

Safe and Sound:

Steady Growth and Increased Profits



Business Profile

Home Capital Group Inc., together with its operating subsidiary Home Trust Company, has developed a track record of success as Canada’s leading alternative lender. Building on the demonstrated strength of its core residential mortgage lending business, the Company also offers complementary lending services, as well as highly competitive deposit investment products.



MORTGAGE LENDING

Home Trust is one of Canada’s leading mortgage lenders, focusing on homeowners who typically do not meet all the lending criteria of traditional financial institutions. In addition, Home Trust offers a full range of insured mortgage products through the Accelerator program to individuals customarily served by larger financial institutions. With a proprietary lending approach, comprehensive borrower profiling and flexible alternative solutions, Home Trust is a one-stop shop for borrowers and mortgage brokers. Home Trust is also a provider of commercial first mortgages to high-quality borrowers in selected markets across Canada.



CONSUMER LENDING

Home Trust’s Equityline Visa program brings the advantages to cardholders of accessing the equity they have built in their homes together with the features and convenience of a Visa Gold card. The Company also offers deposit-secured credit cards for individuals who wish to build or re-establish a positive credit history. PSiGate, a wholly owned subsidiary, offers electronic card-based payment services to merchants who conduct business primarily on the Internet. Home Trust’s Retail Credit Services provides installment financing for customers making purchases from established businesses.



DEPOSIT INVESTMENTS

Home Trust provides a broad range of deposit investment services including Certificates of Deposit, Guaranteed Investment Certificates, Registered Retirement Savings Plans, Registered Retirement Income Funds and Tax-free Savings Accounts. The Company has developed an extensive client base through its branch offices, and strong relationships with hundreds of deposit brokers and investment dealers across the country.

Home Capital Group Inc. exists to benefit its shareholders through the pursuit of above average returns over the long term with a minimum of risk. This goal is pursued through the positioning of Home Capital’s wholly owned subsidiary, Home Trust Company. Home Trust’s business activity is focused on unique niches in the Canadian financial marketplace, each of which generates above average returns, has below average risk and is not adequately served by the larger, traditional financial institutions.

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Home Trust Branches

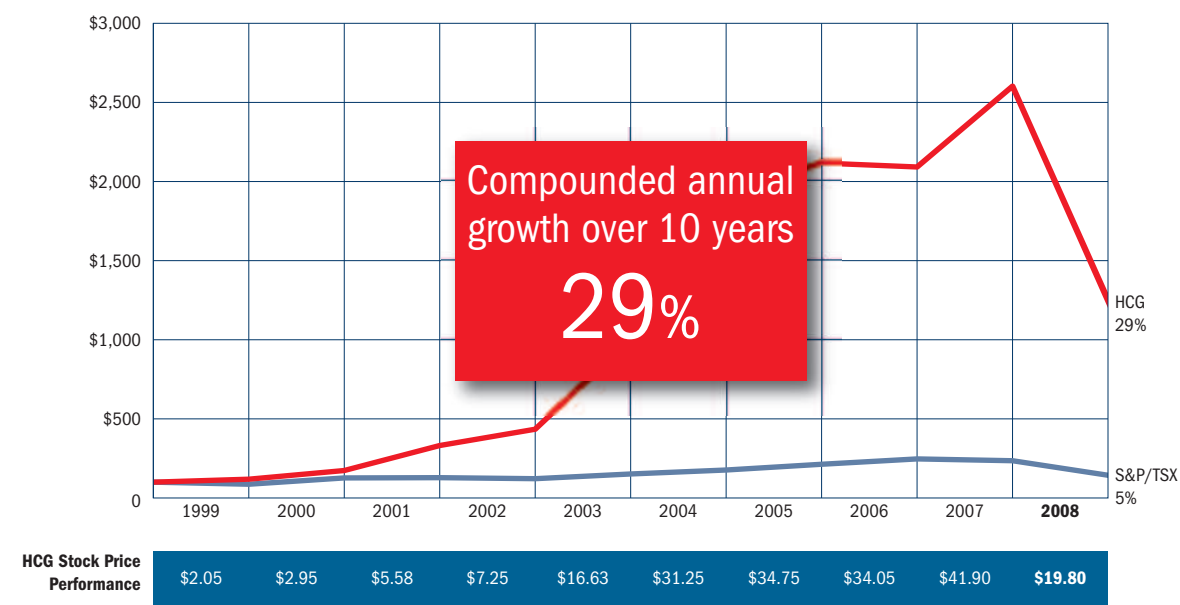


Financial Highlights

(000s, except per share amounts)

For the years ended December 31	2008	2007	2006
Total assets	\$ 5,809,713	4,975,093	3,902,316
Loans	\$ 4,506,391	4,022,171	3,309,214
Deposits	\$ 5,102,781	4,413,984	3,443,640
Shareholders' equity	\$ 432,753	348,040	276,866
Revenue	\$ 454,695	368,881	282,549
Net income	\$ 108,687	90,241	67,815
Book value of common shares	\$ 12.57	10.08	8.10
Earnings per share – basic	\$ 3.15	2.62	1.99
Earnings per share – diluted	\$ 3.13	2.59	1.95

Ten-year Cumulative Total Return on \$100 Investment
Comparison between S&P/TSX Composite Index (S&P/TSX) and Home Capital Group Inc. (HCG)
December 31, 1998–December 31, 2008



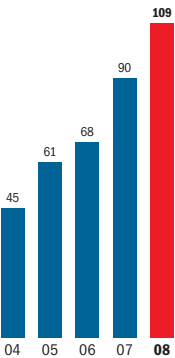
Share prices have been restated to reflect two-for-one stock split on January 29, 2004.

Return on equity was **27.8%**, over **20%** for **11** consecutive years

Earnings for 2008 grew by **20.4%** to **\$108.7 million**

2005	2004	2003	2002	2001	2000	1999
3,284,829	2,568,513	1,897,176	1,394,289	1,136,220	892,078	738,136
2,796,873	2,244,130	1,611,911	1,171,102	958,564	776,177	635,939
2,901,515	2,269,157	1,666,788	1,216,475	995,762	794,666	671,068
218,885	162,207	121,166	94,586	75,203	49,501	40,453
234,704	181,839	141,365	111,066	91,359	70,457	52,976
60,861	44,551	29,507	20,595	14,860	10,452	8,081
6.44	4.80	3.61	2.82	2.30	1.67	1.37
1.80	1.33	0.88	0.62	0.49	0.35	0.27
1.72	1.27	0.86	0.59	0.46	0.33	0.26

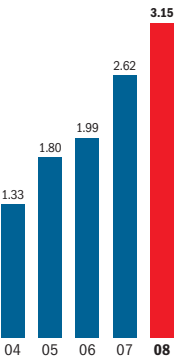
Earnings
(millions)



20.4% ▲

Home Capital reported a 20.4% increase in net income over the \$90.2 million attained in 2007, reaching \$108.7 million for the year ended 2008.

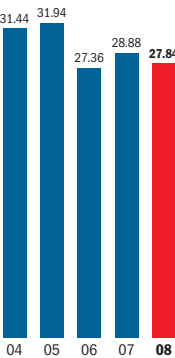
Earnings per Share
(basic in dollars)



20.2% ▲

Basic earnings per share rose to \$3.15 for the year ended 2008, a 20.2% increase over the \$2.62 reported for December 31, 2007.

Return on Equity
(percentage)



27.8% ▲

Home Capital surpassed 20% return on equity for the 11th consecutive year, and 25% ROE for the 6th successive year, reaching 27.8% for the year ended December 31, 2008.

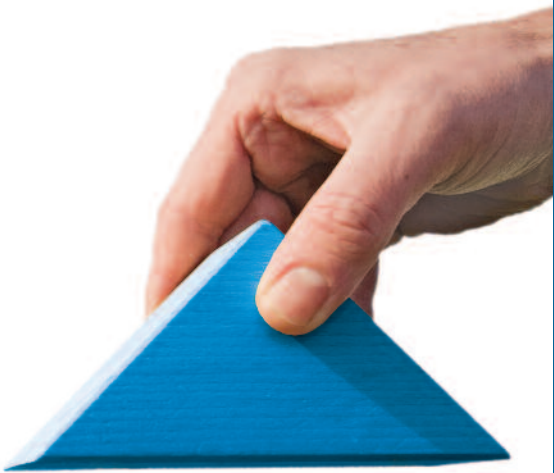
Total assets including MBS originated and administered by the Company grew **30.9%** to **\$8.42 billion**

Outstanding balances on Equityline *Visa* were **\$342.9 million**, up **13.3%** over 2007

Report to Shareholders

Despite a difficult marketplace in 2008, we are pleased to have met and exceeded all of our goals and objectives for the year. Each of our core business activities generated strong performance, while at the same time we strengthened the quality of our capital base and reduced the Company’s risk profile. We believe that the Company has the right strategies in place to meet the challenges of the current economic environment and will remain well positioned to generate shareholder value over the long term.

building on our Strengths



Report to Shareholders

Strong Financial Performance

Home Capital delivered positive financial results in 2008 as our core business activities, including residential and commercial mortgage lending, CMHC-insured mortgage securitization programs and Visa operations, all produced strong earnings growth and returns on equity. We were also pleased once again to have met and exceeded all of our performance targets during the year:

- > **Total net earnings** rose 20.4% in 2008, meeting our 20% target.
- > **Diluted earnings per share** were up 20.9% in 2008, achieving our goal of 20% growth.
- > **Combined total assets** and securitized mortgages originated and managed by Home Trust increased 30.9% in 2008, exceeding our 20% growth objective.
- > Our 27.8% **return on shareholders' equity** for the year exceeded our 25% target, extending Home Capital's performance to 11 successive years with a return on equity exceeding 20%.

Considering the very challenging credit and economic conditions experienced in Canada during 2008, we believe we can be proud of the solid financial performance we generated throughout the year. We attribute this success to the strategic diversification of our business, strong and enduring relationships with our partners, our prudent risk management procedures and practices, and, most importantly, the experience and dedication of our management team and staff.

Reducing Our Risk Profile

In addition to generating this strong financial performance in 2008, we enhanced the quality and strength of our capital, thereby reducing the risk profile of the Company. Home Trust continues to remain well capitalized with Tier 1 and total capital ratios of 12.9% and 14.2%, respectively, at the end of 2008, compared with ratios of 11.1% and 12.5%, respectively, in the prior year, with both ratios steadily increasing through 2008. Importantly, the increase in these key capital ratios was achieved without incurring any equity dilution, external debt, or preferred share issuance. In addition, with a capital base comprised almost entirely of common equity, increased liquid assets, and no external debt, the Company remains well positioned to weather the current economic downturn.

building on our
Strengths

MORTGAGE LENDING

Home Trust has a mortgage solution for everyone.

By offering a full range of mortgage products, including our insured Accelerator program, to a broad customer base, Home Trust is a one-stop shop for mortgage brokers and borrowers. We know that every borrower is unique, so each mortgage application is reviewed and assessed individually. It's common sense lending made simple.



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Strengths

CONSUMER LENDING

The Home Trust Equityline Visa card combines the advantages of a line of credit with the convenience and benefits of a Visa Gold card. For individuals seeking to build or re-establish their credit, Home Trust offers a secured Visa card. Retail Credit Services provides customized financing solutions for retail merchants and their customers, specializing in the home improvement market.



As a measure of our strong capital base, during the fourth quarter Standard & Poor's (S&P) affirmed its long-term and short-term counterparty ratings issued to Home Trust Company (BBB-/A-2) and Home Capital Group Inc. (BBB-/A-3), with a stable outlook for both companies. The ratings and outlook have remained the same since S&P's initial rating assignments in 2005. Subsequent to the end of the year, Fitch Ratings (Fitch) affirmed its positive rating outlook (BBB-/F-3) for both Home Capital and Home Trust, remaining unchanged since first issued in 2004. These ratings reflect the Company's consistently strong earnings, sound capital and liquidity positions and ability to generate positive results while retaining a focus on risk management. Home Trust is the only trust company in Canada, not a subsidiary of a major bank, which has maintained investment grade ratings from S&P and Fitch as at December 31, 2008.

