745	16,089,648	3.3%	5.3%
Collective allowance for credit losses	**(29,500)**	(29,500)	(29,440)	-	0.2%
	16,907,650	16,374,245	16,060,208	3.3%	5.3%
Other assets	**232,997**	233,774	237,115	(0.3)%	(1.7)%
Total assets	**$ 18,526,458**	$ 17,995,256	$ 17,696,471	3.0%	4.7%
Deposits	**$ 9,007,464**	$ 8,297,126	$ 7,922,124	8.6%	13.7%
Senior debt	**152,524**	154,129	153,336	(1.0)%	(0.5)%
Securitization liabilities	**8,238,559**	8,448,546	8,649,075	(2.5)%	(4.7)%
	17,398,547	16,899,801	16,724,535	3.0%	4.0%
Other liabilities	**258,472**	267,419	197,151	(3.3)%	31.1%
Total liabilities	**17,657,019**	17,167,220	16,921,686	2.9%	4.3%
Shareholders' equity	**869,439**	828,036	774,785	5.0%	12.2%
Total liabilities and shareholders' equity	**$ 18,526,458**	$ 17,995,256	$ 17,696,471	3.0%	4.7%
Loans as a % of total assets	**91.3%**	91.0%	90.8%		

Table 8: Liquidity Resources

(000s, except %)	**June 30 2012**	March 31 2012	December 31 2011
Total cash resources and securities per balance sheet	**$ 1,356,000**	$ 1,387,237	$ 1,399,148
Add: MBS included in residential mortgages	**407,142**	289,125	260,572
	1,763,142	1,676,362	1,659,720
Less: securities held for investments	**(324,430)**	(377,245)	(378,498)
Less: restricted cash	**(131,968)**	(113,812)	(124,716)
Less: pledged securities	**(628,836)**	(493,889)	(341,588)
Liquid assets at carrying value	**$ 677,908**	$ 691,416	$ 814,918
Liquid assets at fair value	**$ 683,172**	$ 707,362	$ 843,840
Liquid assets at carrying value as a % of total assets	**3.7%**	3.8%	4.6%

Cash Resources and Securities

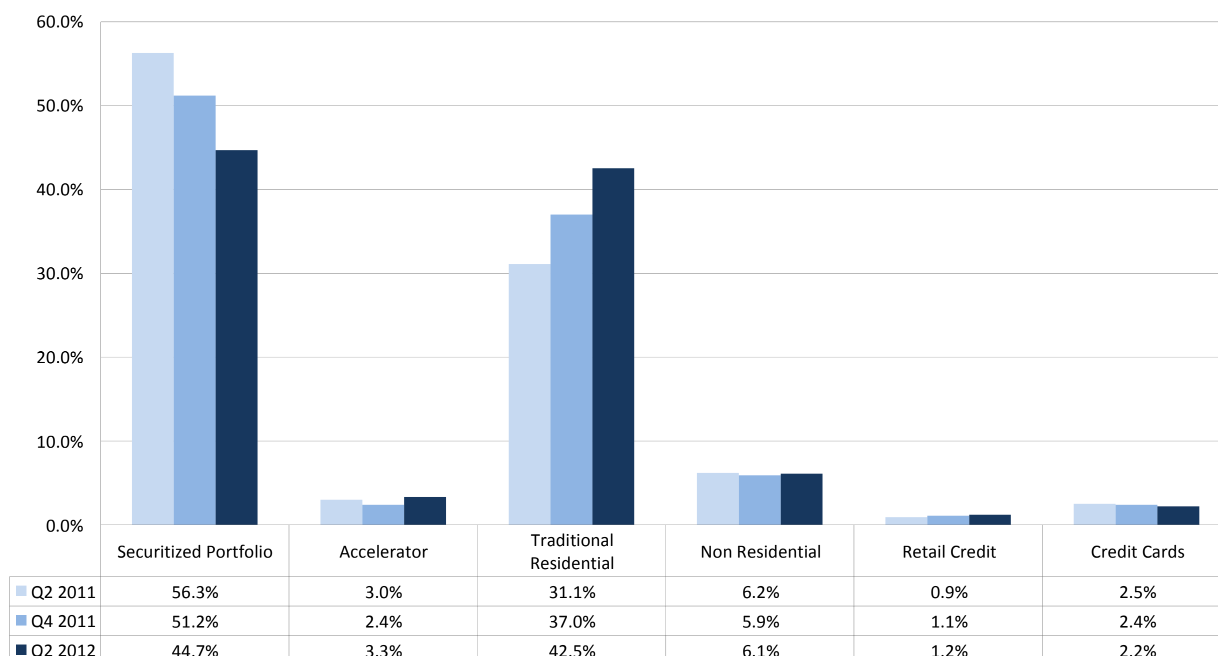
A portion of the liquidity assets that are the Company's originated MBS are classified as residential mortgages on the balance sheet, as required by IFRS. On an overall basis, liquidity resources declined as the Company deployed more cash to lending activities.

The Company continues to invest in conservative assets while seeking appropriate returns. The available for sale portfolio declined during the quarter as the Company sold certain positions in regulated financial institutions ahead of the adoption of Basel III.

Pledged securities include assets pledged through the CMB program amounting to $585.4 million compared to $341.6 million at the end of 2011 and $493.9 million last quarter. These assets include treasury bills and third party CMHC-insured MBS. Pledges securities also include $43.4 million in third party CMHC-insured MBS sold under repurchase agreements that are utilized for liquidity management.

Loans Portfolio

Chart 1: Portfolio Composition by Product Type



	Securitized Portfolio	Accelerator	Traditional Residential	Non Residential	Retail Credit	Credit Cards
Q2 2011	56.3%	3.0%	31.1%	6.2%	0.9%	2.5%
Q4 2011	51.2%	2.4%	37.0%	5.9%	1.1%	2.4%
Q2 2012	44.7%	3.3%	42.5%	6.1%	1.2%	2.2%

Table 9: Mortgage Production

	For the three months ended			For the six months ended	
(000s)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Traditional single family residential mortgages	**$ 1,213,892**	$ 921,071	$ 870,808	**$ 2,134,963**	$ 1,624,489
Accelerator single family residential mortgages	**221,129**	172,676	172,381	**393,805**	621,545
Multi-unit residential mortgages	**87,832**	27,523	34,488	**115,355**	123,523
Non-residential mortgages	**85,974**	25,213	59,546	**111,187**	108,275
Store and apartments	**37,820**	37,859	35,503	**75,679**	60,580
Warehouse commercial mortgages	**20,000**	2,500	24,750	**22,500**	29,750
Total mortgage advances	**$ 1,666,647**	$ 1,186,842	$ 1,197,476	**$ 2,853,489**	$ 2,568,162

Total mortgage production increased 40.4% over the first quarter and 39.2% over the same period last year. Year-to-date mortgage production is up 11.1% over the comparable period of 2011. Consistent with the Company's strategic shift to focus on the traditional portfolio, production in the traditional portfolio increased $292.8 million or 31.8% over the first quarter and $343.1 million or 39.4% over the same quarter of 2011. Year-to-date production in the traditional product has increased $510.5 million or 31.4% over the same period of 2011. The robust demand for this product continued in the quarter and the

Company is observing relatively stronger credit profiles and lower than average credit risk across this segment, as evidenced by higher average beacon scores (credit scores) and lower average loan to value ratios on new originations.

Beginning late in 2010 and early 2011, the Company scaled back lending in Accelerator and multi-unit residential securitized mortgages. This was in response to the cost of allocating capital to support insured securitized mortgages, which resulted from the implementation of IFRS and the regulatory framework. The accounting change effectively caused an additional cost of capital (which is an opportunity cost) and reduced the relative profitability of the Company's Accelerator and insured multi-unit residential mortgage products. The Company's participation in multi-unit residential MBS that qualify for off-balance sheet accounting has allowed for increased mortgage production in this segment. The Company continues to explore opportunities that may allow for increased growth of the insured mortgage portfolio.

Non-residential and store and apartments mortgages continue as an important complementary source of loan assets and the Company will continue to increase these portfolios when appropriate assets are available. Non-residential mortgage production is affected by the availability of appropriate assets and production trends are variable.

Production continued to favor Ontario in the second quarter, although the Company continues to invest in developing other markets. The Company will remain cautious in its expansion, relying on its ongoing assessment of credit risks in expansion markets. The concentration of new originations is influenced by the Company's credit experience. Please see Note 5(A) of the unaudited consolidated financial statements for geographic distribution of the portfolio.

Other Assets

Other assets, primarily consisting of accrued interest receivable, other prepaid assets, capital assets and intangible assets, generally increases in proportion to the increase in total loans and general business growth.

Liabilities

Securitization liabilities, including MBS and CMB liabilities declined $210.0 million from the end of first quarter and $410.5 million from the end of 2011 due to the amortization of MBS liabilities. CMB liabilities are bullet bonds and only change when the underlying bonds mature. There were $59.1 million in CMB maturities in the second quarter. The Company also securitized and sold into the market $53.5 million of MBS that did not qualify for off-balance sheet accounting which increased the MBS liabilities.

From time to time, the Company securitizes mortgages and holds some of the related MBS as liquidity assets or inventory for replacement assets for the CMB program. These MBS are carried on the balance sheet at amortized cost as part of residential mortgage loans (see Table 8: Liquidity Resources).

Deposits increased $710.3 million from the first quarter and $1.09 billion from December 31, 2011 to fund net new mortgages.

Other liabilities decreased $8.9 million from the end of last quarter primarily due to the timing of interest payments on CMB liabilities and deposits, and increased $61.3 million from the end of 2011 due to portfolio growth and the commencement of the repurchase agreement program. Repurchase obligations were $43.4 million at the end of the quarter compared to $49.7 last quarter and $nil at the end of 2011.

Shareholders' Equity

The increase in total shareholders' equity since December 31, 2011 was internally generated from net income of $105.8 million, plus $6.4 million in amounts related to stock based compensation, less $15.3 million for dividends to shareholders, $3.6 million related to the repurchase of shares and an increase of $1.4 million in accumulated other comprehensive income.

At June 30, 2012, the book value per common share was $25.05, compared to $22.38 at December 31, 2011 and $20.24 at June 30, 2011. The Company has consistently increased the net book value per share through earnings.

Derivatives and Hedging

From time to time, the Company enters into derivative transactions primarily in order to hedge interest rate exposure resulting from outstanding loan commitments and requirements to replace assets in the CMB program, as well as interest rate risk on fixed-rate debt, such as CMB liabilities and subordinated debt. Where appropriate the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes.

Cash Flow Hedging

The Company uses Government of Canada bond forwards and interest rate swaps to hedge the impact of movements in interest rates between the time that mortgage commitments are made and the time that those mortgages are funded and/or securitized. Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in the fair value of the pool of fixed rate mortgages due to interest rate fluctuations between commitment and funding. The term of these hedges is generally 60 to 150 days. These hedge instruments are settled or unwound at the time of funding or securitization of the underlying mortgages. The Company applies cash flow hedge accounting to the Government of Canada bond forwards and certain interest rate swaps. The intent of hedge accounting is to recognize the effective matching of the gain or loss on the Government of Canada bond forwards and interest rate swaps with the recognition of the related interest expense on the resulting funding.

The following table summarizes the activities related to cash flow hedges included in the Company's financial statements:

Table 10: Cash Flow Hedging

	For the three months ended			For the six months ended	
(000s)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Notional amount outstanding	**$ -**	$ 20,500	$ 75,000	**$ -**	$ 75,000
Fair value (losses) gains recorded in OCI	**$ (396)**	$ 26	$ (2,643)	**$ (370)**	$ (3,317)
Amounts reclassified from OCI to net interest income	**(357)**	(353)	(91)	**(710)**	(91)
Fair value losses recorded in non-interest income (ineffectiveness)	**-**	-	(53)	**-**	(545)

The losses reflected a decline in bond yields over the period of the hedge and were deferred through accumulated other comprehensive income. These losses will be recognized in income over the term of the related MBS, as part of the interest expense on the hedged secured borrowing. These costs are generally offset by attractive interest rates on mortgage originations.

Fair Value Hedging

The Company is exposed to interest rate risk through participation in the CMB program due to reinvestment risk between the amortizing fixed-rate MBS and the bullet fixed-rate CMB. Additionally, the Company is exposed to interest rate risk through its fixed rate senior debt. To hedge these risks, the Company enters into interest rate swaps and applies fair value hedge accounting. The intent of fair value hedge accounting is to have the fair value changes in the interest rate swap offset, within a reasonable range, the changes in the fair value of the fixed-rate borrowing resulting from changes in the interest rate environment. Any unmatched fair value change is recorded in income as hedge ineffectiveness through net realized and unrealized gain or loss on derivatives. The following table summarizes the notional amount of derivatives outstanding, change in the fair value of derivatives and change in hedged fixed rate liabilities:

Table 11: Fair Value Hedging

	For the three months ended			For the six months ended	
(000s)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Notional amount outstanding	**$ 1,635,914**	$ 1,635,914	$ 1,671,914	**$ 1,635,914**	$ 1,671,914
Fair value changes recorded on interest rate swaps	**$ 8,555**	$ (22,064)	$ 21,340	**$ (13,509)**	$ 4,986
Fair value changes of hedged fixed-rate liabilities for interest rate risk	**(7,751)**	24,824	(20,252)	**17,073**	(3,493)
Hedge ineffectiveness gain recorded in non-interest income	**$ 804**	$ 2,760	$ 1,088	**$ 3,564**	$ 1,493

Hedge of Loans Held for Sale

The Company may enter into bond forwards to hedge interest rate risk on loans held for sale. These derivatives are not designated in hedge accounting relationships. The fair value changes of these derivatives are mostly offset by the fair value changes related to loans held for sale. The fair value changes reflect declines in interest rates. The following table summarizes the notional amount outstanding and the change in fair value of the derivatives and loans held for sale:

Table 12: Hedge of Loans Held for Sale

	For the three months ended			For the six months ended	
(000s)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Notional amount outstanding	**$ 28,950**	$ -	$ -	**$ 28,950**	$ -
Fair value losses on bond forwards recorded in non-interest income	**$ (671)**	$ -	$ -	**$ (671)**	$ -
Fair value gains on loans held for sale recorded in non-interest income	**441**	-	-	**441**	-

Other Interest Rate Swaps

The Company also has certain interest rate swaps that are not designated in hedge accounting relationships and therefore are adjusted to fair value without an offsetting hedged amount. These swaps are economic hedges of the Company's general interest rate risk:

Table 13: Other Interest Rate Swaps

	For the three months ended			For the six months ended	
(000s)	**June 30 2012**	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Notional amount outstanding	**$ 100,000**	$ 100,000	$ 93,108	**$ 100,000**	$ 93,108
Unrealized (losses) gains recorded in non-interest income	**$ (1,407)**	$ 1,524	$ 638	**$ 117**	$ 528

Please see Note 14 of the unaudited interim consolidated financial statements for further information.

