HOME CAPITAL GROUP INC.

2013

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 2013**	March 31 2013	June 30 2012	**June 30 2013**	June 30 2012
OPERATING RESULTS					
Net Income	**$ 61,573**	$ 59,725	$ 53,230	**$ 121,298**	$ 105,764
Total Revenue	**232,555**	231,194	218,751	**463,749**	433,433
Diluted Earnings per Share	**$ 1.77**	$ 1.72	$ 1.54	**$ 3.48**	$ 3.07
Return on Shareholders' Equity	**23.6%**	24.0%	25.1%	**23.8%**	25.7%
Return on Average Assets	**1.3%**	1.3%	1.2%	**1.3%**	1.2%
Net Interest Margin (TEB)[1]	**2.14%**	2.17%	2.09%	**2.15%**	2.05%
Provision as a Percentage of Gross Loans (annualized)	**0.10%**	0.11%	0.05%	**0.10%**	0.08%
Efficiency Ratio (TEB)[1]	**28.6%**	28.3%	27.8%	**28.4%**	27.8%

	As at			
	June 30 2013	March 31 2013	December 31 2012	June 30 2012
BALANCE SHEET HIGHLIGHTS				
Total Assets	**$ 19,532,958**	$ 19,358,563	$ 18,800,079	$ 18,526,458
Total Assets Under Administration [2]	**20,577,505**	20,377,074	19,681,750	18,599,224
Total Loans [3,4]	**17,794,420**	17,429,982	17,159,913	17,049,785
Securitized Loans On-Balance Sheet [3]	**6,570,837**	6,710,556	6,706,160	7,664,978
Total Loans Under Administration [3,4,5]	**18,838,967**	18,448,493	18,041,584	17,122,551
Liquid Assets	**884,908**	823,973	771,772	677,908
Deposits	**11,168,639**	10,642,280	10,136,599	9,007,464
Shareholders' Equity	**1,068,017**	1,021,813	968,213	869,439
FINANCIAL STRENGTH				
Capital Measures [6]				
Risk-Weighted Assets	**$ 5,984,644**	$ 5,738,257	$ 5,491,513	$ 5,003,579
Common Equity Tier 1 Capital Ratio	**16.63%**	16.57%	N/A	N/A
Tier 1 Capital Ratio	**16.63%**	16.57%	17.01%	17.09%
Total Capital Ratio	**19.74%**	19.82%	20.68%	21.09%
Assets to Regulatory Capital Multiple	**13.86**	13.98	13.98	13.78
Credit Quality				
Net Non-Performing Loans as a Percentage of Gross Loans	**0.31%**	0.32%	0.33%	0.31%
Allowance as a Percentage of Gross Non-Performing Loans	**58.3%**	59.9%	57.0%	58.7%
Share Information				
Book Value per Common Share	**$ 30.83**	$ 29.53	$ 27.96	$ 25.05
Common Share Price – Close	**$ 55.53**	$ 58.74	$ 59.07	$ 45.18
Market Capitalization	**$ 1,923,948**	$ 2,032,404	$ 2,045,594	$ 1,568,243
Number of Common Shares Outstanding	**34,647**	34,600	34,630	34,711

[1]See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures of this unaudited interim consolidated financial report.
[2]Total assets under administration include total on-balance sheet assets and off-balance sheet loans.
[3]In 2013 the Company classified Home Trust mortgages used as CMB replacement assets as securitized mortgages. In 2012 these were classified as pledged securities. Prior periods in 2012 have been restated to reflect the current classification.
[4]Total loans include loans held for sale.
[5]Loans under administration includes total loans and off-balance sheet loans.
[6]These figures relate to the Company's operating subsidiary, Home Trust Company and are calculated under Basel III for 2013 and Basel II for 2012.

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 and credit 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 Another Strong Quarter and Dividend Increase:
Diluted Earnings per Share up 14.9% year over year to $1.77;
Dividend Increase of 7.7%, or 2 Cents per Share to $0.28 Quarterly;
Quarterly Net Income increases 15.7% year over year.

Home Capital today reported another quarter of solid results and strong origination volumes. Key results for the second quarter and the first six months of 2013 included:

- Net income increased to $61.6 million for the second quarter and to $121.3 million for the first six months of 2013, up 15.7% and 14.7% over the comparable periods in 2012. Net income was reduced by $2.3 million in after tax charges related to IFRS implementation (see the Non-Interest Income section of the MD&A) offset by an increase from $2.0 million in investment tax credit benefits, after tax, related to a portion of the Company's development of a new banking platform (see the Income Taxes section of the MD&A). Without these items, adjusted net income, as defined in Table 2, was $61.9 million for Q2 2013 and $124.9 million for the first six months of 2013, representing increases of 16.3% and 18.1% over the comparable periods of 2012. This was a marginal decline from adjusted net income of $63.0 million in Q1 2013, primarily due to lower income from gains on securitization.
- Diluted earnings per share were $1.77 for the quarter and $3.48 year to date representing increases of 14.9% and 13.4% over the $1.54 and $3.07 earned in the comparable periods of 2012 and an increase of 2.9% over the $1.72 last quarter. Adjusted diluted earnings per share[1] were $1.78 for the quarter and $3.59 year to date, 15.6% and 16.9% higher than the same periods of 2012 and 1.7% below adjusted diluted earnings per share of $1.81 last quarter.
- Net interest income, before provisions, continued in an upward trend, reaching $102.5 million in the second quarter and $204.4 million year to date, increasing from $93.9 million and $182.1 million recorded in the same periods of 2012 and from $101.9 million earned in Q1 2013. The growth in net interest income reflects strong net on-balance sheet loan growth in the traditional loan portfolio, offset by continued reduction of the securitized portfolio, combined with strong total net interest margin.
- Net interest margin (TEB) was 2.14% in the quarter and 2.15% on a year to date basis. This is up from 2.09% and 2.05% in the same periods of 2012 and slightly below the 2.17% recorded last quarter. The increase year over year reflects the combination of the shift to higher yielding traditional mortgages relative to securitized mortgages and improved spreads earned on non-securitized lending.
- Return on equity at 23.6% for the quarter remains solid and continues to be in excess of the Company's minimum performance objective of 20%.
- The credit quality of the loan portfolio remains strong with continued low non-performing loans and credit losses that are well within expected levels. Net non-performing loans as a percentage of gross loans (NPL ratio) ended the quarter at 0.31% compared to 0.32% at the end of last quarter and 0.31% one year ago. The annualized credit provision as a percentage of gross loans (PCL ratio) ratio remains within expectations at 0.10%, compared to 0.11% in last quarter and 0.05% one year ago.
- Capital ratios under Basel III remain robust with Home Trust's Common Equity Tier 1 ratio (CET 1 ratio) ending the quarter at 16.63%, while Tier 1 and Total Capital Ratios were 16.63% and 19.74%, respectively. Home Trust's assets to capital multiple was 13.86 at the end of the quarter compared to 13.98 at March 31, 2013 and 13.78 one year ago.
- Total loans under administration, which includes securitized mortgages that qualify for off-balance sheet accounting, increased to $18.84 billion, reflecting increases of $1.72 billion or 10.0% from $17.12 billion one year ago, and $0.80 billion or 4.4% from $18.04 billion at the end of 2012 (8.8% on an annualized basis).
- The Company continued to experience strong loan demand in the quarter, with growth over Q1 2013 and last year in residential lending. Total mortgage originations were $1.63 billion compared to $1.38 billion last quarter. This was down marginally from $1.67 billion in Q2 2012 reflecting lower multi-unit and non-residential originations offset by higher originations in residential lending. Year-to-date loan originations were $3.01 billion, up from $2.85 billion in 2012.
- Traditional mortgage originations increased to $1.24 billion in the quarter, up from $1.19 billion in Q2 2012 and $0.99 billion in Q1 2013. Year-to-date traditional mortgage originations were $2.23 billion, up from $2.10 billion last year. The Company continues to experience strong demand for its traditional product offerings, which continue to be of high credit quality. This continues to enhance profitability and asset quality.

[1] Table 2 provides a reconciliation of net income to adjusted net income and adjusted diluted earnings per share.

- Accelerator (insured) residential mortgage originations increased to $260.3 million in the quarter, up from $121.6 million last quarter and $221.1 million in Q2 2012. Year-to-date originations of $381.9 million are slightly below the $393.8 million originated in the same period last year as current year Q1 originations were lower given the slower start to the spring market in 2013. The Company continues to pursue strategies for transactions that will qualify lower margin, insured single-family residential mortgages for off-balance sheet treatment and lead to increased growth in this loan portfolio. The dialogue with regulators and other interested parties regarding these strategies has continued and management remains cautiously optimistic that a solution can be attained.
- Multi-unit residential mortgage originations were $54.3 million in the quarter and $257.0 million year to date compared to $87.8 million and $115.4 million in the same periods last year and $202.6 million last quarter. The Company securitized and sold $47.8 million in Q2 2013 resulting in $0.4 million in securitization gains. The insured multi-unit residential market is relatively limited and the Company participates as appropriate opportunities are available through various origination channels. Consequently, origination volumes can vary significantly from quarter to quarter.
- Commercial mortgage advances were $44.0 million for the quarter and $74.7 million year to date compared to $106.0 million and $133.7 million in the comparable periods of 2012 and $30.7 million last quarter. Store and apartment mortgage advances were $27.5 million in the quarter and $51.1 million year to date compared to $37.8 million and $75.7 million in the comparable periods of 2012 and $23.6 million last quarter. The Company continues to be selective and focuses on opportunities that present strong credit and low risk profiles.
- The consumer retail credit portfolio, which includes durable household goods, such as water heaters and larger-ticket home improvement items, reached $310.9 million in Q2 2013, up 55.3% from $200.2 million one year ago. The Company has been successful at expanding relationships with its business partners to increase this portfolio which offers attractive returns for the risk profile.

Although real estate market activity was relatively weak in the early part of the current year, resulting in reduced levels of loan growth, the Company experienced increased demand for its mortgage lending products in the second quarter. The real estate market now appears to have adjusted to the changes in the Canada Mortgage and Housing Corporation ("CMHC") rules and the Office of the Superintendent of Financial Institutions Canada ("OSFI)" lending guideline which were introduced in 2012. Recent information indicates that modest increases in sales volumes and prices occurred in the quarter, suggesting that the objectives of the policy changes have been accomplished. This is consistent with the Company's expectations and indicates a healthy market with listings and sales in balance. The Company has not observed evidence of a "housing bubble" and expects that it will be able to continue to expand its share of the market through its network of brokers and its business development staff.

Late in the quarter, major flooding occurred in the province of Alberta. This event caused property damage and hardship for many Albertans and the Company has been responding to requests from borrowers. In order to assess the risk of losses arising from the flooding, the Company dispatched a team of evaluators from its Calgary, Vancouver and Toronto offices. While a number of borrowers were directly affected by this difficult situation, the preliminary indications are that the Company will not face significant losses as a result of the flooding. No additional provisions were recorded in this connection. Following the end of the quarter, the town of Lac-Mégantic, Quebec experienced a terrible accident and losses of lives and property. Although it did not have any direct association or losses as a result of this tragic situation, the Company recognizes the severe impact that this tragedy has had on the residents and their friends and relatives. Also following the quarter end, the Greater Toronto Area experienced a record amount of rainfall and consequent flooding, which disrupted the lives and businesses of many people. The Company does not expect that this unusual event will result in significant credit losses.

Senior Management and the Board of Directors are pleased to announce that the Company further strengthened its risk management group during the quarter with the appointment of David J. Novak to the position of Senior Vice President and Chief Risk Officer. Mr. Novak brings with him significant experience in quantitative analysis, risk management and asset liability management, having served in senior roles in the private sector and more recently with OSFI.

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 an increased quarterly dividend of $0.28 per common share, payable on September 1, 2013 to shareholders of record at the close of business on August 12, 2013.

The Company continues to deliver solid results in terms of growth, high returns and increased dividends. Despite the persistent international economic instability and modest economic improvement in Canada, the Company's performance continues to reflect the strength and the successful execution of its core strategy.

With solid performance in all aspects of Home Capital's business, management continues to expect the positive performance the Company experienced during the first half of 2013 to continue for the remainder of year.

GERALD M. SOLOWAY
Chief Executive Officer
July 31, 2013

KEVIN P.D. SMITH
Chair of the Board

Additional information concerning the Company's targets and related expectations for 2013, including the risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis (MD&A) of this quarterly report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the three months ended June 30, 2013. The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended June 30, 2013 included in this report and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2012 included in the Company's 2012 Annual Report. Except as described in this MD&A and these unaudited interim consolidated financial statements, all factors discussed and referred to in the MD&A for fiscal 2012 remain substantially unchanged. Unless otherwise indicated, this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS or GAAP) and all amounts are presented in Canadian dollars. This MD&A is current as of July 31, 2013. 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. The Non-GAAP measures used in this MD&A and a glossary of terms used in this MD&A and financial statements are presented in the last section of this MD&A.

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.

Caution Regarding Forward-Looking Statements

From time to time Home Capital Group Inc. 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 55 through 68 of the Company's 2012 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, funding and liquidity 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," "forecast," "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 2013 and its effect on Home Capital's business are material factors the Company considers when setting its objectives, targets and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical and forecasted economic data provided by the Canadian government and its agencies. In setting and reviewing its targets, objectives and outlook for the remainder of 2013, management's expectations continue to assume:

- The Canadian economy will produce modest growth in 2013 with relatively stable to modestly improving employment conditions in most regions and inflation will generally be within the Bank of Canada's target of 1% to 3%, leading to stable credit losses and continued strong demand for the Company's lending products.
- The Canadian economy will continue to be heavily influenced by the economic conditions in the United States and global markets and, as such, the Company is prepared for the variability to plan that this may lead to.
- The Bank of Canada continues to indicate that increases to its target overnight interest rate are not imminent and, as such, the Company is assuming the rate will remain at its current level for the balance of 2013 and then begin a slow and measured increase. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.
- The housing market will remain relatively stable with balanced supply and demand conditions in most regions supported by continued low interest rates, relatively stable to modestly improving employment, and immigration. There will be declines in housing starts and resale activity compared to prior years with stable to modestly declining prices throughout most of Canada. This supports continued stable credit quality and strong demand for the Company's products.
- Consumer debt levels will remain serviceable by Canadian households.

BUSINESS PROFILE

Home Capital is a holding company that operates primarily through its principal, federally regulated subsidiary, Home Trust, which offers insured deposits, residential and non-residential commercial 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 Portfolios

The Company's management views the business as a single segment with separately identified lending portfolios, deposits and other activities, as described below.

Mortgage Lending

This portfolio comprises single-family residential lending, residential commercial lending, including multi-unit residential properties, as well as, non-residential commercial 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, serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. These mortgages are funded by the Company's deposit products. Accelerator mortgages are insured, with loan to value ratios generally exceeding 80% at the time of origination, and are generally funded through Canada Housing and Mortgage Corporation (CMHC) sponsored mortgage-backed security (MBS) and Canada Mortgage Bond (CMB) securitization programs.

Residential commercial lending comprises insured and uninsured multi-unit residential mortgage loans and other residential commercial loans that are secured by residential property. Non-residential commercial lending includes store and apartment mortgages and commercial mortgages. Insured multi-unit residential mortgages are generally funded by the CMHC-sponsored securitization programs and other loans are funded by deposits.

Consumer and Credit Card Lending

This portfolio includes credit card lending and other consumer retail lending for durable household goods, such as water heaters and larger-ticket home improvement items. Consumer 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 residential property, represents almost all of the *Visa* portfolio. The Company also offers cash secured *Visa* products and preferred unsecured *Visa* cards to current mortgage customers with good credit history. Consumer and credit card loans are funded by deposits.

Deposits

The Company's uninsured assets are largely funded by its deposit activities. Deposits are generally taken for fixed terms, varying from 90 days to five years and carry fixed rates of interest over the full term of the deposit. The Company also offers high interest savings accounts. The Company is a member of the Canada Deposit Insurance Corporation (CDIC) and its deposit products are eligible for CDIC coverage, up to the applicable limits.

Other Activities

In addition to its lending portfolios, the Company manages a treasury portfolio to support liquidity requirements and invest excess capital. The Company's operations also include PSiGate, the Company's subsidiary involved in payment processing.

As management views its business as a single segment with a variety of product and service activities, the financial statements and the MD&A are prepared on that basis. In previous years, the financial statements and MD&A were prepared segmenting the overall business based on product groups.

Vision, Mission, Objectives and Values

It is the vision of the Company to be recognized as the leading alternative lender in the Canadian financial market place.

The Company's mission is to deliver superior shareholder value by focusing on well-defined niches in the Canadian lending and deposit-taking market place that generate above average returns, have acceptable residual risk profiles and are not adequately served by traditional financial institutions, while protecting the depositors and operating within regulatory guidelines and the Company's risk appetite.

The Company's progress toward its objectives will be 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:

- *Respect, trust and integrity*
- *The highest level of customer service to our clients and business partners*
- *A nimble, entrepreneurial culture with enthusiasm, teamwork and desire for continuous improvement*
- *Community and environmental improvement 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 15 years. 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

The Company's core strategy focuses on serving segments of the Canadian financial services market that traditionally have not been adequately served by larger financial institutions. The Company's 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. The Company recognizes this risk and proactively seeks to reduce overall risk exposure to an acceptable level through:

- Active Board and senior management oversight, monitoring and timely revision of corporate strategies, and 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, comprised of 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;
- Proactive, independent and timely monitoring and assessment of all risk exposures, regardless of the source, by the business, with enterprise risk management and Internal Audit acting as second and third lines of defense; and
- Ongoing efforts to diversify funding sources.

The Company’s acceptable business and risk-taking activities can be substantially characterized by the following:

- The Company conducts business with individuals, other businesses and borrowers that are well understood, including, but not limited to, confirmation of identity, credit profile, employment and willingness and ability to repay debts;
- New products/initiatives are subject to a new initiative review process and undertaken only after complete risk identification and control infrastructure has been established. All acquisitions will be subject to a due diligence process that ensures alignment with the Company’s risk appetite;
- For any material lending, the Company requires strong collateral against the loan, specifically where legal and equity rights can be held against the collateral asset. Unsecured credit exposures must fit within the Company’s risk appetite framework and have appropriate risk management processes in place to mitigate the associated risk;
- The Company conducts business in geographies that are well known and understood, particularly when lending against properties;
- The Company employs various risk mitigation techniques and actions to reduce inherent business risks to acceptable residual levels, including trusted asset appraisals and valuations, limited loan-to-value lending, and risk-based pricing, among other mitigating factors;
- The Company will not pursue profits through trading activities and will limit the use of derivatives for hedging purposes only; and
- The Company will manage interest rate gaps within its risk appetite.

2013 TARGETS, PERFORMANCE AND OUTLOOK

Home Capital published its financial objectives for 2013 on page 18 of the Company's 2012 Annual Report. The following table compares actual performance to date against each of these objectives.

Table 1: 2013 Targets and Performance

		For the six months ended June 30, 2013		
	2013 Targets	Actual Results	Amount	Increase over 2012
Growth in net income	13%-18%	**14.7%**	**$ 121,298**	**$ 15,534**
Growth in diluted earnings per share	13%-18%	**13.4%**	**3.48**	**0.41**
Growth in total loans under administration[1]	10%-15%	**8.8%**	**18,838,967**	**797,383**
Return on shareholders' equity	20.0%	**23.8%**		
Efficiency ratio (TEB)[2]	28.0% - 34.0%	**28.4%**		
Provision as a percentage of gross loans (annualized)	0.10% - 0.18%	**0.10%**		

[1] Change represents growth over December 31, 2012 on an annualized basis and includes loans held for sale.
[2] See definition of TEB under Non-GAAP Measures in this report.

The Company continued to meet it objectives with respect to earnings and efficiency. The growth of loans under administration trails the Company's objectives, but this has not resulted in a shortfall of earnings to the targets. The objectives were based on an assumption that off-balance sheet regulatory accounting will be confirmed for certain mortgage securitizations. To date, this confirmation has not been forthcoming and the Company has curtailed some of its loan origination and securitization activities. This has resulted in lower than target levels of loans under administration. The reduced level of origination and securitization activity tends to lower earnings to a modest extent.

The other key assumptions underlying the Company's targets are related to interest rates, unemployment levels, inflation, economic growth, and consumer debt levels. These assumptions are set out on page 6 of this quarterly report. Developments within the general Canadian economy and the real estate market have been, and are expected to be, consistent with these assumptions. The Company continues to expect that it will achieve its earnings and expense targets, but growth in assets under administration may be below the target range.

Outlook

The Company will continue to expand its core lending portfolio to take advantage of the attractive returns available in the alternative mortgage space, the Company's traditional business. This business provides superior returns on the allocated capital, with acceptable levels of risk, managed through detailed underwriting procedures, robust collections processes and low loan to value lending. The continued expansion of the traditional business is being accompanied by commensurate strengthening of governance, risk management and control processes, through further investment in tools, technology and people. The Company will also continue to offer insured mortgages through the Accelerator program, supporting the Company's "one–stop" and "flexible lending solutions" strategies. Additional focus will be placed on growth of the Company's high margin non-residential commercial and consumer lending portfolios within the Company's risk tolerance.