A key aspect of our initiatives to enhance the Company's risk profile is our Accelerator program, which offers a full range of insured mortgage products that are guaranteed by the federal government. During 2008 we increased the number of insured mortgages in this program and subsequently sold a majority through CMHC-insured Mortgage-Backed Securities (MBS) and the Canada Mortgage Bond (CMB) program. As an example, during the fourth quarter of 2008 we advanced approximately \$999.1 million in mortgages, in line with the \$899.8 million in the same quarter last year. However, we securitized and sold approximately \$557.7 million of CMHC-insured mortgages in the period, up significantly from \$198.9 million in the same quarter last year. These efforts resulted in diminished risk to the Company's balance sheet. During 2008 we expanded our staff and added additional resources to the Accelerator program, and it will continue to be a significant factor in the Company's profitability and reduced risk profile over the near term.

As we look ahead, through the first months of 2009 we have experienced a more stable housing market in certain regions across Canada, and we are becoming more comfortable lending on current house valuations that in some cases are 10% to 15% lower than their recent historic highs. As a result, we are cautiously returning to lending on our traditional parameters and over time will retain a larger portion of our mortgage originations on our balance sheet.

Report to Shareholders

Investing in Our Future

During the second quarter of 2008 we expanded our premises in downtown Toronto to include an additional floor of office space, increasing our square footage by approximately 50%. This new space is home to the new members of our management team and staff who have joined us over the last few months to help manage our growth. In addition, we closed our St. Catharines regional office, bringing these people into our expanded Toronto location, as well as consolidating the offices and staff acquired with the purchase of Payment Services Interactive Gateway Corp. (PSiGate), completed in October 2007. These moves will reduce costs, enhance efficiency, and ensure best practices are adopted by all of our people across all of our business lines.

To further support our growth, in December we embarked on a company-wide initiative to implement a new, state-of-the-art information technology solution from SAP Canada that will transform our core banking processes, drive significant improvements in managing deposits, loans, treasury and securitization, and increase our ability to deliver enhanced products and services to our customers. This new integrated solution will streamline our financial operations, manage our human resources and payroll processes, and improve the speed and quality of our reporting. It will also enhance our operational efficiency and our ability to introduce new products and services faster and at lower costs, and track customer profitability in order to tailor specific offerings to targeted customers. We anticipate the efficiencies will be tremendous and envisage increased data for measuring and managing the business with streamlined processing. This new system will significantly transform and improve how we conduct our business, and we expect to complete the conversion phase of the project by the end of 2009 or early in the following year.

building on our
Strengths

DEPOSIT INVESTMENTS

With our wide range of deposit products, our fast, personalized service, and competitive rates, Home Trust is here to provide the right investment solutions to you to meet your short-term and long-term goals. Home Trust has a variety of safe, guaranteed investments to help you to diversify your portfolio and to minimize the impact of market volatility.



A Positive Future

In summary, we are pleased to have delivered another year of positive financial results in 2008, exceeding all of our stated targets despite a very challenging economic environment. Looking ahead, we believe our strong capital position, our focus on sustainability and accountability, and our proven business strategies should result in further improvement in our performance in 2009. With this cautiously optimistic outlook, we have established the following targets for the year:

- > 10% to 15% growth in total net earnings;
- > 10% to 15% growth in diluted earnings per share;
- > 10% to 15% growth in combined total assets, including securitized mortgages originated and managed by Home Trust; and
- > 20% return on shareholders' equity.

The Board of Directors and management wish to acknowledge and thank Ms. Janet Ecker, who will not be standing for re-election to the Board of Directors at this year's Annual and Special Shareholders' Meeting. Ms. Ecker has been a valued member of the Board over the last four years, and we wish her all the best for the future.

We also wish to welcome Ms. Bonita Then who was appointed as a director in December 2008. Ms. Then has an MBA in finance and is an accomplished executive with extensive strategic, financial and operational expertise, having served as the CFO at Altamira Investment Services Inc., National Trustco Inc., Central Guaranty Trustco Inc., and other private and public companies. She is presently the President and CEO of Specialty Foods Group, a large US food company. We are confident that, with her broad experience and keen insight, she will make a valuable contribution to the Board and to the Company.

We want to thank our shareholders for their confidence, our partners for their support, and our customers for their business. Most importantly, we extend our gratitude to everyone at the Company for their hard work and dedication over the last year. 2008 was a very challenging period for the financial services industry, and it is their commitment to our culture of success that led to another solid year of growth and performance. Going forward, we are confident we have the financial strength, the people and the strategies to meet our objectives in 2009, and to deliver stable, sustainable and growing returns for our shareholders over the longer term.



Norman F. Angus
Chairman of the Board



Gerald M. Soloway
Chief Executive Officer

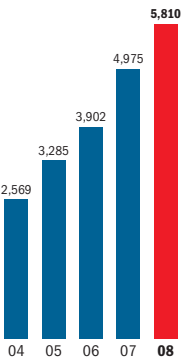
Additional information concerning the Company's targets and related expectations for 2009, including the risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis in this 2008 Annual Report.

Proven Results

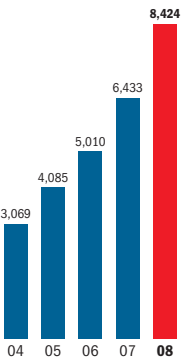
GROWTH

Home Capital sustained its strength in key financial measurements. The Company's core business activities generated strong results, contributing to asset growth of 16.8%, or 30.9% including assets under administration, and an increase in total revenue of 23.3%.

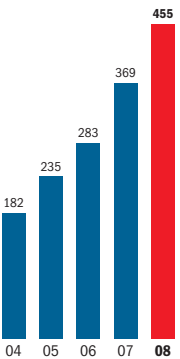
Assets
(millions)



Total Assets Including
Assets Under Administration
(millions)



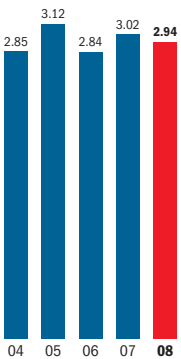
Revenue
(millions)



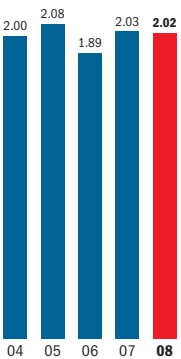
RETURNS

The Company recorded pre-tax return on assets of 2.94% and after-tax return on assets of 2.02%, while shareholders' equity increased to \$433.0 million, a 24.3% rise from the previous year.

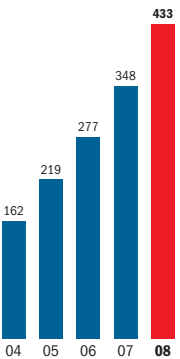
Pre-tax Return
on Assets
(percentage)



After-tax Return
on Assets
(percentage)



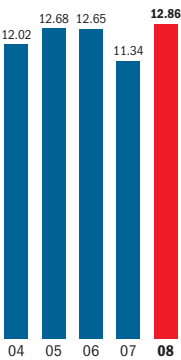
Shareholders' Equity
(millions)



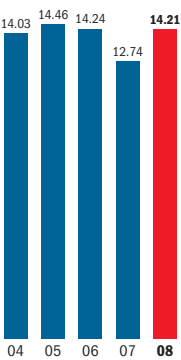
RISK

Home Capital continued to surpass all applicable regulatory and related standards. The level of impaired loans is comparable to that of large, traditional financial institutions. Home Capital's strong approach to risk management is a key component of the Company's philosophy.

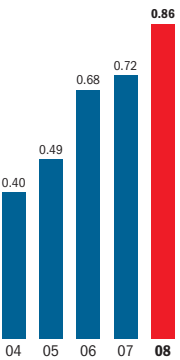
Tier 1 Capital to
Risk Weighted Assets
(percentage)



Total Capital to
Risk Weighted Assets
(percentage)



Net Impaired Loans
of Loan Portfolio
(percentage)



Performance vs. Target

RETURN ON EQUITY		
<p>TARGET:</p> <p>25% return on equity</p>	<p>Home Capital again exceeded 20% in after-tax return on equity, reaching 27.8% for the year ended December 31, 2008, representing the 11th consecutive year in which the Company surpassed 20% ROE.</p>	<p>After-tax return on equity at</p> <p>27.8% ▲</p> <p>for the year ended December 31, 2008</p>
EARNINGS		
<p>TARGET:</p> <p>20% increase in total earnings</p>	<p>The Company reported net earnings of \$108.7 million for the year ended December 31, 2008, representing a 20.4% increase over the \$90.2 million achieved in 2007.</p>	<p>Increase in earnings of</p> <p>20.4% ▲</p> <p>over 2007</p>
EARNINGS PER SHARE		
<p>TARGET:</p> <p>20% increase in diluted earnings per share</p>	<p>Diluted earnings per share rose to \$3.13 at December 31, 2008, a 20.9% increase over the \$2.59 recorded for 2007.</p>	<p>Diluted earnings per share grew</p> <p>20.9% ▲</p> <p>over 2007</p>
ASSETS		
<p>TARGET:</p> <p>20% increase in combined total assets and securitized mortgages originated and managed by the Company</p>	<p>Total assets, including CMHC-insured securitized mortgages originated and administered by the Company, grew to \$8.42 billion by December 31, 2008, an increase of 30.9% over the \$6.43 billion recorded on December 31, 2007.</p>	<p>Total assets increased</p> <p>30.9% ▲</p> <p>over year-end 2007</p>

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Caution Regarding Forward-looking Statements

From time to time Home Capital Group Inc. (the "Company" or "Home Capital") makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail on pages 28 through 38 of the Company's 2008 Annual Report, as well as its other publicly filed information, which may be located at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, liquidity and funding risk, structural interest rate risk, operational risk, investment portfolio risk, strategic business risk, reputational risk, 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 Sections in this Annual Report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "may," and "could" or other similar expressions.

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

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

Assumptions about the performance of the Canadian economy in 2009 and how it will affect Home Capital's business are material factors the Company considers when setting its objectives. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian government and its agencies. In setting performance target ranges for 2009, management's expectations assume:

- > The Canadian economy will contract in the first half of 2009, with fragmented growth prospects across the country, and interest rates and inflation will remain low;
- > Canadian capital markets will improve somewhat in the second half of 2009;
- > A declining interest rate environment supported by stable inflation, driven by lower demand for commodity and energy goods;
- > Sound credit quality with actual losses within Home Capital's historical range of acceptable levels; and
- > A compressed net interest margin, reduced prime lending rates, comparatively lower investment returns, reflecting the Company's shift to high quality assets held in the security and liquidity portfolio, and liquidity levels sustained in response to uncertainty in the capital markets.

Non-GAAP Measures

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

Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze revenue on a TEB to provide uniform measurement and comparisons of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. The adjustment to TEB increases income by the benefit received consisting of the provision for income taxes on the tax-exempt securities. The TEB adjustment of \$4.3 million (2007 – \$5.5 million) increases interest income. 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 income and income taxes are presented on a TEB throughout this MD&A.

Return on Shareholders' Equity

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 equity using average common shareholders' equity, including all components of shareholders' equity.

Return on Assets

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

Efficiency or Productivity Ratio

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

Net Interest Margin

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

Tier 1 and Total Capital Ratios

The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company (Home Trust). The calculations are in accordance with guidelines issued by Office of the Superintendent of Financial Institutions Canada (OSFI). As of January 1, 2008, OSFI adopted a new capital management framework called Basel II (refer to the Capital Management Section of the MD&A) and capital is now managed and reported in accordance with those requirements. Prior year ratios have been calculated using the previous framework.

Regulatory Filings

The Company's continuous disclosure materials, including interim filings, annual management's discussion and analysis and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.homecapital.com, and on the Canadian Securities Administrators' website at www.sedar.com.

The following section of the Annual Report provides management's detailed discussion and analysis of the financial condition and results of operations of Home Capital for the year ended December 31, 2008. The discussion and analysis relates principally to the Company's subsidiary, Home Trust, which provides residential first mortgage lending, commercial mortgage lending, consumer lending, card payment services and deposit taking services. This section also reviews the Company's risk management policies relating to credit, liquidity, market and capital risks that are applicable to the Company's financial results.