Off-Balance Sheet Arrangements

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 $861.1 million at June 30, 2012 ($776.7 million – Q1 2012; $612.4 million – Q4 2011). Included within the outstanding commitments are unutilized non-residential loan advances of $56.4 million at June 30, 2012 ($76.4 million – Q1 2012; $40.5 million – Q4 2011). Commitments for the loans remain open for various periods. As at June 30, 2012, unutilized credit card balances amounted to $86.7 million ($87.6 million – Q1 2012; $89.6 million – Q4 2011). Outstanding commitments for future advances for the Equityline *Visa* portfolio were $7.4 million at June 30, 2012 ($10.8 million – Q1 2012; $10.5 million – Q4 2011).

CAPITAL MANAGEMENT

The Company's subsidiary, 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 credit risk using the standardized approach and for operational risk using the basic indicator approach. Home Trust's capital structure and risk-weighted assets were as follows:

Table 14: Regulatory Capital (Based only on the subsidiary, Home Trust Company)

(000s, except ratios and multiple)	**June 30 2012**	March 31 2012	December 31 2011
Tier 1 capital			
Capital stock	**$ 23,497**	$ 23,497	$ 23,497
Contributed surplus	**951**	951	951
Retained earnings	**808,956**	762,786	717,223
Accumulated other comprehensive loss [1]	**(3,053)**	(1,347)	(4,229)
IFRS transition adjustment	**24,594**	36,891	49,188
Total	**854,945**	822,778	786,630
Tier 2 capital			
Collective allowance for credit losses [2]	**29,500**	29,500	29,440
Subordinated debentures	**171,000**	165,000	115,000
Total	**200,500**	194,500	144,440
Total regulatory capital	**$ 1,055,445**	$ 1,017,278	$ 931,070
Risk-weighted assets for			
Credit risk	**$ 4,449,704**	$ 4,185,041	$ 4,068,823
Operational risk	**553,875**	519,488	480,873
Total risk-weighted assets	**$ 5,003,579**	$ 4,704,529	$ 4,549,696
Regulated capital to risk-weighted assets			
Tier 1 capital	**17.1%**	17.5%	17.3%
Tier 2 capital	**4.0%**	4.1%	3.2%
Total regulatory capital ratio	**21.1%**	21.6%	20.5%
Assets to regulatory capital multiple	**13.8**	13.6	14.4

[1] Accumulated other comprehensive loss relates to unrealized losses on certain available for sale equity securities, net of tax, which decrease Tier 1 capital.
[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2 capital. At June 30, 2012, the Company's collective allowance represented 0.59% of risk-weighted assets.

Home Trust's 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.

Home Trust elected to apply OSFI's IFRS transitional relief to the IFRS opening retained earnings adjustment. Home Trust is permitted to amortize the effect of the transition adjustment on regulatory capital over the eight quarters ending December 31, 2012. The amount added to regulatory capital will reduce to zero over this time.

In the first quarter the Company provided Home Trust with $50.0 million in additional subordinated debt from the Company's $150.0 million senior debt issue in May 2011, of which $100.0 million was provided to Home Trust in 2011. An additional $6.0 million was provided in April 2012 utilizing excess cash of the parent company. These amounts are expected to be sufficient for the achievement of the Company's 2012 targets while maintaining prudent levels of capital.

Basel III

The Company's management continues to closely monitor the capital and liquidity proposals widely known as Basel III. It is expected that these rules will be phased in beginning in 2013. The Company has completed an analysis of the proposed Basel III requirements and has identified the following components as applicable:

- *Liquidity Coverage Ratio (LCR).* The LCR establishes a common measure of liquidity risk and requires institutions to maintain sufficient liquid assets to cover a minimum of 30 days of cash flow requirements in a stress situation. As at June 30, 2012 the Company had sufficient liquid assets to meet the minimum LCR.
- *Net Stable Funding Ratio (NSFR).* The NSFR establishes a second common measure of liquidity based on longer-term assets to longer term liabilities. As at June 30, 2012 the Company had sufficient long-term funding to meet the minimum NSFR.
- *Tier 1 Capital.* Basel III proposes a number of deductions from Tier 1 capital. In particular, unconsolidated investments in financial institutions, in excess of a prescribed portion of the Company's capital, and intangible assets (including software) will result in deductions from capital. After accounting for all deductions, Home Trust's capital ratios would meet minimum and well capitalized levels at the end of the quarter.
- *Conservation buffer and Counter-cyclical buffer.* A capital conservation buffer of common equity equal to 2.5% of risk-weighted assets (RWA) will be phased-in between 2016 and 2019 and will ultimately require a minimum tangible common equity ratio of 7.0% and a Total capital ratio of 10.5%. As at June 30, 2012 Home Trust had sufficient capital resources to adopt the conservation buffer. A further counter-cyclical buffer with a range of 0% to 2.5% of RWA in common equity will be required, based on national circumstances with the intent of preventing overheating or asset bubbles. As at June 30, 2012 Home Trust had sufficient capital resources to adopt the counter-cyclical buffer at the top of the range.

RISK MANAGEMENT

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and consistently high return on equity. The Company continues to invest significantly in risk management practices.

The Company is exposed to various types of risks inherent 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's strategies and management of risk are supported by an overall enterprise risk management (ERM) framework and supporting frameworks for each major category of risk to which it is exposed (credit, market and operational). The Company defines ERM as an ongoing process involving its Board of Directors, management and all other personnel in the identification, measurement, assessment and response to risks that may positively or negatively impact the organization as a whole. ERM is applied in strategy setting across the enterprise and is designed to provide reasonable assurance that the Company's objectives can be realized given its stated risk appetite. The goal of ERM is to help maximize, within the Company's risk appetite, the benefit to the enterprise, shareholders and other stakeholders from a portfolio of risks that the Company is willing to accept.

The Company's key risk management practices remain in place and are continually reviewed and enhanced from those outlined on pages 48 through 58 in the MD&A section of the Company's 2011 Annual Report.

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason. The Company's overall exposure to credit risk is governed by credit specific risk appetite, limits and the Credit Risk Policy as approved by the Board. Senior management, the ERM group, the Audit Committee and the Risk and Capital Committee of the Board oversee the credit portfolio through ongoing reviews of credit risk management policies, lending practices, portfolio composition and risk profile, and the adequacy of loan loss reserves and credit-risk based capital. Credit risk limits are established for all types of credit exposures and include risk-sensitive, single-name limits in the Company's non-residential mortgage portfolio, as well as geographic, product, property and security type limits over all classes of exposure. The Company's risk management policy limits the total aggregate exposure to any entity or connection. The lines of business are responsible for managing the Company's credit risks in accordance with approved policies and guidelines, and assess overall credit conditions and exposures on an ongoing basis. ERM recommends credit policies and standards, establishes specific underwriting guidelines and provides independent enterprise-wide oversight to all credit risks, including the independent measurement, monitoring and reporting of these risks. 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 following table.

Table 15: Mortgage Portfolio

(000s, except %)	**June 30 2012**	March 31 2012	December 31 2011
Total mortgage portfolio balance (net of individual allowance)	**$ 16,369,023**	$ 15,839,481	$ 15,529,455
Percentage of residential mortgages	**93.7%**	94.1%	93.9%
Percentage of non-residential mortgages	**6.3%**	5.9%	6.1%
Percentage of insured residential mortgages	**55.4%**	58.2%	61.0%
Percentage of mortgages current	**98.1%**	97.8%	97.3%
Percentage of mortgages over 90 days past due	**0.4%**	0.4%	0.4%

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 was relatively stable over the last twelve months. As a proportion of the total portfolio, the Company anticipates that the non-residential portfolio will remain relatively stable or exhibit modest growth in the foreseeable future.

Refer to Note 5(A) of the unaudited interim consolidated financial statements for a further breakdown of the loan portfolio by geographic region.

Due to the level of activity and price appreciation in the high-rise condominium market in certain markets in Canada, the Company has been closely monitoring market conditions and the performance of this portfolio. High-rise condominiums represent less than 8% of the residential mortgage portfolio and the portfolio performance is within the Company's expectations.

Insured mortgages carry almost no credit risk to the Company. The insured portion of the mortgage portfolio has declined from December 31, 2011 due to a higher proportion of originations in the Company's traditional mortgage products, which are generally not insured. While the proportion of traditional mortgages has increased, the credit quality of the traditional mortgage originations has been improving evidenced by a decline in average loan to value along with an increase in the average Beacon score (credit score) of the borrower. For the first six months of 2012, the average loan to value on origination of the traditional uninsured mortgage product declined to 68.4%, compared to 70.5% for the first six months of 2011. This was combined with an increase in average Beacon scores on originations of 623 compared to 611 for the same periods.

The Company reduces risk of loss on residential mortgages through collateral in the form of real property. In that regard, first mortgages continue to represent almost the entire portfolio. At the end of the second quarter, the average loan to value of the total portfolio, which includes both insured and uninsured mortgages, was 69.5% compared to 69.8% last quarter and 67.6% at the end of the second quarter in 2011. The loan to value of insured mortgages generally exceeds these averages.

Senior management and the ERM group closely monitor the credit performance of the mortgage loans portfolio. The portfolio continues to perform well with arrears that are well within expected levels. At the quarter end 98.1% of the portfolio was current and 0.4% was over 90 days in arrears, which is within the low end of historical norms.

At the end of the second quarter the gross credit card receivable balance totaled $368.0 million, the vast majority of which are secured. Equityline *Visa* accounts, which are secured by residential properties and are not insured, represented 97.5% of the credit card portfolio, while *Visa* cards secured by cash deposits were 2.4% of the credit card portfolio. The Equityline *Visa* portfolio had an average loan to value of 71.0% at the end of the quarter compared to a loan to value of 71.3% at December 31, 2011. The credit performance of the credit card portfolio remains strong, and within the Company's expectations. Of the total portfolio, $5.2 million or 1.4% of the credit card portfolio was over 90 days in arrears at the end of the quarter, compared to $6.8 million or 1.7% at December 31, 2011 and $7.1 million or 1.9% at March 31, 2012. Write-offs were $0.3 million for the quarter and $0.8 million year to date, compared to $0.5 million and $0.5 million in same periods of 2011, respectively.

Net non-performing loans remain within expected and acceptable ranges. As part of the Company's ongoing business strategy, experienced employees undertake reviews of non-performing loans to analyze patterns and drivers, and then reflect emerging drivers in the Company's lending criteria. 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 totaled $3.0 million or 0.07% of gross loans on an annualized basis compared to $2.2 million or 0.06%, in the comparable quarter of 2011 and $3.0 million or 0.07% in the first quarter of 2012. The Company continually monitors arrears and write-offs carefully and deals expeditiously and effectively with non-performing loans.

The Company maintains a collective allowance that, in management's judgement, is sufficient to absorb probable incurred losses in its loans portfolio. At the end of second quarter, the Company held a collective allowance of $29.5 million, marginally higher than the $29.4 million held at December 31, 2011 and consistent with the end of the first quarter of 2012.

The Company monitors the adequacy of the collective allowance on a monthly basis and performs an in-depth analysis quarterly. The Company has security in the form of real property or cash deposits for virtually the entire loans portfolio. The Company's evaluation of the adequacy of the collective 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 collective allowance, giving due consideration to changes in economic conditions, interest rates and local housing market conditions.

The collective allowance balance at the end of quarter increased marginally over December 31, 2011 and remained consistent with the end of the first quarter as the Company continues to experience strong credit performance in the loans portfolio as reflected in the following factors:

- A relatively low rate of non-performing loans. Non-performing loans as a percentage of gross loans and credit losses remain within historical averages. The Company continues to employ prudent strategies to maintain the credit quality of the loans portfolio.
- Stable and balanced real estate markets. Overall net write-offs are within expected ranges and Home Trust continues to focus on working out non-performing loans. Gross write-offs in the residential mortgage portfolio and personal and credit card loan portfolio are consistent with the Company's expectations and experience over the long term. 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 in the Credit Risk section of the 2011 Annual Report under the heading Risk Management.
- Stable risk profile of the loans portfolio and general Canadian economic factors that influence management's assessment of the level of collective allowance.

Liquidity and Funding Risk

This is the risk that the Company is unable to generate or obtain cash or equivalents in a timely manner and at a reasonable cost to meet its commitments (both on- and off-balance sheet) as they become due. This risk will arise from fluctuations in the Company's cash flows associated with lending, deposit-taking, investing and other business activities.

The Company's liquidity risk management framework includes liquidity and funding policies, standards and guidelines that are approved by the Executive Committee and the Risk and Capital Committee of the Board of Directors. The Company has an Asset and Liability Committee (ALCO) whose mandate includes establishing and recommending to the Board an enterprise-wide liquidity risk appetite. In addition, the ALCO reviews the composition and term structure of assets and liabilities, reviews liquidity and funding policies and strategies and regularly monitors compliance with those policies. The ALCO also oversees the stress testing of liquidity and funding risk and the testing of the Company's Contingency Funding plan. The Treasury group is responsible for managing the Company's liquidity and funding positions in accordance with approved policies and assesses the impact of market events on liquidity requirements on an ongoing basis. The ERM group recommends liquidity policies and standards, and provides independent enterprise-wide oversight to all liquidity and funding risk.