Supply and demand in the real estate market is expected to remain balanced through 2013, with stable prices and sales volumes in most markets. The current positive trends in the US economy tend to support real estate activity in some Canadian markets, while uncertainty in global economic conditions continues to pose risks to the Canadian economy. The tightening of mortgage underwriting requirements and changes in mortgage insurance qualification rules in 2012 dampened the level of activity in the real estate market in the last half of 2012 and the first quarter of 2013, but this impact is waning. The Company believes that the current level of housing activity indicates a healthy real estate market overall and expects that it will continue to be supported by low interest rates, stable to improving employment, stable net immigration and good housing affordability. The Company expects continued strong demand for its traditional mortgage and other retail products, and it will continue to increase its market share. This market share increase reflects a continued shift by some major lending institutions, as well as the success of the Company's business model and strategy.

The Company continues to expect that the annual rate of growth in the Company's non-securitized loan portfolio in 2013 will be relatively consistent with the growth rate experienced in 2012. The traditional mortgage business is expected to maintain strong net interest margin and net interest income levels, while net interest margins on securitized assets continue to decline as older securitization programs reach maturity. The decline primarily reflects a combination of two factors: spreads on new securitization transactions are generally lower than the spreads earned on the maturing programs and the assets provided as replacement assets in the CMB program are generally lower yielding compared to the maturing or discharging assets. While the Company actively hedges the CMB reinvestment risk, the structure of the hedges will become less effective as the programs mature. This dynamic will put pressure on the overall net interest margin. The increased weighting of the Company's traditional uninsured mortgages will tend to offset this downward pressure, as the margins on these products are more favourable and risk levels are well within the Company's tolerance.

The Company will continue to maintain relatively high levels of liquidity and low overall leverage, as measured by the assets to capital multiple (ACM), to provide safety and soundness for depositors. To support this conservative approach to liquidity and leverage, the Company will continue to pursue opportunities for revenue contributions from fees, loan sales and sales of residual interests in loan securitizations. In addition, the Company will continue to increase its marketing and sales activities related to the development of more diversified sources of deposits and additional costs will be incurred in this initiative. Reductions in other areas and increases in net interest income will tend to mitigate these increases and other cost increases. The Company expects that its efficiency ratio for 2013 will continue to be in the target range of 28% to 34%.

Looking ahead, the Board of Directors and management are confident that Home Capital will continue generating increased earnings and asset growth for the remainder 2013 and beyond. **This Outlook section contains forward-looking statements. Please see the Caution Regarding Forward-Looking Statements on page 6 of this quarterly report.**

INCOME STATEMENT REVIEW

Table 2: Income Statement Highlights

(000s, except % and per share amounts)	Quarter					Year to date		
	Q2 2013	Q1 2013	% Change	Q2 2012	% Change	**2013**	2012	% Change
Total net interest income	**$ 102,532**	$ 101,886	0.6%	$ 93,854	9.2%	**$ 204,418**	$ 182,073	12.3%
Provision for credit losses	**4,429**	4,667	(5.1)%	2,298	92.7%	**9,096**	6,796	33.8%
	98,103	97,219	0.9%	91,556	7.2%	**195,322**	175,277	11.4%
Non-interest income	**16,431**	17,177	(4.3)%	12,426	32.2%	**33,608**	27,916	20.4%
Non-Interest Expenses	**34,272**	33,969	0.9%	29,882	14.7%	**68,241**	59,050	15.6%
Income before income taxes	**80,262**	80,427	(0.2)%	74,100	8.3%	**160,689**	144,143	11.5%
Income taxes	**18,689**	20,702	(9.7)%	20,870	(10.5)%	**39,391**	38,379	2.6%
Net income	**$ 61,573**	$ 59,725	3.1%	$ 53,230	15.7%	**$ 121,298**	$ 105,764	14.7%
Basic earnings per share	**$ 1.78**	$ 1.72	3.5%	$ 1.54	15.6%	**$ 3.50**	$ 3.07	14.0%
Diluted earnings per share	**$ 1.77**	$ 1.72	2.9%	$ 1.54	14.9%	**$ 3.48**	$ 3.07	13.4%

Reconciliation of Net Income to Adjusted Net Income								
Net income per above	$ 61,573	$ 59,725	3.1%	$ 53,230	15.7%	$ 121,298	$ 105,764	14.7%
Adjustment for derivative restructuring - IFRS conversion (net of tax)	2,309	1,783	29.5%	-	-	4,092	$ -	-
Adjustment for disputed loans to condominium corporations (net of tax)	-	1,508	(100.0)%	-	-	1,508	-	-
Adjustment for investment tax credit benefits (net of tax)	(1,985)	-	-	-	-	(1,985)	-	-
Adjusted Net Income[1]	$ 61,897	$ 63,016	(1.8)%	$ 53,230	16.3%	$ 124,913	$ 105,764	18.1%
Adjusted Basic Earnings per Share[1]	$ 1.79	$ 1.82	(1.6)%	$ 1.54	16.2%	$ 3.61	$ 3.07	17.6%
Adjusted Diluted Earnings per Share[1]	$ 1.78	$ 1.81	(1.7)%	$ 1.54	15.6%	$ 3.59	$ 3.07	16.9%

1 Adjusted net income and Adjusted earnings per share is defined in the Non-GAAP section of this MD&A.

Net Interest Income and Margin

Table 3: Net Interest Margin

	For the three months ended			For the six months ended	
	June 30 2013	March 31 2013	June 30 2012	**June 30 2013**	June 30 2012
Net interest margin non-securitized interest earning assets (non-TEB)	**2.99%**	3.04%	3.00%	**3.02%**	3.00%
Net interest margin non-securitized interest earning assets (TEB)	**3.03%**	3.08%	3.05%	**3.05%**	3.06%
Net interest margin securitized assets	**0.68%**	0.78%	1.05%	**0.74%**	1.00%
Total net interest margin (non-TEB)	**2.12%**	2.14%	2.06%	**2.12%**	2.02%
Total net interest margin (TEB)	**2.14%**	2.17%	2.09%	**2.15%**	2.05%
Spread of non-securitized loans over deposits only	**3.16%**	3.13%	3.07%	**3.15%**	3.10%

Table 4: Net Interest Income

(000s, except %)	For the three months ended June 30, 2013 Average Balance [1]	Income/ Expense	Average Rate [1]	For the three months ended March 31, 2013 Average Balance [1]	Income/ Expense	Average Rate [1]
Assets						
Cash resources and securities	$ 1,120,279	$ 4,573	1.63%	$ 938,895	$ 4,649	1.98%
Traditional single-family residential mortgages	8,878,519	118,621	5.34%	8,435,989	112,882	5.35%
Accelerator single-family residential mortgages	343,069	2,746	3.20%	419,071	3,412	3.26%
Residential commercial mortgages [2]	221,504	2,899	5.24%	223,732	2,619	4.68%
Non-residential commercial mortgages	967,670	15,425	6.38%	980,863	15,575	6.35%
Credit card loans	312,716	7,336	9.38%	320,432	7,549	9.42%
Other consumer retail loans	300,190	6,571	8.76%	280,610	5,994	8.54%
Total non-securitized loans	11,023,668	153,598	5.57%	10,660,697	148,031	5.55%
Taxable equivalent adjustment	-	1,005	-	-	1,148	-
Total on non-securitized interest earning assets	12,143,947	159,176	5.24%	11,599,592	153,828	5.30%
Securitized single-family residential mortgages	4,706,296	37,256	3.17%	4,774,660	38,391	3.22%
Securitized multi-unit residential mortgages	1,821,823	18,736	4.11%	1,864,474	20,832	4.47%
Assets pledged as collateral for securitization	474,538	1,961	1.65%	575,428	2,114	1.47%
Total securitized residential mortgages	7,002,657	57,953	3.31%	7,214,562	61,337	3.40%
Other assets	250,776	-	-	241,642	-	-
Total Assets	$ 19,397,380	$ 217,129	4.48%	$ 19,055,796	$ 215,165	4.52%
Liabilities and Shareholders' Equity						
Deposits	$ 10,895,606	$ 65,640	2.41%	$ 10,402,556	$ 62,938	2.42%
Senior debt	150,458	1,601	4.26%	151,387	1,583	4.18%
Securitization liabilities	7,061,631	46,351	2.63%	7,278,748	47,610	2.62%
Other liabilities and shareholders' equity	1,289,685	-	-	1,223,105	-	-
Total Liabilities and Shareholders' Equity	$ 19,397,380	$ 113,592	2.34%	$ 19,055,796	$ 112,131	2.35%
Net Interest Income (TEB)		$ 103,537			$ 103,034	
Tax Equivalent Adjustment		(1,005)			(1,148)	
Net Interest Income per Financial Statements		$ 102,532			$ 101,886	

(000s, except %)	For the three months ended June 30, 2012 Average Balance [1]	Income/ Expense	Average Rate [1]
Assets			
Cash resources and securities	$ 781,391	$ 4,463	2.28%
Traditional single-family residential mortgages	6,609,066	90,190	5.46%
Accelerator single-family residential mortgages	498,039	4,183	3.36%
Residential commercial mortgages [2]	187,948	2,500	5.32%
Non-residential commercial mortgages	995,689	15,237	6.12%
Credit card loans	375,464	9,001	9.59%
Other consumer retail loans	191,115	4,465	9.35%
Total non-securitized loans	8,857,321	125,576	5.67%
Taxable equivalent adjustment	-	1,255	-
Total on non-securitized interest earning assets	9,638,712	131,294	5.45%
Securitized single-family residential mortgages	5,846,799	52,897	3.62%
Securitized multi-unit residential mortgages	2,011,568	21,416	4.26%
Assets pledged as collateral for securitization	465,941	1,973	1.69%
Total securitized residential mortgages	8,324,308	76,286	3.67%
Other assets	249,172	-	-
Total Assets	$ 18,212,192	$ 207,580	4.56%
Liabilities and Shareholders' Equity			
Deposits	$ 8,611,778	$ 56,043	2.60%
Senior debt	153,219	1,705	4.45%
Securitization liabilities	8,348,296	54,723	2.62%
Other liabilities and shareholders' equity	1,098,899	-	-
Total Liabilities and Shareholders' Equity	$ 18,212,192	$ 112,471	2.47%
Net Interest Income (TEB)		$ 95,109	
Tax Equivalent Adjustment		(1,255)	
Net Interest Income per Financial Statements		$ 93,854	

Table 4: Net Interest Income (Continued)

(000s, except %)	For the six months ended June 30, 2013			For the six months ended June 30, 2012		
	Average Balance [1]	Income/ Expense	Average Rate [1]	Average Balance [1]	Income/ Expense	Average Rate [1]
Assets						
Cash resources and securities	$ 1,029,587	$ 9,222	1.79%	$ 839,446	$ 9,474	2.26%
Traditional single-family residential mortgages	8,657,254	231,503	5.35%	6,320,620	173,470	5.49%
Accelerator single-family residential mortgages	381,070	6,158	3.23%	466,839	7,751	3.32%
Residential commercial mortgages [2]	222,618	5,518	4.96%	180,082	5,171	5.74%
Non-residential commercial mortgages	974,266	31,000	6.36%	970,840	29,755	6.13%
Credit card loans	316,574	14,885	9.40%	380,209	18,322	9.64%
Other consumer retail loans	290,400	12,565	8.65%	184,710	8,672	9.39%
Total non-securitized loans	10,842,182	301,629	5.56%	8,503,300	243,141	5.72%
Taxable equivalent adjustment	-	2,153	-	-	2,662	-
Total on non-securitized interest earning assets	11,871,769	313,004	5.27%	9,342,746	255,277	5.46%
Securitized single-family residential mortgages	4,740,479	75,647	3.19%	5,963,808	108,359	3.63%
Securitized multi-unit residential mortgages	1,843,148	39,568	4.29%	2,012,521	41,471	4.12%
Assets pledged as collateral for securitization	524,983	4,075	1.55%	441,208	3,072	1.39%
Total securitized residential mortgages	7,108,610	119,290	3.36%	8,417,537	152,902	3.63%
Other assets	246,208	-	-	249,053	-	-
Total Assets	$ 19,226,587	$ 432,294	4.50%	$ 18,009,336	$ 408,179	4.53%
Liabilities and Shareholders' Equity						
Deposits	$ 10,649,081	$ 128,578	2.41%	$ 8,336,184	$ 109,171	2.62%
Senior debt	150,922	3,184	4.22%	153,818	3,358	4.37%
Securitization liabilities	7,170,189	93,961	2.62%	8,448,117	110,915	2.63%
Other liabilities and shareholders' equity	1,256,395	-	-	1,071,217	-	-
Total Liabilities and Shareholders' Equity	$ 19,226,587	$ 225,723	2.35%	$ 18,009,336	$ 223,444	2.48%
Net Interest Income (TEB)		$ 206,571			$ 184,735	
Tax Equivalent Adjustment		(2,153)			(2,662)	
Net Interest Income per Financial Statements		$ 204,418			$ 182,073	

[1] The average is an average calculated with reference to opening and closing monthly asset and liability balances.
[2] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

Q2 2013 v Q2 2012

Net interest income increased 9.2% or $8.7 million, reflecting an increase in average asset balances of 6.5% or $1.19 billion and an increase in total net interest margin (TEB) to 2.14% from 2.09%. Net interest income for non-securitized assets increased 25.8% or $18.6 million, reflecting increases in average non-securitized assets of 26.0% or $2.51 billion while net interest margin (TEB) declined 2 basis points to 3.03%. This asset growth is consistent with the successful execution of the Company's strategy to focus on traditional mortgage originations. Non-securitized asset results were partly offset by a decline in securitized net interest income of 46.2% or $10.0 million due to declines in average balances of 15.9% or $1.32 billion and net interest margin declines of 37 basis points to 0.68%. Average securitized asset balances and net interest income were reduced through structured portfolio maturity and the derecognition of $662.2 million in loans through an interest only strip transaction in Q4 2012. Assets derecognized through the transaction yielded a net interest margin of approximately 1.10%.

Total net interest margin increased 5 basis points despite net interest margin declines in both the non-securitized portfolio and the securitized portfolio. This continues to reflect the Company's deliberate shift to traditional mortgages relative to insured on-balance sheet securitized mortgages. Securitized assets declined to 38.0% of the loan portfolio at the end of Q2 2013 from 46.5% at the end of Q2 2012.

Net interest margin (TEB) on non-securitized interest earning assets declined marginally by 2 basis points to 3.03%. The margin was favourably impacted by an increase in the average spread of traditional loans over deposit rates to 3.16% from 3.07% last year. Deposit average rates were down 19 basis points while average loan yields declined 10 basis points, reflecting a shift in the maturity profile of deposits to more closely match loans. This favourable impact was offset by an increase in the relative proportion of lower yielding cash and securities portfolio to 9.2% of the non-securitized interest-earning assets from 8.1% one year ago, combined with a 65 basis point decline in the average rate earned on this portfolio reflecting both lower yielding assets and the timing of cash flows. This was accompanied by a decline of 1 basis point in the TEB adjustment. The TEB adjustment is lower as the Company divested certain dividend paying investments in financial institutions ahead of Basel III rules that treat these investments unfavourably from a capital perspective.

Net interest margin on securitized assets declined to 0.68% from 1.05% due to a 36 basis point decline in the average rate earned on securitized loans and pledged assets to 3.31% from 3.67% while the average rate on the securitized liabilities moved up marginally by 1 basis point to 2.63%. As expected, older vintage higher yielding mortgages are maturing in the MBS portfolio. In the CMB program, these have been replaced by lower yielding eligible replacement assets reflective of the current low interest rate environment.

Q2 2013 v Q1 2013

Net interest income increased $0.6 million or 0.6% over last quarter as net interest income within the non-securitized portfolio increased by $2.8 million while the securitized portfolio net interest income declined by $2.1 million. Total net interest margin (TEB) was down 3 basis points quarter over quarter, due to declines in net interest margins on both non-securitized and securitized assets, offset by the continued and measured on-balance sheet shift to uninsured mortgages relative to insured securitized mortgages. During the quarter, the proportion of securitized mortgages on the balance sheet declined by 2.4%.

Net interest income on the non-securitized portfolio was up 3.1% or $2.8 million quarter over quarter based on higher average non-securitized interest-earning asset balances of 4.7% or $544.4 million, offset by lower net interest margin (TEB) of 3.03% compared to 3.08% last quarter. Net interest margin declined primarily due to an increase in the proportion of cash and securities to 9.2% from 8.1% last quarter at rates 35 basis points lower than last quarter. Cash balances have increased to support anticipated higher origination volumes in the spring and summer months. Rates are lower due to both lower yielding assets and the higher ending balances which tend to increase the average balance and reduce the calculated rate. This was offset by an increase in the spread of non-securitized loans over deposits by 3 basis points.

Net interest income on securitized assets declined 15.5% or $2.1 million on lower average balances of 2.9% or $211.9 million while net interest margin declined to 0.68% from 0.78% last quarter. Q1 2013 included higher prepayment penalties than normal compared to the current quarter. The net interest margin has been under pressure, due to relatively low yields on eligible assets used to replace maturing assets in the CMB program, and the maturity of some higher yielding MBS. The Company continues to employ strategies, including the use of repurchase agreements in the CMB program, to offset some of the structured decline in net interest margin on securitized assets.

YTD 2013 v YTD 2012

Net interest income increased $22.3 million or 12.3% compared to the first six months of 2012. This reflects increases in net interest income within the non-securitized portfolio of $39.0 million offset by a decrease in the securitized portfolio of $16.7 million. Total net interest margin (TEB) was up 10 basis points to 2.15%, primarily reflecting the measured on-balance sheet shift to uninsured mortgages relative to insured securitized mortgages. Non-securitized net interest margin (TEB) was down marginally by 1 basis point and securitized net interest margin was down 26 basis points.

Net interest income on the non-securitized portfolio was up 27.8% or $39.0 million compared to the first six months of 2012 on higher average non-securitized interest-earning asset balances of 27.1% or $2.53 billion, offset by marginally lower net interest margin (TEB) of 3.05% compared to 3.06% in the comparable period. Net interest margin declined primarily due to a decline of 47 basis points in rates earned on cash and securities, which represented about 9% of average assets in both periods, along with a decrease in the TEB adjustment by 3 basis points. These factors were offset by an increase in the spread of non-securitized loans over deposits of 5 basis points.

Net interest income on securitized assets declined 39.7% or $16.7 million on lower average balances of 15.5% or $1.31 billion, while net interest margin declined to 0.74% from 1.00% in the first six months of 2012, reflecting the factors discussed above.

Non-Interest Income

Table 5: Non-Interest Income

	Quarter					Year to date		
(000s, except %)	**Q2 2013**	Q1 2013	% Change	Q2 2012	% Change	**2013**	2012	% Change
Fees and other income	**$ 15,406**	$ 14,972	2.9%	$ 10,757	43.2%	**$ 30,378**	$ 21,654	40.3%
Securitization income	**608**	1,587	(61.7)%	1,268	(52.1)%	**2,195**	1,268	73.1%
Net realized and unrealized (losses) gains on securities and mortgages	**(215)**	2,274	(109.5)%	1,676	(112.8)%	**2,059**	1,984	3.8%
Net realized and unrealized gain (loss) on derivatives	**632**	(1,656)	138.2%	(1,275)	149.6%	**(1,024)**	3,010	(134.0)%
	$ 16,431	$ 17,177	(4.3)%	$ 12,426	32.2%	**$ 33,608**	$ 27,916	20.4%

Q2 2013 v Q2 2012

Fees and other income have increased over Q2 2012 as more accounts were affected by fees in Q2 2013 combined with an increase in the number of accounts under administration. The Company continues to expect fee income increases in line with portfolio growth. Fees and other income amounts include net mortgage and *Visa* account administration and fees for service, and increase as the size of the loan portfolio increases.

Securitization income in the quarter was primarily generated by the sale of $47.8 million in insured multi-unit residential mortgages which qualify for off-balance sheet, accounting and leading to $0.4 million in gains compared to $72.8 million in sales and $1.3 million of gains in Q2 2012. Spreads on these transactions are quite variable from transaction to transaction. Additionally, securitization income includes ongoing income of $0.2 million in the quarter which reflects the recognition of servicing income and unwinding of discounts. As the program was launched in Q2 2012, there was an immaterial amount of ongoing securitization income recognized. Please see the Securitization Activity note of the unaudited interim financial statements included in this report for further information.

The Company took advantage of market opportunities and realized gains of $1.3 million on the sale of certain treasury investments in the quarter compared to realized gains of $1.2 million in Q2 2012. These gains are included in net realized and unrealized gains or losses on securities and mortgages. The Company recognized $0.1 million in additional impairment writedowns on available for sale securities already identified as impaired in the quarter, compared to $0.1 million in the comparable quarter of 2012.