Comparative performance indicators of the Canadian banking industry referred to in this document are obtained from the published results of publicly traded Schedule I banks. Readers are reminded that the banks in this industry grouping have operations and asset sizes that may not be comparable to each other, or to Home Trust. Such comparative performances are obtained from third-party sources by the Company. While the Company believes this information to be reliable, it has not independently verified the data and cannot provide any assurances as to its accuracy.

Management’s Discussion and Analysis

OVERVIEW

Business Profile and Strategy

Home Capital is a holding company which operates primarily through its principal, federally regulated subsidiary, Home Trust. Home Trust offers deposits, mortgage lending, retail credit and payment card services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Quebec and Nova Scotia.

The Company’s key long-term objective is to deliver superior shareholder value by exceeding the return on equity of comparable financial institutions.

Over the past decade, the Company has sought to achieve a return on common equity of at least 20% and has exceeded this benchmark in each of the past eleven years without exception. Management also seeks to align the Company’s 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. Thus, it should be noted that while the Company has achieved one of the highest levels of return on equity performance in Canada over the past decade among public financial institutions, it has done so with one of the least levered balance sheets of Canada’s major banks and trust companies.

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

The Company employs three strategic priorities to achieve its long-term objective:

STRATEGIC PRIORITY	2008 STRATEGIES AND ACHIEVEMENTS
Focused Marketplace Growth	<p>Build and maintain Canada’s leading alternative financial institution</p> <ul style="list-style-type: none">> Successfully expanded our product offering, enabling Home Trust to expand its base of potential clients and increasing mortgage broker relationships> Sustained our focus on underserved niches where we can achieve a market-leading position> Continued the expansion of business activities outside of Ontario> Maintained industry-leading service levels to clients and mortgage brokers
Prudent Balance Sheet Management	<p>Improve the financial strength of the Company so that it is capable of absorbing market events and position the Company for strong shareholder returns</p> <ul style="list-style-type: none">> Built a stronger capital position; Home Trust’s capital base is substantially all common equity and the year-end Tier 1 capital ratio was 12.9%> Accumulated and maintained strong liquidity positions; liquid assets increased 40.7% during the course of the year> Generated a flexible supply of funding through the deposit broker network and the Company’s branches
Operational and Governance Excellence	<p>Invest in robust corporate governance, risk management and efficient customer-focused processes and systems</p> <ul style="list-style-type: none">> Invested significantly in enhanced risk measurement, monitoring and reporting capabilities> Minimized credit losses in a deteriorating credit environment through active portfolio monitoring and collections activities> Maintained leading cost efficiencies through tight cost controls> Initiated a significant core-banking system conversion that will enhance customer interactions and maintain the highest levels of efficiency and reliability

2008 Performance and 2009 Objectives

The table below summarizes the Company's 2008 performance and 2009 objectives.

Table 1 – 2008 Performance and 2009 Objectives

	2008 Objectives	2008 Actual	2009 Objectives ³
Net income	20% or \$108.2 million	\$108.7 million, or 20.4% increase over the same period last year	10% to 15%
Diluted earnings per share	20% or \$3.11 per share	\$3.13, or 20.9% increase over the same period last year	10% to 15%
Total assets and assets under administration	20% or \$7.72 billion	\$8.42 billion, 30.9% increase over the same period last year	10% to 15%
Return on shareholders' equity	25%	27.8%	20%
Efficiency ratio (TEB) ^{1,2}	27% to 33%	28.0%	28% to 34%
Capital ratios ²			
Tier 1	Minimum of 10%	12.9%	Minimum of 10%
Total	Minimum of 12%	14.2%	Minimum of 12%
Provision for loan losses as a percentage of total loans	0.15% to 0.25%	0.15%	0.20% to 0.50%

¹ TEB - Refer to the definition of TEB found under non-GAAP measures on page 9 of this Annual Report.

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

³ The 2008 actual results are the base for the 2009 objectives.

The Company was able to meet all of its stated objectives for 2008 despite the challenging economic environment. The objectives presented above are solely intended to provide interested parties with information on how management measures its performance. They are not intended to disclose the Company's expectations for future financial results. Also, the 2009 objectives take into account uncertainties related to the prevailing economic environment in Canada and the broader implications the global downturn will have on the country's economy.

FINANCIAL HIGHLIGHTS

Overview

The Company generated positive financial results across all areas of the business in 2008 during a time of global economic uncertainty. For the year ended December 31, 2008 the Company reported net income of \$108.7 million or \$3.13 diluted earnings per share, up from \$90.2 million or \$2.59 diluted earnings per share in 2007. Return on shareholders' equity ended the year at 27.8%, compared to 28.9% achieved in 2007, and outperforming the industry average of 11.6%. Double-digit asset and loan growth of 27.5% and 21.5%, respectively, was achieved. Credit quality continued to be strong and loan losses remained low when considered relative to the \$4.51 billion loans portfolio. The Company's efficiency ratio remained low (the lower the better) at 28.0%, up slightly from 27.1% in 2007, and substantially better than the industry average of 71.4%. The Company continues to operate with strong capital levels as indicated by the Tier 1 and total capital ratios of 12.9% and 14.2% respectively, which exceed both the Canadian Schedule I Bank Tier 1 average of 9.6% and 12.5% and minimum regulatory requirements of 7% and 10%.

Management’s Discussion and Analysis

Table 2 – Key Performance Indicators

(000s, except % and per share amounts) For the years ended December 31	2008	2007	2006	2005	2004
FINANCIAL PERFORMANCE MEASURES					
Total revenue	\$ 454,695	\$ 368,881	\$ 282,549	\$ 234,704	\$ 181,839
Net income	108,687	90,241	67,815	60,861	44,551
Basic earnings per share	3.15	2.62	1.99	1.80	1.33
Diluted earnings per share	3.13	2.59	1.95	1.72	1.27
Dividends	0.50	0.44	0.31	0.18	0.13
Return on shareholders' equity ²	27.8%	28.9%	27.4%	31.9%	31.4%
Return on total assets ²	2.0%	2.0%	1.9%	2.1%	2.0%
Net interest margin (TEB) ²	2.9%	3.4%	3.4%	3.5%	4.0%
Non-interest income to net revenue	34.9%	24.7%	23.3%	24.2%	16.3%
Efficiency ratio (non-interest expense as a % of net revenue)	28.5%	27.9%	30.5%	29.1%	31.8%
Efficiency ratio (TEB) (non-interest expense as a % of net revenue) ²	28.0%	27.1%	29.9%	28.5%	30.8%
FINANCIAL CONDITION MEASURES					
Total assets	\$ 5,809,713	\$ 4,975,093	\$ 3,902,316	\$ 3,284,829	\$ 2,568,513
Cash and securities-to-total assets	18.5%	16.6%	12.5%	12.2%	9.9%
Tier 1 capital ratio ^{1,2}	12.9%	11.1%	12.7%	12.7%	12.0%
Total capital ratio ^{1,2}	14.2%	12.5%	14.2%	14.5%	14.0%
Credit quality					
Provision for loan losses as a % of total loans	0.2%	0.2%	0.1%	0.1%	0.2%
Net impaired loans as a % of total loans	0.9%	0.7%	0.7%	0.5%	0.4%
Allowances for loan losses as a % of gross impaired loans	66.7%	81.3%	86.5%	120.6%	147.8%

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

² See page 9 for a discussion on TEB and other non-GAAP measures.

Income Statement Highlights for 2008

- > Earnings for the Company reflected strong lending and securitization growth during the 2008 fiscal year, with net income increasing to a record \$108.7 million in 2008, up \$18.5 million or 20.4% from the \$90.2 million recorded in 2007.
- > Total revenues increased by \$85.8 million or 23.3%, driven by modest increases in net interest income and gains on the Company's securitization activities.
- > Non-interest income was up \$32.6 million or 67.9%, driven by robust growth in securitization income of \$43.7 million and increases in fees for the administration and servicing of the mortgage and Visa portfolios, offset by losses on the securities portfolio and losses on derivative mark-to-market values.
- > Diluted earnings per share increased to \$3.13, up 20.9% over 2007, while basic earnings per share increased to \$3.15, up 20.2% over 2007.
- > Return on average shareholders' equity exceeded the Company's benchmark of 25%, ending the year at 27.8%, down slightly from 28.9% in 2007.

Balance Sheet Highlights for 2008

- > Total assets increased by \$834.6 million or 16.6% from one year ago to reach \$5.81 billion. The growth was primarily due to increases in the loans portfolio of \$484.2 million or 12.0%.
- > The Company's loans portfolio continues to see diversification with sustained positive growth in balances related to Equityline Visa. At December 31, 2008 the outstanding balance was \$342.9 million, a 13.3% increase over 2007.
- > Cash resources and securities increased by \$248.7 million or 30.1% over 2007.

- > Deposit liabilities as at December 31, 2008 grew 15.6% to reach \$5.10 billion, as compared to \$4.41 billion at December 31, 2007. These proceeds were used to fund the growth in the Company's loans portfolio, with excess funds prudently deployed in the Company's liquidity portfolio.
- > The overall credit quality of the portfolio remains sound though the Company continues to see modest rises in net impaired loans year-over-year. Although the allowance continues to drop as a percentage of overall gross impaired loans, the Company is confident existing allowance levels are appropriate for the risk profile of the loans portfolio.

2009 Overall Outlook

The Canadian and global financial markets and economies have experienced unprecedented volatility over the past year, pushing most major economies into a global recession. The Company expects these challenging market conditions to persist into 2009, with the Canadian economy experiencing retraction over the first half of 2009 before beginning a slow recovery towards the end of 2009 as the influence of global economic stimulus packages begins to be felt in the Canadian economy. The Canadian housing market is expected to moderate in 2009 as most of the pent-up demand that built up during the 1990s was substantially filled over the past 10 years and will move back to more traditional volumes in line with Canadian demographic fundamentals. Interest rates are expected to decline further over the first half of 2009 before stabilizing as the economy begins to benefit from stimulus packages.

FINANCIAL PERFORMANCE REVIEW

Net Investment Income and Margin

An analysis of net investment income and net investment margin is presented in the following table. Net interest income is the difference between interest and dividends earned on loans and investments and the interest paid on deposits and other liabilities to fund those assets. The net interest margin is net interest income divided by the Company's average total assets. Dividend income has been converted to a TEB (refer to page 9 of the Annual Report for a definition of TEB), for comparison purposes.

Table 3 – Net Interest Income (TEB)¹

For the years ended December 31

	2008			2007		
(000s, except %)	Average Balance	Income/Expense	Average Rate	Average Balance	Income/Expense	Average Rate
Assets						
Cash and cash resources	\$ 454,379	\$ 10,504	2.3%	\$ 248,934	\$ 11,995	4.8%
Securities	495,179	24,257	4.9%	407,508	19,895	4.9%
Loans	4,264,281	339,242	8.0%	3,665,692	288,924	7.9%
Taxable equivalent adjustment	-	4,353	-	-	5,455	-
Total earning assets	5,213,839	378,356	7.3%	4,322,134	326,269	7.5%
Other assets	179,855	-	-	116,571	-	-
Total	\$ 5,393,694	\$ 378,356	7.0%	\$ 4,438,704	\$ 326,269	7.4%
Liabilities and shareholders' equity						
Deposits	\$ 4,758,382	\$ 223,428	4.7%	\$ 3,928,812	\$ 174,556	4.4%
Total interest-bearing liabilities	4,758,382	223,428	4.7%	3,928,812	174,556	4.4%
Other liabilities	244,915	-	-	197,440	-	-
Shareholders' equity	390,397	-	-	312,453	-	-
Total	\$ 5,393,694	\$ 223,428	4.1%	\$ 4,438,704	\$ 174,556	3.9%
Net interest income		\$ 154,928			\$ 151,713	
Net interest margin			2.9%			3.4%

¹ See page 9 for a discussion on TEB and other non-GAAP measures.