Consistent with the policy, the Company holds liquid assets in the form of cash, bank deposits, treasury bills, bankers' acceptances, government bonds and corporate debentures. At June 30, 2012, liquid assets amounted to $677.9 million, compared to $814.9 million at December 31, 2011 and $691.4 million at the end of the first quarter. The reduction in liquid assets reflects normal operating conditions and is not related to any changes in the Company's overall liquidity risk appetite.

The Company's main sources of funding are retail deposits, which are primarily sourced through the deposit broker network, and securitization. The Company has consistently derived the bulk of the its retail deposits through the national investment dealers which are controlled by major financial institutions. The Company continues to add new brokers in order to diversify its sources of funds. The broker network provides the Company access to a very large volume of potential deposits, which are sourced almost entirely from individual investors or small businesses, with no reliance on wholesale funding markets. The majority of deposits raised are fixed-term Guaranteed Investment Certificates (GICs) that are not subject to early redemption. The Company has contractual agreements with over 240 independent brokers, including most major national investment dealers.

The Company is an approved NHA MBS issuer and an approved seller into the CMB program, which are securitization initiatives sponsored by CMHC. Securitization funding provides the Company with long-term matched funding at very attractive interest rates. Traditionally, the Company has used securitization markets to fund its Accelerator mortgages and, to a lesser extent, its traditional mortgages that qualified for bulk portfolio insurance. The Company is not currently using bulk insurance on new securitizations. The Company also uses securitization markets to fund its multi-unit residential lending program.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to sudden changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings, and, to the best of its abilities, matches the terms of its liabilities to assets through actions in the deposit market in priority to accessing off-balance sheet solutions.

The Company's market risk management framework includes interest rate risk policies that are approved by the Executive Committee and the Risk and Capital Committee of the Board of Directors. The ALCO is responsible for defining and monitoring the Company's structural interest rate risk and reviewing significant maturity and/or duration mismatches, as well as developing strategies that allow the Company to operate within its overall risk tolerance. In addition, the ALCO oversees stress testing of structural interest rate risk using a number of interest rate scenarios. The Treasury group is responsible for managing the Company's interest rate gaps in accordance with approved policies and assesses the impact of market events on the Company's net interest income and economic value of shareholders' equity. The ERM group recommends prudential policies and standards, and provides independent enterprise-wide oversight to all interest rate risk exposure.

From time to time, the Company enters into interest rate derivative transactions in order to hedge its structural interest rate risk. The use of derivative products has been approved by the Board of Directors; however, permitted limited use is governed by specific policies. Derivatives are only permitted in circumstances in which the Company is hedging asset-liability mismatches, or loan commitments, or as a result of hedging requirements under the terms of its participation in the CMB program. Moreover, the policy expressly articulates that use of derivatives is not permitted for transactions that are undertaken to potentially create trading profits through speculation on interest rate movements. Please see the Derivatives and Hedging section of the MD&A for more information.

The interest rate sensitivity position as at June 30, 2012 is presented in Note 15 in the accompanying unaudited interim consolidated financial statements. The table provided represents the Company's position at a point in time, and the gap represents the difference between assets and liabilities in each maturity bucket. Note 15 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. Similarly, some contractual off-balance sheet mortgage commitments may be made but not materialize. In measuring its interest rate risk exposure, the Company makes assumptions about these factors, taking into account aspects such as past borrower behavior.

To assist in matching assets and liabilities, the Company utilizes two interest rate risk sensitivity models that measure the relationship between changes in interest rates and the resulting impact on both the future net interest income and the economic value of shareholders' equity. The objective is to manage the interest rate risk within specifically defined guidelines.

The following table provides measurements of interest rate sensitivity and 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 16: Impact of Interest Rate Shifts

(000s)	**June 30 2012**	March 31 2012	December 31 2011	**June 30 2012**	March 31 2012	December 31 2011
	Increase in interest rates			Decrease in interest rates		
100 basis point shift						
Impact on net interest income, after tax (for the next 12 months)	**$ 6,731**	$ 4,945	$ 8,142	**$ (6,731)**	$ (4,945)	$ (8,142)
Impact on net present value of shareholders' equity	**(4,762)**	(9,719)	4,175	**3,431**	8,680	(5,914)
200 basis point shift						
Impact on net interest income, after tax (for the next 12 months)	**$ 13,463**	$ 9,890	$ 16,284	**$ (13,463)**	$ (9,890)	$ (16,284)
Impact on net present value of shareholders' equity	**(10,754)**	(20,416)	6,696	**(1,999)**	9,869	(11,760)

RESULTS BY BUSINESS SEGMENT

The following section discusses the mortgage lending, consumer lending and other segments for the three and six month periods ended June 30, 2012 (refer to Note 16 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 17: Summary of Mortgage Lending Results

	Quarter					Year to date		
(000s, except %)	**Q2 2012**	Q1 2012	% Change	Q2 2011	% Change	**2012**	2011	% Change
Net interest income	**$ 80,695**	$ 74,219	8.7%	$ 66,186	21.9%	**$ 154,914**	$ 127,371	21.6%
Net income	**46,432**	44,905	3.4%	38,231	21.5%	**91,337**	71,069	28.5%
Total assets	**17,147,231**	16,390,861	4.6%	14,415,769	18.9%	**17,147,231**	14,415,769	18.9%

The mortgage lending segment continued its strong performance in the second quarter. Net interest income continued to grow, increasing 21.9% over the second quarter of 2011 and 8.7% over the first quarter of 2012 on higher total loan balances and strong and relatively stable total net interest margin, reflecting continued strong demand for the Company's products through enhanced broker relationships, superior customer service and relatively stable real estate markets across most of the country.

Expenses increased $4.2 million over the comparable quarter of 2011 and increased $2.1 million from the first quarter of 2012. Expenses increased primarily due to increases in headcount to support growth and IT related costs. Provisions for credit losses for the mortgage lending segment remain within expected and acceptable ranges. Please see the Provision and Allowance for Credit Losses section of this MD&A for further discussion.

Consumer Lending

Table 18: Summary of Consumer Lending Results

	Quarter					Year to date		
(000s, except %)	**Q2 2012**	Q1 2012	% Change	Q2 2011	% Change	**2012**	2011	% Change
Net interest income	**$ 10,685**	$ 11,037	(3.2)%	$ 10,367	3.1%	**$ 21,722**	$ 20,169	7.7%
Net income	**8,259**	7,943	4.0%	7,577	9.0%	**16,202**	14,944	8.4%
Total assets	**682,545**	635,570	7.4%	567,668	20.2%	**682,545**	567,668	20.2%

Table 19: Consumer Lending

(Amount in 000s)	**June 30, 2012**		March 31, 2012		June 30, 2011	
	Number of Accounts	**Amount Outstanding**	Number of Accounts	Amount Outstanding	Number of Accounts	Amount Outstanding
Visa	**27,428**	**$ 368,015**	26,901	$ 381,648	24,630	$ 380,464
Water heaters	**170,309**	**180,017**	156,813	162,356	121,276	121,861
Other retail lending	**7,090**	**28,299**	7,225	27,766	6,768	25,286

Consumer lending, which includes *Visa*, retail lending and payment card services, continues to generate positive returns for the Company. Net interest income for the second quarter increased by 3.1% compared to the same quarter in 2011 and was down 3.2% compared to the first quarter in 2012 on lower *Visa* balances.

Fees and other income have declined on lower set-up fees for *Visa* accounts due to lower originations for this product. Expenses have decreased slightly quarter over quarter as the Company continues to effectively manage its expenditures while at the same time carefully increasing the size of both its *Visa* and retail lending portfolios.

The average net interest margin earned on the *Visa* portfolio was 8.2% during the second quarter, compared to 8.5% in the second quarter of 2011 and 8.3% in the first quarter of 2012. The average net interest margin earned in the retail lending portfolio was 6.6% during the quarter, compared to 6.8% in the second quarter of 2011 and 6.8% in the first quarter of 2012.

Provisions for credit losses for the consumer lending segment remain within expected and acceptable ranges.

The Company anticipates the moderate slowing of growth in the Equityline *Visa* portfolio to continue in response to current market conditions, a general caution regarding consumer debt levels and regulatory changes for this product.

The Company's consumer lending portfolio also includes the results from its retail lending operations. The largest component of retail lending, representing 86.4% of the portfolio, is water heater loans. The Company anticipates continued growth in the water heater line of business and is actively exploring this channel for other opportunities.

Additionally, consumer lending includes the results of PSiGate which contributed $0.5 million to net income for the quarter which is consistent with the second quarter of 2011 and the first quarter of 2012.

Other

Table 20: Summary of Other Results

	Quarter					Year to date		
(000s, except %)	**Q2 2012**	Q1 2012	% Change	Q2 2011	% Change	**2012**	2011	% Change
Net interest income	**$ 2,474**	$ 2,963	(16.5)%	$ 4,769	(48.1)%	**$ 5,437**	$ 10,388	(47.7)%
Net income	**(1,461)**	(314)	365.3%	2,398	(160.9)%	**(1,775)**	5,371	(133.0)%
Total assets	**696,682**	968,825	(28.1)%	1,451,162	(52.0)%	**696,682**	1,451,162	(52.0)%

The other segment comprises the operating results from the Company's treasury portfolio and corporate activities.

The decline in net interest income is attributable to lower average balances and declining rates on the non-mortgage investments held by the Company compared to comparative periods. Net income was impacted in the quarter by an unrealized loss on derivatives of $1.4 million and $1.2 million in realized gains on the sale of securities, offset by $0.1 in unrealized losses on impairment of available for sale securities.

Expenses have declined over the comparable periods and from last quarter due to decline in expenses associated with the implementation of the core banking system and support costs associated with the new system.

ACCOUNTING STANDARDS AND POLICIES

Critical accounting estimates that require management to make significant judgements, some of which are inherently uncertain, are outlined in Note 2 to the unaudited consolidated financial statements included in this quarterly 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. Key areas where management has made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options and useful lives of capital assets and intangible assets. Further information can be found under Notes 4, 5, 6, 12, and 14 of these unaudited interim consolidated financial statements.

Future Changes in Accounting Standards

The following new IFRS pronouncements have been issued but are not effective and may have a future impact on the Company:

IAS 1 *Presentation of Financial Statements*

Beginning with the 2013 annual financial statements, the Company will be required to adopt amendments to IAS 1 *Presentation of Financial Statements* which may result in changes in the way OCI is presented in the consolidated statement of income. Management is currently evaluating the potential impact that the adoption of IAS 1 will have on the presentation of the Company's consolidated financial statements.

IFRS 9 Financial Instruments

As of January 1, 2015 the Company will be required to adopt IFRS 9, *Financial Instruments* (IFRS 9), which is the first phase of the International Accounting Standards Board's (IASB) project to replace IAS 39, *Financial Instruments; Recognition and Measurement*. IFRS 9 provides new requirements for the way in which an entity should classify and measure financial assets and liabilities that are in the scope of IAS 39 *Financial Instruments*. The standard requires all financial assets to be classified on the basis of the entity's business model for managing such financial assets and the contractual cash flow characteristics of the financial assets. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

As of January 1, 2013 the Company will be required to adopt IFRS 10 *Consolidated Financial Statements* (IFRS 10). Under IFRS 10, consolidated financial statements will include all controlled entities under a single control model. Management is currently evaluating the potential impact that the adoption of IFRS 10 will have on the Company's consolidated financial statements but does not anticipate any material changes to the financial position or operating results upon adoption of IFRS 10.

IFRS 12 *Disclosure of Interests in Other Entities*

As of January 1, 2013 the Company will be required to adopt IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12). IFRS 12 provides disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. The requirements of IFRS 12 will not have an impact on the results of operations or financial position of the Company as they are disclosure requirements only.

IFRS 13 *Fair Value Measurement*

As of January 1, 2013 the Company will be required to adopt IFRS 13 *Fair Value Measurement* (IFRS 13). IFRS 13 establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS and provides for enhanced disclosures when fair value is applied. Management is currently evaluating the potential impact that the adoption of IFRS 13 will have on the Company's consolidated financial statements.

IAS 27 *Separate Financial Statements*

As of January 1, 2013 the Company will be required to adopt the reissued IAS 27 *Separate Financial Statements* (IAS 27). As the consolidation guidance will now be included in IFRS 10, IAS 27 will only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the entity prepares separate financial statements. Management is currently evaluating the potential impact that the adoption of the reissued IAS 27 will have on the financial statements of the Company's subsidiaries.

Controls over Financial Reporting

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and the Management's Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

a. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflects the transactions and dispositions of the assets of the Company;

b. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and the receipts and expenditures are being made in accordance with authorizations of management and Directors of the Company; and

c. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Due to inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. As a result, the Company's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and COBIT, an IT governance framework, to evaluate the design of the Company's internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in the quarter that have or could be reasonably expected to materially affect internal control over financial reporting

Comparative Consolidated Financial Statements

The comparative interim unaudited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 unaudited interim consolidated financial statements.

UPDATED SHARE INFORMATION

As at June 30, 2012, the Company had issued 34,710,590 common shares. In addition, outstanding employee stock options amounted to 759,500 (Note 9(B)) (784,500 – Q1 2012; 928,500 – December 31, 2011) of which 431,500 were exercisable as of the quarter-end (444,000 – Q1 2012; 594,000 – December 31, 2011) for proceeds to the Company upon exercise of $15.0 million ($15.3 million – Q1 2012; $20.4 million – December 31, 2011).

Subsequent to the end of the second quarter, the Board of Directors declared a quarterly cash dividend of $0.22 per common share payable on September 1, 2012 to shareholders of record at the close of business on August 15, 2012.