At quarter end, the Company held $25.5 million in multi-unit residential mortgages that are intended for securitization and sale off balance sheet. These are classified as held for trading under IFRS with changes in fair value recorded in current period income. There was $1.4 million in unrealized losses recorded on these mortgages in the quarter compared to unrealized gains of $0.4 million in Q2 2012. The current quarter losses were offset by $1.3 million unrealized gains on derivatives used to hedge this fair value risk and in Q2 2012 the unrealized gains were offset by $0.7 million in unrealized losses. The unrealized gains and losses on these derivatives are recorded in net realized and unrealized losses on derivatives.

Net realized and unrealized gains on derivatives include several components in addition to the unrealized gains/losses described above:

- On an ongoing basis, the Company calculates and records the financial amount of ineffectiveness in its hedging programs that are designated for hedge accounting. Q2 2013 includes $1.5 million in unrealized hedge ineffectiveness gains associated with the hedge accounting program. This compares to $0.8 million in unrealized gains in Q2 2012. Ineffectiveness can vary from gains to losses, depending on the underlying conditions.
- Additionally, there was $3.1 million ($2.3 million, after tax) in charges against income related to the restructuring of certain derivative positions upon adoption of IFRS. There was no similar amount in Q2 2012. These amounts are charged to income as the related CMB liabilities mature. There was a similar charge of $2.4 million last quarter and $3.5 million in Q4 2012. Amounts in future periods will not be significant.
- Derivative positions outside hedge accounting relationships were marked to market for unrealized gains of $1.0 million in the quarter compared to unrealized losses of $1.4 million in Q2 2012. These positions are also subject to gains and losses depending on underlying economic conditions.

Please see the Derivative Financial Instruments note in the unaudited interim financial statements included in this report and the Derivatives and Hedging section of this MD&A for further information.

Q2 2013 v Q1 2013

Fees and other income are up 2.9% over last quarter, reflecting loan growth offset by slightly fewer fees for service.

In Q1 2013, the Company securitized and sold $156.2 million in insured multi-unit residential mortgages which qualified for off-balance sheet accounting, leading to $1.4 million in gains compared to lower sales of $47.8 million and gains of $0.4 million in the current quarter. The insured multi-unit residential market is relatively limited and the Company participates in this market as appropriate opportunities are available through various origination channels. Consequently, origination volumes can vary from quarter to quarter.

In Q1 2013, net realized and unrealized losses on derivatives included $1.5 million in unrealized hedge ineffectiveness gains associated with the Company's hedge accounting program, consistent with this quarter. Q1 2013 also included $2.4 million in charges related to the derivative restructuring compared to a loss of $3.1 million in the current quarter, as discussed above. Derivative positions outside hedging relationships were marked to market for unrealized losses of $0.3 million in Q1 2013 compared to unrealized gains of $1.0 million this quarter, due to increasing bond yields in the quarter.

YTD 2013 v YTD 2012

YTD 2013 fees and other income are more than amounts in the comparable period of 2012 as more accounts were affected by fees in 2013 combined with an increase in the total number of loans under administration and fee rate increases.

The Company initiated its program to sell insured multi-unit residential mortgages off balance sheet during the second quarter of 2012. In the first six months of 2012 the Company sold $72.8 million in these mortgages for gains of $1.3 million compared to $204.1 million in sales for $1.9 million in gains for the first six months of 2013. Spreads in these programs narrowed compared to last year.

YTD 2013 net realized and unrealized gains on derivatives included $3.1 million in unrealized hedge ineffectiveness gains compared to $3.6 million in YTD 2012. YTD 2013 also included $5.6 million in charges related to the derivative restructuring discussed above. There were no comparable amounts in YTD 2012. Derivative positions outside hedging relationships were marked to market for unrealized gains of $0.6 million in YTD 2013 compared to unrealized gains of $0.1 million in YTD 2012.

Provision and Allowance for Credit Losses

Table 6: Provision for Credit Losses

(000s, except %)	As at June 30, 2013 Net Non-Performing Loans Amount	% of Gross Loans	For the three months ended June 30, 2013 Provision[1,2] Amount	Annualized % of Gross Loans	Net Write-Offs[1] Amount	Annualized % of Gross Loans
Single-family residential mortgages	$ 50,173	0.53%	$ 3,192	0.14%	$ 3,164	0.13%
Residential commercial mortgages	-	-	510	1.15%	3,031	6.86%
Non-residential commercial mortgages	1,107	0.11%	200	0.08%	(2)	-
Credit card loans	3,569	1.16%	396	0.52%	313	0.41%
Other consumer retail loans	-	-	131	0.17%	82	0.11%
	$ 54,849	0.31%	$ 4,429	0.10%	$ 6,588	0.15%

(000s, except %)	As at March 31, 2013 Net Non-Performing Loans Amount	% of Gross Loans	For the three months ended March 31, 2013 Provision[1,2] Amount	Annualized % of Gross Loans	Net Write-Offs[1] Amount	Annualized % of Gross Loans
Single-family residential mortgages	$ 48,183	0.54%	$ 2,310	0.10%	$ 3,132	0.14%
Residential commercial mortgages	2,477	1.45%	2,072	4.86%	-	-
Non-residential commercial mortgages	981	0.10%	13	0.01%	-	-
Credit card loans	3,323	1.03%	199	0.25%	(113)	(0.14)%
Other consumer retail loans	-	-	73	0.10%	73	0.10%
	$ 54,964	0.32%	$ 4,667	0.11%	$ 3,092	0.07%

(000s, except %)	As at June 30, 2012 Net Non-Performing Loans Amount	% of Gross Loans	For the three months ended June 30, 2012 Provision[1,2] Amount	Annualized % of Gross Loans	Net Write-Offs[1] Amount	Annualized % of Gross Loans
Single-family residential mortgages	$ 45,428	0.60%	$ 2,054	0.11%	$ 2,392	0.13%
Residential commercial mortgages	4,527	2.96%	32	0.08%	-	-
Non-residential commercial mortgages	128	0.01%	(3)	(0.00)%	173	0.07%
Credit card loans	2,701	0.73%	73	0.08%	334	0.36%
Other consumer retail loans	-	-	142	0.28%	100	0.20%
	$ 52,784	0.31%	$ 2,298	0.05%	$ 2,999	0.07%

(000s, except %)	For the six months ended June 30, 2013 Provision[1,2] Amount	Annualized % of Gross Loans	Net Write-Offs[1] Amount	Annualized % of Gross Loans	For the six months ended June 30, 2012 Provision[1,2] Amount	Annualized % of Gross Loans	Net Write-Offs[1] Amount	Annualized % of Gross Loans
Single-family residential mortgages	$ 5,502	0.12%	$ 6,296	0.13%	$ 5,492	0.14%	$ 4,867	0.13%
Residential commercial mortgages	2,582	2.92%	3,031	3.43%	256	0.33%	-	-
Non-residential commercial mortgages	213	0.04%	(2)	-	95	0.02%	173	0.03%
Credit card loans	595	0.39%	200	0.13%	778	0.42%	799	0.43%
Other consumer retail loans	204	0.13%	155	0.10%	175	0.17%	173	0.17%
	$ 9,096	0.10%	$ 9,680	0.11%	$ 6,796	0.08%	$ 6,012	0.07%

[1] There were no provisions, allowances or net write-offs on insured securitized mortgages.
[2] Provisions include both individual and collective provisions.

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 and identified credit events in the portfolio, 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. Please see the Credit Risk section of this MD&A for additional information.

Individual provisions were $4.2 million in the quarter and $8.6 million year to date. This compares to $2.3 million and $6.7 in the comparable periods of 2012 and $4.4 million last quarter. Individual provisions for the year reflect $2.6 million in losses associated with the settlement of disputed loans to condominium corporations discussed in previous quarters. The PCL ratio was 0.10% in the quarter and year to date, at the low end the targeted range of 0.10% to 0.18% despite the charge for these loans.

The Company recorded collective provisions of $0.2 million in the quarter bringing the collective allowance balance to $30.5 million, which represents more than double the write-offs experienced in 2012. The Company continues to observe strong credit performance in the loans portfolio, with favourable employment and other economic data and improving borrower quality generally offsetting increases in the risk associated with a growing non-insured portfolio. Please see Credit Risk section of this MD&A for more information.

Net principal write-offs were $6.6 million in the quarter and $9.7 million year to date and include a net principal loss of $3.0 million associated with the settlement of the disputed loans to commercial condominium corporations discussed last quarter. In the absence of this write-off, write-offs as a percentage of gross loans would have been 0.08% in the quarter and 0.07% YTD. This is consistent with the 0.07% in each of the same periods in 2012 and Q1 2013.

Net non-performing loans were $54.8 million or 0.31% of gross loans at the end of the quarter which is consistent with $55.0 million or 0.32% of gross loans in Q1 2013 and $52.8 million or 0.31% of gross loans the end of Q2 2012. Non-performing residential commercial mortgages were reduced in the quarter by $4.5 million as the settlement of the disputed loans to commercial condominium corporations mentioned above was finalized. The levels of non-performing loans are within the Company's expectations and considering the increase in the proportion of traditional mortgages in the loan portfolio have remained quite low. The increase in non-performing loans from one year ago, excluding the disputed loans, has not translated into higher write-offs as a percentage of gross loans. The Company remains satisfied with the credit performance of the portfolio and continues to expect credit performance to remain favourable and within its targets, but is prepared for moderate volatility in the trend.

Non-Interest Expenses

Table 7: Non-Interest Expenses

	Quarter					Year to Date		
(000s, except %)	**Q2 2013**	Q1 2013	% Change	Q2 2012	% Change	**2013**	2012	% Change
Salaries and benefits	**$ 16,673**	$ 16,950	(1.6)%	$ 14,501	15.0%	**$ 33,623**	$ 28,500	18.0%
Premises	**2,439**	2,445	(0.2)%	1,977	23.4%	**4,884**	3,975	22.9%
Other operating expenses	**15,160**	14,574	4.0%	13,404	13.1%	**29,734**	26,575	11.9%
	$ 34,272	$ 33,969	0.9%	$ 29,882	14.7%	**$ 68,241**	$ 59,050	15.6%

Q2 2013 v Q2 2012

Non-interest expenses increased 14.7% or $4.4 million over last year while the efficiency ratio (TEB) remained low at 28.6%, compared to 27.8% last year and remaining at the low end of the 28-34% target ratio. 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 and control functions, combined with cost management remains a strategic priority for the Company and this focus is expected to contribute to a continued low and relatively stable efficiency ratio.

Salaries and benefits increased 15.0% due to increased headcount to 636 from 554 last year and an increase in average salaries. Higher average salaries reflect merit increases combined with some realignment in staffing structures and continued enhancement of risk management, governance and compliance functions during 2012 and into 2013. Premises expenses increased 23.4% as the Company expanded its floor space in its head office in Toronto to support growth. Other operating expenses increased 13.1% in line with business growth.

Q2 2013 v Q1 2013

Non-interest expenses increased less than 1% or $0.3 million over last quarter while the efficiency ratio (TEB) increased marginally to 28.6% from 28.3% last quarter. The increase in operating expenses is consistent with the increase in revenue for the quarter. The Company expects headcount and salaries to increase in a measured manner at a pace consistent with business growth

YTD 2013 v YTD 2012

Non-interest expenses increased 15.6% or $9.2 million in YTD 2013 over YTD 2012, while the efficiency ratio (TEB) increased to 28.4% from 27.8%. The increase in salaries and benefits reflects the increased headcount to support business growth and the enhancement of risk management, governance and compliance functions mentioned above. Premises expense increased due the expansion of the Toronto head office and other operating expenses have generally increased in line with business growth.

Income Taxes

The provision for income tax expense was $18.7 million (effective tax rate of 23.3%) in Q2 2013 compared to $20.9 million (effective rate of 28.2%) in Q2 2012 and $20.7 million (effective rate of 25.7%) in Q1 2013.

In Q2 2013, the Company recognized net benefits of $2.0 million for Scientific Research and Experimental Development tax credits related to the development of the core banking system. The amount recognized relates to work done in 2009 and was recorded once the Company received information providing assurance that the claim amounts would be accepted. This claim reduced current income tax expense in Q2 2013, resulting in a decrease to the Company’s effective tax rate by 2.46%.

The Company has applied for additional credits related to work done during the years 2010 to 2012. The claims, if accepted by the tax authorities, could involve benefits in the range of $4 to $5 million, net of applicable taxes. The investment tax credit benefits are recorded as a reduction of tax provisions, net of any tax eligible on such benefits.

The Company's effective tax rate in Q2 2013 also differs from its statutory rate due the receipt of dividends from Canadian Corporations that are not subject to tax.

Comprehensive Income

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). Comprehensive income was $53.1 million compared to $51.5 million in Q2 2012 and $63.8 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 available for sale investments considered impaired.

OCI included net unrealized losses of $10.7 million compared to net unrealized losses of $1.1 million in Q2 2012 and net unrealized gains of $7.2 million last quarter. These amounts reflect changes in fair value in available for sale securities due primarily to changes in interest rates.

The Company recognized security related transfers to net income of $1.2 million in net gains for the quarter compared to $1.3 million in net gains in Q2 2012 and $1.9 million in net gains last quarter. These net transfers for the quarter decreased other comprehensive income and increased net income and earnings per share and are related to the sale of certain available for sale securities. Included in the transfer to net income for the quarter was $0.1 million in impairment losses on available for sale securities compared to $0.1 million in the comparable quarter of 2012 and $nil last quarter.

In the quarter, there was a net loss on cash flow hedges reclassified to net income of $0.4 million which increased other comprehensive income and reduced net income compared to $0.4 million in Q2 2012 and $0.4 million last quarter. In the quarter, there were no amounts included in other comprehensive income for new cash flow hedges compared to unrealized losses of $0.4 million in Q2 2012 and $nil last quarter.

FINANCIAL POSITION REVIEW

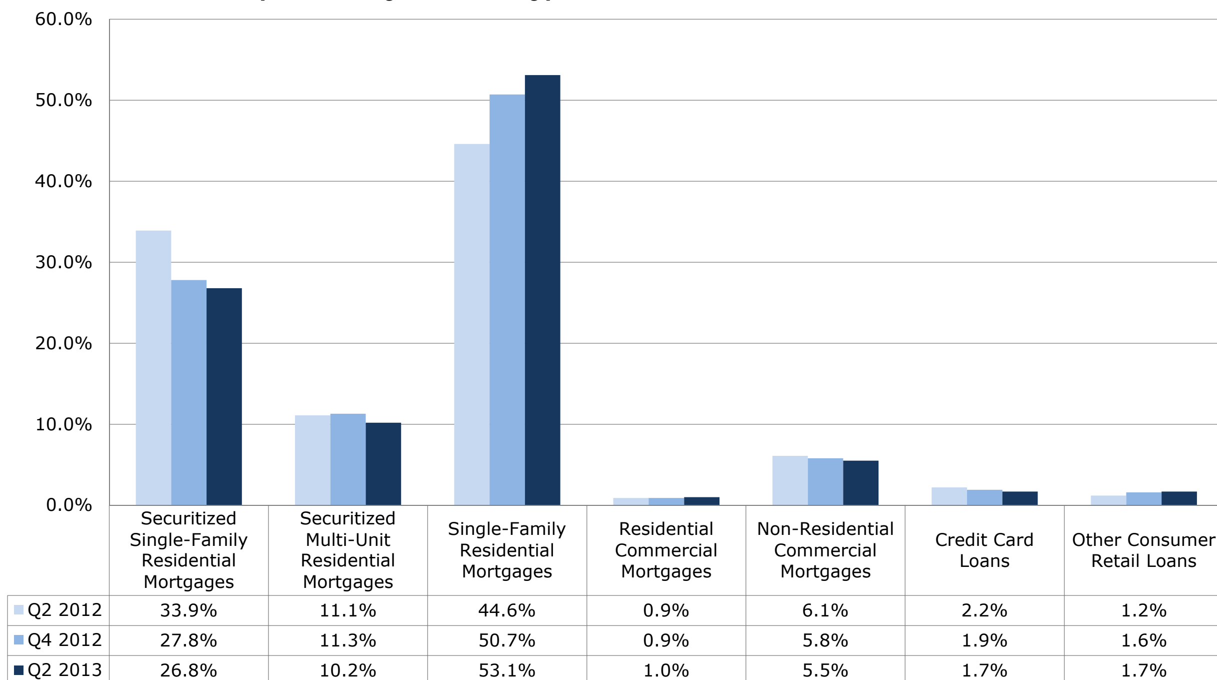
Table 8: Balance Sheet Highlights

The table below presents the balance sheet position of the Company at June 30, 2013, March 31, 2013 and December 31, 2012, along with percentage changes.

	As at			% Change	
(000s, except %)	**June 30 2013**	March 31 2013	December 31 2012	June 30, 2013 - March 31, 2013	June 30, 2013 - December 31, 2012
Cash and available for sale securities	**$ 1,103,797**	$ 1,035,334	$ 716,207	6.6%	54.1%
Total loans	**17,794,420**	17,429,982	17,159,913	2.1%	3.7%
Collective allowance for credit losses	**(30,500)**	(30,300)	(30,000)	0.7%	1.7%
	17,763,920	17,399,682	17,129,913	2.1%	3.7%
Other assets	**665,241**	923,547	953,959	(28.0)%	(30.3)%
Total assets	**$ 19,532,958**	$ 19,358,563	$ 18,800,079	0.9%	3.9%
Deposits	**$ 11,168,639**	$ 10,642,280	$ 10,136,599	4.9%	10.2%
Senior debt	**148,300**	152,092	150,684	(2.5)%	(1.6)%
Securitization liabilities	**6,923,660**	7,308,354	7,335,895	(5.3)%	(5.6)%
Other liabilities	**224,342**	234,024	208,688	(4.1)%	7.5%
Total liabilities	**18,464,941**	18,336,750	17,831,866	0.7%	3.6%
Shareholders' equity	**1,068,017**	1,021,813	968,213	4.5%	10.3%
Total liabilities and shareholders' equity	**$ 19,532,958**	$ 19,358,563	$ 18,800,079	0.9%	3.9%
Loans as a % of total assets	**90.9%**	89.9%	91.1%		

Loans Portfolio

Chart 1: Portfolio Composition by Product Type



	Securitized Single-Family Residential Mortgages	Securitized Multi-Unit Residential Mortgages	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans
Q2 2012	33.9%	11.1%	44.6%	0.9%	6.1%	2.2%	1.2%
Q4 2012	27.8%	11.3%	50.7%	0.9%	5.8%	1.9%	1.6%
Q2 2013	26.8%	10.2%	53.1%	1.0%	5.5%	1.7%	1.7%

Table 9: Loans Portfolio

(000s, except % and number of loans)	June 30 2013	March 31 2013	December 31 2012	June 30, 2013 - March 31, 2013	June 30 ,2013 - December 31, 2012
	As at			% Change	
Securitized single-family residential mortgages	$ **4,765,301**	$ 4,872,978	$ 4,763,757	(2.2)%	0.0%
Securitized multi-unit residential mortgages	**1,805,536**	1,837,578	1,942,403	(1.7)%	(7.0)%
Single-family residential mortgages	**9,430,646**	8,934,272	8,689,446	5.6%	8.5%
Residential commercial mortgages	**176,707**	168,637	154,477	4.8%	14.4%
Non-residential commercial mortgages	**973,727**	967,193	988,416	0.7%	(1.5)%
Credit card loans	**306,088**	320,744	327,516	(4.6)%	(6.5)%
Other consumer retail loans	**310,907**	285,146	271,977	9.0%	14.3%
Total loan portfolio	$ **17,768,912**	$ 17,386,548	$ 17,137,992	2.2%	3.7%
Loans held for sale	**25,508**	43,434	21,921	(41.3)%	16.4%
Total on-balance sheet loans	**17,794,420**	17,429,982	17,159,913	2.1%	3.7%
Off-balance sheet loans					
Single-family residential mortgages	$ **614,875**	$ 633,491	$ 650,508	(2.9)%	(5.5)%
Multi-unit residential mortgages	**429,672**	385,020	231,163	11.6%	85.9%
Total off-balance sheet loans	**1,044,547**	1,018,511	881,671	2.6%	18.5%
Total loans under administration	$ **18,838,967**	$ 18,448,493	$ 18,041,584	2.1%	4.4%
Number of loans outstanding					
Mortgages	**55,008**	54,171	53,249	1.5%	3.3%
Credit card loans	**27,780**	27,350	26,840	1.6%	3.5%
Other consumer retail loans	**238,351**	220,019	207,867	8.3%	14.7%
Total number of loans outstanding	**321,139**	301,540	287,956	6.5%	11.5%

[1]Other residential commercial mortgages include mortgages such as those advanced to condominium corporations and for builders' inventory.