As indicated on the preceding table, net interest income (TEB) increased marginally in 2008 by \$3.2 million over 2007 while overall net interest margin declined to 2.9% in 2008 from 3.4% in 2007.

Management's Discussion and Analysis

Net interest income was \$154.9 million in 2008, compared to \$151.7 million for the year ended December 31, 2007. The growth over 2007 reflects a net increase in interest-bearing assets over interest-bearing liabilities offset by contracted net interest margins. Despite achieving net growth in interest-bearing assets, the Company experienced increasing contraction in overall spreads related to ongoing disruptions in capital markets and successive reductions in the prime lending rate. Reductions in the prime interest rate negatively impact net interest margins as the Company's deposits do not re-price as quickly as the Company's mortgage loans portfolio. Further, the funds invested in the Company's liquidity portfolio earned a lower yield dropping, on average, to 2.3% in 2008 from 4.8% in 2007.

The average interest spread between the loans portfolio and deposits at the end of the year was 3.3%, compared to 3.4% for the comparable twelve-month period in 2007. The decrease in interest spread over the prior year was primarily the result of an increase in funding costs resulting from a tightening in availability of liquidity combined with the effects of cuts to the prime lending rate on the re-pricing mismatch on prime-based loans. At December 31, 2008 the prime interest lending rate was 3.5%, a 250 basis point drop from the same date last year. In addition, the Company continues to hold higher levels of liquidity, which has the additional effect of reducing the overall spreads. Despite the decline in overall interest spread, the Company's core residential mortgage portfolio continued to maintain historical spreads.

2009 Outlook for Net Interest Income

Net interest income is expected to increase in line with the Company's loans portfolio growth but will be tempered with continued net interest margin compression. The Company continues to review pricing and product structures to look for new and innovative approaches to maximizing spread returns. Higher liquidity strengthens the Company's overall financial position but will continue to have a negative effect on net interest margin since returns on these investments are expected to be lower as the yield earned on government-quality investments has declined significantly from historical ranges.

Non-interest Income

Table 4 – Non-interest Income

For the years ended December 31 (000s, except %)	2008	2007	2006	Growth 2008/2007	Growth 2007/2006
Fees and other income	\$ 28,452	\$ 21,533	\$ 13,483	32.1%	59.7%
Securitization income on mortgage-backed securities	71,103	27,367	21,038	159.8%	30.1%
Net realized and unrealized gain (loss) on securities	(5,365)	(1,614)	2,210	(232.4%)	(173.0%)
Net gain on disposal of subsidiary	69	-	-	100.0%	0.0%
Net realized and unrealized gain (loss) on derivatives	(13,567)	781	(1,073)	(1,837.1%)	(172.8%)
Total non-interest income	\$ 80,692	\$ 48,067	\$ 35,658	67.9%	34.8%

Non-interest income increased by \$32.6 million, or 67.9% over 2007. The year-over-year increase was driven largely by the strong growth in securitization income through the Company's participation in the Canada Mortgage Bond (CMB) program and additional short-term Mortgage-Backed Securities (MBS) securitizations. Offsetting the strong securitization gains were the losses incurred on the forward bond contracts which the Company entered into to economically hedge the commitment risk on these securitization transactions. The increases in fees generated from the administration of the loans portfolio were offset by losses incurred on the securities portfolio.

Fees and other income, which are generated from the loans portfolio, increased by \$6.9 million or 32.1% over 2007 as the Company experienced another strong year of growth in the average loan portfolio of 16.3%. The fees are generated from new residential and commercial mortgages and Visa lending and the residual servicing of those portfolios. The mortgage lending segment contributed \$15.2 million, an increase of \$3.1 million or 25.8% over 2007, while the consumer lending segment contributed fees of \$12.9 million, an increase of \$3.7 million or 40.8% over 2007.

Table 5 – Summary of New Securitization Activity

December 31

	2008				2007
	Single Family Residential MBS Under 1 Year	Single Family Residential MBS Over 1 Year	Multi- Residential MBS	Total	Single Family Residential MBS Over 1 Year¹
(000s, except %)					
Book value of mortgages securitized	\$ 289,066	\$ 783,153	\$ 426,646	\$ 1,498,866	\$ 692,338
Gain on sale of mortgages	\$ 6,763	\$ 41,036	\$ 13,515	\$ 61,314	\$ 22,763
Prepayment rate	4.2%	13.0%	0.0%	7.6%	13.2%
Excess spread	3.9%	3.9%	1.1%	2.6%	2.7%
Discount rate	3.2%	4.7%	2.7%	3.4%	4.3%

¹ In the prior period the Company sold only single family residential MBS over 1 year.

The table above provides a breakdown of the new securitization activity over the current and comparable period. The Company experienced a strong year in new securitization activities, securitizing \$1.50 billion of Canada Mortgage and Housing Corporation (CMHC) insured residential mortgages. This represents an increase of \$806.5 million over the \$692.3 million in MBS pools that were issued during the twelve-month period of 2007. The securitization gains were \$61.3 million for the year, compared to \$22.8 million for the comparable twelve-month period of 2007. The Company continues to enter into forward bond contracts to hedge commitment risk on the loans securitized into the CMB program. The unwinding of the forward bond contracts during the year resulted in an \$11.8 million realized loss recorded in the consolidated statement of income under net realized and unrealized gain (loss) on derivatives. In 2008, the Company began diversifying the MBS pools issued to include MBS pools with a maturity under one year and multi-residential pools. The key assumptions on new securitization activities during the year for one-year, over one-year and multi-residential pools are outlined in Table 5.

The increase in securitization gains during the year compared to the prior period was due to significant volume increases in securitization activity. The spread earned on the pools averaged 2.6%, down slightly from 2.7% in 2007. The unscheduled prepayment rate was modestly lower for the pools issued in 2008 as the Company issued several short-term MBS pools where the mortgages in the MBS pools were late in their term, and where the Company expects fewer prepayments. Further, the Company issued three multi-residential MBS pools in the last two quarters of 2008 where unscheduled prepayments are not permitted under the program. Of the \$1.50 billion MBS pools issued during the year, \$715.7 million or 47.8%, were pools containing lower or prohibited unscheduled prepayments and the remaining pools had unscheduled prepayment rates in line with historical levels.

The Company was an active participant in CMHC's CMB program, administered through Canada Housing Trust. This program provides the Company with an alternative distribution channel to diversify its funding stream for MBS pools. Of the \$1.50 billion securitized over the year, the Company securitized \$1.09 billion through the CMB program and recognized gains of \$48.9 million. For additional information on the Company's securitization activities refer to Note 6 of the consolidated financial statements of this Annual Report.

In the normal course of business the Company sold certain holdings in its debt and equity portfolios, realizing total losses of \$5.4 million (\$1.6 million of losses in 2007). With the continued turmoil in the capital markets, the Company recognized losses on certain available for sale securities holdings in 2008 that management deemed to be other than temporarily impaired. The total losses from this assessment were \$2.4 million. Management believes the remaining unrealized losses on the Company's available for sale portfolio are temporary in nature. Note 4 of the consolidated financial statements of this Annual Report provides a breakdown by security class of these unrealized losses. The Company monitors the available for sale portfolio's performance through the Risk and Capital Committee and, on a quarterly basis, assesses the likelihood of whether certain investments might have an other than temporary impairment and require write down through the income statement. For additional information, refer to the Significant Accounting Estimates and Critical Accounting Policies Section on page 40 of this MD&A.

2009 Outlook for Non-interest Income

Non-interest income is expected to grow in response to the growth of new business in the mortgage and credit card operations and continued strong securitization activities. This growth is expected to be tempered with possible losses in the Company's securities portfolio if capital markets continue to be depressed.

Management's Discussion and Analysis

Non-interest Expenses

Table 6 illustrates the changes in non-interest expense components in 2008 and the two prior years.

Table 6 – Non-interest Expenses

For the years ended December 31 (000s, except %)	2008	2007	2006	Growth 2008/2007	Growth 2007/2006
Salaries and employee benefits	\$ 36,182	\$ 30,195	\$ 25,883	19.8%	16.7%
Premises and equipment					
Rent – premises	3,545	3,058	2,914	15.9%	4.9%
Equipment rental and repairs	894	779	604	14.9%	29.0%
	4,439	3,837	3,518	15.7%	9.0%
General and administrative					
Consulting and other professional services	5,264	4,823	2,672	9.1%	80.5%
Taxes and insurance	4,093	3,312	2,878	23.6%	15.1%
Outsourcing services	3,962	1,700	2,321	133.1%	(26.8%)
Depreciation and amortization	3,731	2,043	1,492	82.6%	37.0%
Other	2,408	2,167	2,716	11.1%	(20.2%)
Computer services	1,708	1,583	1,124	7.9%	40.8%
Advertising and business development	1,682	2,116	1,858	(20.5%)	13.9%
Stationery and publications	1,296	842	861	54.0%	(2.3%)
Communications and travel expenses	1,246	1,580	1,267	(21.1%)	24.7%
	25,390	20,166	17,189	25.9%	17.3%
Total non-interest expenses	\$ 66,011	\$ 54,198	\$ 46,590	21.8%	16.3%
Average assets	\$ 5,394,694	\$ 4,438,704	\$ 3,593,573		
As a % of average assets	1.2%	1.2%	1.3%		
Efficiency ratio					
Net interest income	\$ 150,575	\$ 146,258	\$ 117,240		
Other income	80,692	48,067	35,658		
Total revenue, net of interest expense	231,267	194,325	152,898		
TEB adjustment ¹	4,353	5,455	2,996		
Total revenue TEB, net of interest expense	235,620	199,780	155,894		
As a % of total revenue, net of interest expense	28.5%	27.9%	30.5%		
As a % of total revenue TEB, net of interest expense	28.0%	27.1%	29.9%		

¹ See page 9 for a discussion on TEB and other non-GAAP measures.

Non-interest expenses increased to \$66.0 million from \$54.2 million, an increase of \$11.8 million or 21.8%. The major drivers of the increase in operating expenses in 2008 were salaries and benefits, outsourcing services, taxes and insurance, and depreciation and amortization, offset by reductions in advertising and business development, and communications and travel expenses. During the year, the overall staff level increased to 395 from 377 a year ago. Increased staffing was required across all areas of the business to support the growth in the Company's assets and broaden the senior management team. Outsourcing expense increased in 2008 with the full year inclusion of costs incurred through Payment Services Interactive Gateway Corp. (PSiGate). Premises and equipment expenses increased in 2008 with the additional space secured in the Toronto head office. Depreciation and amortization increased in 2008 as the Company increased its investment in capital assets, resulting in increased amortization. The Company continues to focus on cost saving initiatives and has done so through more strategic spending on advertising and business development and the reduction of unnecessary travel expenditures.

The efficiency ratio remained consistent with that of prior years due to management's continued focus on cost containment and productivity gains realized from increased staffing levels to manage the growth in the Company's asset base.

2009 Outlook for Non-interest Expenses

The Company anticipates another positive year of growth in total assets including assets under administration that will result in corresponding increases in non-interest expenses. Despite the anticipated increases in expenses, cost discipline will continue to be a priority for the Company. The target efficiency ratio on a TEB will be in a range of 28% to 34%.