QUARTERLY FINANCIAL HIGHLIGHTS

Table 21: Summary of Quarterly Results

(000s, except per share amounts and %)	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income (TEB[1])	**$ 95,109**	$ 89,626	$ 90,197	$ 89,478	$ 83,121	$ 78,232	$ 74,238	$ 70,104
Less: TEB adjustment	**1,255**	1,407	1,785	1,866	1,799	1,626	1,779	1,993
Net interest income per financial statements	**93,854**	88,219	88,412	87,612	81,322	76,606	72,459	68,111
Non-interest income	**12,426**	15,490	9,658	5,661	12,454	7,109	1,891	24,004
Non-interest expense	**29,882**	29,168	27,107	26,036	26,643	25,216	26,610	24,756
Total revenues	**218,751**	214,682	208,400	198,889	198,373	184,613	176,044	187,195
Net income	**53,230**	52,534	50,280	48,417	48,206	43,178	30,108	47,621
Return on common shareholders' equity	**25.1%**	26.2%	26.7%	27.0%	28.2%	26.7%	19.5%	32.7%
Return on average total assets	**1.2%**	1.2%	1.2%	1.2%	1.2%	1.1%	0.8%	1.4%
Earnings per common share								
Basic	**$ 1.54**	$ 1.52	$ 1.45	$ 1.40	$ 1.39	$ 1.24	$ 0.87	$ 1.37
Diluted	**$ 1.54**	$ 1.52	$ 1.45	$ 1.39	$ 1.38	$ 1.24	$ 0.87	$ 1.37
Book value per common share	**$ 25.05**	$ 23.83	$ 22.38	$ 21.10	$ 20.24	$ 19.14	$ 18.14	$ 17.44
Efficiency ratio (TEB[1])	**27.8%**	27.7%	27.1%	27.4%	27.9%	29.5%	35.0%	24.6%
Efficiency ratio	**28.1%**	28.1%	27.6%	27.9%	28.4%	30.1%	35.8%	25.1%
Tier 1 capital ratio[2]	**17.1%**	17.5%	17.3%	17.7%	18.4%	19.0%	18.1%	16.9%
Total capital ratio[2]	**21.1%**	21.6%	20.5%	21.0%	22.1%	20.3%	19.4%	18.1%
Non-performing loans as a % of gross loans	**0.31%**	0.28%	0.25%	0.32%	0.23%	0.29%	0.24%	0.26%
Annualized provision as a % of gross loans	**0.05%**	0.11%	0.07%	0.06%	0.03%	0.03%	0.17%	0.07%

[1] TEB - Taxable Equivalent Basis, see definition under Non-GAAP Measures in this report.
[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. First quarter credit statistics may experience decline reflecting post-holiday arrears increases.

The Company continues to achieve positive financial results driven by strong net interest margins, continued low efficiency ratios and favourable non-interest income. Tier 1 and Total capital ratios over the last eight quarters reflect the Company's prudent capital management strategies and the proactive approach to maintain a strong capital base.

OUTLOOK

The Company will continue to focus on its core mortgage lending business, including its traditional mortgage lending programs which have successfully operated for 25 years, as well as developing new products in its 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 to offer insured mortgage products which are competitive and will continue to participate in the CMB and National Housing Authority 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 credit policies. The Company will continue to explore solutions that will allow the Company to profitably grow its originations in the insured mortgage market segment and expects to launch additional initiatives in the second half of 2012.

The Company is committed to maintaining its financial strength through a strong capital base and conservative liquidity and believes it is in a strong position to deal with any economic uncertainty that may affect the Canadian economy. This financial strength positions the Company to continue generating above-average returns and capitalize on market opportunities where they arise, at controlled, acceptable levels of risk. The Company is positioned to continue to grow its assets, revenue and net income within its current objectives for 2012. Providing superior customer and broker service, expansion of broker networks and increased market penetration will remain priorities for the Company.

The Company continues to observe balanced and stable real estate conditions throughout most of the country. The Company believes that the Canadian housing market will remain balanced throughout the remainder of 2012 with relatively flat prices to modest decreases, supported by continued low interest rates and stable employment.

The Company expects that the rate of growth in the total mortgage loans portfolio will be within stated targets. Home Capital expects continued higher proportion of origination volumes in the traditional mortgage portfolio throughout the remainder of 2012, modest increases in originations outside Ontario and continued growth in consumer lending. Equityline *Visa* growth is expected to continue moderating given general consumer credit conditions and regulatory guidance discussed below. Accelerator originations are expected to remain relatively flat compared to the current quarter as the Company continues to focuses on its traditional mortgage products which are more profitable.

Net income and net interest income will continue to grow as the portfolio shifts to higher yielding loans while maintaining or improving credit quality. Total net interest margin is expected to remain relatively stable as the Company continues to benefit from the portfolio shift to traditional mortgages that offset some of the decline in margins on the securitized assets. The credit performance of the loan portfolio remains strong, with arrears, non-performing loans and write-offs within expected levels. The Company expects the level of write-offs and non-performing loans to remain consistent on a relative basis for the remainder of 2012 and within stated targets.

During the quarter OSFI released the Final Guideline B-20 of Sound Business and Financial Practices - *Residential Mortgage Underwriting Practices and Procedures* that apply primarily to the uninsured underwriting policies of the Company. The Company has assessed implications to the current policies and procedures of the Company and has made or will make adjustments to its practices as required and well ahead of the end of 2012 deadline. The Company does not expect that the guideline will materially affect the Company's ability to meet its performance targets for the current year or its ability to continue generating growth and above average returns. There may be a small segment of the Company's borrowers who will need to seek alternative sources of funding at renewal, but this is not expected to be material. The loan to value reduction for HELOC products in the guideline will tend to temper growth of the Equityline *Visa* product. The Company is evaluating alternative products to increase the growth in the *Visa* product.

Also during the quarter the government announced changes to certain rules governing CMHC insured mortgages, including among other items, reducing the maximum amortization period to 25 years from 30 years and reducing the loan to value on refinancing to 80% from 85%. These rules were effective in early July 2012. The Company expects these changes to temper the short term growth in the insured mortgage market overall, while improving the safety and soundness of the mortgage insurers which should have a positive impact on the Canadian real estate market and economy. The Company does not expect the rule changes to materially change its origination volumes or growth initiatives for its insured mortgage business, given its current share of the affected segments of the market is relatively small.

The investment in and implementation of SAP Solutions for Banking provided the foundation for the Company's future growth and product development that will lead to increased future revenue and profits. The new platform has expanded current capacity, is improving customer service and, in combination with the operational excellence and efficiency initiative, is expected to lead to future operational efficiencies. This is expected to result in improved cost efficiency over the medium term. The Company has already experienced the enhanced benefits of the new platform, and has been able to increase mortgage production and servicing with little increase in headcount associated with these activities. Enhancing governance, risk and compliance processes, people and tools also remain key strategic priorities for the Company in 2012 and beyond. The costs associated with these initiatives should be offset with growth in volumes and increased operational efficiencies.

Looking ahead, the Board of Directors and management are confident that Home Capital will continue generating strong earnings and growth throughout 2012. **This Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements on page 6 of this quarterly report.**

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts *(Unaudited)*	For the three months ended June 30 2012	March 31 2012	June 30 2011	For the six months ended June 30 2012	June 30 2011
Net Interest Income Non-Securitized Assets					
Interest from loans	**$ 125,576**	$ 117,565	$ 96,262	**$ 243,141**	$ 187,315
Dividends from securities	**3,533**	3,964	4,713	**7,497**	8,971
Other interest	**930**	1,047	1,219	**1,977**	2,912
	130,039	122,576	102,194	**252,615**	199,198
Interest on deposits	**56,043**	53,128	47,242	**109,171**	92,208
Interest on senior debt	**1,705**	1,653	1,047	**3,358**	1,047
Net interest income non-securitized assets	**72,291**	67,795	53,905	**140,086**	105,943
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets	**76,286**	76,616	83,920	**152,902**	164,420
Interest expense on securitization liabilities	**54,723**	56,192	56,503	**110,915**	112,435
Net interest income securitized loans and assets	**21,563**	20,424	27,417	**41,987**	51,985
Total Net Interest Income	**93,854**	88,219	81,322	**182,073**	157,928
Provision for credit losses (note 5(E))	**2,298**	4,498	1,217	**6,796**	2,191
	91,556	83,721	80,105	**175,277**	155,737
Non-Interest Income					
Fees and other income	**12,025**	10,897	8,646	**22,922**	17,006
Realized net gains and unrealized losses on securities and mortgages	**1,676**	308	2,141	**1,984**	4,170
Net realized and unrealized (loss) gain on derivatives (note 14)	**(1,275)**	4,285	1,667	**3,010**	(1,613)
	12,426	15,490	12,454	**27,916**	19,563
	103,982	99,211	92,559	**203,193**	175,300
Non-Interest Expenses					
Salaries and benefits	**14,501**	13,999	13,253	**28,500**	25,830
Premises	**1,977**	1,998	1,900	**3,975**	3,772
Other operating expenses	**13,404**	13,171	11,490	**26,575**	22,257
	29,882	29,168	26,643	**59,050**	51,859
Income Before Income Taxes	**74,100**	70,043	65,916	**144,143**	123,441
Income taxes (note 12(A))					
Current	**20,568**	19,055	18,036	**39,623**	32,111
Deferred	**302**	(1,546)	(326)	**(1,244)**	(54)
	20,870	17,509	17,710	**38,379**	32,057
NET INCOME	**$ 53,230**	$ 52,534	$ 48,206	**$ 105,764**	$ 91,384
NET INCOME PER COMMON SHARE					
Basic	**$ 1.54**	$ 1.52	$ 1.39	**$ 3.07**	$ 2.63
Diluted	**$ 1.54**	$ 1.52	$ 1.38	**$ 3.07**	$ 2.62
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**34,476**	34,550	34,695	**34,486**	34,699
Diluted	**34,509**	34,593	34,843	**34,491**	34,843
Total number of outstanding common shares (note 9(A))	**34,711**	34,751	34,684	**34,711**	34,684
Book value per common share	**$ 25.05**	$ 23.83	$ 20.24	**$ 25.05**	$ 20.24

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

Consolidated Statements of Comprehensive Income

thousands of Canadian dollars (Unaudited)	For the three months ended **June 30 2012**	March 31 2012	June 30 2011	For the six months ended **June 30 2012**	June 30 2011
NET INCOME	**$ 53,230**	$ 52,534	$ 48,206	**$ 105,764**	$ 91,384
OTHER COMPREHENSIVE INCOME (LOSS)					
Available for Sale Securities					
Net unrealized (losses) gains on securities available for sale	**(1,069)**	4,393	420	**3,324**	(81)
Net gains reclassified to net income	**(1,348)**	(364)	(2,662)	**(1,712)**	(4,490)
	(2,417)	4,029	(2,242)	**1,612**	(4,571)
Income tax (recovery) expense	**(643)**	1,167	(919)	**524**	(1,168)
	(1,774)	2,862	(1,323)	**1,088**	(3,403)
Cash Flow Hedges (note 14)					
Net unrealized (losses) gains on cash flow hedges	**(396)**	26	(2,643)	**(370)**	(3,317)
Net losses reclassified to net income	**357**	353	91	**710**	91
	(39)	379	(2,552)	**340**	(3,226)
Income tax (recovery) expense	**(89)**	110	(664)	**21**	(839)
	50	269	(1,888)	**319**	(2,387)
Total other comprehensive (loss) income	**(1,724)**	3,131	(3,211)	**1,407**	(5,790)
COMPREHENSIVE INCOME	**$ 51,506**	$ 55,665	$ 44,995	**$ 107,171**	$ 85,594

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

Consolidated Balance Sheets

thousands of Canadian dollars (Unaudited)	June 30 2012	March 31 2012	December 31 2011
ASSETS			
Cash Resources (note 4(A))	$ 301,330	$ 421,397	$ 665,806
Securities (note 4(B))			
Available for sale	425,834	471,951	391,754
Pledged securities (notes 4(C) and 6(B))	628,836	493,889	341,588
	1,054,670	965,840	733,342
Loans held for sale	29,811	-	-
Loans (note 5)			
Residential mortgages	7,749,484	6,946,012	6,339,883
Securitized residential mortgages (note 6)	7,582,154	7,953,414	8,243,350
Non-residential mortgages	1,037,385	940,055	946,222
Personal and credit card loans	568,127	564,264	560,193
	16,937,150	16,403,745	16,089,648
Collective allowance for credit losses (note 5(E))	(29,500)	(29,500)	(29,440)
	16,907,650	16,374,245	16,060,208
Other			
Derivative assets (note 14)	59,284	55,611	72,424
Other assets (note 7)	84,534	90,899	79,650
Capital assets	7,278	6,296	5,372
Intangible assets	66,149	65,216	63,917
Goodwill	15,752	15,752	15,752
	232,997	233,774	237,115
	$ 18,526,458	$ 17,995,256	$ 17,696,471
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	$ 42,098	$ 36,220	$ 62,746
Deposits payable on a fixed date	8,965,366	8,260,906	7,859,378
	9,007,464	8,297,126	7,922,124
Senior Debt (note 13)	152,524	154,129	153,336
Securitization Liabilities (note 6(C))			
Mortgage-backed security liabilities	2,078,300	2,238,138	2,417,801
Canada Mortgage Bond liabilities	6,160,259	6,210,408	6,231,274
	8,238,559	8,448,546	8,649,075
Other			
Obligations related to securities sold under repurchase agreement (notes 4(C) and 5(F))	43,418	49,720	-
Derivative liabilities (note 14)	4,043	2,990	3,458
Income taxes payable	15,893	6,672	17,628
Other liabilities (note 8)	156,320	169,560	136,025
Deferred tax liabilities (note 12(C))	38,798	38,477	40,040
	258,472	267,419	197,151
	17,657,019	17,167,220	16,921,686
Shareholders' Equity			
Capital stock (note 9)	61,662	61,494	55,104
Contributed surplus	5,543	5,207	5,873
Retained earnings	810,018	767,395	722,999
Accumulated other comprehensive loss (note 11)	(7,784)	(6,060)	(9,191)
	869,439	828,036	774,785
	$ 18,526,458	$ 17,995,256	$ 17,696,471