Table 10: Mortgage Production

(000s)	June 30 2013	March 31 2013	June 30 2012	June 30 2013	June 30 2012
	For the three months ended			For the six months ended	
Single-family residential mortgages					
Traditional	$ **1,237,124**	$ 993,539	$ 1,186,113	$ **2,230,663**	$ 2,101,561
Accelerator	**260,347**	121,602	221,129	**381,949**	393,805
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**22,842**	25,145	6,219	**47,987**	10,661
Multi-unit insured residential mortgages	**31,475**	177,491	81,613	**208,966**	104,694
Other[1]	**10,218**	7,850	27,779	**18,068**	33,402
Non-residential commercial mortgages					
Store and apartments	**27,458**	23,632	37,820	**51,090**	75,679
Commercial	**43,967**	30,710	105,974	**74,677**	133,687
Total mortgage advances	$ **1,633,431**	$ 1,379,969	$ 1,666,647	$ **3,013,400**	$ 2,853,489

Table 11: Credit Card and Other Consumer Retail Loan Production

	For the three months ended					
(Amount in 000s)	**June 30, 2013**		March 31, 2013		June 30, 2012	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]	Number of New Accounts	Amount[1]
Credit card loans						
Equityline *Visa* credit cards	**802**	**$ 20,789**	777	$ 17,791	1,106	$ 27,399
Other credit cards	**1,471**	**1,665**	1,280	1,641	1,155	1,066
Other consumer retail loans						
Water heaters	**18,329**	**35,423**	12,430	24,827	13,685	25,577
Other retail lending	**1,346**	**7,091**	1,012	4,744	1,176	6,614

	For the six months ended			
(Amount in 000s)	**June 30, 2013**		June 30, 2012	
	Number of New Accounts	**Amount[1]**	Number of New Accounts	Amount[1]
Credit card loans				
Equityline *Visa* credit cards	**1,579**	**$ 38,580**	2,218	$ 55,359
Other credit cards	**2,751**	**3,306**	2,008	1,879
Other consumer retail loans				
Water heaters	**30,759**	**60,250**	25,370	43,060
Other retail lending	**2,358**	**11,835**	2,427	13,002

[1]For *Visa*, the amount represents the authorized credit limits. For water heaters and other retail lending, the amount represents the advanced amount.

Total on-balance sheet loans ended the quarter at $17.79 billion, up 3.7% (7.4% annualized) or $634.5 million from the end of 2012. Total loans under administration ended the quarter at $18.84 billion, up 4.4% (8.8% annualized) or $797.4 million from the end of the 2012. The increase in loans was supported by mortgage production of $1.63 billion and retail and credit card loan production of $65.0 million in the quarter. The Company securitized and sold $252.8 million of insured mortgages, of which $47.8 million was insured multi-unit residential mortgages, which qualified for off-balance sheet treatment.

Mortgage Lending

Residential Mortgages

Non-securitized single family residential mortgages continue as the largest component of the balance sheet at 53.1% of the total loan portfolio and increased 8.5% (17.0% annualized) from the end of 2012. The majority of the outstanding balance (94.1%) is the Company's traditional uninsured mortgage portfolio, with the remainder primarily comprising insured Accelerator mortgages, which are generally held for securitization and sale or securitization for use as liquidity asset holdings. Despite a slowing in real estate activity in 2013, originations of traditional mortgages increased to $1.24 billion in Q2 2013 and $2.23 billion YTD 2013, up from $1.19 billion and $2.10 billion in the same periods of 2012 and up from $0.99 billion last quarter. Origination volumes reflect the continued solid and increased demand for the Company's traditional product in the marketplace and strong broker relationships. Consistent with 2012, the Company's strategic shift increased focus on the traditional portfolio. Traditional loan originations were 75.7% of total originations in the quarter, compared to 71.2% same quarter of 2012 and 72.0% last quarter. The Company continued to observe strong credit profiles and lower than average credit risk across the traditional portfolio, as evidenced by higher average beacon scores (credit scores) in Q2 2013 compared to Q2 2012, combined with lower average loan to value ratios on new originations.

Securitized on-balance sheet mortgages represent 37.0% of the balance sheet loan portfolio compared to 39.1% at the end of the 2012 and 38.6% at the end of Q1 2013, declining by $135.3 million from the end of 2012 and $139.7 million from the end of Q1 2013 as mortgage maturities and prepayments exceeded new originations and renewal activity.

Securitized loans administered off-balance sheet increased $162.9 million from Q4 2012 through multi-unit residential mortgage activity. In the first half of 2013, the Company originated $209.0 million of insured multi-unit residential mortgages and sold $204.1 million that qualified for off-balance sheet treatment. As almost all new insured multi-unit residential originations qualify for off-balance sheet treatment, the on-balance sheet securitized multi-unit residential portfolio is declining through amortization and maturities.

Securitized single-family residential mortgages decreased by $107.7 million from the end of Q1 2013 million as amortization and maturities exceeded Accelerator production of $260.3 million.

Q2 2013 Accelerator mortgage production was $260.3 million, up from the $221.1 million in Q2 2012 and $121.6 million last quarter. Year-to-date Accelerator mortgage production of $381.9 million is down marginally from the $393.8 million in the same period of 2012 due to the slower start to the market in early 2013 compared to 2012.

The Company is continuing ongoing discussions with regulators and other interested parties regarding proposed transactions that could allow for off-balance sheet accounting and ACM relief for mortgages securitized through the National Housing Authority (NHA) MBS program. Management remains cautiously optimistic of a favourable outcome which would result in an increase in mortgage production in the Accelerator product.

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 13: Liquidity Resources).

Residential Commercial Mortgages

Residential commercial mortgages include commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builders' inventory. The Company will continue to increase these portfolios selectively, when appropriate assets are available.

Non-Residential Commercial Mortgages

Non-residential commercial mortgages, which include store and apartments and commercial mortgages, continue as an important complementary source of loan assets and the Company will continue to increase these portfolios selectively, when appropriate assets are available. Non-residential mortgage production is affected by the availability of appropriate assets and production trends are variable. The Company expects that mortgage production will increase in the third quarter and lead to modest growth of the portfolio.

Mortgage production continued to favour Ontario in the 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 interim consolidated financial statements for the geographic distribution of the portfolio.

Other Lending

Other lending, comprising credit cards and other consumer retail loans, continue to be an important source of loan assets with attractive returns. While representing 3.5% of the total loan portfolio, these assets generate 6.6% of the interest income.

Credit card balances declined to $306.1 million from $327.5 million at the end of 2012 and $320.7 million last quarter. Equityline *Visa* accounts (HELOC) represent 96.4% of the total balance. Originations increased in the quarter compared to last quarter, but were exceeded by repayments against these revolving credits as consumers remain cautious and conservative with their debt levels. The Company expects modest growth in this portfolio to return as it launches new marketing efforts to attract new customers.

Other consumer retail loans experienced robust growth in the quarter with originations increasing to $42.5 million supported by growth in water heater and HVAC loans. The Company has been successful in expanding relationships with business partners and diversifying its geographic footprint in this category of lending.

Deposits and Securitization

Table 12: Deposits, Senior Debt and Securitization Liabilities

(000s, except % and number of accounts)	**June 30 2013**	March 31 2013	December 31 2012	% Change June 30, 2013 - March 31, 2013	% Change June 30, 2013 - December 31, 2012
			As at		
Deposits payable on demand					
High-interest savings accounts	**$ 108,107**	$ 42,330	$ 19,819	155.4%	445.5%
Other deposits payable on demand	**64,263**	54,183	86,104	18.6%	(25.4)%
	172,370	96,513	105,923	78.6%	62.7%
Deposits payable on fixed dates					
GIC and savings accounts	**10,583,982**	10,153,549	9,659,394	4.2%	9.6%
Registered savings accounts	**412,287**	392,218	371,282	5.1%	11.0%
	10,996,269	10,545,767	10,030,676	4.3%	9.6%
Senior debt	**148,300**	152,092	150,684	(2.5)%	(1.6)%
Securitization liabilities					
Mortgage-backed security liabilities	**1,103,266**	1,271,879	1,301,693	(13.3)%	(15.2)%
Canada Mortgage Bond liabilities	**5,820,394**	6,036,475	6,034,202	(3.6)%	(3.5)%
	6,923,660	7,308,354	7,335,895	(5.3)%	(5.6)%
Total	**$ 18,240,599**	$ 18,102,726	$ 17,623,178	0.8%	3.5%
Total number of deposit accounts	**332,006**	317,084	296,963	4.7%	11.8%

The Company's deposit portfolio increased primarily to provide funding for the non-securitized loan portfolio. The Company's deposit portfolio primarily comprises fixed-term deposits, which represent 98.5% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company does not raise deposits through the wholesale market. The Company continued to source deposits primarily through deposit brokers and investment dealers. Other deposits payable on demand include amounts collected for real estate tax accounts which are generally paid out semi-annually.

The Company also initiated new programs and projects in late 2012, including new supporting information technology platforms that are aimed at increasing its direct deposit channel. In 2012 the Company launched a high-interest savings account as part of its longer term strategy to diversify its sources of funding and expand its deposit broker network. The balance of $108.1 million at the end of Q2 2013 has risen significantly from the $42.3 million balance at the end of last quarter and the $19.8 million balance at the end of 2012 through enhanced business relationships and attractive rates.

Securitization liabilities, including MBS and CMB liabilities declined $384.7 million from the end of Q1 2013 and $412.2 million from the end of 2012 due to the amortization of MBS liabilities and the maturity of CMB liabilities of $207.3 million during Q2 2013. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. The Company also securitized and sold into the market $205.0 million of MBS in the quarter that did not qualify for off-balance sheet accounting and which increased the MBS liabilities.

Table 13: Liquidity Resources

(000s, except %)	**June 30 2013**	March 31 2013	December 31 2012
Cash and cash equivalents per balance sheet	**$ 707,240**	$ 631,080	$ 301,863
Available for sale securities per balance sheet	**396,557**	404,254	414,344
Add: MBS included in residential mortgages	**72,660**	98,078	365,078
	1,176,457	1,133,412	1,081,285
Less: securities held for investment	**(291,549)**	(309,439)	(309,513)
Liquid assets at carrying value	**884,908**	823,973	771,772
Liquid assets at fair value	**$ 884,808**	$ 824,838	$ 771,993
Liquid assets at carrying value as a % of total assets	**4.5%**	4.3%	4.1%

Certain Company-originated MBS are held as liquidity assets, but are classified in residential mortgages on the balance sheet, as required by IFRS. The underlying mortgages are insured and the securities are stamped by CMHC. On an overall basis, liquidity resources fluctuate as the Company's future cash requirements change. The Company is holding additional liquidity in anticipation of seasonal peaks in origination volumes in the summer months. Please see the Funding and Liquidity Risk section of the MD&A for further discussion.

Other Assets

Total other assets of $665.2 million declined $258.3 million from the end of last quarter and $288.7 million from the end of 2012 as a result of reductions in pledged securities. Pledged securities have declined as a result of the repayment of maturing CMB liabilities during Q2 2013.

Other Liabilities

Other liabilities of $224.3 million decreased by $9.7 million from the end of last quarter and increased $15.7 million from the end of 2012. The change in other liabilities results primarily from changes in accrued liabilities and income taxes payable which fluctuate between quarters based on timing of the payment of the associated liabilities.

Shareholders' Equity

The increase of almost $100 million in total shareholders' equity since December 31, 2012 was internally generated from net income of $121.3 million, plus $3.0 million in amounts related to stock based compensation, less $18.0 million for dividends to shareholders, $2.1 million related to the repurchase of shares and an increase of $4.4 million in accumulated other comprehensive loss.

At the end of the quarter, the book value per common share was $30.83, compared to $29.53 at the end of Q1 2013 and $25.05 one year ago. 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 senior debt. Where appropriate, the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over the counter contracts with highly rated Canadian financial institutions. Please see the Non-Interest Income section of this MD&A and the Derivative Financial Instruments note to the unaudited interim consolidated financial statements included in this report for further information. The table below summarizes the impact of derivatives and hedge accounting on the Company's financial results:

Table 14: Derivative Gains and Losses

	For the three months ended			For the six months ended
(000s)	**June 30 2013**	March 31 2013	June 30 2012	**June 30 2013**
Cash flow hedging				
Fair value hedging ineffectiveness	**$ 1,541**	$ 1,516	$ 804	**$ 3,057**
Swaps marked to market	**954**	(338)	(1,408)	**616**
Bond forwards marked to market[1]	**1,335**	(112)	(671)	**1,223**
Derivative restructuring: IFRS conversion	**(3,141)**	(2,425)	-	**(5,566)**
	689	(1,359)	(1,275)	**(670)**
Less: Bond forward gain reclassified to securitization gains	**57**	297	-	**354**
Net realized and unrealized gain (loss) on derivatives	**$ 632**	$ (1,656)	$ (1,275)	**$ (1,024)**

[1] Bond forwards mark to market is offset by unrealized gains or losses on held for sale loans with unrealized losses of $1.4 million in Q2 2013 and unrealized losses of $1.1 million year to date (unrealized gains of $0.3 million – Q1 2013, unrealized gains of $0.4 million – Q2 2012, unrealized gains of $0.4 million – year to date 2012).

Off-Balance Sheet Arrangements

The Company offers credit products to meet the financial needs of its customers and has outstanding commitments for future advances on mortgage loans which amounted to $865.0 million at June 30, 2013 ($633.4 million – Q1 2013; $571.8 million – Q4 2012). Included within the outstanding commitments are unutilized non-residential commercial loan advances of $117.3 million at June 30, 2013 ($54.3 million – Q1 2013; $46.0 million – Q4 2012). Commitments for the loans remain open for various periods. As at June 30, 2013, unutilized credit card balances amounted to $77.8 million ($75.8 million – Q1 2013; $75.7 million – Q4 2012). Outstanding commitments for future advances for the Equityline *Visa* portfolio were $6.1 million at June 30, 2013 ($4.6 million – Q1 2013; $4.8 million – Q4 2012). These commitments are in the normal course of business and are considered through the Company's liquidity and capital management processes.

CAPITAL MANAGEMENT

Capital is a key factor in assessing the safety and soundness of a financial institution. A strong capital position assists the Company in promoting confidence among depositors, creditors, regulators and shareholders. The Company's Capital Management Policy governs the quantity and quality of capital held. The objective of the policy is to ensure that adequate capital is available to the Company to support its business objectives, absorb potential unexpected losses, as well as to meet minimum regulatory capital requirements as communicated by the Office of the Superintendent of Financial Institutions Canada (OSFI), and to enable the allocation of capital for maximum economic benefit. Senior management reviews compliance with the policy on at least a monthly basis while the Risk and Capital Committee and the Board of Directors review compliance with the policy on a quarterly basis.

Two regulatory capital requirements are addressed in the Company's policy: the Assets to Regulatory Capital Multiple (ACM) and the risk-based capital ratios. Senior management reviews these ratios on an ongoing basis and the Board of Directors reviews these ratios quarterly.

The Company's subsidiary, Home Trust, calculates capital ratios and regulatory capital based on capital adequacy rules issued by OSFI, which are based on *"Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework"* (Basel III). As Home Trust, a wholly owned subsidiary of the Company, is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited primarily by its permitted ACM. This is defined as the ratio of total regulatory assets to total regulatory capital of Home Trust.

Under Basel III, 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 15: Basel III Regulatory Capital (Based on the subsidiary, Home Trust Company)

				As at
(000s, except % and multiples)		**June 30 2013**		March 31 2013
	All-In Basis	**Transitional Basis**	All-In Basis	Transitional Basis
Common Equity Tier 1 capital (CET 1)				
Capital stock	**$ 38,497**	**$ 38,497**	$ 38,497	$ 38,497
Contributed surplus	**951**	**951**	951	951
Retained earnings	**1,014,370**	**1,014,370**	961,090	961,090
Accumulated other comprehensive (loss) income	**(8,115)**	**(8,115)**	362	362
Cash flow hedge reserves	**3,629**	**3,629**	3,904	3,904
Regulatory deductions from CET 1 [1]	**(54,358)**	**(3,372)**	(53,954)	(2,810)
Total CET 1 capital	**994,974**	**1,045,960**	950,850	1,001,994
Additional Tier 1 capital	**-**	**-**	-	-
Total Tier 1 capital	**994,974**	**1,045,960**	950,850	1,001,994
Tier 2 capital				
Collective allowance for credit losses [2]	**30,500**	**30,500**	30,300	30,300
Subordinated debentures	**156,000**	**156,000**	156,000	156,000
Total Tier 2 capital	**186,500**	**186,500**	186,300	186,300
Total regulatory capital	**$ 1,181,474**	**$ 1,232,460**	$ 1,137,150	$ 1,188,294
Risk-weighted assets for				
Credit risk	**$ 5,280,256**	**$ 5,331,242**	$ 5,073,357	$ 5,124,501
Operational risk	**704,388**	**704,388**	664,900	664,900
Total risk-weighted assets	**$ 5,984,644**	**$ 6,035,630**	$ 5,738,257	$ 5,789,401
Regulatory capital to risk-weighted assets				
CET 1 ratio	**16.63%**	**17.33%**	16.57%	17.31%
Tier 1 capital ratio	**16.63%**	**17.33%**	16.57%	17.31%
Total regulatory capital ratio	**19.74%**	**20.42%**	19.82%	20.53%
Assets to regulatory capital multiple	**N/A**	**13.86**	N/A	13.98
National regulatory minimum				
CET 1 ratio (required January 1, 2013)	**7.00%**	**N/A**	7.00%	N/A
Tier 1 capital ratio (required January 1, 2014)	**8.50%**	**N/A**	8.50%	N/A
Total regulatory capital ratio (required January 1, 2014)	**10.50%**	**N/A**	10.50%	N/A

[1] Regulatory deductions include intangible assets, related to software development and unrealized multi-unit residential mortgage securitization gains, net of deferred taxes.

[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of credit risk-weighted assets in Tier 2 capital. At June 30, 2013, the Company's collective allowance represented 0.58% of credit risk-weighted assets.

Home Trust adopted the Basel III capital requirements beginning January 1, 2013. The primary impact at adoption was the deduction from Common Equity Tier 1 Capital on an all-in basis of $51.1 million of intangible assets, net of deferred taxes, related to IT development costs as well as the inclusion of all its accumulated other comprehensive income, net of cash flow hedge reserves. Please see the Capital Management section of the 2012 Annual Report for a discussion of the Basel III changes. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For Home Trust, the transitional basis is applied to the deduction from capital of intangible assets related to development costs. Deductions for transitional calculations will commence in 2014. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. ACM is calculated and evaluated on a transitional basis.

In the first quarter of 2013 the terms of all subordinated debt were restructured, all of which is intercompany between parent and subsidiary, to comply with the non-viability contingent capital requirements in Basel III. This allowed for the inclusion of the subordinated debt in Tier 2 Capital. Under Basel III this subordinated debt will be subject to straight line amortization out of capital in the final five years prior to maturity. The principal amounts of the subordinated debt currently mature in 2021 and 2022 in the amounts of $100 million and $56 million, respectively.

Under Basel III, Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios significantly exceed OSFI's regulatory targets of 7.0% for Common Equity Tier 1, 8.5% for Total Tier 1 and 10.5% for Total capital, as well as Home Trust's internal capital targets. OSFI's target for Total Tier 1 and Total capital are not required until the first quarter of 2014.

Table 16: Share Information

(000s)		**June 30 2013**		March 31 2013		December 31 2012
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Common shares issued and outstanding[1]	**34,647**	**$ 64,662**	34,600	$ 61,850	34,630	$ 61,903
Employee stock options outstanding[2]	**801**	**N/A**	859	N/A	783	N/A
Employee stock options exercisable[3]	**501**	**17,466**	557	19,647	557	19,647

[1] No shares were issued, other than through employee stock options exercised.
[2] Please see Note 9(B). Amount for employee stock options is not applicable.
[3] For employee stock options exercisable, the amount refers to proceeds payable to the Company upon exercise.

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 and resources.

The Company's business strategies and operations expose the Company to a wide range of risks that would adversely affect its operations, financial condition, or financial performance, and which may influence an investor to buy, hold, or sell the Company's shares. When evaluating risks, the Company makes decisions about which risks it accepts, which risks it mitigates, offsets or hedges, and which risks it will avoid. These decisions are guided by the Company's risk appetite framework. The types of risk to which the Company is subject include, among others, credit, funding and liquidity, market risk, operational and other 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 55 through 68 in the MD&A section of the Company's 2012 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 a defined credit-specific risk appetite, limits and a Board-approved Credit Risk Policy. The Credit Risk Committee establishes, implements and monitors credit risk related policies and guidelines enterprise-wide, taking into account business objectives, risk appetite, planned financial performance and risk profile. Credit risk limits are established for all types of credit exposures and geographic, product, property and security type limits overall material 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. The Credit Risk Committee, the ERM group, 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, the adequacy of the loan loss allowances and the allocation of credit-risk based capital.