Provision for Credit Losses

Table 7 – Provision for Credit Losses

For the years ended December 31

	2008			2007			2006		
(000s, except %)	Specific	General	Total	Specific	General	Total	Specific	General	Total
Residential mortgages	\$ 2,971	\$ (991)	\$ 1,980	\$ 1,183	\$ 1,241	\$ 3,982	\$ 521	\$ 1,133	\$ 1,654
Other mortgages	-	2,364	2,364	-	1,557	-	-	-	-
Personal and credit card loans	937	499	1,436	728	823	1,550	633	1,204	1,837
Secured loans	953	(95)	858	375	135	510	186	721	907
Total provision for credit losses	\$ 4,861	\$ 1,777	\$ 6,638	\$ 2,286	\$ 3,756	\$ 6,042	\$ 1,340	\$ 3,058	\$ 4,398
Average loans	\$ 4,264,281			\$ 3,665,692			\$ 3,053,043		
As a % of average loans	0.2%			0.2%			0.1%		

The provision for credit losses increased to \$6.6 million in 2008, up \$0.6 million or 9.9% over 2007. The general provision for credit losses decreased to \$1.8 million in 2008, down \$2.0 million or 52.7% over 2007, while the specific provision increased to \$4.9 million in 2008, up \$2.6 million or 112.7% over 2007. The relative shift between the general provision and the specific provision in 2008 reflects the determination from management that certain mortgages required specific provisioning which removes the credit risk of these loans from the computation of the general provision. The Company believes that one of the primary factors influencing the provision for credit losses is the level of formation of new impaired loans identified as additions to impaired loans. At December 31, 2008 the gross impaired loans grew to \$42.1 million, an increase of \$12.1 million over the \$30.0 million identified at December 31, 2007. The increase in the new impaired loans arose primarily from the residential mortgage portfolio and is reflected in the increase in specific provision ending the year at \$3.0 million, up \$1.8 million from the \$1.2 million recorded in 2007. The moderate increases in the specific provision for loan losses for personal and credit card loans and secured loans also reflect the general increase in gross impaired loans. Refer to Table 14 in this MD&A for a summary of the year-over-year changes in impaired loans.

The overall decrease in the general provision largely reflects the shift in providing more specific provisions on certain loans. Although the residential mortgage portfolio remains the largest component of the total loans portfolio (72.4% at December 31, 2008), this is down from 2007 (78.8% of the total loans portfolio) as the Company continues to experience positive growth in other mortgages and personal and credit card loans. In particular, the Company experienced growth in other mortgages (primarily commercial mortgage loans) of \$359.0 million over 2007 which, by their nature, are more risky than residential mortgages. As such, the decrease in the general provision for residential mortgages reflects the growth in the other mortgages portfolio.

The decrease in the general provision for credit losses for the personal and credit card loan portfolio of \$0.3 million year-over-year is due to the improved credit quality of the credit card portfolio. This is reflected in the weighting of credit card accounts secured by cash or collateral mortgages, which increased from 99.7% at December 31, 2007 to 99.8% at December 31, 2008. Further, the growth in receivable balances in the personal and credit card portfolio in 2008 was \$43.6 million, a drop from the \$88.4 million growth experienced in 2007. As such, the additions to the general provision in 2007 were at a more moderate pace reflecting the slower growth. Similarly, the secured loan portfolio decreased by \$9.8 million in 2008 and, accordingly, the Company drew down the general provision for secured loans.

Management’s Discussion and Analysis

As a percentage of the average loan portfolio, the provision remained consistent at 0.2% in comparison to 2007. At December 31, 2008, 99.9% of the total loans portfolio was secured by way of cash deposits, mortgages or collateral mortgages. Further, where the loan to value ratio is low, the risk of loss to the Company is low and no provision need be recorded. At December 31, 2008 the average loan to value on origination of the Company’s mortgage loan portfolio was 66.6%, up slightly from 2007 when the loan to value was 65.7%. The nominal loss experience and the lower risk levels of the residential first mortgage portfolio, which makes up 56.1% of the Company’s total assets, resulted in a policy decision to reduce the general allowance as a percentage of total risk-weighted assets. The result was a general allowance at December 31, 2008 of 84.0 basis points of risk-weighted assets (See Table 12 for risk-weighted assets), compared to 85.1 basis points at December 31, 2007.

2009 Outlook for Provision for Credit Losses

The provision for credit losses is expected to be less than 40 basis points of average loans in 2009. Specific allowances will continue to be determined on an account-by-account basis and reviewed monthly. However, the provision for credit losses reflects an ongoing assessment of the strength of the portfolio at any given time, which will continue to be reviewed on a quarterly basis. The Company expects the credit environment to continue to be challenging in 2009 given the probability of continued economic contraction.

Taxes

The provision for income taxes for the fiscal year 2008 amounted to \$49.9 million for an effective rate of 31.5%, compared to \$43.8 million in 2007 and an effective rate of 32.7%. These effective rates are lower than the legislated federal and provincial rates primarily due to tax-exempt dividend income. This tax-exempt income lowered the tax provision by \$2.9 million in 2008 and \$3.5 million in 2007. In the fourth quarter of 2007, the federal government enacted legislation to reduce corporate tax rates for taxation years commencing in 2008. Future tax assets and liabilities have been revalued and the net effect was to decrease income taxes by \$1.5 million in 2007.

Capital losses of \$2.8 million (\$2.8 million in 2007) are available to reduce capital gains in future years and have no expiry date. The tax benefit of these capital losses has not been recognized.

Capital taxes reported under general and administration expenses amounted to \$2.5 million, a slight increase over the \$2.4 million reported in 2007. Capital taxes increased as a result of the Company’s higher retention of equity and growth in its income tax reserves.

Note 13 to the consolidated financial statements of this Annual Report offers more information about the Company’s condition regarding current income taxes and provisions for income taxes.

2009 Outlook for Taxes

The Company’s effective income tax rate is expected to remain within the range of 30% to 33% in 2009, reflective of tax-exempt dividend income. Even with the anticipated growth in income for 2009, capital taxes will decrease modestly due to anticipated capital tax rate reductions.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI) and totaled \$103.9 million for the year, an increase of \$19.4 million or 22.9% over 2007. As previously noted net income for the year was \$108.7 million, an increase of \$18.5 million or 20.4% over 2007. The Company’s OCI includes unrealized losses on available for sale securities and securitization receivables from market revaluations at the end of the year. OCI for the year ended December 31, 2008 was in a loss position of \$4.8 million, compared to a loss of \$5.7 million in the comparable period in 2007. The change in OCI compared to the previous year resulted from movements in available for sale securities and securitization receivables primarily reflecting market fluctuations related to changes in interest rates, and the broader global economic slowdown affecting the sectors in which the Company holds equity positions. During the year, the Company determined that certain equity holdings had impairment that was other than temporary and recognized a writedown of \$2.4 million in losses from accumulated other comprehensive income in the consolidated statements of income. The writedowns were offset by realized gains on the sale of certain debt holdings. The Company believes the remaining unrealized losses represent temporary declines in value due to the current securities market conditions. Further, a significant percentage of the Company’s unrealized losses in the securities portfolio are on investments held in term preferred shares (79.8% at December 31, 2008). As such, the Company has the ability and resources to hold these investments to maturity to substantially recover its investment in the security position.

BALANCE SHEET REVIEW

Overview

The Company reported assets of \$5.81 billion at December 31, 2008 compared with \$4.98 billion at December 31, 2007. This increase of \$834.6 million or 16.8% over 2007 was primarily attributable to the growth in the core mortgage business. Total loans increased \$484.2 million or 12.0%, continuing the Company's trend of double-digit loan growth over the past ten years. This growth is equally impressive as the Company took advantage of the spreads in the securitization market and securitized a record \$1.50 billion in 2008, growing by \$806.5 million or 116.5% over the same period in 2007. When this growth is factored in, the total growth in loans and MBS loans under administration increased \$1.64 billion over 2007. Deposit liabilities as at December 31, 2008 reached \$5.10 billion, an increase of \$688.8 million or 15.6% over 2007 to both fund the Company's loan portfolio growth and prudently build the liquidity portfolio to manage through the economic downturn. The Company has continued to see investors move their holdings into quality investments, of which the Company has been the beneficiary by the resulting increased growth in deposits. The Company ended the year with \$880.7 million in liquid assets, up 40.4% from the liquidity position a year ago.

Table 8 presents additional information on changes to balance sheet accounts.

Table 8 – Balance Sheet Accounts

As at December 31 (000s, except %)	2008	2007	2006	Growth 2008/2007	Growth 2007/2006
Cash resources	\$ 554,422	\$ 354,336	\$ 143,531	56.5%	146.9%
Securities ¹	519,477	470,881	344,134	10.3%	36.8%
Total cash resources and securities	1,073,899	825,217	487,665	30.1%	69.2%
Residential mortgage loans	3,263,206	3,169,953	2,885,806	2.9%	9.8%
Other mortgages	826,882	467,921	135,765	76.7%	244.7%
Personal and credit cards	368,962	325,393	237,037	13.4%	37.3%
Secured loans	72,518	82,304	70,250	(11.9%)	17.2%
General allowance	(25,177)	(23,400)	(19,644)	7.6%	19.1%
Total loans	4,506,391	4,022,171	3,309,214	12.0%	21.5%
Other assets	229,423	127,705	105,437	79.7%	21.1%
Balance sheet assets	5,809,713	4,975,093	3,902,316	16.8%	32.4%
Deposits	5,102,781	4,413,984	3,443,640	15.6%	28.2%
Other liabilities	274,179	213,069	181,810	28.7%	17.2%
Shareholders' equity	432,753	348,040	276,866	24.3%	25.7%
Cash resources and securities					
as a % of balance sheet assets	18.5%	16.6%	12.5%		
Loans as a % of balance sheet assets	77.6%	80.8%	84.8%		

¹ Included in securities are available for sale and held for trading securities. See Note 4 of the consolidated financial statements in this Annual Report.

Cash Resources and Securities

Total cash resources and securities at December 31, 2008 increased by \$248.7 million or 30.1% to end the year at \$1.07 billion. This represented 18.5% of the Company's total assets as at December 31, 2008, compared to 16.6% at December 31, 2007. The growth was primarily generated from excess funds raised through deposits as well as internally generated earnings from the business. Management has acted prudently to increase its overall cash and securities position over the last 18 months in response to the challenging economic environment which first surfaced in the summer of 2007.

Cash resources, combined with government and corporate bonds, are included in the Company's liquid reserve. Cash resources increased by \$200.1 million to end the year at \$554.4 million due, in part, to excess funds raised through the Company's deposit and securitization activities. The securities portfolio (available for sale and held for trading), which is made up of government bonds, MBS securities, common and preferred stocks, income trust units and mutual funds, increased marginally by \$48.6 million or 10.3% to end the year at \$519.5 million.

At December 31, 2008, the preferred stock portfolio consisted of 80.5% of P1 and P2 rated stocks (84.4% in 2007). These securities are typically purchased with the intention of holding them to maturity or until market conditions make alternative investments more attractive. The P1 and P2 preferred stock securities had a deficiency in market value compared to book value of \$25.7 million at year-end, down from a deficiency of \$3.6 million at December 31, 2007. These unrealized losses are recorded in accumulated other comprehensive income until such time as management determines that an other than temporary impairment has occurred. For further information refer to Note 4 in the consolidated financial statements of this Annual Report.

Management’s Discussion and Analysis

2009 Outlook for Cash Resources and Securities

In 2009, cash resources and securities will continue to grow proportionately with the growth in total assets. Asset growth will increase the need for liquid assets, and the Company will continue to act prudently to maintain liquid assets to manage through the challenging economic environment. A significant proportion of excess funds raised through the Company’s retail deposit channel and securitization activities will be deployed into liquid investments.

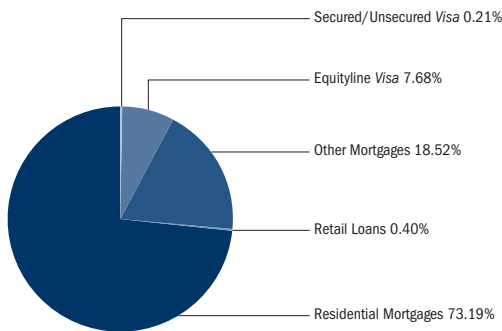
Loans Portfolio

The Company’s loans portfolio consists of residential and other mortgages, personal and credit cards loans, and loans which are secured by second residential mortgages. At December 31, 2008 the loans portfolio amounted to \$4.51 billion, up \$484.2 million or 12.0% over the \$4.02 billion recorded at December 31, 2007.