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

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, except per share amounts (Unaudited)		Capital Stock		Contributed Surplus		Retained Earnings		Net Unrealized (Losses) Gains on Securities Available for Sale, after Tax		Net Unrealized Losses on Cash Flow Hedges, after Tax		Total Accumulated Other Comprehensive (Loss) Income		Total Shareholders' Equity
Balance at December 31, 2011	**$**	**55,104**	**$**	**5,873**	**$**	**722,999**	**$**	**(4,141)**	**$**	**(5,050)**	**$**	**(9,191)**	**$**	**774,785**
Comprehensive income		**-**		**-**		**105,764**		**1,088**		**319**		**1,407**		**107,171**
Stock options settled (note 9(A))		**6,692**		**(1,302)**		**-**		**-**		**-**		**-**		**5,390**
Amortization of fair value of employee stock options (note 10(A))		**-**		**972**		**-**		**-**		**-**		**-**		**972**
Repurchase of shares (note 9(A))		**(134)**		**-**		**(3,436)**		**-**		**-**		**-**		**(3,570)**
Dividends paid ($0.42 per share)		**-**		**-**		**(15,309)**		**-**		**-**		**-**		**(15,309)**
Balance at June 30, 2012	**$**	**61,662**	**$**	**5,543**	**$**	**810,018**	**$**	**(3,053)**	**$**	**(4,731)**	**$**	**(7,784)**	**$**	**869,439**
Balance at December 31, 2010	$	50,427	$	4,571	$	567,681	$	5,906	$	-	$	5,906	$	628,585
Comprehensive income		-		-		91,384		(3,403)		(2,387)		(5,790)		85,594
Stock options settled (note 9(A))		4,237		(933)		-		-		-		-		3,304
Amortization of fair value of employee stock options (note 10(A))		-		1,231		-		-		-		-		1,231
Repurchase of shares (note 9(A))		(121)		-		(4,147)		-		-		-		(4,268)
Dividends paid ($0.36 per share)		-		-		(12,511)		-		-		-		(12,511)
Balance at June 30, 2011	$	54,543	$	4,869	$	642,407	$	2,503	$	(2,387)	$	116	$	701,935

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

Consolidated Statements of Cash Flows

	For the six months ended	
	June 30	June 30
thousands of Canadian dollars (Unaudited)	**2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 105,764**	$ 91,384
Adjustments to determine cash flows relating to operating activities:		
Deferred income taxes	**(1,244)**	(54)
Amortization of capital assets	**1,569**	1,430
Amortization of intangible assets	**3,218**	30
Amortization of net premium on securities	**1,461**	295
Amortization of securitization and senior debt transaction costs	**6,604**	5,711
Provision for credit losses	**6,796**	2,191
Change in accrued interest payable	**20,108**	17,721
Change in accrued interest receivable	**(3,104)**	(2,198)
Realized net gains and unrealized losses on securities and mortgages	**(1,984)**	(4,170)
Settlement of derivatives	**(370)**	(3,828)
(Gain) loss on derivatives	**(3,010)**	1,613
Net increase in mortgages	**(875,750)**	(1,161,993)
Net increase in personal and credit card loans	**(7,904)**	(67,351)
Net increase in deposits	**1,085,340**	133,979
Proceeds from obligations under repurchase agreement	**43,418**	-
Activity in securitization liabilities		
Proceeds from securitization of mortgage-backed security liabilities	**53,153**	811,189
Settlement and repayment of securitization liabilities	**(454,516)**	(271,097)
Amortization of fair value of employee stock options	**972**	1,231
Changes in taxes payable and other	**(4,031)**	10,398
Cash flows used in operating activities	**(23,510)**	(433,519)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(3,570)**	(4,268)
Exercise of employee stock options	**5,390**	3,304
Issuance of senior debt	**-**	149,043
Dividends paid to shareholders	**(14,598)**	(12,504)
Cash flows used in financing activities	**(12,778)**	135,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(531,589)**	(224,431)
Proceeds from sales	**185,453**	174,235
Proceeds from maturities	**26,873**	54,268
Purchases of capital assets	**(3,475)**	(1,381)
Purchases of intangible assets	**(5,450)**	(8,509)
Cash flows used in investing activities	**(328,188)**	(5,818)
Net decrease in cash and cash equivalents during the period	**(364,476)**	(303,762)
Cash and cash equivalents at beginning of the period	**665,806**	846,824
Cash and Cash Equivalents at End of the Period (note 4(A))	**$ 301,330**	$ 543,062
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 6,227**	$ 7,575
Interest received	**240,433**	349,357
Interest paid	**333,836**	187,969
Income taxes paid	**43,874**	19,851

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

1. CORPORATE INFORMATION

Home Capital Group Inc. (the "Company") is a public holding corporation traded on the Toronto Stock Exchange. The Company is incorporated and domiciled in Canada with its registered and principal business offices located at 145 King Street West, Suite 2300, Toronto, Ontario. The Company operates primarily through its federally regulated subsidiary, Home Trust Company (Home Trust), which offers 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, Quebec and Manitoba. The Company is the ultimate parent of the group.

These unaudited interim consolidated financial statements for the period ended June 30, 2012 were authorized for issuance by the Board of Directors of the Company on August 1, 2012. The Board of Directors have the power to amend the financial statements after their issuance only in the case of discovery of an error.

Subsequent to the end of the second quarter and before the date these financial statements were authorized for issuance, the Board of Directors declared a quarterly cash dividend of $7.6 million or $0.22 per common share payable September 1, 2012 to shareholders of record at the close of business on August 15, 2012.

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

These unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB).

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended December 31, 2011 as set out in the 2011 Annual Report, on pages 65 through 116. Those audited consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises which are International Financial Reporting Standards (IFRS) as issued by the IASB.

The significant accounting policies used in the preparation of these unaudited interim consolidated financial statements are summarized on pages 72 through 77 of the 2011 Annual Report or provided below.

Use of judgement and estimates

Management has exercised judgement in the process of applying the Company's accounting policies. In particular, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Most loans and other assets are not derecognized based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets. Certain loans are recognized only to the extent of the Company's continuing involvement based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred nor whether control has been transferred as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Key areas where management has made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options and useful lives of capital assets and intangible assets. Actual results could differ from those estimates.

Obligations related to securities sold under repurchase agreement

The purchase and sale of securities under sale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis in the consolidated statement of income.

Loans held for sale

Loans for which the Company has the intention of selling and derecognizing from the consolidated balance sheet in the near term are classified as held for sale and are carried at fair value. Unrealized gains and losses resulting from the change in fair value of these loans are reported in realized net gains and unrealized losses on securities and mortgages. Interest income earned on these loans is included in interest from loans. The fair value of loans held for sale is determined by discounting the expected future cash flows of the loans at market rates for financial instruments with similar terms and credit risk.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at June 30, 2012 and therefore have not been applied in preparing these unaudited interim consolidated financial statements.

IAS 1 *Presentation of Financial Statements*

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* (IAS 1), which are effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. The amendments may result in changes in the way other comprehensive income is presented in the consolidated statement of income. Management is currently evaluating the potential impact that the adoption of IAS 1 will have on the presentation of the Company's consolidated financial statements.

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 *Financial Instruments* (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. IFRS 9 provides new requirements as to how an entity should classify and measure financial assets and liabilities that are in the scope of IAS 39. The standard requires all financial assets to be classified on the basis of the entity's business model for managing such financial assets and the contractual cash flow characteristics of the financial assets. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements* (IFRS 10) which is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. IFRS 10 will replace portions of IAS 27 *Consolidated and Separate Financial Statements* (IAS 27) and interpretation SIC-12 *Consolidation – Special Purpose Entities*. Under IFRS 10, consolidated financial statements will include all controlled entities under a single control model. Management is currently evaluating the potential impact that the adoption of IFRS 10 will have on the Company's consolidated financial statements but does not anticipate any material changes to the financial position or operating results upon adoption of IFRS 10.

IFRS 12 *Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12) which is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. IFRS 12 provides disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. The requirements of IFRS 12 will not have an impact on the results of operations or financial position of the Company as they are disclosure requirements only.

IFRS 13 *Fair Value Measurement*

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement* (IFRS 13) which is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. IFRS 13 establishes a single source of guidance for fair value measurements when fair value is required or permitted by IFRS and provides for enhanced disclosures when fair value is applied. Management is currently evaluating the potential impact that the adoption of IFRS 13 will have on the Company's consolidated financial statements.

IAS 27 *Separate Financial Statements*

In May 2011, the IASB reissued IAS 27 which is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. As the consolidation guidance will now be included in IFRS 10, IAS 27 will only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when the entity prepares separate financial statements. Management is currently evaluating the potential impact that the adoption of the reissued IAS 27 will have on the financial statements of the Company's subsidiaries.

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars (Unaudited)	June 30 2012	March 31 2012	December 31 2011
Deposits with regulated financial institutions	$ 169,362	$ 307,585	$ 540,946
Treasury bills guaranteed by government	-	-	144
Cash and cash equivalents	169,362	307,585	541,090
Restricted cash – Canada Mortgage Bond program	103,211	81,165	92,963
Restricted cash – interest rate swaps	21,560	26,470	26,176
Restricted cash – National Energy Corporation	7,197	6,177	5,577
	$ 301,330	$ 421,397	$ 665,806

Restricted cash – Canada Mortgage Bond program represents deposits held as collateral by Canada Mortgage and Housing Corporation (CMHC) in connection with the Company's securitization activities. To participate in the National Housing Authority (NHA) mortgage-backed security (MBS) programs, the Company is required to maintain an amount of cash in a trust account to cover deposits of unscheduled principal prepayments (UPP) and property taxes collected on the securitized loans. The amount represents a percentage of UPP, which is based on the Company's average monthly UPP rate for the last year and calculated on the basis of the end of year principal balance. The Company is allowed to invest the above amount in eligible securities. The funds must be invested on behalf of the Principal & Interest Custodial/Trust Account.

Restricted cash – interest rate swaps are deposits held by swap counterparties as collateral for the Company's interest rate swap transactions. The Company is required to provide collateral against its interest rate swap transactions as part of the agreements with the counterparties. The terms and conditions for these collaterals are governed by International Swaps Dealers Associations (ISDA) agreements.

Restricted cash – National Energy Corporation are reserve accounts held in trust for the water heater financing program.

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

thousands of Canadian dollars (Unaudited) Net unrealized gains (losses)	June 30 2012	March 31 2012	December 31 2011
Securities issued or guaranteed by:			
Canada	$ 102	$ 53	$ 127
Corporations	11	(9)	-
Equity securities			
Common	(494)	24	1,315
Fixed rate preferred	(3,804)	(1,901)	(7,380)
Mutual funds	33	98	174
	$ (4,152)	$ (1,735)	$ (5,764)

Net unrealized gains and losses are included in accumulated other comprehensive income (AOCI) except for impairment losses which are transferred to net income. AOCI is disclosed in Note 11.

The unrealized losses included above represent differences between the cost of a security and its current fair value. The Company regularly monitors its investments and market conditions for indications of impairment.

For the three months ended June 30, 2012, the Company recognized $0.1 million with a year-to-date total of $0.2 million ($0.1 million - Q1 2012; $1.1 million - Q2 2011; $1.1 million - six months of 2011) of further impairment losses on available for sale securities previously recognized as impaired. There were no new securities recognized as impaired during the quarter. These losses were transferred into net income. These unrealized losses are not included in the above table.

(C) Securities pledged as collateral under repurchase agreement

Pledged securities include $43.4 million ($nil - March 31, 2012; $nil – December 31, 2011) of non-Home Trust MBS which are pledged as collateral under obligations related to securities sold under a repurchase agreement. Under the terms of the agreement, the Company is deemed to have granted to the counterparty to the repurchase agreement a security interest in all of the purchased securities including any income on these securities. In case of default, the counterparty is entitled to dispose of the purchased security without having to give any notice or grace periods to the Company.

5. LOANS

(A) Loans by Geographic Region and Type (net of individual allowances for credit losses)

thousands of Canadian dollars, except % (Unaudited)						**As at June 30, 2012**
	Residential Mortgages	Securitized Residential Mortgages	Non-Residential Mortgages[1]	Personal and Credit Card Loans	Total[1]	Percentage of Portfolio
British Columbia	**$ 385,165**	**$ 808,926**	**$ 5,740**	**$ 10,871**	**$ 1,210,702**	**7.2%**
Alberta	**331,982**	**649,359**	**22,493**	**28,097**	**1,031,931**	**6.1%**
Ontario	**6,597,980**	**5,081,722**	**913,836**	**522,368**	**13,115,906**	**77.4%**
Quebec	**294,664**	**656,928**	**69,935**	**1,687**	**1,023,214**	**6.0%**
Atlantic provinces	**120,442**	**192,621**	**25,381**	**3,984**	**342,428**	**2.0%**
Other	**19,251**	**192,598**	**-**	**1,120**	**212,969**	**1.3%**
	$ 7,749,484	**$ 7,582,154**	**$ 1,037,385**	**$ 568,127**	**$ 16,937,150**	**100.0%**
As a % of portfolio	**45.7%**	**44.8%**	**6.1%**	**3.4%**	**100.0%**	

thousands of Canadian dollars, except % (Unaudited)						As at March 31, 2012
	Residential Mortgages	Securitized Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total	Percentage of Portfolio
British Columbia	$ 353,162	$ 842,752	$ 5,641	$ 11,579	$ 1,213,134	7.4%
Alberta	332,140	677,370	20,927	29,845	1,060,282	6.4%
Ontario	5,884,661	5,356,363	856,144	515,778	12,612,946	76.9%
Quebec	256,487	679,359	32,741	1,855	970,442	5.9%
Atlantic provinces	108,667	202,932	24,602	4,001	340,202	2.1%
Other	10,895	194,638	-	1,206	206,739	1.3%
	$ 6,946,012	$ 7,953,414	$ 940,055	$ 564,264	$ 16,403,745	100.0%
As a % of portfolio	42.4%	48.5%	5.7%	3.4%	100.0%	

thousands of Canadian dollars, except % (Unaudited)						As at December 31, 2011
	Residential Mortgages	Securitized Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total	Percentage of Portfolio
British Columbia	$ 330,489	$ 876,151	$ 5,441	$ 12,300	$ 1,224,381	7.6%
Alberta	323,797	700,006	25,851	31,785	1,081,439	6.7%
Ontario	5,346,584	5,564,549	842,173	508,558	12,261,864	76.2%
Quebec	229,526	695,730	47,829	1,928	975,013	6.1%
Atlantic provinces	99,702	210,355	24,928	4,413	339,398	2.1%
Other	9,785	196,559	-	1,209	207,553	1.3%
	$ 6,339,883	$ 8,243,350	$ 946,222	$ 560,193	$ 16,089,648	100.0%
As a % of portfolio	39.4%	51.2%	5.9%	3.5%	100.0%	

[1]Loans exclude mortgages held for sale.