Mortgage Lending

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

Table 17: Mortgage Portfolio

(000s, except %)	**June 30 2013**	March 31 2013	December 31 2012
Total mortgage portfolio balance (net of individual allowance)	**$ 17,151,917**	$ 16,780,658	$ 16,538,499
Percentage of residential mortgages	**94.3%**	94.2%	94.0%
Percentage of non-residential mortgages	**5.7%**	5.8%	6.0%
Percentage of mortgage portfolio insured[1]	**41.4%**	42.8%	44.8%
Percentage of mortgages current	**97.8%**	97.7%	97.6%
Percentage of total mortgages over 90 days past due	**0.38%**	0.37%	0.40%

[1]Insured loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio.

All amounts in the above table represent on-balance sheet mortgages.

Credit risk mitigation is a key component of the Company's approach to credit risk management. The composition of the mortgage portfolio is well within the policy limits.

The Company mitigates credit risk on residential mortgages through collateral in the form of real property and, as such, loan to value (LTV) is a key credit metric. Please see Tables 20 and 21 for further information.

Due to the level of activity and price appreciation in the high-rise condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. High-rise condominiums represent less than 8% of the residential mortgage portfolio and, of these, 43.1% are insured. The average current LTV of the condominium portfolio was 67.3% at the end of Q2 2013. The credit performance of the condominium portfolio is strong and within the Company's expectations with 98.3% of the portfolio current and 0.3% over 90 days.

The level of non-residential mortgages was relatively stable over the last twelve months and the Company anticipates that the non-residential portfolio will remain relatively stable. The Company slowly began increasing its exposure to non-residential lending in 2010 through 2012 in proportion with growth in the overall asset portfolio. The proportion is well within the policy limits.

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.

Other Lending

Credit cards were $306.1 million at the end of the quarter, virtually all of which are secured by either cash deposits or residential property. Within the credit card portfolio, Equityline *Visa* accounts, which are secured by residential property, represent the principal driver of receivable balances. The Equityline *Visa* portfolio had a weighted-average LTV at origination of 67.4% at the end of the quarter compared to 68.1% at the end of Q1 2013 and 70.0% at the end of Q2 2012. The LTV includes both the first mortgage and the secured Equityline *Visa* balance.

Senior management and the ERM group closely monitor the credit performance of the credit card portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of June 30, 2013, $4.1 million or 1.3% of the credit card portfolio was over 90 days in arrears, compared to $3.6 million or 1.1% at December 31, 2012 and $5.2 million or 1.4% at June 30, 2012. In late 2012 the Company launched its preferred *Visa* card program, which offers unsecured *Visa* cards with relatively low authorized limits to the Company's mortgage clients with good credit performance. The preferred *Visa* portfolio represents 0.2% of the outstanding credit card balances at the end of the quarter.

Retail credit is secured by charges on financed assets, primarily improvements to residential property or fixtures, such as water heaters. Water heater loans are also guaranteed by the gas supplier.

Refer to the Loans note in the unaudited interim financial statements included in this report for a breakdown of the overall loan portfolio by geographic region. While the Company's strategy is to increase the geographic diversification of the loan portfolio, this has been tempered by credit conditions in local markets.

Non-Performing Loans, Credit Provisions and Allowances

Net non-performing loans remain within expected and acceptable ranges. As part of the Company's ongoing business strategy experienced employees undertake reviews of delinquent and non-performing loans to analyze patterns and drivers and then modify, where appropriate, the Company's lending guidelines. 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 $6.6 million or 0.15% of gross loans on an annualized basis. This compares to $3.0 million or 0.07% in the comparable quarter of 2012 and $3.1 million or 0.07% in the first quarter of 2013. The current quarter includes $3.0 million in principal write-offs related to the settlement of the disputed loans to condominium corporations, allowances were provided for these loans in Q1 2013. In the absence of this settlement, write-offs as a percentage of loans would have been 0.08% in the quarter, well within expected range.

The Company maintains credit allowances that, in management's judgment, are sufficient to cover incurred losses and identified credit events in the loans portfolio. Individual allowances represent the amount on identified non-performing loans required to reduce the carrying value of those loans to the estimated realizable amount. The balance will fluctuate from time to time and is driven by the performance of individual loans and the realizable value of the underlying security. The collective allowance for credit losses is established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflects the relative risk of various loan portfolios the Company manages.

At the end of the second quarter, the Company held a collective allowance of $30.5 million, increasing from $30.0 million at the end of 2012 and $30.3 million at the end of Q1 2013. 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, current and forecasted probability of default and exposure at default based on product, risk ratings and credit scores, and current economic conditions. The Company periodically reviews the methods utilized in assessing the collective allowance, giving consideration to changes in economic conditions, interest rates and local housing market conditions. The principal factors impacting the assessment of the adequacy of the collective allowance are the stable economic environment in the Company's markets, the increased weighting of uninsured mortgages and the reduced loan to value of the uninsured mortgage portfolio. For the most part, these factors tend to offset each other and accordingly, the collective allowance has been increased marginally and continues to exceed two years of current write-offs.

Additional Information: Residential Loans and Equityine Visa (HELOC)

The tables below provide additional information on the composition of the Company's single-family residential mortgage portfolio by province and insured status, as well as contractual remaining amortization periods and loan to value by province.

Table 18: Residential Loans by Province

(000s, except %)										**As at June 30, 2013**
		Insured Residential Mortgages	Percentage of Total for Province		Uninsured Residential Mortgages	Percentage of Total for Province		Equityline *Visa*[1]	Percentage of Total for Province		Total
British Columbia	**$**	**456,796**	**52.5%**	**$**	**405,378**	**46.7%**	**$**	**6,770**	**0.8%**	**$**	**868,944**
Alberta		**380,261**	**56.5%**		**272,868**	**40.5%**		**20,342**	**3.0%**		**673,471**
Ontario		**4,055,197**	**33.5%**		**7,791,119**	**64.3%**		**264,352**	**2.2%**		**12,110,668**
Quebec		**287,545**	**51.3%**		**271,491**	**48.4%**		**1,410**	**0.3%**		**560,446**
Other		**141,096**	**50.8%**		**134,196**	**48.3%**		**2,436**	**0.9%**		**277,728**
	$	**5,320,895**	**36.8%**	**$**	**8,875,052**	**61.2%**	**$**	**295,310**	**2.0%**	**$**	**14,491,257**

											As at March 31, 2013
		Insured Residential Mortgages	Percentage of Total for Province		Uninsured Residential Mortgages	Percentage of Total for Province		Equityline *Visa*[1]	Percentage of Total for Province		Total
British Columbia	$	473,795	54.4%	$	390,698	44.8%	$	7,278	0.8%	$	871,771
Alberta		401,075	57.4%		275,750	39.4%		22,430	3.2%		699,255
Ontario		4,047,715	34.5%		7,408,151	63.1%		276,560	2.4%		11,732,426
Quebec		298,752	54.7%		245,436	45.0%		1,502	0.3%		545,690
Other		137,835	51.4%		128,043	47.7%		2,542	0.9%		268,420
	$	5,359,172	38.0%	$	8,448,078	59.8%	$	310,312	2.2%	$	14,117,562

											As at December 31, 2012
		Insured Residential Mortgages	Percentage of Total for Province		Uninsured Residential Mortgages	Percentage of Total for Province		Equityline *Visa*[1]	Percentage of Total for Province		Total
British Columbia	$	484,925	56.2%	$	369,557	42.9%	$	7,821	0.9%	$	862,303
Alberta		415,596	58.6%		270,563	38.1%		23,539	3.3%		709,698
Ontario		4,136,699	36.3%		6,979,420	61.2%		281,545	2.5%		11,397,664
Quebec		308,007	57.3%		227,617	42.4%		1,531	0.3%		537,155
Other		139,793	53.0%		121,026	45.9%		2,800	1.1%		263,619
	$	5,485,020	39.8%	$	7,968,183	57.9%	$	317,236	2.3%	$	13,770,439

[1]Equity line *Visa* is an uninsured product.

Table 19: Insured and Uninsured Residential Mortgages by Contractual Remaining Amortization Period

(000s, except %)						**As at June 30, 2013**
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	**$ 576,102 $**	**1,752,486 $**	**7,932,384 $**	**3,854,779 $**	**80,196 $**	**14,195,947**
Percentage of total	**4.1%**	**12.3%**	**55.8%**	**27.2%**	**0.6%**	**100.0%**

(000s, except %)						As at March 31, 2013
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 582,463 $	1,626,872 $	7,299,956 $	4,183,937 $	114,022 $	13,807,250
Percentage of total	4.2%	11.8%	52.9%	30.3%	0.8%	100.0%

(000s, except %)						As at December 31, 2012
	≤ 20 Years	>20 and ≤ 25 Years	>25 and ≤ 30 Years	>30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 585,304 $	1,566,157 $	6,713,556 $	4,412,537 $	175,649 $	13,453,203
Percentage of total	4.4%	11.6%	49.9%	32.8%	1.3%	100.0%

Table 20: Weighted-Average Loan to Value Ratios for Uninsured Loans Originated During the Quarter

				For the three months ended
		June 30 2013		March 31 2013
	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]
British Columbia	**68.6%**	**60.5%**	68.3%	72.0%
Alberta	**70.4%**	**61.2%**	68.9%	34.4%
Ontario	**73.9%**	**58.1%**	73.9%	56.5%
Quebec	**67.8%**	**53.5%**	67.7%	66.8%
Other	**67.2%**	**64.3%**	69.3%	55.3%
Total	**73.3%**	**58.1%**	73.3%	56.5%

[1]Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

An economic downturn is generally characterized by reduced growth or declines in gross domestic product, often combined with reduced rates of employment and perhaps declines in real estate values. The probability of delinquency in the residential mortgage portfolio is most closely correlated with changes in employment. Consequently, during an economic downturn, the Company would expect an increased rate of delinquency and also an increase in credit losses. The total single-family residential mortgage portfolio including HELOC was $14.49 billion as of June 30, 2013, of which $5.32 billion was insured against credit losses. The Company would expect to recover any lost principal, interest and direct collection costs associated with this insured portion of the portfolio. Management monitors these risks carefully on an ongoing basis, including stress testing of the portfolio.

The Company's key mitigant against credit losses in the uninsured portfolio is the excess of the value of the collateral over the outstanding loan amount (expressed as loan to value or LTV). As at June 30, 2013, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 68.0% compared to 68.2% at the end of Q1 2013. These LTVs were estimated using the Teranet-National Bank House Price Index and the most recent appraisals. If an economic downturn involved reduced real estate values, the margin of value over loan amounts would be eroded and the extent of loan losses could increase. The distribution of LTV around the mean for each significant market is indicated below.

Table 21: Weighted-Average Loan to Value Ratios for Uninsured Residential Mortgages

	As at June 30, 2013			As at March 31, 2013		
	Weighted-Average Current LTV[1]	Percent of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to		Weighted-Average Current LTV[1]	Percent of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to	
		75%	65%		75%	65%
British Columbia	**64.1%**	**85.0%**	**45.6%**	63.1%	91.5%	49.4%
Alberta	**64.2%**	**92.2%**	**45.5%**	64.6%	91.9%	44.2%
Ontario	**68.6%**	**69.4%**	**29.6%**	69.0%	70.6%	28.2%
Quebec	**63.8%**	**92.5%**	**46.9%**	62.0%	93.1%	51.0%
Other	**61.9%**	**91.3%**	**57.1%**	62.1%	92.1%	57.6%
Total	**68.0%**	**71.9%**	**31.8%**	68.2%	73.3%	30.8%

[1]Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

The weighted-average LTV at origination of the Company's Equityline *Visa* portfolio was 67.4% at the end of the quarter compared to 68.1% at the end of Q1 2013.

During the economic downturn experienced in Canada between 2007 to 2009, quarterly non-performing uninsured mortgages peaked at 1.3% of gross loans and quarterly net write-offs reached a maximum annual rate of 0.23% of gross uninsured loans.

Market Risk

For the Company, Market Risk consists primarily of Investment Risk and Structural Interest Rate Risk. A summary of these risks is as follows:

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments.

The Company's investment risk management framework includes investment policies that are approved by the Asset/Liability Committee (ALCO) and the Risk and Capital Committee of the Board of Directors. The ALCO is responsible for defining and monitoring the Company's investment portfolio and identifying investments that may be at risk of impairment. The Treasury group is responsible for managing the Company's investment portfolio in accordance with approved policies and assesses the impact of market events on potential implications to its total value. ERM recommends prudential policies, review procedures and guidelines, and provides independent enterprise-wide oversight of all investment risk, including valuations.

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 seeks to match liabilities to assets in terms of maturity and interest rate repricing through its 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, guidelines and procedures that are approved by the ALCO 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 appetite. 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 guidelines, and provides independent enterprise-wide oversight to all interest rate risk.

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 usage 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.

The interest rate sensitivity position as at June 30, 2013 is presented under Note 14 in the unaudited consolidated interim financial statements. The table in Note 14 represents positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. This note summarizes assets and liabilities in terms of their contractual amounts. Over the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be made but may not materialize. In measuring its interest rate risk exposure, the Company makes assumptions about these factors and monitors these against actual experience.

To assist in matching assets and liabilities, the Company utilizes two interest rate risk sensitivity metrics that measure the relationship between changes in interest rates and the resulting estimated impact on both the Company's future net interest income and economic value of shareholders' equity. The Company measures these metrics over a number of different yield curve scenarios.

The following table provides measurements of interest rate sensitivity and the potential after-tax impact of an immediate and sustained 100 basis-point increase and decrease in interest rates on net interest income and on the economic value of shareholders' equity.

Table 22: Impact of Interest Rate Shifts

(000s)	**June 30 2013**	March 31 2013	December 31 2012	**June 30 2013**	March 31 2013	December 31 2012
		Increase in interest rates			Decrease in interest rates	
100 basis point shift						
Impact on net interest income, after tax						
(for the next 12 months)	**$ 8,710**	$ 8,213	$ 12,614	**$ (8,710)**	$ (8,213)	$ (12,614)
Impact on net present value of shareholders' equity	**9,475**	13,233	9,746	**(10,816)**	(14,886)	(11,447)

Funding and Liquidity 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, securitization, deposit-taking, investing and other business activities.

The Company's liquidity risk management framework includes funding and liquidity policies, guidelines and procedures that are approved by the ALCO and the Risk and Capital Committee of the Board of Directors. The mandate of the ALCO 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 funding and liquidity policies and strategies and regularly monitors compliance with those policies. The ALCO also oversees the stress testing of funding and liquidity risk and the testing of the Company's Contingency Funding Plan. The Treasury group is responsible for managing the Company's funding and liquidity 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 guidelines, and provides independent enterprise-wide oversight of all funding and liquidity risk.

The Company's funding and liquidity policies are designed to ensure that cash balances and the inventory of other liquid assets are sufficient to meet all cash outflows both in ordinary market conditions and during periods of extreme market stress. The Company's policies address several key elements, such as the minimum levels of liquid assets to be held at all times; the composition of types of liquid assets to be maintained; daily monitoring of the liquidity position by Treasury, senior management, and the ERM group; monthly reporting to the ALCO; and quarterly reporting to the Risk and Capital Committee of the Board of Directors.

The Company uses a liquidity horizon as its main liquidity metric. Using maturity gap analysis, the Company projects a time horizon when its net cumulative cash flow turns negative, after taking into account the market value of its stock of liquid assets. The Company's liquidity horizon is calculated daily and is based upon contractual and behavioural cash flows. Forecasts are made using normal market conditions and a number of stressed liquidity scenarios, including ability to fund, loan growth, liquidity portfolio valuation, loan arrears and write-downs. In addition, the Company regularly monitors a number of other structural funding and liquidity ratios in its overall funding and liquidity risk management framework.

The Company holds liquid assets in the form of cash, bank deposits, securities issued or guaranteed by the Government of Canada, securities issued by provincial governments, and highly rated short-term money market securities, corporate bonds and debentures. At the end of the quarter, eligible liquid assets amounted to $884.9 million, compared to $771.8 million at the end of Q4 2012 and $824.0 million at the end of Q1 2013.

The Company's main sources of funding come from retail deposits and securitization. Retail deposits are primarily sourced through the deposit broker network. The majority of these deposits are received through channels that are controlled by several of the major Canadian banks. 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 bulk of deposits raised are CDIC insured 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 continues to add new brokers in order to diversify its sources of funds.

In 2012, Home Trust launched a high interest savings account offered only through financial advisors and investment and mutual fund dealers and commenced a multi-year project aimed at further diversifying its funding sources via building a direct deposits channel.

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 insured multi-unit residential mortgages and, to a lesser extent, its traditional mortgages that qualified for bulk portfolio insurance. On-balance sheet Accelerator mortgages and multi-unit residential mortgages classified as held for sale are generally held for securitization and are funded with deposits until securitized. When mortgages are securitized, the Company receives principal and interest payments on its underlying mortgage loans before the required payments are passed-through to MBS investors. However, as a part of its servicing obligations, the Company must pass-through any payments that are not collected due to arrears on a timely basis. In the case of defaults, the Company would make required payments to investors and place the mortgage/property through the insurance claims process to recoup any losses. This may result in cash flow timing mismatches that may marginally increase funding and liquidity risk.

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. The impact of operational risk may include financial loss, loss of competitive position, or regulatory enforcement actions, among others. It is an integral and unavoidable part of the Company's business as it is inherent in every business and support activity, product and service. While operational risk cannot be eliminated, the Company has taken proactive steps to mitigate this risk. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls. The Company continues to strengthen its operational risk framework, with the addition of staff, introduction of enhanced risk tools and methodologies including key risk indicators, and improvement in its risk analytics.

ACCOUNTING STANDARDS AND POLICIES

The significant accounting policies are outlined in Note 2 to the audited consolidated financial statements included in the Company's 2012 Annual Report. These policies are critical as they refer to material amounts and require management to make estimates.

Critical accounting estimates that require management to make significant judgments, some of which are inherently uncertain, are outlined in Note 2 to the unaudited interim 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 and applied judgment 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. In addition, the Company's management has applied judgment 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 judgment 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 judgment that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). Certain loans where residual interests in securitized transactions are sold are derecognized based on management's judgment that substantially all the risks and rewards of ownership have been transferred. Further information can be found under Notes 4, 5, 6, 11, and 13 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:

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 will provide 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. 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. In September 2012, the IASB issued a review draft of the standard on general hedge accounting with a final standard expected to be issued in mid-2013. The general hedge accounting standard is intended to provide better links between an entity's risk management activities, the rationale for hedging and the impact of hedging on the financial statements. The standard will potentially simplify the Company's hedge accounting strategies. The impairment phase of the IASB's financial instruments project is currently under development, with a review draft of the standard issued in March 2013. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

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 GAAP. 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 2013 unaudited interim consolidated financial statements.

QUARTERLY FINANCIAL HIGHLIGHTS

Table 23: Summary of Quarterly Results

(000s, except per share amounts and %)		2013				2012		2011
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income (TEB[1])	**$ 103,537**	$ 103,034	$ 101,151	$ 100,617	$ 95,109	$ 89,626	$ 90,197	$ 89,478
Less: TEB adjustment	**1,005**	1,148	1,243	1,126	1,255	1,407	1,785	1,866
Net interest income per financial statements	**102,532**	101,886	99,908	99,491	93,854	88,219	88,412	87,612
Non-interest income	**16,431**	17,177	14,537	13,449	12,426	15,490	9,658	5,661
Non-interest expense	**34,272**	33,969	31,620	32,065	29,882	29,168	27,107	26,036
Total revenues	**232,555**	231,194	227,649	226,603	218,751	214,682	208,400	198,694
Net income	**61,573**	59,725	58,965	57,254	53,230	52,534	50,280	48,417
Return on common shareholders' equity	**23.6%**	24.0%	25.0%	25.6%	25.1%	26.2%	26.7%	27.0%
Return on average total assets	**1.3%**	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Earnings per common share								
Basic	**$ 1.78**	$ 1.72	$ 1.70	$ 1.65	$ 1.54	$ 1.52	$ 1.45	$ 1.40
Diluted	**$ 1.77**	$ 1.72	$ 1.70	$ 1.65	$ 1.54	$ 1.52	$ 1.45	$ 1.39
Book value per common share	**$ 30.83**	$ 29.53	$ 27.96	$ 26.53	$ 25.05	$ 23.83	$ 22.38	$ 21.10
Efficiency ratio (TEB[1])	**28.6%**	28.3%	27.3%	28.1%	27.8%	27.7%	27.1%	27.4%
Efficiency ratio	**28.8%**	28.5%	27.6%	28.4%	28.1%	28.1%	27.6%	27.9%
Common equity tier 1 ratio[2]	**16.63%**	16.57%	n/a	n/a	n/a	n/a	n/a	n/a
Tier 1 capital ratio[2]	**16.63%**	16.57%	17.01%	16.97%	17.09%	17.49%	17.29%	17.67%
Total capital ratio[2]	**19.74%**	19.82%	20.68%	20.78%	21.09%	21.62%	20.46%	21.05%
Net non-performing loans as a % of gross loans	**0.31%**	0.32%	0.33%	0.28%	0.31%	0.28%	0.25%	0.32%
Annualized provision as a % of gross loans	**0.10%**	0.11%	0.09%	0.10%	0.05%	0.11%	0.07%	0.06%

[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 and are calculated under Basel III for 2013 and Basel II for 2012 and 2011.