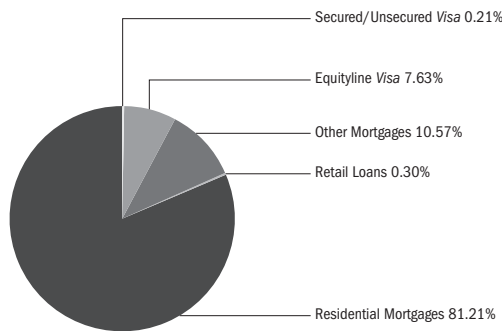
As illustrated in the charts below, the Company’s residential lending continues to represent the most significant component of the Company’s loans portfolio. Year-over-year the relative percentage has declined as the Company continues to diversify lending activities with moderate growth. The Company’s core business continues to consist of residential mortgage lending, which represented 73.2% of the total loans portfolio, while other mortgage loans represented 18.5% of the total loans portfolio.

Figure 1 – Lending by Product Line

Lending Portfolio by Product Line¹
as at December 31, 2008



Lending Portfolio by Product Line¹
as at December 31, 2007



¹ The above figures exclude secured loans.

At December 31, 2008 residential mortgage loans totaled \$3.26 billion, as compared to \$3.17 billion in 2007. Other mortgage lending experienced positive growth, ending the year at \$826.9 million, a 77.1% increase over 2007. Within the other mortgage lending portfolio, significant lending was made up of commercial and non-residential properties, including stores with adjoined apartments, which represented 23.8%; retail stores, which represented 23.6%; office buildings, which represented 13.6%; and industrial, which represented 10.1%. The security priority of the mortgage loan portfolio remained virtually unchanged at 99.7%, up slightly from the 99.6% reported at December 31, 2007.

All mortgages are secured by real property. Growth in total mortgage assets was due to continued lending within the Company’s existing service area. Relatively low interest rates continue to make house purchases attractive for many Canadians, though economic uncertainty and tightening credit are dampening overall activity in the housing market. New housing starts in Canada decreased slightly from 228,343 in 2007 to 212,188 in 2008, and are expected to continue to decline into 2009. The Company tightened lending in the second half of 2008 in response to existing market conditions.

CMHC mortgages amounted to \$477.2 million at December 31, 2008 (\$195.1 million in 2007), which represented 14.6% of the total mortgage loan portfolio in 2008 and 5.4% in 2007. The year-over-year increase is part of the Company’s overall objective of reducing credit risk on new mortgage advances in response to the economic climate. This area of lending remains intensely competitive; however, due to the success of its securitization program, the Company intends to continue to operate in this area.

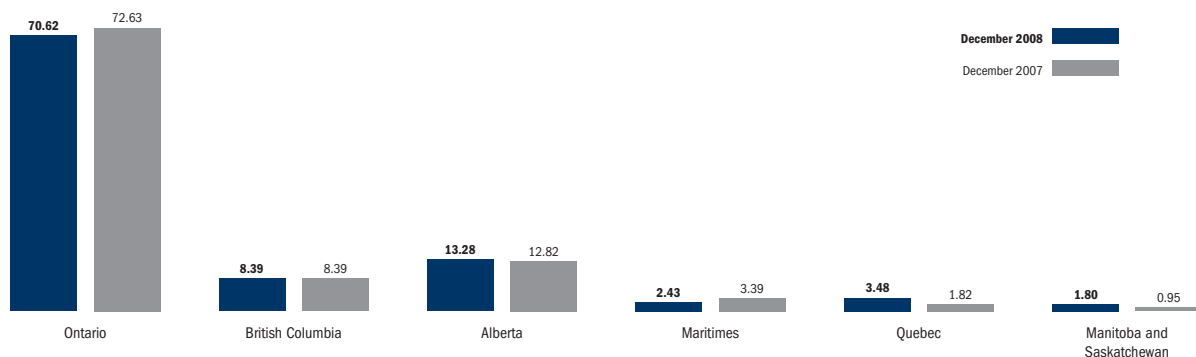
At December 31, 2008 the personal loan and credit card portfolio totaled \$369.0 million, an increase of \$43.6 million or 13.4% over the \$325.4 million recorded at December 31, 2007. The credit card operation ended the year with 20,331 accounts and contractual commitments of \$415.0 million, compared to 22,913 accounts and \$392.2 million at December 31, 2007. The decrease in new accounts from the comparable period is due to ongoing efforts by the Company to tighten credit in certain geographical locations in response to the current economic environment. Contractual commitments with cardholders to extend credit up to established credit limits represents the maximum potential credit risk, assuming that the credit limit amount is fully utilized, the client defaults, and collection efforts are unsuccessful. However, the mix of this credit card portfolio continues to migrate to the Equityline Visa product which was launched in January 2006. The Company no longer offers unsecured Visa products. At December 31, 2008, secured and collateralized credit card accounts amounted to 99.8% of outstanding balances, as compared to 99.7% at the end of December 2007.

At December 31, 2008 the personal loan portfolio increased to 5,846 accounts from 5,029 at December 31, 2007. This increase was primarily driven from the Company's decision to begin offering loans in the home improvement business, which saw positive growth in 2008. The loans continue to be sourced through retailers that are well established in their respective industries. The Company will maintain and service existing accounts with these retailers.

During the fourth quarter, the Company entered into an amended agreement with a trustee for the Company's second mortgage program (recorded as secured loans) operating as Regency Finance Corp. (Regency), whereby the Company acts as Regency's agent in offering residential second mortgage loans. These mortgage loans are securitized and the investments are purchased by the Company. At the end of 2008 the Company held \$72.5 million in secured loans as Notes Receivable issued by Regency, compared to \$82.3 million at December 31, 2007. These Notes yield 6.5% and have an average duration of 2.1 years. The Company also receives fee income for servicing and administering these mortgages for Regency. This income amounted to 0.3% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgage loans securing the Notes Receivable remains high, with 1.3% of the portfolio in arrears over 60 days, and the portfolio continues to experience only moderate losses. The Company has decided to discontinue advancing funds under this program and will redirect clients into the Company's Accelerator Program, on a go-forward basis.

Figure 2 – Lending by Province

Lending by Province
(%)



The Company has geographic coverage across Canada. The Company continues to look to diversification of its lending base across Canada while remaining responsive to changing economic conditions. In 2008, the Company continued its penetration of the Quebec market, increasing its relative proportion of the total loans portfolio to reach 3.5% in 2008, up from 1.8% in 2007. In contrast, the Company scaled back its lending business in the Maritimes by focusing on select areas. This resulted in a decline in overall lending such that the Maritimes declined to 2.4% of the overall loans portfolio in 2008 from 3.4% in 2007.

Table 9 – Mortgage Loan Advances

December 31 (000s)	2008	2007
Residential mortgages	\$ 3,244,457	\$ 2,347,943
Commercial mortgages	442,356	313,617
Stores and apartments	78,837	109,835
Warehouse commercial mortgages	93,273	88,450
Total mortgage advances	\$ 3,858,923	\$ 2,859,845

Management's Discussion and Analysis

The Company continues to realize accelerated growth in mortgage lending as illustrated by advances increasing to \$3.86 billion in 2008 or 34.9% over \$2.86 billion in 2007. Outstanding commitments for future advances on mortgage loans amounted to \$242.4 million at December 31, 2008, compared to \$447.3 million at December 31, 2007. Included within the outstanding commitments are unutilized commercial advances of \$89.6 million at December 31, 2008, compared to \$238.0 million at December 31, 2007. The decline in outstanding commitments year-over-year was due to the Company tightening up underwriting and lending requirements in the latter half of 2008 in response to the deterioration of the economic landscape in Canada. Commitments for the loans remain open for various dates through January 2010. The Company is also committed to refinance existing clients as their mortgage loans mature. The Company successfully refinanced \$1.16 billion in mortgage loans during 2008.

2009 Outlook for Loans Portfolio

It is expected that the internal rate of growth in the mortgage loans portfolio, including both residential and commercial mortgage lending, will closely match the anticipated growth rate of between 10% and 15% in the Company's total assets in 2009. The Company will continue to expand its insured mortgage lending in 2009 and expects that insured mortgage advances will make up a larger percentage of new mortgage advances. The Company will look at select markets outside of Ontario for continued portfolio diversification but anticipates that with continued economic uncertainty lending will be focused in its traditional markets. The credit card portfolio, with a focus on the Equityline Visa product, will experience positive growth as the Company continues to penetrate select geographic markets while continuing cross-selling efforts.

Other Assets and Liabilities

Other assets increased by \$27.1 million or 47.5% to end the year at \$84.2 million. These assets consist of accrued interest receivable, goodwill and intangible assets, capital assets, and other prepaid assets. These balances will fluctuate with the general movements in the assets. The goodwill balance of \$15.8 million is subject to an annual impairment test to determine whether the asset continues to maintain its value. The Company has undertaken an extensive impairment analysis and concluded that there was no impairment to goodwill. The year-over-year change in goodwill reflects adjustments made on finalizing the purchase price from the acquisition of PSiGate in late 2007.

Mortgage-backed securities receivables composed of residual interest spreads on the pools of securitized mortgages accounted for \$139.9 million, an increase of \$74.1 million or 112.7% over 2007. The significant driver for the increase was the strong securitization activity in 2008, where the Company securitized \$1.50 billion of CMHC-insured MBS for total gains of \$61.3 million. The Company continues to service the underlying mortgages and earns continuing servicing and amortization income from this, which amounted to \$10.0 million in 2008. For a further discussion on mortgage-backed securities receivables, refer to the Off-balance Sheet Arrangement Section or Note 6 of the consolidated financial statements of this Annual Report.

Other liabilities (refer to Note 10 of this Annual Report) increased by \$60.7 million or 29.1% over the \$208.7 million reported at December 31, 2007. This growth was principally the result of increases in accrued interest of \$24.0 million related to higher deposits, a net increase of \$14.6 million in the Company's current and deferred corporate tax liabilities, an increase of \$8.5 million in the servicing liability related to the Company's ongoing administration of the off-balance sheet residential mortgage loans portfolio and an increase of \$11.3 million in other liabilities resulting from the timing of payments due to MBS investors.

Shareholders' Equity

Total shareholders' equity at December 31, 2008 increased by \$84.7 million or 24.3% over the \$348.0 million reported at December 31, 2007. The increase since December 2007 was internally generated from net income of \$108.7 million in the twelve-month period, less \$17.9 million for dividends paid and payable to shareholders. The remaining changes were principally driven from the fair value amortization of employee stock options of \$1.5 million, offset by a \$3.1 million buy-back of the Company's common shares through the Normal Course Issuer Bid and downward movements in accumulated other comprehensive income of \$4.8 million, arising from the Company's available for sale financial assets.

The strong earnings contributed to the return on shareholders' equity of 27.8% versus 28.9% in 2007. This return on equity when combined with the \$0.50 per common share dividend paid or payable in fiscal 2008 (\$0.44 per common share in 2007) is illustrative of the Company's continued commitment to enhancing shareholder value.

OPERATING SEGMENT REVIEW

The following table summarizes the operating segments of the Company. For more detailed information, refer to Note 19 of the consolidated financial statements in this 2008 Annual Report.