(B) Past Due Loans that are not Impaired

A loan is recognized as being impaired (non-performing) 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 individually provided for or when it has been in arrears for 90 days. Residential mortgages (including securitized residential mortgages) guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. As securitized residential mortgages are insured, credit losses are not anticipated on this portfolio. Secured and unsecured credit card balances that have a payment that is contractually 120 days in arrears are individually provided for and those 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.

thousands of Canadian dollars (Unaudited)					**As at June 30, 2012**
	Residential Mortgages	Securitized Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
1 - 30 days	**$ 147,779**	**$ 31,873**	**$ 10,654**	**$ 3,347**	**$ 193,653**
31 - 60 days	**33,645**	**5,673**	**514**	**1,338**	**41,170**
61 - 90 days	**6,656**	**775**	**339**	**1,461**	**9,231**
Over 90 days	**6,341** [1]	**12,087** [1]	**-**	**716**	**19,144**
	$ 194,421	**$ 50,408**	**$ 11,507**	**$ 6,862**	**$ 263,198**

thousands of Canadian dollars (Unaudited)					As at March 31, 2012
	Residential Mortgages	Securitized Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
1 - 30 days	$ 156,553	$ 44,243	$ 6,881	$ 2,762	$ 210,439
31 - 60 days	47,268	9,666	3,303	1,616	61,853
61 - 90 days	9,758	2,388	-	2,323	14,469
Over 90 days	10,175 [1]	12,990 [1]	-	1,294	24,459
	$ 223,754	$ 69,287	$ 10,184	$ 7,995	$ 311,220

thousands of Canadian dollars (Unaudited)					As at December 31, 2011
	Residential Mortgages	Securitized Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
1 - 30 days	$ 208,340	$ 72,359	$ 6,237	$ 4,809	$ 291,745
31 - 60 days	43,809	10,169	264	1,018	55,260
61 - 90 days	11,707	324	284	1,343	13,658
Over 90 days	15,333 [1]	10,957 [1]	-	1,649	27,939
	$ 279,189	$ 93,809	$ 6,785	$ 8,819	$ 388,602

[1]Insured residential mortgages are considered impaired when they are 365 days past due.

(C) Impaired Loans and Individual Allowances for Credit Losses

Residential mortgages guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. As securitized residential mortgages are all fully insured, credit losses are not anticipated.

thousands of Canadian dollars (Unaudited)										**As at June 30, 2012**
		Residential Mortgages		Securitized Residential Mortgages		Non-Residential Mortgages		Personal and Credit Card Loans		Total
Gross amount of impaired loans	**$**	**51,134**	**$**	**-**	**$**	**128**	**$**	**3,364**	**$**	**54,626**
Individual allowances on principal		**(1,179)**		**-**		**-**		**(663)**		**(1,842)**
Net	**$**	**49,955**	**$**	**-**	**$**	**128**	**$**	**2,701**	**$**	**52,784**

thousands of Canadian dollars (Unaudited)										As at March 31, 2012
		Residential Mortgages		Securitized Residential Mortgages		Non-Residential Mortgages		Personal and Credit Card Loans		Total
Gross amount of impaired loans	$	44,054	$	-	$	681	$	3,752	$	48,487
Individual allowances on principal		(1,638)		-		(176)		(894)		(2,708)
Net	$	42,416	$	-	$	505	$	2,858	$	45,779

thousands of Canadian dollars (Unaudited)										As at December 31, 2011
		Residential Mortgages		Securitized Residential Mortgages		Non-Residential Mortgages		Personal and Credit Card Loans		Total
Gross amount of impaired loans	$	36,845	$	-	$	822	$	4,144	$	41,811
Individual allowances on principal		(742)		-		(78)		(694)		(1,514)
Net	$	36,103	$	-	$	744	$	3,450	$	40,297

(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 June 30, 2012, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $391.3 million ($479.9 million - March 31, 2012; $556.9 million – December 31, 2011). For impaired mortgages, the total appraised value of collateral at June 30, 2012 was $148.9 million ($132.2 million - March 31, 2012; $132.0 million – December 31, 2011).

(E) Allowance for Credit Losses

thousands of Canadian dollars (Unaudited)	For the three months ended June 30, 2012			
	Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
Individual allowances				
Allowance on loan principal				
Balance at the beginning of the period	**$ 1,638**	**$ 176**	**$ 894**	**$ 2,708**
Provision for credit losses	**2,107**	**(176)**	**202**	**2,133**
Write-offs	**(2,622)**	**-**	**(507)**	**(3,129)**
Recoveries	**56**	**-**	**74**	**130**
	1,179	**-**	**663**	**1,842**
Allowance on accrued interest receivable				
Balance at the beginning of the period	**576**	**-**	**-**	**576**
Provision for credit losses	**165**	**-**	**-**	**165**
	741	**-**	**-**	**741**
Total individual allowance	**1,920**	**-**	**663**	**2,583**
Collective allowance				
Balance at the beginning of the period	**16,359**	**9,300**	**3,841**	**29,500**
Provision for credit losses	**-**	**-**	**-**	**-**
	16,359	**9,300**	**3,841**	**29,500**
Total allowance	**$ 18,279**	**$ 9,300**	**$ 4,504**	**$ 32,083**
Total provision	**$ 2,272**	**$ (176)**	**$ 202**	**$ 2,298**

thousands of Canadian dollars (Unaudited)	For the three months ended March 31, 2012			
	Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
Individual allowances				
Allowance on loan principal				
Balance at the beginning of the period	$ 742	$ 78	$ 694	$ 1,514
Provision for credit losses	3,371	98	738	4,207
Write-offs	(2,553)	-	(567)	(3,120)
Recoveries	78	-	29	107
	1,638	176	894	2,708
Allowance on accrued interest receivable				
Balance at the beginning of the period	345	-	-	345
Provision for credit losses	231	-	-	231
	576	-	-	576
Total individual allowance	2,214	176	894	3,284
Collective allowance				
Balance at the beginning of the period	16,299	9,300	3,841	29,440
Provision for credit losses	60	-	-	60
	16,359	9,300	3,841	29,500
Total allowance	$ 18,573	$ 9,476	$ 4,735	$ 32,784
Total provision	$ 3,662	$ 98	$ 738	$ 4,498

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)	For the three months ended June 30, 2011			
	Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
Individual allowances				
Allowance on loan principal				
Balance at the beginning of the period	$ 1,464	$ -	$ 2,536	$ 4,000
Provision for credit losses	1,311	-	(5)	1,306
Write-offs	(1,701)	-	(575)	(2,276)
Recoveries	94	-	27	121
	1,168	-	1,983	3,151
Allowance on accrued interest receivable				
Balance at the beginning of the period	682	-	-	682
Provision for credit losses	(239)	-	-	(239)
	443	-	-	443
Total individual allowance	1,611	-	1,983	3,594
Collective allowance				
Balance at the beginning of the period	16,842	8,591	3,807	29,240
Provision for credit losses	77	(257)	330	150
	16,919	8,334	4,137	29,390
Total allowance	$ 18,530	$ 8,334	$ 6,120	$ 32,984
Total provision	$ 1,149	$ (257)	$ 325	$ 1,217

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)				For the six months ended June 30, 2012
	Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
Individual allowances				
Allowance on loan principal				
Balance at the beginning of the period	$ 742	$ 78	$ 694	$ 1,514
Provision for credit losses	5,478	(78)	940	6,340
Write-offs	(5,175)	-	(1,074)	(6,249)
Recoveries	134	-	103	237
	1,179	-	663	1,842
Allowance on accrued interest receivable				
Balance at the beginning of the period	345	-	-	345
Provision for credit losses	396	-	-	396
	741	-	-	741
Total individual allowance	1,920	-	663	2,583
Collective allowance				
Balance at the beginning of the period	16,299	9,300	3,841	29,440
Provision for credit losses	60	-	-	60
	16,359	9,300	3,841	29,500
Total allowance	$ 18,279	$ 9,300	$ 4,504	$ 32,083
Total provision	$ 5,934	$ (78)	$ 940	$ 6,796

thousands of Canadian dollars (Unaudited)				For the six months ended June 30, 2011
	Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Total
Individual allowances				
Allowance on loan principal				
Balance at the beginning of the period	$ 1,757	$ -	$ 3,140	$ 4,897
Provision for credit losses	2,375	-	(461)	1,914
Write-offs	(3,179)	-	(769)	(3,948)
Recoveries	215	-	73	288
	1,168	-	1,983	3,151
Allowance on accrued interest receivable				
Balance at the beginning of the period	403	-	-	403
Provision for credit losses	40	-	-	40
	443	-	-	443
Total individual allowance	1,611	-	1,983	3,594
Collective allowance				
Balance at the beginning of the period	16,299	9,357	3,497	29,153
Provision for credit losses	620	(1,023)	640	237
	16,919	8,334	4,137	29,390
Total allowance	$ 18,530	$ 8,334	$ 6,120	$ 32,984
Total provision	$ 3,035	$ (1,023)	$ 179	$ 2,191

There were no provisions, allowances or net write-offs on securitized residential mortgages, as they are insured.

(F) Loans pledged as collateral under repurchase agreements

Residential mortgages include $nil ($48.1 million - March 31, 2012; $nil – December 31, 2011) of loans which are pledged as collateral under obligations related to securities sold under repurchase agreement. Under the terms of the agreement, the Company is deemed to have granted to the counterparty to the repurchase agreement a security interest in all of the purchased securities including any income on these securities. In case of default, the counterparty is entitled to dispose of the purchased security without having to give any notice or grace periods to the Company.

6. SECURITIZATION ACTIVITY

(A) Securitized Assets

The Company's wholly owned subsidiary, Home Trust, securitizes insured residential mortgage loans by participating in the NHA MBS program. Through the program, the Company issues securities backed by residential mortgage loans that are insured against borrowers' default. Once the mortgage loans are securitized, the Company assigns underlying mortgages and/or related securities to CMHC. As an issuer of the MBS, Home Trust is responsible for advancing all scheduled principal and MBS interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered will ultimately be recovered from the insurer.

The securitized activity includes the Company's participation in the Canada Mortgage Bond (CMB) program. Under the CMB program, CMHC guarantees the bonds of a special purpose trust, Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of NHA MBS issued by Home Trust. As the CMB is a bullet bond, the Company must provide eligible replacement assets to re-collateralize the CMB as the underlying mortgages amortize or are prepaid.

In most securitization activities, the Company retains certain prepayment and interest rate risk and rewards related to the transferred mortgages. Due to retention of these risks and rewards, transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowing transactions. There are no expected credit losses on the securitized mortgage assets as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of either the Company or Home Trust in the event of failure of debtors to pay when due.

The following table presents the gross carrying amounts of mortgages transferred during the period, which are recorded on the consolidated balance sheets as securitized residential mortgages or recorded off-balance sheet as loans under administration. The following table also presents the new securitization liabilities added during the period, which are secured by the mortgages and other pledged assets.

	For the three months ended		
thousands of Canadian dollars (Unaudited)	**June 30 2012**	March 31 2012	June 30 2011
Mortgages transferred in new securitizations	**$ 126,240**	$ -	$ 126,499
Replacement assets transferred for CMB program:			
Through repurchase agreement	**82,824**	48,000	-
Mortgage assets	**38,995**	70,539	209,372
Non-Home Trust MBS and treasury bills	**56,727**	104,302	22,891
Gross carrying amount of mortgages and other assets transferred	**$ 304,786**	$ 222,841	$ 358,762
New securitization liabilities	**$ 53,474**	$ -	$ 125,764

	For the six months ended	
thousands of Canadian dollars (Unaudited)	**June 30 2012**	June 30 2011
Mortgages transferred in new securitizations	**$ 126,240**	$ 816,655
Replacement assets transferred for CMB program:		
Through repurchase agreement	**82,824**	-
Mortgage assets	**109,534**	386,433
Non-Home Trust MBS and treasury bills	**161,029**	22,891
Gross carrying amount of mortgages and other assets transferred	**$ 479,627**	$ 1,225,979
New securitization liabilities	**$ 53,474**	$ 815,131

During the quarter, the Company securitized and sold through the NHA MBS program $72.8 million of insured multi-unit residential mortgages that have zero pre-payment privileges and qualify for continuing involvement accounting. Under this accounting, the mortgages are recognized on the Company's consolidated balance sheet to the extent of the Company's continuing involvement in the mortgages. The Company's continuing involvement is limited to its retained interest in the interest only strip and its obligations for mortgage servicing. There is no pre-payment or credit risk associated with the retained interest or servicing liability. Accordingly, the mortgages are effectively derecognized as a result of this transaction. The Company recognized retained interests of $3.4 million, servicing liabilities of $0.6 million and a securitization gain of $1.3 million during the quarter related to these transactions. Retained interests and servicing liabilities are included in other assets and other liabilities, respectively. The securitization gain is included in fees and other income.

(B) Assets Pledged as Collateral

Mortgage loans and other assets used in securitization activities are pledged against the associated secured borrowings (securitization liabilities). As a requirement of the NHA MBS program, the Company assigns to CMHC all of its interest in existing mortgage pools. If the Company fails to make timely payment under an NHA MBS security, CMHC may enforce the assignment of the mortgages included in all the mortgage pools as well as other assets backing the securities issued.