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 while the second and third quarters have traditionally experienced higher levels of advances. 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.

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with 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 MD&A are defined as follows:

Adjusted Net Income and Adjusted Earnings per Share

After-tax losses that are associated with derivative restructuring related to IFRS conversion, after-tax charges related to the resolution of disputed loans to commercial condominium corporations and after-tax investment tax credit benefits are adjusted against net income to present adjusted net income. The reconciliation of net income to adjusted net income and the resulting adjusted earnings per share are presented in Table 2 to this MD&A.

Allowance as a Percentage of Gross Loans

Allowance as a percentage of gross loans is calculated as the total allowance divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans, except for loans held for sale.

Assets to Capital Multiple (ACM)

The ACM provided in this MD&A is that of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. The multiple reflects total regulatory assets, including specified off-balance sheet items net of other specified deductions, divided by Total regulatory capital.

Common Equity Tier 1, 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 OSFI. Refer to Note 9(C) to the consolidated financial statements included in this report.

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.

Liquid Assets

Liquid assets are unencumbered high quality assets for which there is a broad and active secondary market available to the Company to sell these assets without incurring a substantial discount. Liquid assets are a dependable source of cash used by the Company when it experiences short-term funding shortfalls.

Market Capitalization

Market capitalization is calculated as the closing price of the Company's common shares multiplied by the number of common shares of the Company outstanding.

Net Interest Margin (TEB)

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

Net Interest Margin (Non-TEB)

Net interest margin is calculated by taking net interest income divided by the average total assets generating the interest income.

Net Non-Performing Loans as a Percentage of Gross Loans (NPL Ratio)

The NPL ratio is calculated as the total net non-performing loans divided by the gross on-balance sheet loans, which includes all on-balance sheet loans, except for loans held for sale.

Provision as a Percentage of Gross Loans (PCL Ratio)

The PCL ratio is calculated as the total individual and collective provision expense divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans, except for loans held for sale.

Return on Shareholders' Equity (ROE)

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

Return on Assets (ROA)

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.

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 $1.0 million for Q2 2013 ($1.1 million – Q1 2013; $1.3 million – Q2 2012) 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.

Total Assets under Administration (AUA)

Total assets under administration refers to all on-balance sheet assets plus all off-balance sheet loans that qualify for derecognition under IFRS.

Total Loans under Administration (LUA)

Total loans under administration refers to all on-balance sheet loans plus all off-balance sheet loans that qualify for derecognition under IFRS.

Risk-Weighted Assets (RWA)

The risk-weighted assets reported 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 OSFI. Refer to Note 9(C) to the consolidated financial statements included in this report.

Glossary of Financial Terms

Assets or Loans under Administration refer to assets or loans administered by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering financial institution, plus all assets or loans beneficially owned by the Company and carried on the balance sheets.

Average Earning Assets represents the monthly average balance of deposits with other banks and loans and securities over a relevant period.

Basis Point is one-hundredth of a percentage point.

Canada Deposit Insurance Corporation (CDIC) is a Canadian federal Crown corporation created to protect qualifying deposits made with member financial institutions in case of their failure.

Collective Allowance (previously referred to as the General Allowance) is established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflects the relative risk of the various loan portfolios that the Company manages.

Derivatives used by the Company are contracts whose value is "derived" from movements in interest rates. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates.

Forwards used by the Company are contractual agreements to either buy or sell a specified amount of an interest-rate-sensitive financial instrument or security at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Hedging is a risk management technique used by the Company to neutralize, manage or offset interest rate, equity, or credit exposures arising from normal banking activities.

Impaired or Non-performing Loans are loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Individual Allowances (previously referred to as specific allowances) reduce the carrying value of individual credit assets to the amount expected to be recovered if there is evidence of deterioration in credit quality.

Insured Loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio. The Company's insured lending includes single-family homes and multi-unit residential properties.

Net Interest Income is comprised of earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts. The principal does not change hands under the terms of a derivative contract.

Office of the Superintendent of Financial Institutions Canada (OSFI) is the government agency responsible for regulation and supervision of banks, insurance companies, trust companies, loan companies and pension plans in Canada.

Provision for Credit Losses is a charge to income that represents an amount deemed adequate by management to fully provide for impairment in a portfolio of loans and other credit instruments, given the composition of the portfolio, the probability that default has occurred, the economic environment and the allowance for credit losses already established.

Securitization is the practice of selling pools of contractual debts, such as residential or commercial mortgages, to third parties.

Swaps are contractual agreements between two parties to exchange a series of cash flows. The only type of swap agreements used by the Company are interest rate swaps where counterparties generally exchange fixed-rate and floating-rate interest payments based on a notional value in a single currency.

Acronyms

ALCO – Asset/Liability Committee

AOCI – Accumulated Other Comprehensive Income

CDIC – Canada Deposit Insurance Corporation

CMB – Canada Mortgage Bond

CMHC – Canada Mortgage and Housing Corporation

COSO – Committee of Sponsoring Organizations of the Treadway Commission

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GIC – Guaranteed Investment Certificate

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

LTV – Loan to Value (ratio expressed as a percentage)

MD&A – Management's Discussion and Analysis

MBS – Mortgage-Backed Security

NCCF – Net Cumulative Cash Flow

NHA – National Housing Authority

OCI – Other Comprehensive Income

TEB – Taxable Equivalent Basis

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended June 30 2013	March 31 2013	June 30 2012	For the six months ended June 30 2013	June 30 2012
Net Interest Income Non-Securitized Assets					
Interest from loans (note 5(F))	**$ 153,598**	$ 148,031	$ 125,576	**$ 301,629**	$ 243,141
Dividends from securities	**2,795**	3,193	3,533	**5,988**	7,497
Other interest	**1,778**	1,456	930	**3,234**	1,977
	158,171	152,680	130,039	**310,851**	252,615
Interest on deposits	**65,640**	62,938	56,043	**128,578**	109,171
Interest on senior debt	**1,601**	1,583	1,705	**3,184**	3,358
Net interest income non-securitized assets	**90,930**	88,159	72,291	**179,089**	140,086
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets (note 5(F))	**57,953**	61,337	76,286	**119,290**	152,902
Interest expense on securitization liabilities	**46,351**	47,610	54,723	**93,961**	110,915
Net interest income securitized loans and assets	**11,602**	13,727	21,563	**25,329**	41,987
Total Net Interest Income	**102,532**	101,886	93,854	**204,418**	182,073
Provision for credit losses (note 5(E))	**4,429**	4,667	2,298	**9,096**	6,796
	98,103	97,219	91,556	**195,322**	175,277
Non-Interest Income					
Fees and other income	**15,406**	14,972	10,757	**30,378**	21,654
Securitization income	**608**	1,587	1,268	**2,195**	1,268
Net realized and unrealized (losses) gains on securities and mortgages	**(215)**	2,274	1,676	**2,059**	1,984
Net realized and unrealized gain (loss) on derivatives (note 13)	**632**	(1,656)	(1,275)	**(1,024)**	3,010
	16,431	17,177	12,426	**33,608**	27,916
	114,534	114,396	103,982	**228,930**	203,193
Non-Interest Expenses					
Salaries and benefits	**16,673**	16,950	14,501	**33,623**	28,500
Premises	**2,439**	2,445	1,977	**4,884**	3,975
Other operating expenses	**15,160**	14,574	13,404	**29,734**	26,575
	34,272	33,969	29,882	**68,241**	59,050
Income Before Income Taxes	**80,262**	80,427	74,100	**160,689**	144,143
Income taxes (note 11(A))					
Current	**16,077**	23,456	20,568	**39,533**	39,623
Deferred	**2,612**	(2,754)	302	**(142)**	(1,244)
	18,689	20,702	20,870	**39,391**	38,379
NET INCOME	**$ 61,573**	$ 59,725	$ 53,230	**$ 121,298**	$ 105,764
NET INCOME PER COMMON SHARE					
Basic	**$ 1.78**	$ 1.72	$ 1.54	**$ 3.50**	$ 3.07
Diluted	**$ 1.77**	$ 1.72	$ 1.54	**$ 3.48**	$ 3.07
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**34,612**	34,630	34,476	**34,615**	34,486
Diluted	**34,850**	34,825	34,509	**34,828**	34,491
Total number of outstanding common shares (note 9(A))	**34,647**	34,600	34,711	**34,647**	34,711
Book value per common share	**$ 30.83**	$ 29.53	$ 25.05	**$ 30.83**	$ 25.05

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 2013**	March 31 2013	June 30 2012	For the six months ended **June 30 2013**	June 30 2012
NET INCOME	**$ 61,573**	$ 59,725	$ 53,230	**$ 121,298**	$ 105,764
OTHER COMPREHENSIVE (LOSS) INCOME					
Available for Sale Securities					
Net unrealized (losses) gains on securities available for sale	**(10,737)**	7,165	(1,069)	**(3,572)**	3,324
Net gains reclassified to net income	**(1,162)**	(1,946)	(1,348)	**(3,108)**	(1,712)
	(11,899)	5,219	(2,417)	**(6,680)**	1,612
Income tax (recovery) expense	**(3,151)**	1,381	(643)	**(1,770)**	524
	(8,748)	3,838	(1,774)	**(4,910)**	1,088
Cash Flow Hedges (note 13)					
Net unrealized losses on cash flow hedges	**-**	-	(396)	**-**	(370)
Net losses reclassified to net income	**372**	367	357	**739**	710
	372	367	(39)	**739**	340
Income tax expense (recovery)	**97**	95	(89)	**192**	21
	275	272	50	**547**	319
Total other comprehensive (loss) income	**(8,473)**	4,110	(1,724)	**(4,363)**	1,407
COMPREHENSIVE INCOME	**$ 53,100**	$ 63,835	$ 51,506	**$ 116,935**	$ 107,171

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

Consolidated Balance Sheets

thousands of Canadian dollars (Unaudited)	**June 30 2013**	March 31 2013	December 31 2012
ASSETS			
Cash and Cash Equivalents (note 4(A))	**$ 707,240**	$ 631,080	$ 301,863
Available for Sale Securities (note 4(B))	**396,557**	404,254	414,344
Loans Held for Sale	**25,508**	43,434	21,921
Loans (note 5)			
Securitized mortgages (note 6)	**6,570,837**	6,710,556	6,706,160
Non-securitized mortgages and loans	**11,198,075**	10,675,992	10,431,832
	17,768,912	17,386,548	17,137,992
Collective allowance for credit losses (note 5(E))	**(30,500)**	(30,300)	(30,000)
	17,738,412	17,356,248	17,107,992
Other			
Restricted cash (note 4(A))	**136,165**	130,083	137,424
Pledged securities (notes 4(B) and 6(C))	**304,269**	551,008	588,069
Derivative assets (note 13)	**28,739**	44,643	45,388
Other assets (note 7)	**110,958**	114,528	100,983
Goodwill and intangible assets	**85,110**	83,285	82,095
	665,241	923,547	953,959
	$ 19,532,958	$ 19,358,563	$ 18,800,079
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 172,370**	$ 96,513	$ 105,923
Deposits payable on a fixed date	**10,996,269**	10,545,767	10,030,676
	11,168,639	10,642,280	10,136,599
Senior Debt (note 12)	**148,300**	152,092	150,684
Securitization Liabilities (note 6(A))			
Mortgage-backed security liabilities	**1,103,266**	1,271,879	1,301,693
Canada Mortgage Bond liabilities	**5,820,394**	6,036,475	6,034,202
	6,923,660	7,308,354	7,335,895
Other			
Derivative liabilities (note 13)	**1,704**	2,941	2,386
Other liabilities (note 8)	**186,744**	198,037	170,502
Deferred tax liabilities (note 11(C))	**35,894**	33,046	35,800
	224,342	234,024	208,688
	18,464,941	18,336,750	17,831,866
Shareholders' Equity			
Capital stock (note 9)	**64,662**	61,850	61,903
Contributed surplus	**6,419**	6,729	6,224
Retained earnings	**1,005,044**	952,869	903,831
Accumulated other comprehensive (loss) income (note 10)	**(8,108)**	365	(3,745)
	1,068,017	1,021,813	968,213
	$ 19,532,958	$ 19,358,563	$ 18,800,079

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 Gains (Losses) on Securities Available for Sale, after Tax	Net Unrealized Losses on Cash Flow Hedges, after Tax	Total Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2012	**$ 61,903**	**$ 6,224**	**$ 903,831**	**$ 432**	**$ (4,177)**	**$ (3,745)**	**$ 968,213**
Comprehensive income	**-**	**-**	**121,298**	**(4,910)**	**547**	**(4,363)**	**116,935**
Stock options settled (note 9(A))	**2,825**	**(746)**	**-**	**-**	**-**	**-**	**2,079**
Amortization of fair value of employee stock options (note 9(B))	**-**	**941**	**-**	**-**	**-**	**-**	**941**
Repurchase of shares (note 9(A))	**(66)**	**-**	**(2,077)**	**-**	**-**	**-**	**(2,143)**
Dividends ($0.52 per share)	**-**	**-**	**(18,008)**	**-**	**-**	**-**	**(18,008)**
Balance at June 30, 2013	**$ 64,662**	**$ 6,419**	**$ 1,005,044**	**$ (4,478)**	**$ (3,630)**	**$ (8,108)**	**$ 1,068,017**
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 9(B))	-	972	-	-	-	-	972
Repurchase of shares (note 9(A))	(134)	-	(3,436)	-	-	-	(3,570)
Dividends ($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

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)	**2013**	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 121,298**	$ 105,764
Adjustments to determine cash flows relating to operating activities:		
Deferred income taxes	**(142)**	(1,244)
Amortization of capital assets	**1,444**	1,569
Amortization of intangible assets	**3,875**	3,218
Amortization of net premium on securities	**1,210**	1,461
Amortization of securitization and senior debt transaction costs	**6,185**	6,604
Provision for credit losses	**9,096**	6,796
Change in accrued interest payable	**23,608**	20,108
Change in accrued interest receivable	**(1,184)**	(3,104)
Net realized and unrealized gains on securities and mortgages	**(2,059)**	(1,984)
Realized gain on securitization	**(2,195)**	(1,268)
Settlement of derivatives	**3,115**	(370)
Loss (gain) on derivatives	**1,224**	(3,010)
Net increase in mortgages	**(1,085,637)**	(947,215)
Net decrease (increase) in pledged assets	**539,277**	(287,247)
Net increase in credit card loans and other consumer retail loans	**(18,301)**	(7,904)
Net increase in deposits	**1,032,040**	1,085,340
Proceeds from obligations under repurchase agreement	**-**	43,418
Activity in securitization liabilities		
Proceeds from sale of mortgage-backed securities derecognized	**198,522**	72,733
Proceeds from sale of mortgage-backed securities	**536,149**	125,886
Settlement and repayment of securitization liabilities	**(943,608)**	(527,249)
Amortization of fair value of employee stock options	**941**	972
Changes in taxes payable and other	**(3,231)**	(12,814)
Cash flows provided by operating activities	**421,627**	(319,540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(2,143)**	(3,570)
Exercise of employee stock options	**2,079**	5,390
Dividends paid to shareholders	**(18,004)**	(14,598)
Cash flows used in financing activities	**(18,068)**	(12,778)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(117,246)**	(217,469)
Proceeds from sales	**129,223**	185,453
Purchases of capital assets	**(3,269)**	(3,475)
Purchases of intangible assets	**(6,890)**	(5,450)
Cash flows provided by (used in) investing activities	**1,818**	(40,941)
Net increase (decrease) in cash and cash equivalents during the period	**405,377**	(373,259)
Cash and cash equivalents at beginning of the period	**$ 301,863**	$ 534,394
Cash and Cash Equivalents at End of the Period (note 4(A))	**707,240**	161,135
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 3,985**	$ 6,227
Interest received	**301,013**	240,433
Interest paid	**108,153**	91,087
Income taxes paid	**54,965**	43,874

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 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 and credit card products. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides 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, 2013 were authorized for issuance by the Board of Directors of the Company on July 31, 2013. 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 $9.7 million or $0.28 per common share payable September 1, 2013 to shareholders of record at the close of business on August 12, 2013.

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, 2012 as set out in the 2012 Annual Report, on pages 73 through 110. 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 80 through 86 of the 2012 Annual Report or provided below.

Comparative Consolidated Financial Statements

The comparative unaudited interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 unaudited interim consolidated financial statements. The primary change was the reclassification of Home Trust mortgage-backed securities used as Canada Mortgage Bond replacement assets as securitized mortgages. In prior periods, these mortgage-backed securities were classified as pledged securities. In addition, the Company's disclosure of earnings by business segment has been replaced by disclosure of interest income by product, as this was determined as a better reflection of how the business is managed.

Use of Judgment and Estimates

Management has exercised judgment in the process of applying the Company's accounting policies. In particular, the Company's management has applied judgment 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 judgment 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 judgment that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). Certain loans where residual interests in securitized transactions are sold are derecognized based on management's judgment that substantially all the risks and rewards of ownership have been transferred.

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 dates 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.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at June 30, 2013 and therefore have not been applied in preparing these unaudited interim 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. In September 2012, the IASB issued a review draft of the standard on general hedge accounting, with a final standard expected to be issued in mid-2013. The general hedge accounting standard is intended to provide better links between an entity's risk management activities, the rationale for hedging and the impact of hedging on the financial statements. The standard will potentially simplify the Company's hedge accounting strategies. The impairment phase of the IASB's financial instruments project is currently under development, with a review draft of the standard issued in March 2013. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

4. CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars (Unaudited)	June 30 2013	March 31 2013	December 31 2012
Cash and cash equivalents			
Deposits with regulated financial institutions	$ 707,240	$ 631,080	$ 301,863
Cash resources unrestricted to Company use	707,240	631,080	301,863
Restricted cash			
Restricted cash – Canada Mortgage Bond program	93,636	87,467	100,387
Restricted cash – interest rate swaps	25,708	24,766	21,655
Restricted cash – other programs	16,821	17,850	15,382
Total restricted cash	$ 136,165	$ 130,083	$ 137,424

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 Company is allowed to invest the above amount in eligible securities.

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 the collateral are governed by International Swaps and Derivatives Dealers Association (ISDA) agreements.

Restricted cash – other programs are reserve accounts held in trust for the water heater financing program and for PSiGate operations.

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

thousands of Canadian dollars (Unaudited) Net unrealized gains (losses)	June 30 2013	March 31 2013	December 31 2012
Securities issued or guaranteed by:			
Canada	$ 54	$ 64	$ 24
Corporations	16	45	96
Equity securities			
Common	(372)	(54)	829
Preferred	(6,062)	5,538	(483)
Mutual funds	268	210	118
	$ (6,096)	$ 5,803	$ 584

Net unrealized gains and losses are included in accumulated other comprehensive income (AOCI) except for impairment losses which are transferred to net income. Please see Note 10 for more information.

The unrealized gains or losses included above represent differences between the cost of a security and its current fair value and include unrealized gains or losses on pledged securities. The Company regularly monitors its investments and market conditions for indications of impairment. The unrealized gains or losses in the above table are not included in net income and exclude impairment losses, which are transferred into net income.

For the three months ended June 30, 2013, the Company recognized $0.1 million with a year-to-date total of $0.1 million ($nil Q1 2013; $0.1 million - Q2 2012; $0.2 million - six months of 2012) of impairment losses on available for sale securities.