Table 10 – Summary of Operating Segments

(000s, except %)	Mortgage Lending ¹		Consumer Lending ²		Other ³		Total	
Year ended December 31	2008	2007	2008	2007	2008	2007	2008	2007
Net interest income	\$ 89,505	\$ 93,466	\$ 26,459	\$ 21,005	\$ 34,611	\$ 31,787	\$ 150,575	\$ 146,258
Provision for credit losses	(5,202)	(4,491)	(1,436)	(1,551)	-	-	(6,638)	(6,042)
Fees and other income	15,163	12,050	12,888	9,155	401	328	28,452	21,533
Net gain on securities, mortgage-backed securities and disposition of subsidiary	57,536	28,148	-	-	(5,296)	(1,614)	52,240	26,534
Non-interest expenses	(39,528)	(35,050)	(9,000)	(5,068)	(17,483)	(14,080)	(66,011)	(54,198)
Income before income taxes	117,474	94,123	28,911	23,541	12,233	16,421	158,618	134,085
Income taxes	(37,749)	(32,093)	(9,849)	(8,451)	(2,333)	(3,300)	(49,931)	(43,844)
Net income	\$ 79,725	\$ 62,030	\$ 19,062	\$ 15,090	\$ 9,900	\$ 13,121	\$ 108,687	\$ 90,241
Goodwill	\$ 2,324	\$ 2,324	\$ 13,428	\$ 12,704	\$ -	\$ -	\$ 15,752	\$ 15,028
Total assets	\$ 4,707,313	\$ 3,867,949	\$ 392,458	\$ 337,783	\$ 709,942	\$ 769,361	\$ 5,809,713	\$ 4,975,093

Additional financial information

Total revenue	\$ 372,902	\$ 296,344	\$ 51,926	\$ 41,933	\$ 29,867	\$ 30,604	\$ 454,695	\$ 368,881
as a %	82.0%	80.3%	11.4%	11.4%	6.6%	8.3%		
Net income	\$ 79,725	\$ 62,031	\$ 19,062	\$ 15,090	\$ 9,900	\$ 13,121	\$ 108,687	\$ 90,241
as a %	73.4%	68.7%	17.5%	16.7%	9.1%	14.5%		
Efficiency ratio	24.4%	26.2%	22.9%	16.8%	58.8%	46.2%	28.5%	27.9%
Efficiency ratio (TEB)	24.4%	26.2%	22.9%	16.8%	51.3%	39.2%	28.0%	27.1%
Net interest margin (TEB)	2.1%	2.6%	7.2%	7.2%	5.3%	6.0%	2.9%	3.4%

¹ Mortgage lending includes mortgage lending, securitization of government-insured mortgages and secured loans.

² Consumer lending includes retail services, credit cards and PSiGate.

³ Other includes other investments, dividend income and corporate activities.

For the year ended 2008, the contribution of the operating segments to the Company's net income was 73.4% from Mortgage Lending including secured loans, 17.5% from Consumer Lending and 9.1% from Other. The Other segment also includes dividend income, which is tax advantaged for the Company and, therefore, tax provisions in this segment are correspondingly reduced by the tax-reduced dividend income.

Mortgage Lending

The Company's principal line of business contributed \$79.7 million for the year, compared to \$62.0 million for the comparable period in 2007. The increase over the prior period was primarily driven by loan originations, which increased fee income, and significant increases in gains realized on securitization activities. These increases were offset by a decline in net interest income as the market uncertainty over the past several quarters tightened spreads across core residential lending, combined with growth in both the Accelerator program and commercial mortgage lending, which attract lower spreads. In late June 2008, the Company launched the Accelerator program. This program offers a full range of insured mortgage products to a broad customer base, including individuals who have customarily been served by traditional financial institutions. Net interest income ended the year at \$89.5 million, down from \$93.5 million for the comparable period in 2007.

The mortgage lending segment continues to operate on a productive basis with the efficiency ratio (TEB) at 24.4% for 2008, an improvement (the lower the better) from 26.2% in 2007. The mortgage lending segment continues to realize productivity gains from the investment in full-time employees in prior years to manage the existing and expected growth in that line of business. This business segment recorded total assets of \$4.71 billion in 2008, representing 81.0% of total assets and 21.7% higher than the \$3.87 billion total assets recorded in 2007.

Management's Discussion and Analysis

Consumer Lending

Consumer lending continued to generate positive results for the year. Net income for the year was \$19.1 million, up 26.3% over the comparable twelve-month period in 2007. The increase over the prior period was driven by increases in net interest income from continued growth in Equityline Visa receivable balances, and fees from the administration and servicing of the Visa portfolio. Included in the operating results of the consumer lending segment are the operations of PSiGate. PSiGate has provided the Company with the ability to offer full payment card services and has begun the transition of migrating clients onto Home Trust's Visa platform. The Company expects PSiGate to continue to contribute revenue growth for the consumer lending segment. For the year PSiGate contributed \$1.3 million to net income of the consumer lending segment.

At the end of 2008, the gross credit card portfolio was \$352.0 million, an increase of \$37.8 million or 12.0% over 2007. The most significant receivable balance in the credit card portfolio is the Equityline Visa portfolio. The Equityline Visa loans portfolio amounted to \$342.9 million at December 31, 2008, compared to \$302.7 million at December 31, 2007. This represents 97.4% of the total gross credit card receivable balance in 2008, compared to 96.3% of the gross credit card receivable balance in 2007. The average interest rate earned on the Visa portfolio was 10.6% versus 10.9% at December 31, 2007.

During the twelve-month period ended December 31, 2008, 3,864 Equityline Visa accounts with \$172.0 million in authorized credit limits were issued, down from 4,680 Equityline Visa accounts with \$218.9 million in authorized credit limits for the same period in 2007. The decrease in new accounts from the comparable period is due to ongoing efforts by the Company to tighten credit in certain geographical locations in response to the current economic environment.

Other

The Other segment is comprised of the operating results from the Company's securities portfolio and corporate activities. Net income for the year was \$9.9 million, down from \$13.1 million for the comparative period in 2007. The decrease from the prior period was driven by losses incurred on the sale of securities, writedowns on securities that management determined were permanently impaired and general increases in corporate costs. Offsetting these losses was an overall growth in net interest income derived from the Company's cash resources and securities portfolio.

The Other segment contributed 9.1% to net income during 2008, down from the 14.5% contributions in 2007. The efficiency ratio (TEB) increased to 51.3% from 39.2% in 2007 due to increased losses realized on the securities portfolio and increased corporate operating expenditures.

2009 Outlook for Operating Segments

The Company's mortgage lending segment will continue to be the major contributor to the earnings of the Company in 2009. The Company expects to continue to take advantage of the current spreads in the securitization market. As spreads begin to ease over the coming year, the Company will move back to a more traditional funding mix between deposits and securitization. Growth in Equityline Visa and the continued integration of PSiGate will enable the Company to expand its product offering and market penetration. The other segment primarily generates its income from the securities portfolio. Income from this source is expected to incur some volatility in 2009 as this segment's performance is highly correlated with the performance of specific sectors in the Canadian capital markets.

FINANCIAL CONDITION

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 regulatory capital requirements are met while also providing a sufficient return to investors. The Risk and Capital Committee and the Board of Directors review compliance with the policy on a quarterly basis.

Capital Structure and Regulatory Ratios

There are two capital standards being addressed in the Company's policy. These are the asset to capital multiple and the risk-based capital ratio (BIS ratio). Both ratios are reported and approved quarterly by the Board of Directors.

Capital adequacy for Canadian banks and trust companies is governed by the requirements of OSFI. These requirements are consistent with the published framework to measure the adequacy of capital for international banks issued by the Bank for International Settlements (BIS), referred to as the BIS ratio. Under these standards there are two components of capital. Tier 1 consists primarily of shareholders' equity and

non-cumulative preferred shares. Tier 2 consists primarily of subordinated debentures, cumulative preferred shares, and the general allowance. As Home Trust, the wholly owned subsidiary of the Company, is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited by Home Trust's permitted asset to capital multiple. This is defined as the ratio of regulatory capital to the total assets of Home Trust.

Basel II Capital Accord

OSFI required federally regulated financial institutions in Canada to be compliant with the revised Basel II capital framework commencing January 1, 2008. Having evolved from its predecessor, Basel I, Basel II articulates a framework and methodology by which institutions will be required to calculate their regulatory capital. Basel II takes a risk-based view of capital adequacy and offers a range of options to financial institutions to effect its implementation in a manner most suitable to each. The Company met and continues to meet the new capital requirements under this framework.

Basel II consists of three main initiatives, or "pillars." Pillar 1 sets out minimum regulatory requirements on a risk-based assessment of credit, market, and operational risks. Institutions may choose from the formulaic Standardized Approach, or the more advanced Internal Ratings Based Approach in calculating credit risk capital needs. Home Trust chose to use the Standardized Approach. Similarly, Basel II offers a choice between the Basic Indicator, Standardized, or Advanced Measurement Approach in calculating operational risk. Home Trust chose the Basic Indicator Approach.

Pillar 2 sets out the expectation that financial institutions will assess all material risks to which the organization is exposed and set aside sufficient capital to provide for those specific risks. To meet the requirements of Pillar 2, institutions will focus on those risks not specifically defined in Pillar 1 and will rely on "what-if" scenarios and stress tests to simulate the impacts to their income and capital from a range of events and exogenous shocks not normally experienced in day-to-day operations. This analysis will serve to demonstrate how robust and resilient an institution is in the face of unexpected events and will be carefully scrutinized by OSFI for rigour of analysis and quality of conclusions about capital adequacy.

Pillar 3 requires institutions to disclose their approaches and methodologies used to comply with Basel II with the view of making these disclosures highly transparent, comparable across institutions and, therefore, subject to the discipline of the marketplace. It is expected that through this market discipline, the safety and soundness of deposit-taking institutions will be enhanced. The Company has introduced several new disclosures in 2008 consistent with the spirit of Pillar 3 and will continue to enhance such disclosure in 2009.

Table 11 below shows both the asset to capital multiple and the risk-based capital ratio.

Table 11 – Capital Structure and Regulatory Ratios at Year-end (Based only on the subsidiary, Home Trust Company)

As at December 31 (000s, except % and multiples)	2008	2007	2006	Growth 2008/2007	Growth 2007/2006
Tier 1 capital					
Capital stock	\$ 23,497	\$ 23,497	\$ 23,497	-	-
Contributed surplus	951	951	951	-	-
Retained earnings	385,317	293,523	236,938	31.3%	23.9%
Accumulated other comprehensive loss ¹	(25,740)	(6,211)	-	(309.8%)	(100.0%)
Total	384,025	311,760	261,386	19.2%	24.8%
Tier 2 capital					
General allowance for credit losses ²	25,177	23,400	17,925	7.6%	30.5%
Subordinated debentures	15,000	15,000	15,000	-	-
Total	40,177	38,400	32,925	4.6%	16.6%
Total regulatory capital	\$ 424,202	\$ 350,160	\$ 294,311	21.2%	19.0%
Regulatory capital to risk-weighted assets					
Tier 1 capital	12.9%	11.1%	12.7%		
Tier 2 capital	1.3%	1.4%	1.6%		
Total regulatory capital ratio	14.2%	12.5%	14.3%		
Assets to regulatory capital multiple³	13.7	14.2	13.3		

¹ Accumulated other comprehensive income relating to unrealized losses on certain available for sale equity securities, net of tax, reduces Tier 1 capital.

² The Company is allowed to include its general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2 capital. At December 31, 2008, the Company's general allowance represented 0.84% of risk-weighted assets.

³ Total assets subject to risk rating divided by total regulatory capital.

Management's Discussion and Analysis

Home Trust's total BIS ratio increased to 14.2% in 2008 from 12.5% in 2007. The increase in total capital from 2007 was due to an intercompany dividend paid from Home Trust to Home Capital during 2007 to facilitate the acquisition of PSiGate, directly affecting Tier 1 capital. The Tier 2 capital increased by \$1.8 million due to the increase in the allowable portion of the general allowance from \$23.4 million in 2007 to \$25.2 million at the end of 2008. Both ratios are well in excess of the minimum levels prescribed by OSFI, being 10% for total capital, and 7% for Tier 1 capital.

Risk-weighted Assets

Risk-weighted assets are determined by applying the OSFI prescribed rules to on-balance sheet and off-balance sheet exposures. Based on the deemed credit risk of each type of asset, a weighting of 0% to 150% is assigned. Over the year, risk-weighted assets increased by \$237.2 million, largely due to strong growth in conventional mortgages, claims on banks and municipal governments and other assets offset by a reduction in conventional mortgages due to a drop in the risk rating under Basel II.

Table 12 provides a further breakdown of risk-weighted assets.