The following table presents the principal value of the Company's on-balance sheet mortgage loans and other assets securitized and pledged as collateral for the associated liabilities. The mortgages are recorded as securitized residential mortgages and assets pledged in the CMB repurchase agreement program and non-Home Trust MBS and treasury bills provided as replacement assets are recorded as pledged assets on the consolidated balance sheets.

thousands of Canadian dollars (Unaudited)	**June 30 2012**	March 31 2012	December 31 2011
Principal value of mortgages pledged as collateral	**$ 7,541,211**	$ 7,957,418	$ 8,196,167
Home Trust MBS pledged as collateral through repurchase agreements	**82,824**	48,000	-
Non-Home Trust MBS and treasury bills pledged as collateral	**502,617**	445,889	341,588

(C) Securitization Liabilities

Securitization liabilities represent the funding secured by insured mortgages and other assets assigned under the NHA MBS and the CMB programs where the transaction does not qualify for off-balance sheet treatment for the assets. Proceeds received through securitization of these mortgages are recorded as CMB and MBS liabilities on the consolidated balance sheets of the Company. The total amount of MBS and CMB liabilities outstanding are shown on the consolidated balance sheets as mortgage-backed security liabilities and Canada Mortgage Bond liabilities, respectively. Accrued interest on these liabilities is classified in other liabilities as accrued interest payable on securitization liabilities.

MBS securitization liabilities are repaid on a monthly basis as the principal payments are collected from securitized loans. CMB liabilities are bullet bond liabilities with fixed maturities. Any principal collected against securitized assets underlying CMB liabilities is used to purchase replacement assets. Interest accrued on securitization liabilities is recorded in other liabilities on the consolidated balance sheets and is based on the underlying MBS and CMB coupon.

7. OTHER ASSETS

thousands of Canadian dollars (Unaudited)	**June 30 2012**	March 31 2012	December 31 2011
Accrued interest receivable	**$ 59,314**	$ 57,273	$ 56,606
Prepaid CMB coupon	**13,937**	25,376	6,919
Other prepaid assets and deferred items	**11,283**	8,250	16,125
	$ 84,534	$ 90,899	$ 79,650

8. OTHER LIABILITIES

thousands of Canadian dollars (Unaudited)	**June 30 2012**	March 31 2012	December 31 2011
Accrued interest payable on deposits	**$ 98,662**	$ 103,821	$ 77,737
Accrued interest payable on securitization liabilities	**21,378**	35,403	22,195
Dividends payable	**7,636**	6,950	6,925
Other, including accounts payable and accrued liabilities	**28,644**	23,386	29,168
	$ 156,320	$ 169,560	$ 136,025

9. CAPITAL

(A) Common Shares Issued and Outstanding

thousands (Unaudited)						For the three months ended
	June 30, 2012		March 31, 2012		June 30, 2011	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	**34,751**	**$ 61,494**	34,625	$ 55,104	34,720	$ 54,327
Options exercised	**13**	**261**	150	6,431	5	282
Repurchase of shares	**(53)**	**(93)**	(24)	(41)	(41)	(66)
Outstanding at end of period	**34,711**	**$ 61,662**	34,751	$ 61,494	34,684	$ 54,543

thousands (Unaudited)				For the six months ended
	June 30, 2012		June 30, 2011	
	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	**34,625**	**$ 55,104**	34,646	$ 50,427
Options exercised	**163**	**6,692**	116	4,237
Repurchase of shares	**(77)**	**(134)**	(78)	(121)
Outstanding at end of period	**34,711**	**$ 61,662**	34,684	$ 54,543

The purchase cost of shares acquired through the repurchase of shares is allocated between capital stock and retained earnings.

(B) Share Purchase Options

thousands, except per share amounts (Unaudited)						For the three months ended
	June 30, 2012		March 31, 2012		June 30, 2011	
	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	**785**	**$ 37.79**	929	$ 37.16	954	$ 37.02
Granted	**-**	**-**	11	50.17	-	-
Exercised	**(13)**	**17.06**	(150)	34.51	(5)	41.29
Forfeited	**(12)**	**17.06**	(5)	46.35	-	-
Outstanding at end of period	**760**	**$ 38.47**	785	$ 37.79	949	$ 36.99
Exercisable at end of period	**432**	**$ 34.86**	444	$ 34.36	378	$ 32.35

thousands, except per share amounts (Unaudited)				For the six months ended
	June 30, 2012		June 30, 2011	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	**929**	**$ 37.16**	1,066	$ 36.07
Granted	**11**	**50.17**	-	-
Exercised	**(163)**	**33.17**	(116)	28.43
Forfeited	**(17)**	**25.43**	(1)	47.92
Outstanding at end of period	**760**	**$ 38.47**	949	$ 36.99
Exercisable at end of period	**432**	**$ 34.86**	378	$ 32.35

(C) Capital Management

The Company has a capital management policy that governs the quantity and quality of capital held. The objective of the policy is to meet regulatory capital requirements, 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, is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions Canada (OSFI). These requirements are consistent with international standards (Basel II) set by the Bank for International Settlements. Home Trust follows the Standardized Approach for calculating credit risk and the Basic Indicator Approach for operational risk.

The regulatory capital position of Home Trust was as follows:

thousands of Canadian dollars, except ratios and multiples (Unaudited)	**June 30 2012**	March 31 2012	December 31 2011
Tier 1 capital			
Capital stock	**$ 23,497**	$ 23,497	$ 23,497
Contributed surplus	**951**	951	951
Retained earnings	**808,956**	762,786	717,223
Accumulated other comprehensive loss [1]	**(3,053)**	(1,347)	(4,229)
IFRS transition adjustment	**24,594**	36,891	49,188
Total	**854,945**	822,778	786,630
Tier 2 capital			
Collective allowance for credit losses [2]	**29,500**	29,500	29,440
Subordinated debentures	**171,000**	165,000	115,000
Total	**200,500**	194,500	144,440
Total regulatory capital	**$ 1,055,445**	$ 1,017,278	$ 931,070
Risk-weighted assets for			
Credit risk	**$ 4,449,704**	$ 4,185,041	$ 4,068,823
Operational risk	**553,875**	519,488	480,873
Total risk-weighted assets	**$ 5,003,579**	$ 4,704,529	$ 4,549,696
Regulated capital to risk-weighted assets			
Tier 1 capital	**17.1%**	17.5%	17.3%
Tier 2 capital	**4.0%**	4.1%	3.2%
Total regulatory capital ratio	**21.1%**	21.6%	20.5%
Assets to regulatory capital multiple	**13.8**	13.6	14.4

[1] Accumulated other comprehensive loss relates to unrealized losses on certain available for sale equity securities, net of tax, which decrease Tier 1 capital.
[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2 capital. At June 30, 2012, the Company's collective allowance represented 0.59% of risk-weighted assets.

OSFI considers a financial institution to be well-capitalized if it maintains a Tier 1 capital ratio of 7.0% and a Total capital ratio of 10.0%. Home Trust Company is in compliance with the OSFI capital guidelines.

Under IFRS transition relief permitted by OSFI, the Company has elected to amortize the December 31, 2010 IFRS retained earnings transition adjustment over eight quarters beginning March 31, 2011. The IFRS retained earnings transition adjustment for regulatory capital calculation purposes is the difference between retained earnings under Canadian GAAP and IFRS at December 31, 2010. In the absence of this election, the Company's Tier 1 and Total capital would be $830.4 million and $1.03 billion, respectively, at June 30, 2012.

10. STOCK-BASED COMPENSATION

(A) Common Shares Issued and Outstanding

During the second quarter of 2012, $384 thousand was recorded as an expense for a year-to-date total of $972 thousand ($588 thousand – Q1 2012; $779 thousand – Q2 2011; $1,231 thousand – six months of 2011) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus. During the second quarter of 2012, no options were granted for a year-to-date total of 11,000 (11,000 – Q1 2012; nil – Q2 2011; nil – six months of 2011).

(B) Deferred Share Unit Plan

The Company grants deferred share units (DSUs) to Directors of the Company. Under the plan, the Directors may annually elect to accept remuneration in the form of cash, cash and DSUs or DSUs prior to the beginning of the year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to settle the DSUs until retirement or termination of directorship. The cash value of the DSUs is equivalent to the market value of common shares when settlement takes place. The value of the DSU liability as at June 30, 2012 was $654 thousand ($623 thousand - March 31, 2012; $529 thousand – December 31, 2011). As of June 30, 2012, there were 14,497 DSUs outstanding (12,383 - March 31, 2012; 10,765 - December 31, 2011).

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

thousands of Canadian dollars (Unaudited)	**June 30 2012**	March 31 2012	December 31 2011
Unrealized losses on			
Available for sale securities	**$ (4,152)**	$ (1,735)	$ (5,764)
Income tax recovery	**(1,099)**	(456)	(1,623)
	(3,053)	(1,279)	(4,141)
Unrealized losses on			
Cash flow hedges	**(6,428)**	(6,389)	(6,768)
Income tax recovery	**(1,697)**	(1,608)	(1,718)
	(4,731)	(4,781)	(5,050)
Accumulated other comprehensive loss	**$ (7,784)**	$ (6,060)	$ (9,191)

12. INCOME TAXES

(A) Reconciliation of Income Taxes

thousands of Canadian dollars (Unaudited)	For the three months ended		
	June 30 2012	March 31 2012	June 30 2011
Income before income taxes	**$ 74,100**	$ 70,043	$ 65,916
Income taxes at statutory combined federal and provincial income tax rates	**$ 19,726**	$ 18,354	$ 18,561
Increase (decrease) in income taxes at statutory income tax rates resulting from			
Tax-exempt income	**(944)**	(1,037)	(1,293)
Non-deductible expenses	**89**	191	235
Future tax rate changes	**1,772**	5	29
Other	**227**	(4)	178
Income tax	**$ 20,870**	$ 17,509	$ 17,710

thousands of Canadian dollars (Unaudited)	For the six months ended	
	June 30 2012	June 30 2011
Income before income taxes	**$ 144,143**	$ 123,441
Income taxes at statutory combined federal and provincial income tax rates	**$ 38,080**	$ 34,749
Increase (decrease) in income taxes at statutory income tax rates resulting from		
Tax-exempt income	**(1,981)**	(2,461)
Non-deductible expenses	**280**	379
Future tax rate changes	**1,777**	(115)
Other	**223**	(495)
Income tax	**$ 38,379**	$ 32,057

(B) Reconciliation of Income Tax Rates

(Unaudited)	For the three months ended			For the six months ended	
	June 30 2012	March 31 2012	June 30 2011	**June 30 2012**	June 30 2011
Statutory income tax rate	**26.62%**	26.20%	28.16%	**26.42%**	28.16%
Increase (reduction) in income tax rate resulting from					
Tax-exempt income	**(1.27)%**	(1.47)%	(1.96)%	**(1.37)%**	(2.00)%
Non-deductible expenses	**0.12%**	0.27%	0.36%	**0.19%**	0.31%
Future tax rate changes	**2.39%**	0.01%	0.04%	**1.23%**	(0.10)%
Other	**0.30%**	(0.01)%	0.27%	**0.16%**	(0.40)%
Effective income tax rate	**28.16%**	25.00%	26.87%	**26.63%**	25.97%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars (Unaudited)	**June 30 2012**	March 31 2012	December 31 2011
Deferred tax liabilities			
Commissions	**$ 5,681**	$ 5,400	$ 6,058
Finders fees, net of commitment fees	**10,161**	10,832	11,855
Securitization transaction costs	**7,295**	7,568	8,419
Swaps	**5,155**	5,124	4,046
Development costs	**17,169**	15,942	15,855
Other	**436**	475	500
	45,897	45,341	46,733
Deferred tax assets			
Allowance for credit losses	**7,099**	6,864	6,693
	$ 38,798	$ 38,477	$ 40,040

Capital losses totalling $2.8 million are available to reduce capital gains in future years. The future tax benefits arising from application of these losses have not been reflected in the consolidated statements of income and changes in shareholders' equity.

13. SENIOR DEBT

The Company issued $150.0 million principal amount of 5.20% debentures on May 4, 2011. The debentures pay interest semi-annually on May 4 and November 4 in each year. The debentures mature on May 4, 2016 and are redeemable at the option of the Company upon 30 days written notice to the registered holder at a redemption price, equal to the greater of par and the price that would provide a yield to maturity equal to the Government of Canada bond rate plus 0.66%, plus accrued and unpaid interest to the date of redemption.

14. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps and forward contracts to hedge exposures to interest rate risk. The Company generally uses its derivative instruments in hedge accounting relationships to minimize volatility in earnings caused by changes in interest rates. When a hedging derivative functions effectively, gains, losses, revenues or expenses of the hedging derivative will offset the gains, losses, revenues or expenses of the hedged item. To qualify for hedge accounting treatment, the hedging relationship is formally designated and documented at its inception. The documentation describes the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged and how effectiveness of the hedge is assessed. Changes in the fair value of the derivative instruments must be highly effective at offsetting either the changes in the fair value of the risk on the on-balance sheet asset or liability being hedged or the changes in the amount of future cash flows.

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value for derivatives is determined from swap curves adjusted for credit risks. Swap curves are obtained directly from market sources or calculated from market prices.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, retrospectively and prospectively, over the life of the hedge. Any ineffectiveness in the hedging relationship is recognized immediately through non-interest expense in net realized and unrealized gain or loss on derivatives.

Cash Flow Hedging Relationships

The Company uses bond forward contracts or interest rate swaps to hedge the economic value exposure of movements in interest rates between the time that the Company determines that it will likely incur liabilities pursuant to asset securitization, and the time the securitization transaction is complete and the liabilities are incurred. The intent of the bond forward or interest rate swap is to manage the change in cash flows of the future interest payments on the anticipated secured borrowings through asset securitization. Fair value changes recorded in AOCI are reclassified into net interest income over the term of the hedged item up to a maximum of 2017.