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, 2013
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 411,092	$ 315,199	$ 3,666,686	$ 252,903	$ 119,421	$ 4,765,301
Securitized multi-unit residential mortgages	251,919	200,054	872,389	252,360	228,814	1,805,536
Total securitized mortgages	663,011	515,253	4,539,075	505,263	348,235	6,570,837
Single-family residential mortgages	451,082	337,930	8,179,630	306,133	155,871	9,430,646
Residential commercial mortgages[1]	6,449	24,171	124,117	18,238	3,732	176,707
Non-residential commercial mortgages	3,480	28,413	857,308	47,193	37,333	973,727
Credit card loans	8,037	21,874	271,095	1,411	3,671	306,088
Other consumer retail loans	892	1,026	308,607	13	369	310,907
Total non-securitized mortgages and loans[2]	469,940	413,414	9,740,757	372,988	200,976	11,198,075
	$ 1,132,951	$ 928,667	$ 14,279,832	$ 878,251	$ 549,211	$ 17,768,912
As a % of portfolio	6.4%	5.2%	80.4%	4.9%	3.1%	100.0%

thousands of Canadian dollars, except % (Unaudited)						As at March 31, 2013
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 426,186	$ 334,333	$ 3,725,208	$ 268,415	$ 118,836	$ 4,872,978
Securitized multi-unit residential mortgages	254,431	202,060	895,349	254,884	230,854	1,837,578
Total securitized mortgages	680,617	536,393	4,620,557	523,299	349,690	6,710,556
Single-family residential mortgages	438,307	342,492	7,730,658	275,773	147,042	8,934,272
Residential commercial mortgages[1]	6,807	16,216	119,803	24,241	1,570	168,637
Non-residential commercial mortgages	3,502	22,387	843,787	59,397	38,120	967,193
Credit card loans	8,529	23,883	283,067	1,503	3,762	320,744
Other consumer retail loans	932	898	282,793	13	510	285,146
Total non-securitized mortgages and loans[2]	458,077	405,876	9,260,108	360,927	191,004	10,675,992
	$ 1,138,694	$ 942,269	$ 13,880,665	$ 884,226	$ 540,694	$ 17,386,548
As a % of portfolio	6.5%	5.4%	79.9%	5.1%	3.1%	100.0%

thousands of Canadian dollars, except % (Unaudited)						As at December 31, 2012
	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 433,529	$ 343,318	$ 3,616,877	$ 256,953	$ 113,080	$ 4,763,757
Securitized multi-unit residential mortgages	258,757	203,081	908,513	339,477	232,575	1,942,403
Total securitized mortgages	692,286	546,399	4,525,390	596,430	345,655	6,706,160
Single-family residential mortgages	420,953	342,841	7,499,242	278,671	147,739	8,689,446
Residential commercial mortgages[1]	5,642	19,380	102,674	25,201	1,580	154,477
Non-residential commercial mortgages	3,521	25,953	860,703	61,691	36,548	988,416
Credit card loans	9,104	25,062	287,877	1,532	3,941	327,516
Other consumer retail loans	975	787	269,594	-	621	271,977
Total non-securitized mortgages and loans[2]	440,195	414,023	9,020,090	367,095	190,429	10,431,832
	$ 1,132,481	$ 960,422	$ 13,545,480	$ 963,525	$ 536,084	$ 17,137,992
As a % of portfolio	6.6%	5.6%	79.1%	5.6%	3.1%	100.0%

[1]Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.
[2]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, 2013**
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	**$ 31,447**	**$ 6,442**	**$ 1,132**	**$ 6,494**[1]	**$ 45,515**
Securitized multi-unit residential mortgages	**-**	**9,733**	**-**	**-**[1]	**9,733**
Single-family residential mortgages	**198,959**	**42,887**	**6,665**	**7,124**[1]	**255,635**
Residential commercial mortgages	**1,836**	**-**	**-**	**-**[1]	**1,836**
Non-residential commercial mortgages	**5,312**	**4,563**	**105**	**1**	**9,981**
Credit card loans	**2,730**	**2,028**	**1,097**	**5**	**5,860**
Other consumer retail loans	**150**	**83**	**44**	**-**	**277**
	$ 240,434	**$ 65,736**	**$ 9,043**	**$ 13,624**	**$ 328,837**

thousands of Canadian dollars (Unaudited)					As at March 31, 2013
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 40,903	$ 5,092	$ 4,798	$ 2,917[1]	$ 53,710
Securitized multi-unit residential mortgages	-	-	-	-[1]	-
Single-family residential mortgages	196,531	48,867	19,703	7,849[1]	272,950
Residential commercial mortgages	-	542	-	-[1]	542
Non-residential commercial mortgages	8,708	2,115	706	-	11,529
Credit card loans	3,825	1,400	1,556	11	6,792
Other consumer retail loans	118	27	88	-	233
	$ 250,085	$ 58,043	$ 26,851	$ 10,777	$ 345,756

thousands of Canadian dollars (Unaudited)					As at December 31, 2012
	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 38,243	$ 6,581	$ 453	$ 4,679[1]	$ 49,956
Securitized multi-unit residential mortgages	-	-	-	-[1]	-
Single-family residential mortgages	213,669	49,935	6,100	8,474[1]	278,178
Residential commercial mortgages	-	544	-	-[1]	544
Non-residential commercial mortgages	9,247	-	-	-	9,247
Credit card loans	3,846	1,731	1,965	8	7,550
Other consumer retail loans	112	48	21	-	181
	$ 265,117	$ 58,839	$ 8,539	$ 13,161	$ 345,656

[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 generally not anticipated.

thousands of Canadian dollars (Unaudited)						**As at June 30, 2013**
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	**$ 51,102**	**$ -**	**$ 1,277**	**$ 4,075**	**$ 262**	**$ 56,716**
Individual allowances on principal	**(929)**	**-**	**(170)**	**(506)**	**(262)**	**(1,867)**
Net	**$ 50,173**	**$ -**	**$ 1,107**	**$ 3,569**	**$ -**	**$ 54,849**

thousands of Canadian dollars (Unaudited)						As at March 31, 2013
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 49,334	$ 4,527	$ 981	$ 3,746	$ 214	$ 58,802
Individual allowances on principal	(1,151)	(2,050)	-	(423)	(214)	(3,838)
Net	$ 48,183	$ 2,477	$ 981	$ 3,323	$ -	$ 54,964

thousands of Canadian dollars (Unaudited)						As at December 31, 2012
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 50,169	$ 4,527	$ 501	$ 3,616	$ 214	$ 59,027
Individual allowances on principal	(2,381)	-	-	(111)	(214)	(2,706)
Net	$ 47,788	$ 4,527	$ 501	$ 3,505	$ -	$ 56,321

(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, 2013, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $461.6 million ($501.9 million - March 31, 2013; $502.1 million – December 31, 2012). For impaired mortgages, the total appraised value of collateral at June 30, 2013 was $77.5 million ($152.3 million - March 31, 2013; $153.9 million – December 31, 2012).

(E) Allowance for Credit Losses

thousands of Canadian dollars (Unaudited)						**For the three months ended June 30, 2013**
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Allowance on loan principal						
Balance at the beginning of the period	**$ 1,151**	**$ 2,050**	**$ -**	**$ 423**	**$ 214**	**$ 3,838**
Provision for credit losses	**2,942**	**981**	**168**	**396**	**130**	**4,617**
Write-offs	**(3,379)**	**(3,031)**	**-**	**(331)**	**(99)**	**(6,840)**
Recoveries	**215**	**-**	**2**	**18**	**17**	**252**
	929	**-**	**170**	**506**	**262**	**1,867**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**551**	**498**	**13**	**-**	**13**	**1,075**
Provision for credit losses	**77**	**(498)**	**32**	**-**	**1**	**(388)**
	628	**-**	**45**	**-**	**14**	**687**
Total individual allowance	**1,557**	**-**	**215**	**506**	**276**	**2,554**
Collective allowance						
Balance at the beginning of the period	**16,867**	**292**	**9,300**	**3,541**	**300**	**30,300**
Provision for credit losses	**173**	**27**	**-**	**-**	**-**	**200**
	17,040	**319**	**9,300**	**3,541**	**300**	**30,500**
Total allowance	**$ 18,597**	**$ 319**	**$ 9,515**	**$ 4,047**	**$ 576**	**$ 33,054**
Total provision	**$ 3,192**	**$ 510**	**$ 200**	**$ 396**	**$ 131**	**$ 4,429**

thousands of Canadian dollars (Unaudited)						For the three months ended March 31, 2013
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Allowance on loan principal						
Balance at the beginning of the period	$ 2,381	$ -	$ -	$ 111	$ 214	$ 2,706
Provision for credit losses	1,902	2,050	-	199	73	4,224
Write-offs	(3,287)	-	-	(378)	(108)	(3,773)
Recoveries	155	-	-	491	35	681
	1,151	2,050	-	423	214	3,838
Allowance on accrued interest receivable						
Balance at the beginning of the period	487	432	-	-	13	932
Provision for credit losses	64	66	13	-	-	143
	551	498	13	-	13	1,075
Total individual allowance	1,702	2,548	13	423	227	4,913
Collective allowance						
Balance at the beginning of the period	16,523	336	9,300	3,541	300	30,000
Provision for credit losses	344	(44)	-	-	-	300
	16,867	292	9,300	3,541	300	30,300
Total allowance	$ 18,569	$ 2,840	$ 9,313	$ 3,964	$ 527	$ 35,213
Total provision	$ 2,310	$ 2,072	$ 13	$ 199	$ 73	$ 4,667

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)						For the three months ended June 30, 2012
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Allowance on loan principal						
Balance at the beginning of the period	$ 1,674	$ -	$ 140	$ 632	$ 250	$ 2,696
Provision for credit losses	1,897	-	33	73	142	2,145
Write-offs	(2,448)	-	(173)	(391)	(117)	(3,129)
Recoveries	56	-	-	57	17	130
	1,179	-	-	371	292	1,842
Allowance on accrued interest receivable						
Balance at the beginning of the period	323	217	36	-	12	588
Provision for credit losses	157	32	(36)	-	-	153
	480	249	-	-	12	741
Total individual allowance	1,659	249	-	371	304	2,583
Collective allowance						
Balance at the beginning of the period	15,924	435	9,300	3,541	300	29,500
Provision for credit losses	-	-	-	-	-	-
	15,924	435	9,300	3,541	300	29,500
Total allowance	$ 17,583	$ 684	$ 9,300	$ 3,912	$ 604	$ 32,083
Total provision	$ 2,054	$ 32	$ (3)	$ 73	$ 142	$ 2,298

(E) Allowance for Credit Losses (Continued)

thousands of Canadian dollars (Unaudited)						For the six months ended June 30, 2013
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Allowance on loan principal						
Balance at the beginning of the period	$ 2,381	$ -	$ -	$ 111	$ 214	$ 2,706
Provision for credit losses	4,844	3,031	168	595	203	8,841
Write-offs	(6,666)	(3,031)	-	(709)	(207)	(10,613)
Recoveries	370	-	2	509	52	933
	929	-	170	506	262	1,867
Allowance on accrued interest receivable						
Balance at the beginning of the period	487	432	-	-	13	932
Provision for credit losses	141	(432)	45	-	1	(245)
	628	-	45	-	14	687
Total individual allowance	1,557	-	215	506	276	2,554
Collective allowance						
Balance at the beginning of the period	16,523	336	9,300	3,541	300	30,000
Provision for credit losses	517	(17)	-	-	-	500
	17,040	319	9,300	3,541	300	30,500
Total allowance	$ 18,597	$ 319	$ 9,515	$ 4,047	$ 576	$ 33,054
Total provision	$ 5,502	$ 2,582	$ 213	$ 595	$ 204	$ 9,096

thousands of Canadian dollars (Unaudited)						For the six months ended June 30, 2012
	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Allowance on loan principal						
Balance at the beginning of the period	$ 760	$ -	$ 60	$ 392	$ 290	$ 1,502
Provision for credit losses	5,286	-	113	778	175	6,352
Write-offs	(5,001)	-	(173)	(867)	(208)	(6,249)
Recoveries	134	-	-	68	35	237
	1,179	-	-	371	292	1,842
Allowance on accrued interest receivable						
Balance at the beginning of the period	327	-	18	-	12	357
Provision for credit losses	153	249	(18)	-	-	384
	480	249	-	-	12	741
Total individual allowance	1,659	249	-	371	304	2,583
Collective allowance						
Balance at the beginning of the period	15,871	428	9,300	3,541	300	29,440
Provision for credit losses	53	7	-	-	-	60
	15,924	435	9,300	3,541	300	29,500
Total allowance	$ 17,583	$ 684	$ 9,300	$ 3,912	$ 604	$ 32,083
Total provision	$ 5,492	$ 256	$ 95	$ 778	$ 175	$ 6,796

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

(F) Interest Income by Product

thousands of Canadian dollars (Unaudited)	For the three months ended			For the six months ended	
	June 30 2013	March 31 2013	June 30 2012	**June 30 2013**	June 30 2012
Traditional single-family residential mortgages	**$ 118,621**	$ 112,882	$ 90,190	**$ 231,503**	$ 173,470
Accelerator single-family residential mortgages	**2,746**	3,412	4,183	**6,158**	7,751
Residential commercial mortgages	**2,899**	2,619	2,500	**5,518**	5,171
Non-residential commercial mortgages	**15,425**	15,575	15,237	**31,000**	29,755
Credit card loans	**7,336**	7,549	9,001	**14,885**	18,322
Other consumer retail loans	**6,571**	5,994	4,465	**12,565**	8,672
Total interest income on non-securitized loans	**153,598**	148,031	125,576	**301,629**	243,141
Securitized single-family residential mortgages	**37,256**	38,391	52,897	**75,647**	108,359
Securitized multi-unit residential mortgages	**18,736**	20,832	21,416	**39,568**	41,471
Assets pledged as collateral for securitization	**1,961**	2,114	1,973	**4,075**	3,072
Total interest income on securitized loans	**57,953**	61,337	76,286	**119,290**	152,902
	$ 211,551	$ 209,368	$ 201,862	**$ 420,919**	$ 396,043

6. SECURITIZATION ACTIVITY

(A) Securitized Assets and Liabilities

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, 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 securitization 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 many securitization activities, the Company retains certain prepayment and/or interest rate risks 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. In other securitization activities, derecognition or continuing involvement accounting is applied. Please see Note 6(B) for further information.

The following table presents the gross carrying amounts of mortgages and other assets transferred during the quarter, which are recorded on the consolidated balance sheets as securitized residential mortgages, or pledged securities, or recorded off-balance sheet as loans under administration.

	For the three months ended		
thousands of Canadian dollars (Unaudited)	**June 30 2013**	March 31 2013	June 30 2012
Mortgages assigned in new securitizations	**$ 252,831**	$ 287,230	$ 126,240
Assets assigned as replacements of repaid amounts			
Through repurchase agreement	**70,221**	211,860	82,824
Mortgage assets	**299,358**	117,827	38,995
Total assets assigned as replacements of repaid amounts	**369,579**	329,687	121,819
Net (reduction) addition of non-Home Trust MBS and treasury bills	**(246,955)**	(37,147)	56,727
Gross carrying amount of mortgages and other assets assigned	**375,455**	579,770	304,786
Portion of mortgages assigned above qualifying for off-balance sheet treatment	**$ 47,821**	$ 156,240	$ 72,766

	For the six months ended	
thousands of Canadian dollars (Unaudited)	**June 30 2013**	June 30 2012
Mortgages assigned in new securitizations	**$ 540,061**	$ 126,240
Assets assigned as replacements of repaid amounts		
Through repurchase agreement	**537,560**	82,824
Mortgage assets	**417,185**	109,534
Total assets assigned as replacements of repaid amounts	**954,745**	192,358
Net (reduction) addition of non-Home Trust MBS and treasury bills	**(284,102)**	161,029
Gross carrying amount of mortgages and other assets assigned	**1,210,704**	479,627
Portion of mortgages assigned above qualifying for off-balance sheet treatment	**$ 204,061**	$ 72,766

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.

Securitization liabilities recorded on the consolidated balance sheets represent the funding received on securitization of insured mortgages and other assets assigned under the NHA MBS and the CMB programs when the transaction does not qualify for off-balance sheet treatment for the assets. Accrued interest on these liabilities is classified in other liabilities as accrued interest payable on securitization liabilities.

The following table presents the new securitization liabilities added during the quarter, which are secured by insured mortgages and other pledged assets.

thousands of Canadian dollars (Unaudited)	For the three months ended **June 30 2013**	March 31 2013	June 30 2012
Addition to securitization liabilities as a result of on-balance sheet activity	**$ 205,010**	$ 130,990	$ 53,474
Buyback, maturity and amortization of securitization liabilities	**(579,453)**	(160,094)	(273,274)
Net on-balance sheet securitization activity	**(374,443)**	(29,104)	(219,800)
Proceeds received for mortgages assigned in new securitizations	**$ 252,480**	$ 282,478	$ 125,279

thousands of Canadian dollars (Unaudited)	For the six months ended **June 30 2013**	June 30 2012
Addition to securitization liabilities as a result of on-balance sheet activity	**$ 336,000**	$ 53,474
Buyback, maturity and amortization of securitization liabilities	**(739,547)**	(454,516)
Net on-balance sheet securitization activity	**(403,547)**	(401,042)
Proceeds received for mortgages assigned in new securitizations	**$ 534,958**	$ 125,279

(B) Securitization Income

During the quarter, the Company securitized and sold through the NHA MBS program certain insured multi-unit residential mortgages with no pre-payment privileges. These mortgages are recognized on the Company's consolidated balance sheet only to the extent of the Company's continuing involvement in the mortgages (continuing involvement accounting). 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 prepayment or credit risk associated with the retained interest or the cost of servicing. The mortgages are effectively derecognized as a result of this transaction. The retained interest and servicing liability are recorded on the consolidated balance sheets in other assets and other liabilities, respectively.

In 2012, the Company sold residual interests in certain pools of insured single family mortgages securitized through the NHA MBS program. The sale resulted in the Company transferring substantially all of the risks and rewards of ownership associated with the underlying mortgages and the mortgages were derecognized. The gain on this transaction was included in non-interest income under securitization income in the consolidated statements of income. There has been no similar activity in 2013.

The following table provides quantitative information about these securitization and sales activities.

thousands of Canadian dollars (Unaudited)	For the three months ended			For the six months ended	
	June 30 2013	March 31 2013	June 30 2012	**June 30 2013**	June 30 2012
	Multi-Unit Residential MBS	Multi-Unit Residential MBS	Multi-Unit Residential MBS	**Multi-Unit Residential MBS**	Multi-Unit Residential MBS
Carrying value of underlying mortgages derecognized	**$ 47,821**	$ 156,240	$ 72,766	**$ 204,061**	$ 72,766
Gains on sale of mortgages or residual interest[1]	**443**	1,408	1,268	**1,851**	1,268
Retained interests recorded	**1,384**	5,618	3,447	**7,002**	3,447
Servicing liability recorded	**315**	1,253	625	**1,568**	625

[1]Gains on sale of mortgages are net of hedging impact.

(C) Assets Pledged as Collateral

As a requirement of the NHA MBS and CMB programs, 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 or CMB security, CMHC may enforce the assignment of the mortgages included in all the mortgage pools as well as other assets backing the mortgage-backed securities issued.

The following table presents the principal value of the Company's on-balance sheet mortgage loans and other assets pledged as collateral. The mortgages are recorded as securitized single-family or multi-unit residential mortgages and assets pledged as CMB replacement assets are recorded as pledged securities.

thousands of Canadian dollars (Unaudited)	**June 30 2013**	March 31 2013	December 31 2012
Carrying value of insured mortgages pledged as collateral, including replacement assets	**$ 6,570,837**	$ 6,710,556	$ 6,706,160
Home Trust MBS included in securitized mortgages pledged as collateral	**304,269**	551,008	588,069
Total securitized assets pledged as collateral	**$ 6,875,106**	$ 7,261,564	$ 7,294,229

Non-Home Trust MBS and treasury bills pledged as collateral are accounted for as available for sale assets and classified as pledged assets on the consolidated balance sheet.

7. OTHER ASSETS

thousands of Canadian dollars (Unaudited)	**June 30 2013**	March 31 2013	December 31 2012
Accrued interest receivable	**$ 62,910**	$ 63,443	$ 61,481
Prepaid CMB coupon	**8,550**	18,376	12,486
Retained interest on securitization	**15,096**	14,274	9,172
Capital assets	**8,403**	7,191	6,578
Other prepaid assets and deferred items	**15,999**	11,244	11,266
	$ 110,958	$ 114,528	$ 100,983

8. OTHER LIABILITIES

thousands of Canadian dollars (Unaudited)	**June 30 2013**	March 31 2013	December 31 2012
Accrued interest payable on deposits	**$ 118,153**	$ 123,201	$ 93,856
Accrued interest payable on securitization liabilities	**18,906**	31,159	19,595
Income taxes payable	**4,902**	8,100	21,912
Other, including accounts payable and accrued liabilities	**44,783**	35,577	35,139
	$ 186,744	$ 198,037	$ 170,502

9. CAPITAL

(A) Common Shares Issued and Outstanding

thousands (Unaudited)						For the three months ended
		June 30, 2013		March 31, 2013		June 30, 2012
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
Outstanding at beginning of period	**34,600**	**$ 61,850**	34,630	$ 61,903	34,751	$ 61,494
Options exercised	**54**	**2,825**	-	-	13	261
Repurchase of shares	**(7)**	**(13)**	(30)	(53)	(53)	(93)
Outstanding at end of period	**34,647**	**$ 64,662**	34,600	$ 61,850	34,711	$ 61,662

thousands (Unaudited)				For the six months ended
		June 30, 2013		June 30, 2012
	Number of Shares	**Amount**	Number of Shares	Amount
Outstanding at beginning of period	**34,630**	**$ 61,903**	34,625	$ 55,104
Options exercised	**54**	**2,825**	163	6,692
Repurchase of shares	**(37)**	**(66)**	(77)	(134)
Outstanding at end of period	**34,647**	**$ 64,662**	34,711	$ 61,662

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, 2013			March 31, 2013			June 30, 2012		
	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	**859**	**$**	**40.64**	783	$	38.71	785	$	37.79
Granted	**-**		**-**	86		58.86	-		-
Exercised	**(54)**		**38.50**	-		-	(13)		17.06
Forfeited	**(4)**		**47.92**	(10)		46.39	(12)		17.06
Outstanding at end of period	**801**	**$**	**40.75**	859	$	40.64	760	$	38.47
Exercisable at end of period	**501**	**$**	**34.89**	557	$	35.29	432	$	34.86

thousands, except per share amounts (Unaudited)						For the six months ended
	June 30, 2013			June 30, 2012		
	Number of Shares		Weighted-Average Exercise Price	Number of Shares		Weighted-Average Exercise Price
Outstanding at beginning of period	**783**	**$**	**38.71**	929	$	37.16
Granted	**86**		**58.86**	11		50.17
Exercised	**(54)**		**38.50**	(163)		33.17
Forfeited	**(14)**		**46.85**	(17)		25.43
Outstanding at end of period	**801**	**$**	**40.75**	760	$	38.47
Exercisable at end of period	**501**	**$**	**34.89**	432	$	34.86

During the second quarter of 2013, $436 thousand was recorded as an expense for a year-to-date total of $941 thousand ($505 thousand – Q1 2013; $384 thousand – Q2 2012; $972 thousand – six months of 2012) for stock option awards in the consolidated statements of income, with an offsetting credit to contributed surplus.