The following table presents gains or losses related to cash flow hedges included in the Company's financial results:

thousands of Canadian dollars (Unaudited)		For the three months ended	
	June 30 2012	March 31 2012	June 30 2011
Fair value (losses) gains recorded in other comprehensive income (OCI)	**$ (396)**	$ 26	$ (2,643)
Fair value losses recorded in non-interest income (ineffectiveness)	**-**	-	(53)
Amounts reclassified from OCI to net interest income	**(357)**	(353)	(91)

thousands of Canadian dollars (Unaudited)	For the six months ended	
	June 30 2012	June 30 2011
Fair value losses recorded in other comprehensive income (OCI)	**$ (370)**	$ (3,317)
Fair value losses recorded in non-interest income (ineffectiveness)	**-**	(545)
Amounts reclassified from OCI to net interest income	**(710)**	(91)

Fair Value Hedging Relationships

The Company uses interest rate swaps to hedge changes in the fair value of long-term fixed-rate liabilities including CMB liabilities and subordinated debt associated with changes in market interest rates.

The following table presents gains or losses related to fair value hedges included in the Company's financial results:

thousands of Canadian dollars (Unaudited)		For the three months ended	
	June 30 2012	March 31 2012	June 30 2011
Fair value changes recorded on interest rate swaps[1]	**$ 8,555**	$ (22,064)	$ 21,340
Fair value changes of hedged fixed-rate liabilities for interest rate risk[2]	**(7,751)**	24,824	(20,252)
Hedge ineffectiveness gain recognized in non-interest income	**$ 804**	$ 2,760	$ 1,088

thousands of Canadian dollars (Unaudited)	For the six months ended	
	June 30 2012	June 30 2011
Fair value changes recorded on interest rate swaps[1]	**$ (13,509)**	$ 4,986
Fair value changes of hedged fixed-rate liabilities for interest rate risk[2]	**17,073**	(3,493)
Hedge ineffectiveness gain recognized in non-interest income	**$ 3,564**	$ 1,493

[1] Unrealized gains and losses on hedging derivatives (interest rate swaps) are recorded as derivative assets or liabilities, as appropriate, on the consolidated balance sheets.
[2] Unrealized gains and losses on hedged items (fixed-rate liabilities) for the risk being hedged are recorded as part of the associated fixed-rate liability on the consolidated balance sheets.

Other Derivative Gains and Losses

From time to time, the Company enters into derivative positions to hedge interest rate risk and such derivatives are not designated as hedges for accounting purposes. The changes in fair value of such derivatives flow directly to the consolidated statements of income. An unrealized loss of $1.4 million and an unrealized gain of $0.1 million for the three and six months ended June 30, 2012 ($1.5 million unrealized gain – Q1 2012; $0.6 million unrealized gain – Q2 2011; $0.5 million unrealized gain – six months of 2011) was recorded in income through net realized and unrealized gain or loss on derivatives.

The Company may also enter into bond forwards or interest rate swaps to hedge interest rate risk on loans held for sale. These derivatives are not designated in hedge accounting relationships. The fair value changes of these derivatives are mostly offset by the fair value changes related to loans held for sale. Fair value losses on these derivatives were $0.7 million in the quarter with a year-to-date total of $0.7 million and were offset by fair value gains on loans held for sale in the quarter of $0.4 million with a year-to-date total of $0.4 million. The Company did not have these transactions prior to the second quarter of 2012.

As at June 30, 2012, March 31, 2012 and December 31, 2011, the outstanding interest rate and bond forward contracts positions were as follows:

thousands of Canadian dollars (Unaudited)				**As at June 30, 2012**
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Hedging swaps				
1 to 5	**$ 1,551,214**	**$ 51,490**	**$ (576)**	**$ 50,914**
6 to 10	**84,700**	**7,794**	**-**	**7,794**
	1,635,914	**59,284**	**(576)**	**58,708**
Non-hedging swaps				
1 to 5	**100,000**	**-**	**(2,796)**	**(2,796)**
Bond forwards hedging mortgages held for sale [1]				
6 to 10	**28,950**	**-**	**(671)**	**(671)**
Total	**$ 1,764,864**	**$ 59,284**	**$ (4,043)**	**$ 55,241**

thousands of Canadian dollars (Unaudited)				As at March 31, 2012
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Hedging swaps				
1 to 5	$ 1,551,214	$ 49,812	$ (1,088)	$ 48,724
6 to 10	84,700	5,661	-	5,661
	1,635,914	55,473	(1,088)	54,385
Non-hedging swaps				
1 to 5	100,000	112	(1,902)	(1,790)
Hedging bond forwards [1]				
1 to 5	14,500	11	-	11
6 to 10	6,000	15	-	15
	20,500	26	-	26
Total	$ 1,756,414	$ 55,611	$ (2,990)	$ 52,621

thousands of Canadian dollars (Unaudited)				As at December 31, 2011
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Hedging swaps				
1 to 5	$ 1,551,214	$ 64,567	$ (92)	$ 64,475
6 to 10	84,700	7,848	-	7,848
	1,635,914	72,415	(92)	72,323
Non-hedging swaps				
1 to 5	118,100	9	(3,366)	(3,357)
Total	$ 1,754,014	$ 72,424	$ (3,458)	$ 68,966

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

The notional amount represents the amount to which the rate or price is applied in order to calculate the amount of cash exchanged under the contract. Notional amounts do not represent an asset or liability recorded on the consolidated balance sheets.

15. INTEREST RATE SENSITIVITY

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest-sensitive assets and liabilities. The following table shows the gap positions at June 30, 2012, March 31, 2012 and December 31, 2011 for selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date as a result of a mortgage becoming impaired and for credit commitments and derivatives.

thousands of Canadian dollars, except % (Unaudited)							**As at June 30, 2012**
	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	**$ 122,630 $**	**5,369,993 $**	**4,778,122 $**	**5,318,713 $**	**2,763,287 $**	**173,713 $**	**18,526,458**
Total liabilities and equity	**(6)**	**(3,744,122)**	**(5,249,028)**	**(5,938,630)**	**(2,262,331)**	**(1,332,341)**	**(18,526,458)**
Off-balance sheet items	**-**	**(797,335)**	**-**	**1,738**	**795,597**	**-**	**-**
Interest rate sensitive gap	**$ 122,624 $**	**828,536 $**	**(470,906)$**	**(618,179)$**	**1,296,553 $**	**(1,158,628)$**	**-**
Cumulative gap	**$ 122,624 $**	**951,160 $**	**480,254 $**	**(137,925)$**	**1,158,628 $**	**- $**	**-**
Cumulative gap as a percentage of total assets	**0.7%**	**5.1%**	**2.6%**	**(0.7)%**	**6.3%**	**-**	**-**

thousands of Canadian dollars, except % (Unaudited)							As at March 31, 2012
	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	$ 111,217 $	5,056,692 $	4,328,099 $	5,431,595 $	2,890,374 $	177,279 $	17,995,256
Total liabilities and equity	(6)	(3,736,286)	(4,305,875)	(6,106,060)	(2,550,849)	(1,296,180)	(17,995,256)
Off-balance sheet items	-	(689,447)	-	14,145	675,302	-	-
Interest rate sensitive gap	$ 111,211 $	630,959 $	22,224 $	(660,320)$	1,014,827 $	(1,118,901)$	-
Cumulative gap	$ 111,211 $	742,170 $	764,394 $	104,074 $	1,118,901 $	- $	-
Cumulative gap as a percentage of total assets	0.6%	4.1%	4.2%	0.6%	6.2%	-	-

thousands of Canadian dollars, except % (Unaudited)							As at December 31, 2011
	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	$ 192,095 $	4,993,367 $	3,851,284 $	5,471,667 $	3,027,138 $	160,920 $	17,696,471
Total liabilities and equity	(6)	(3,021,237)	(4,776,057)	(5,982,611)	(2,885,342)	(1,031,218)	(17,696,471)
Off-balance sheet items	-	(521,051)	204,334	231,460	85,257	-	-
Interest rate sensitive gap	$ 192,089 $	1,451,079 $	(720,439)$	(279,484)$	227,053 $	(870,298)$	-
Cumulative gap	$ 192,089 $	1,643,168 $	922,729 $	643,245 $	870,298 $	- $	-
Cumulative gap as a percentage of total assets	1.1%	9.3%	5.2%	3.6%	4.9%	-	-

Based on the current interest rate gap position at June 30, 2012, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income after tax and other comprehensive income over the next 12 months by $6.7 million and $0.6 million, respectively, and increase net present value of shareholders' equity by $3.4 million. A 100 basis point increase in interest rates would increase net interest income after tax and other comprehensive income over the next 12 months by $6.7 million and $0.6 million, respectively, and decrease net present value of shareholders' equity by $4.8 million.

16. EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two segments – mortgage lending and consumer lending. The mortgage lending operation consists of mortgage lending, securitization of insured mortgage loans and secured loans. The consumer lending segment consists of credit cards, PSiGate and individual loans to customers of retail businesses. These operating segments are supported by other activities including treasury and security investments and general corporate activities.

The following table details the earnings of the Company by business segment.

		For the three months ended June 30, 2012		
thousands of Canadian dollars (Unaudited)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	**$ 80,695**	**$ 10,685**	**$ 2,474**	**$ 93,854**
Provision for credit losses	**(2,095)**	**(203)**	**-**	**(2,298)**
Fees and other income	**7,620**	**4,437**	**(32)**	**12,025**
Net (loss) gain on securities and other	**67**	**-**	**334**	**401**
Non-interest expenses	**(20,148)**	**(3,647)**	**(6,087)**	**(29,882)**
Income before income taxes	**66,139**	**11,272**	**(3,311)**	**74,100**
Income taxes	**(19,707)**	**(3,013)**	**1,850**	**(20,870)**
Net income	**$ 46,432**	**$ 8,259**	**$ (1,461)**	**$ 53,230**
Goodwill	**$ 2,324**	**$ 13,428**	**$ -**	**$ 15,752**
Total assets	**$ 17,147,231**	**$ 682,545**	**$ 696,682**	**$ 18,526,458**

		For the three months ended March 31, 2012		
thousands of Canadian dollars (Unaudited)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	$ 74,219	$ 11,037	$ 2,963	$ 88,219
Provision for credit losses	(3,761)	(737)	-	(4,498)
Fees and other income	6,667	4,264	(34)	10,897
Net gain on securities and other	1,987	-	2,606	4,593
Non-interest expenses	(18,022)	(3,782)	(7,364)	(29,168)
Income before income taxes	61,090	10,782	(1,829)	70,043
Income taxes	(16,185)	(2,839)	1,515	(17,509)
Net income	$ 44,905	$ 7,943	$ (314)	$ 52,534
Goodwill	$ 2,324	$ 13,428	$ -	$ 15,752
Total assets	$ 16,390,861	$ 635,570	$ 968,825	$ 17,995,256

		For the three months ended June 30, 2011		
thousands of Canadian dollars (Unaudited)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	$ 66,186	$ 10,367	$ 4,769	$ 81,322
Provision for credit losses	(892)	(325)	-	(1,217)
Fees and other income	3,708	4,892	46	8,646
Net gain on securities and other	1,480	-	2,328	3,808
Non-interest expenses	(15,968)	(4,333)	(6,342)	(26,643)
Income before income taxes	54,514	10,601	801	65,916
Income taxes	(16,283)	(3,024)	1,597	(17,710)
Net income	$ 38,231	$ 7,577	$ 2,398	$ 48,206
Goodwill	$ 2,324	$ 13,428	$ -	$ 15,752
Total assets	$ 14,415,769	$ 567,668	$ 1,451,162	$ 16,434,599

thousands of Canadian dollars (Unaudited)	Mortgage Lending	Consumer Lending	Other	Total
				For the six months ended June 30, 2012
Net interest income	**$ 154,914**	**$ 21,722**	**$ 5,437**	**$ 182,073**
Provision for credit losses	**(5,856)**	**(940)**	**-**	**(6,796)**
Fees and other income	**14,287**	**8,701**	**(66)**	**22,922**
Net gain on securities and other	**2,054**	**-**	**2,940**	**4,994**
Non-interest expenses	**(38,170)**	**(7,429)**	**(13,451)**	**(59,050)**
Income before income taxes	**127,229**	**22,054**	**(5,140)**	**144,143**
Income taxes	**(35,892)**	**(5,852)**	**3,365**	**(38,379)**
Net income	**$ 91,337**	**$ 16,202**	**$ (1,775)**	**$ 105,764**
Goodwill	**$ 2,324**	**$ 13,428**	**$ -**	**$ 15,752**
Total assets	**$ 17,147,231**	**$ 682,545**	**$ 696,682**	**$ 18,526,458**

thousands of Canadian dollars (Unaudited)	Mortgage Lending	Consumer Lending	Other	Total
				For the six months ended June 30, 2011
Net interest income	$ 127,371	$ 20,169	$ 10,388	$ 157,928
Provision for credit losses	(2,012)	(179)	-	(2,191)
Fees and other income	7,345	9,416	245	17,006
Net (loss) gain on securities and other	(1,800)	-	4,357	2,557
Non-interest expenses	(32,337)	(8,568)	(10,954)	(51,859)
Income before income taxes	98,567	20,838	4,036	123,441
Income taxes	(27,498)	(5,894)	1,335	(32,057)
Net income	$ 71,069	$ 14,944	$ 5,371	$ 91,384
Goodwill	$ 2,324	$ 13,428	$ -	$ 15,752
Total assets	$ 14,415,769	$ 567,668	$ 1,451,162	$ 16,434,599

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative interim unaudited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2012 unaudited interim consolidated financial statements.

CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

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Chairman of the Board

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William Falk
John M. E. Marsh
Robert A. Mitchell, C.A.
Gerald M. Soloway
Bonita Then
Leslie Thompson

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Chairman Emeritus

Officers
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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

Robert Blowes, C.A., C.P.A
Chief Financial Officer

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

Stephen Copperthwaite, CMA, ORMP
Vice President, Administration and Relationship Manager

John Hong
Senior Vice President, Chief Compliance Officer and Chief Anti-Money Laundering Officer

Marie Holland, C.A.
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Capital Stock
As at June 30, 2012 there were 34,710,590 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange
Ticker Symbol: HCG

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Samar Smith
Vice President, Internal Audit

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Asst. Vice President

Residential Mortgage Lending
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Marguerite Ryan
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Laurie Chalabardo
Alex Godfrey
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Home Trust Company
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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, August 2 at 10:30 AM ET. The webcast will be archived at www.homecapital.com for 90 days.

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