(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 III) 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 2013		March 31 2013
	All-In Basis	**Transitional Basis**	All-In Basis	Transitional Basis
Common equity tier 1 capital (CET 1)[1]	**$ 994,974**	**$ 1,045,960**	$ 950,850	$ 1,001,994
Additional Tier 1 capital	**-**	**-**	-	-
Tier 1 capital	**994,974**	**1,045,960**	950,850	1,001,994
Tier 2 capital[2]	**186,500**	**186,500**	186,300	186,300
Total regulatory capital	**$ 1,181,474**	**$ 1,232,460**	$ 1,137,150	$ 1,188,294
Risk-weighted assets for				
Credit risk	**$ 5,280,256**	**$ 5,331,242**	$ 5,073,357	$ 5,124,501
Operational risk	**704,388**	**704,388**	664,900	664,900
Total risk-weighted assets	**$ 5,984,644**	**$ 6,035,630**	$ 5,738,257	$ 5,789,401
Regulated capital to risk-weighted assets				
CET 1 ratio	**16.63%**	**17.33%**	16.57%	17.31%
Tier 1 capital ratio	**16.63%**	**17.33%**	16.57%	17.31%
Total regulatory capital ratio	**19.74%**	**20.42%**	19.82%	20.53%
Assets to regulatory capital multiple	**N/A**	**13.86**	N/A	13.98
National regulatory minimum				
CET 1 ratio (required January 1, 2013)	**7.00%**	**N/A**	7.00%	N/A
Tier 1 capital ratio (required January 1, 2014)	**8.50%**	**N/A**	8.50%	N/A
Total regulatory capital ratio (required January 1, 2014)	**10.50%**	**N/A**	10.50%	N/A

[1]Regulatory deductions include intangible assets, net of deferred taxes, related to software development and multi-unit residential mortgage securitization gains.
[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage, of 1.25% of credit risk-weighted assets in Tier 2 capital. At June 30, 2013, the Company's collective allowance represented 0.58% of credit risk-weighted assets.

Home Trust adopted the Basel III capital requirements beginning January 1, 2013. The primary impact at adoption was the deduction from Common Equity Tier 1 Capital on an all-in basis of $51.1 million of intangible assets, net of deferred taxes, related to information technology development costs as well as the inclusion of all accumulated other comprehensive income, net of cash flow hedges. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. The assets to regulatory capital multiple is calculated and evaluated on a transitional basis.

In Q1 2013, Home Trust amended the terms of all its subordinated debt, which all debt is issued to the Company, to comply with the non-viability contingent capital requirements. This allowed for the inclusion of the subordinated debt in Tier 2 Capital. Under Basel III this subordinated debt will be subject to straight-line amortization out of capital in the final five years prior to maturity. The principal amounts of the subordinated debt currently mature in 2012 and 2022 in the amounts of $100 million and $56 million, respectively.

Under Basel III, Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios significantly exceed OSFI's regulatory targets of 7.0% for Common Equity Tier 1, 8.5% for Total Tier 1 and 10.5% for Total capital ratios, as well as Home Trust's internal capital targets. OSFI's target for Total Tier 1 and Total capital ratios are not required until the first quarter of 2014.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars (Unaudited)		**June 30 2013**		March 31 2013		December 31 2012
Unrealized (losses) gains on						
Available for sale securities	**$**	**(6,096)**	$	5,803	$	584
Income tax (recovery) expense		**(1,618)**		1,533		152
		(4,478)		4,270		432
Unrealized losses on						
Cash flow hedges		**(4,937)**		(5,309)		(5,676)
Income tax recovery		**(1,307)**		(1,404)		(1,499)
		(3,630)		(3,905)		(4,177)
Accumulated other comprehensive (loss) income	**$**	**(8,108)**	$	365	$	(3,745)

11. INCOME TAXES

(A) Reconciliation of Income Taxes

thousands of Canadian dollars (Unaudited)	For the three months ended		
	June 30 2013	March 31 2013	June 30 2012
Income before income taxes	**$ 80,262**	$ 80,427	$ 74,100
Income taxes at statutory combined federal and provincial income tax rates	**$ 21,289**	$ 21,273	$ 19,726
Increase (decrease) in income taxes at statutory income tax rates resulting from			
Tax-exempt income	**(741)**	(845)	(944)
Non-deductible expenses	**126**	156	89
Future tax rate changes and other	**-**	118	1,999
Scientific research and experimental development income tax credits	**(1,985)**	-	-
Income tax	**$ 18,689**	$ 20,702	$ 20,870

thousands of Canadian dollars (Unaudited)	For the six months ended	
	June 30 2013	June 30 2012
Income before income taxes	**$ 160,689**	$ 144,143
Income taxes at statutory combined federal and provincial income tax rates	**$ 42,562**	$ 38,080
Increase (decrease) in income taxes at statutory income tax rates resulting from		
Tax-exempt income	**(1,586)**	(1,981)
Non-deductible expenses	**282**	280
Future tax rate changes and other	**118**	2,000
Scientific research and experimental development income tax credits	**(1,985)**	-
Income tax	**$ 39,391**	$ 38,379

(B) Reconciliation of Income Tax Rates

(Unaudited)	For the three months ended			For the six months ended	
	June 30 2013	March 31 2013	June 30 2012	**June 30 2013**	June 30 2012
Statutory income tax rate	**26.52%**	26.45%	26.62%	**26.49%**	26.42%
Increase (reduction) in income tax rate resulting from					
Tax-exempt income	**(0.92)%**	(1.05)%	(1.27)%	**(0.99)%**	(1.37)%
Non-deductible expenses	**0.16%**	0.19%	0.12%	**0.18%**	0.19%
Future tax rate changes and other	**-**	0.15%	2.69%	**0.07%**	1.39%
Scientific research and experimental development income tax credits	**(2.48)%**	-	-	**(1.24)%**	-
Effective income tax rate	**23.28%**	25.74%	28.16%	**24.51%**	26.63%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars (Unaudited)	June 30 2013	March 31 2013	December 31 2012
Deferred tax liabilities			
Commissions	$ 6,753	$ 6,554	$ 6,921
Finders' fees, net of commitment fees	7,264	7,460	7,905
Securitization transaction costs	5,552	5,647	5,932
Swaps	4,831	4,536	5,525
Development costs	18,371	16,389	16,656
Other	414	261	304
	43,185	40,847	43,243
Deferred tax assets			
Allowance for credit losses	7,291	7,801	7,443
Net deferred tax liability	$ 35,894	$ 33,046	$ 35,800

Capital losses totaling $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.

During the quarter, the Company recognized Scientific Research and Experimental Development investment tax credits related to the development of its core banking system. The amount recognized relates to work done in 2009 and was recorded once the Company received information providing assurance that the claim amounts will be accepted. The investment tax credit benefits are recorded as a reduction of tax provisions, net of any tax that would be eligible on such benefits.

The Company has applied for additional credits related to work done during the years 2010 to 2012. The claims, if accepted by the tax authorities, could involve benefits in the range of $4 to $5 million, net of applicable taxes.

12. 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.

13. 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 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 to 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 2016.

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 2013	March 31 2013	June 30 2012
Fair value losses recorded in other comprehensive income (OCI)	**$ -**	$ -	$ (396)
Fair value losses recorded in non-interest income (ineffectiveness)	**-**	-	-
Losses reclassified from OCI to net interest income	**(372)**	(367)	(357)

thousands of Canadian dollars (Unaudited)	For the six months ended	
	June 30 2013	June 30 2012
Fair value losses recorded in other comprehensive income (OCI)	**$ -**	$ (370)
Fair value losses recorded in non-interest income (ineffectiveness)	**-**	-
Losses reclassified from OCI to net interest income	**(739)**	(710)

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 senior debt, which changes are 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 2013	March 31 2013	June 30 2012
Fair value changes recorded on interest rate swaps [1]	**$ (14,077)**	$ (317)	$ 8,555
Fair value changes of hedged fixed-rate liabilities for interest rate risk [2]	**15,618**	1,833	(7,751)
Hedge ineffectiveness gain recognized in non-interest income	**$ 1,541**	$ 1,516	$ 804

thousands of Canadian dollars (Unaudited)		For the six months ended
	June 30 2013	June 30 2012
Fair value changes recorded on interest rate swaps [1]	**$ (14,394)**	$ (13,509)
Fair value changes of hedged fixed-rate liabilities for interest rate risk [2]	**17,451**	17,073
Hedge ineffectiveness gain recognized in non-interest income	**$ 3,057**	$ 3,564

[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. Unrealized gains of $1.0 million and $0.6 million for the three and six months ended June 30, 2013 ($0.3 million unrealized loss – Q1 2013; $1.4 million unrealized loss – Q2 2012; $0.1 million unrealized gain – six months of 2012) 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 securitization. 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, which are classified as held for trading for accounting purposes. Unrealized gains of $1.34 million and $1.22 million for the three and six months ended June 30, 2013 ($0.11 unrealized loss – Q1 2013; $0.67 million unrealized loss – for both Q2 2012 and YTD 2012) on bond forwards was recorded in non-interest income. These unrealized gains or losses were offset by unrealized losses of $1.38 million and $1.05 million for the three and six months ended June 30, 2013 ($0.33 unrealized gain – Q1 2013; $0.44 million unrealized gain – for both Q2 2012 and YTD 2012) on the fair value change related to the loans held for sale. The net impact in the current year of these unrealized gains and losses on derivatives and loans held for sale was a net unrealized loss of $0.04 for the quarter and an unrealized gain of $0.17 million year to date ($0.22 unrealized gain – Q1 2013; $0.23 million unrealized loss – for both Q2 2012 and YTD 2012). The Company did not enter into these transactions prior to Q2 2012. The unrealized gains or losses on the derivatives are recorded in net realized and unrealized gain or loss on derivatives and the fair value change of the loans held for sale is recorded in net realized and unrealized gains or losses on securities and mortgages on the consolidated statements of income. When the loans are securitized and sold, the net realized gain or loss on the derivatives and loans held for sale are reclassified to the gain on sale which is recorded in securitization income on the consolidated statements of income. Gains on bond forwards of $57 thousand and $354 thousand for the three and six months ended June 30, 2013 were reclassified to securitization income ($297 thousand unrealized gain – Q1 2013; $nil – for both Q2 2012 and YTD 2012).

Net realized and unrealized gains or losses on derivatives include amounts related to the restructuring of certain derivative positions upon adoption of IFRS. A charge of $3.14 million was recorded during the second quarter of 2013 ($5.57 million loss – YTD 2013, $2.43 million loss – Q1 2013; $Nil – for the three and six months ended June 30, 2012). The Company expects immaterial amounts in future periods.

As at June 30, 2013, March 31, 2013 and December 31, 2012, the outstanding interest rate swap and bond forward contracts positions were as follows:

thousands of Canadian dollars (Unaudited)				**As at June 30, 2013**
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as hedges				
1 to 5	**$ 1,296,314**	**$ 23,317**	**$ (523)**	**$ 22,794**
6 to 10	**84,700**	**4,417**	**-**	**4,417**
	1,381,014	**27,734**	**(523)**	**27,211**
Undesignated swaps				
1 to 5	**100,000**	**75**	**(1,181)**	**(1,106)**
Bond forwards [1]				
6 to 10	**22,715**	**930**	**-**	**930**
Total	**$ 1,503,729**	**$ 28,739**	**$ (1,704)**	**$ 27,035**

thousands of Canadian dollars (Unaudited)				As at March 31, 2013
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as hedges				
1 to 5	$ 1,296,314	$ 37,064	$ (146)	$ 36,918
6 to 10	84,700	7,579	-	7,579
	1,381,014	44,643	(146)	44,497
Undesignated swaps				
1 to 5	100,000	-	(2,446)	(2,446)
Bond forwards [1]				
1 to 5	35,200	-	(299)	(299)
6 to 10	8,700	-	(50)	(50)
	43,900	-	(349)	(349)
Total	$ 1,524,914	$ 44,643	$ (2,941)	$ 41,702

thousands of Canadian dollars (Unaudited)				As at December 31, 2012
Term (years)	Notional Amount	Derivative Asset	Derivative Liability	Net Fair Value
Swaps designated as hedges				
1 to 5	$ 1,486,814	$ 37,632	$ (220)	$ 37,412
6 to 10	84,700	7,686	-	7,686
	1,571,514	45,318	(220)	45,098
Undesignated swaps				
1 to 5	100,000	-	(2,156)	(2,156)
Bond forwards [1]				
6 to 10	17,500	70	(10)	60
Total	$ 1,689,014	$ 45,388	$ (2,386)	$ 43,002

[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.

14. INTEREST RATE SENSITIVITY

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or re-pricing date of interest-sensitive assets and liabilities. The following table shows the gap positions at June 30, 2013, March 31, 2013 and December 31, 2012 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 or re-pricing dates 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, 2013**
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	**$ 164,278 $**	**5,389,196 $**	**6,401,395 $**	**4,858,775 $**	**2,527,732 $**	**191,582 $**	**19,532,958**
Total liabilities and equity	**(108,114)**	**(4,437,884)**	**(5,625,005)**	**(5,853,054)**	**(2,005,691)**	**(1,503,210)**	**(19,532,958)**
Off-balance sheet items	**-**	**(858,930)**	**51,473**	**26,742**	**780,715**	**-**	**-**
Interest rate sensitive gap	**$ 56,164 $**	**92,382 $**	**827,863 $**	**(967,537) $**	**1,302,756 $**	**(1,311,628) $**	**-**
Cumulative gap	**$ 56,164 $**	**148,546 $**	**976,409 $**	**8,872 $**	**1,311,628 $**	**- $**	**-**
Cumulative gap as a percentage of total assets	**0.3%**	**0.8%**	**5.0%**	**0.0%**	**6.7%**	**-**	**-**

thousands of Canadian dollars, except % (Unaudited)							As at March 31, 2013
	Floating Rate	0 to 3 Months[1]	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	$ 147,263 $	5,628,533 $	5,947,212 $	5,092,886 $	2,355,116 $	187,553 $	19,358,563
Total liabilities and equity	(42,336)	(4,542,503)	(5,296,443)	(5,881,302)	(2,136,815)	(1,459,164)	(19,358,563)
Off-balance sheet items	-	(628,789)	5,542	15,656	607,591	-	-
Interest rate sensitive gap	$ 104,927 $	457,241 $	656,311 $	(772,760) $	825,892 $	(1,271,611) $	-
Cumulative gap	$ 104,927 $	562,168 $	1,218,479 $	445,719 $	1,271,611 $	- $	-
Cumulative gap as a percentage of total assets	0.5%	2.9%	6.3%	2.3%	6.6%	-	-

thousands of Canadian dollars, except % (Unaudited)							As at December 31, 2012
	Floating Rate	0 to 3 Months [1]	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Total assets	$ 133,900 $	5,074,953 $	6,027,396 $	5,016,617 $	2,376,866 $	170,347 $	18,800,079
Total liabilities and equity	(19,825)	(3,240,417)	(6,431,252)	(5,732,377)	(2,115,595)	(1,260,613)	(18,800,079)
Off-balance sheet items	-	(567,041)	2,342	20,369	544,330	-	-
Interest rate sensitive gap	$ 114,075 $	1,267,495 $	(401,514) $	(695,391) $	805,601 $	(1,090,266) $	-
Cumulative gap	$ 114,075 $	1,381,570 $	980,056 $	284,665 $	1,090,266 $	- $	-
Cumulative gap as a percentage of total assets	0.6%	7.3%	5.2%	1.5%	5.8%	-	-

[1]Total assets in the 0-3 month category above include $2.3 billion in variable rate mortgages ($2.4 billion in Q1 2013 and $2.6 billion in Q4 2012)

Based on the current interest rate gap position at June 30, 2013, 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 $8.7 million and $0.3 million, respectively, and decrease net present value of shareholders' equity by $10.8 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 $8.7 million and $0.3 million, respectively, and increase net present value of shareholders' equity by $9.5 million.

CORPORATE DIRECTORY & SHAREHOLDER INFORMATION

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

Directors
Kevin P.D. Smith
Chairman of the Board

James C. Baillie
Hon. William G. Davis PC,CC,QC
William Falk
John M. E. Marsh
Robert A. Mitchell, CPA, CA
Gerald M. Soloway
Bonita Then
Leslie Thompson

William A. Dimma
Chairman Emeritus

Officers
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Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

Robert Blowes, FCPA, FCA
Chief Financial Officer and Executive Vice President

Pino Decina
Executive Vice President, Residential Mortgage Lending

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

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

David Novak
Senior Vice President, Chief Risk Officer

Marie Holland, CPA, CA
Senior Vice President, Internal Audit

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

Stephen Copperthwaite, CMA, ORMP
Senior Vice President, Relationship Manager

Greg Parker
Senior Vice President, Treasurer

Fariba Rawhani
Senior Vice President, Chief Information Officer

Auditors
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Principal Bankers
Bank of Montreal
Bank of Nova Scotia

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

Capital Stock
As at June 30, 2013 there were 34,647,340 Common Shares outstanding.

Stock Listing
Toronto Stock Exchange,
Ticker Symbol: HCG

Options Listing
Montreal Stock Exchange,
Ticker Symbol: HCG

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

Directors
Hon. William G. Davis PC, CC,QC
Chairman of the Board

James C. Baillie
William Falk
John M.E. Marsh
Robert A. Mitchell, CPA, CA
Martin Reid
Kevin P. D. Smith
Gerald M. Soloway
Bonita Then
Leslie Thompson

BRANCHES

Toronto
145 King Street West,
Suite 2300
Toronto, Ontario M5H IJ8
Tel: (416) 360-4663
1-800-990-7881
Fax: (416) 363-7611
1-888-470-2092

Calgary
10655 Southport Road S.W.,
Suite 920
Calgary, Alberta T2W 4Y1
Tel: (403) 244-2432
1-866-235-3081
Fax: (403) 244-6542
1-866-544-3081

Vancouver
200 Granville Street,
Suite 1288
Vancouver, B.C. V6C 1S4
Tel: (604) 484-4663
1-866-235-3080
Fax: (604) 484-4664
1-866-564-3524

Halifax
5251 Duke Street,
Duke Tower, Suite 1205
Halifax, Nova Scotia B3J 1P3
Tel: (902) 422-4387
1-888-306-2421
Fax: (902) 422-8891
1-888-306-2435

Montreal
2020 Rue University,
Suite 2420
Montreal, Quebec H3A 2A5
Tel: (514) 843-0129
1-866-542-0129
Fax: (514) 843-7620
1-866-620-7620

Winnipeg
201 Portage Avenue
18th Floor
Winnipeg, Manitoba R3B 3K6
Tel: (204) 942-1619
Fax: (204) 942-1638

For Shareholder Information, Please Contact:
Chris Ahlvik
Senior Vice President, Corporate Counsel
Home Capital Group Inc.
145 King Street West,
Suite 2300
Toronto, Ontario M5H 1J8
Tel: (416) 360-4663
Fax: (416) 363-7611

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

Quarterly Conference Call and Webcast
Our quarterly conference call and live audio webcast with management took place on Thursday, August 1, 2013 at 10:30 AM ET. The webcast will be archived at www.homecapital.com for 90 days.

Investor Information Service
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.

HOME TRUST COMPANY

DEPOSIT RATE HOTLINE FOR CURRENT DEPOSIT RATES 30 DAYS - 5 YEARS

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