Table 12 – Risk-weighted Assets (RWA) (Based only on the subsidiary, Home Trust Company)

As at December 31			2008
(000s, except %)	Balance Sheet Amounts	Risk-weighting ¹	Risk-weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	\$ 640,676	0%	\$ -
Claims on banks and municipal governments	738,144	20%	147,629
Conventional mortgages on owner-occupied residences	2,812,692	35%	984,442
Visa secured and consumer loans	172,425	75%	129,319
Commercial mortgages, equities and other assets	1,445,681	100%	1,445,681
Non-performing commercial	164	150%	246
Total assets subject to risk rating	5,809,782	-	-
General allowance	(25,177)	-	-
Total assets	5,784,605		2,707,317
Off-balance sheet items			
Loan commitments	307,820	0%	-
Interest rate contracts	21,328	20%	4,266
Total credit risk	329,148		4,266
Operational risk	-		274,167
Total	\$ 6,113,753		\$ 2,985,750

As at December 31			2007
(000s, except %)	Balance Sheet Amounts	Risk-weighting ¹	Risk-weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	\$ 433,390	0%	\$ -
Claims on banks and municipal governments	410,619	20%	82,124
Conventional mortgages on owner-occupied residences	2,821,820	50%	1,410,910
Other assets	1,285,401	100%	1,285,401
General allowance (limited to 0.875% of RWA)	23,400	100%	23,400
Total assets	4,974,630		2,801,835
Off-balance sheet financial instruments			
Loan commitments	531,151	0%	-
Financial instruments	2,794	20%	559
Total	\$ 5,508,575		\$ 2,802,394

¹ Risk-weighted asset ratios are calculated in accordance with the requirements of OSFI. As at January 1, 2008, capital was managed and reported in accordance with the requirements of Basel II. The Company has adopted the Standardized Approach for credit risk and the Basic Indicator Approach for Operational Risk. Prior year figures have been calculated using the previous framework. For a further discussion, please refer to the Basel II Capital Accord Section of this Annual Report.

Share Repurchase Program

On July 29, 2008, the Company filed a new Normal Course Issuer Bid through the Toronto Stock Exchange in order to repurchase a maximum of 2.7 million common shares. The Company believes that, from time to time, the market price of its common shares does not fully reflect the value of its business and its future business and, as such, at times the repurchase of shares may represent an appropriate and desirable business decision.

During fiscal 2008, the Company repurchased 108,000 common shares (2007 – 111,000 common shares) for an amount of \$3.1 million (2007 – \$3.9 million) under the Normal Course Issuer Bid.

Derivatives and Off-balance Sheet Arrangements

In its normal course of business, the Company conducts transactions that involve certain off-balance sheet arrangements and derivative financial instruments. Off-balance sheet items include entities established for capital management purposes.

From time to time, the Company may enter into hedging transactions to mitigate the interest exposure on outstanding loan and deposit commitments. For example, the Company can utilize interest rate swaps or forward contracts to hedge the economic exposure to movements in interest rates between the time that mortgages are committed to being funded under asset securitization and the time those mortgages are actually sold. The intent of the swap or forward bond contracts is to have the fair value movements of these instruments be effective in offsetting the fair value movements within a pool of mortgages over the period in which the fixed rate pool may be exposed to movements in interest rates, generally 60 to 150 days. During the year, the Company entered into such forward bond contracts to hedge the commitment risk on the Company's securitization activities for the CMB program. The gains on securitizations through the CMB program for the year were \$48.9 million offset by a \$11.8 million loss realized on the forward bond contracts hedging the commitment risk. At December 31, 2008 the Company continued to hold notional forward bond contracts of \$34.3 million in anticipation of the CMB issuance in the first quarter of 2009. The forward bond contracts were marked-to-market at December 31, 2008 for an unrealized loss of \$0.6 million. No such arrangements were entered into during the comparable prior period.

The Company participates in the CMB program sponsored by CMHC and administered by Canada Housing Trust. Through this program, the Company must manage the mismatch and reinvestment risk between the amortizing MBS pool and the CMB. As part of this arrangement, the Company entered into a seller swap which has the effect of paying the fixed interest payments on the CMB and receiving the total return on the MBS pool and the reinvestment assets. As well, the Company entered into a hedge swap to manage the reinvestment risk between the amortizing MBS pool and the CMB. These transactions do not qualify for hedge accounting under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3865, *Hedges*, and therefore the Company must mark-to-market the swaps through the consolidated statement of income. The notional values of the seller swaps and hedge swaps at December 31, 2008 were \$1.21 billion and \$49.6 million, respectively, compared to \$118.5 million and \$2.2 million, respectively, at December 31, 2007. These swaps were marked-to-market at December 31, 2008 for an unrealized gain of \$0.4 million versus an unrealized gain of \$1.0 million for the same period in 2007, as recorded in the consolidated statement of income. For additional information refer to Note 16 of the consolidated financial statements of this 2008 Annual Report.

The Company originates and securitizes insured residential mortgage loans into special purpose entities for liquidity funding. When these assets are sold, the Company retains rights to certain excess interest spreads less servicing liabilities, which constitute retained interests. The Company periodically reviews the value of retained interests, and any permanent impairment in value is charged to income. The Company continues to administer all securitized assets originated by the Company after the sale and, upon maturity of the mortgage, will renew or refinance these mortgage loans whenever possible. As at December 31, 2008, outstanding securitized mortgage loans under administration amounted to \$2.61 billion, compared to \$1.46 billion at December 31, 2007, with retained interest of \$139.9 million at the end of 2008, compared to \$65.8 million at December 31, 2007. The insured off-balance sheet portfolio continues to perform well, with 97.3% of the portfolio current and only 0.7% greater than 60 days in arrears. For additional information on the Company's securitization activities refer to Note 6 of the consolidated financial statements of this 2008 Annual Report.

In the normal course of its business, the Company offers credit products to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to \$242.4 million at December 31, 2008, compared to \$447.3 million at December 31, 2007. Included within the outstanding commitments are unutilized commercial mortgage loan advances of \$89.6 million at December 31, 2008, compared to \$238.0 million at December 31, 2007. Commitments for the loans remain open for various dates through December 2009. As at December 31, 2008 unutilized credit card balances amounted to \$62.9 million, compared to \$78.0 million at December 31, 2007. Outstanding commitments for future advances for the Equityline Visa portfolio were \$2.5 million at December 31, 2008, compared to \$5.9 million at December 31, 2007. The general decline in outstanding commitments from the prior period primarily stems from the Company tightening its underwriting and lending criteria over the latter half of 2008.

Management’s Discussion and Analysis

Credit Ratings

Table 13 presents the Company’s and its subsidiary Home Trust’s credit ratings as established by rating agencies. These credit ratings would allow the Company to obtain institutional debt financing should the need arise for additional capital. At this time the Company has limited requirements for such financing and thus these ratings have had no impact on the Company’s financing costs to date. In late 2008, Standard & Poor’s reaffirmed its BBB– rating for Home Capital and BBB rating for Home Trust with a stable outlook and, subsequent to year-end, Fitch Rating reaffirmed its ratings for both entities with a continued positive outlook.

Table 13 – Credit Ratings

	Home Capital Group Inc.		Home Trust Company	
	Standard & Poor’s	Fitch Rating	Standard & Poor’s	Fitch Rating
Long-term rating	BBB–	BBB–	BBB	BBB–
Short-term rating	A–3	F3	A–2	F3
Outlook	Stable	Positive	Stable	Positive

2009 Outlook for Capital Management

The Company expects to remain well capitalized throughout 2009 and beyond. The Company’s capital quality remains one of the strongest in the industry with almost all of the capital in the form of common equity. One of the Company’s core 2009 objectives of enhancing shareholder value remains consistent with prior years. The Company looks to achieve this by targeting a minimum of 20% return on shareholders’ equity supplemented with stable dividends.

RISK MANAGEMENT

Overview

The shaded areas of this MD&A represent a discussion on risk management policies and procedures relating to credit, market and liquidity risks that are required under the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas, presented on pages 28 to 35, form an integral part of the audited consolidated financial statements for the year ended December 31, 2008.

Risk management is an essential component of the Company’s strategy, contributing directly to our profitability and our consistently high return on equity. During the past year the value of risk management was clearly demonstrated. The Company has invested significantly in risk management practices that management believes not only move us toward leading practice but clearly differentiate us from our immediate peers.

The Company’s business strategies and operations expose the Company to a wide range of risks that could adversely affect its business, financial condition, or operating results, and which may also influence an investor to buy, hold, or sell the Company’s shares. Nevertheless, all businesses, in particular financial institutions, must accept some level of risk in their activities if they expect to make a profit and therefore must continuously make decisions that balance risk and reward. When evaluating risks, the Company will make decisions about which risks it will avoid, which risks to mitigate, offset or hedge, and which risks it will accept in order to earn a profit. The Company’s risk vision is to have the capability to proactively identify, assess, mitigate, and report on the “in control” status of its risk profile in the context of business strategies, objectives, and philosophy on risk taking.

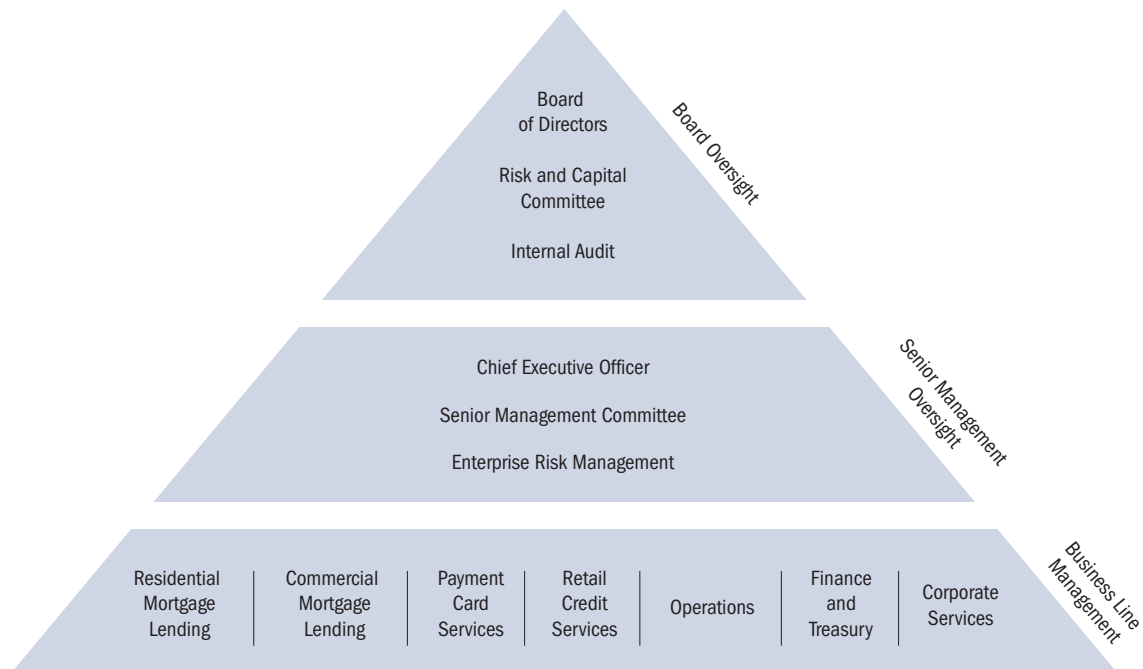
The Company’s strategies and management of risk are supported by an effective enterprise risk management (ERM) framework and other supporting frameworks for each major category of risk it is exposed to (credit, market and operational). The Company defines ERM as an ongoing process, effected by its Board of Directors, management and other personnel, to identify, assess and respond to potential events that may positively or negatively impact the organization as a whole. The ERM process, applied in a strategy setting and across the enterprise, is designed to provide reasonable assurance that the Company’s objectives can be realized given its stated risk appetite. The goal of ERM, therefore, is to help maximize the benefit to the enterprise – and to shareholders – from a portfolio of risks that the Company is willing to accept through the principle of the development and embedding of key risk management fundamentals into everyday business activities.

The Company’s ERM structure is supported by a strong risk culture and a comprehensive governance framework that includes effective Board and senior management oversight, and a robust set of risk policies, standards and guidelines that reflect our risk appetite and set bounds on acceptable business strategies and activities. Our governance structure is founded on three lines of defense. Authority is delegated by

the Board of Directors through the CEO to business units who are responsible for managing and monitoring the risk they take in the pursuit of their business objectives. The ERM group provides policy guidance to business units and helps ensure that all risks are monitored, assessed and reported to senior management and the Board. Internal audit provides timely and objective reviews of the risk management process, its controls, and the effectiveness of those controls.

The governance structure, as depicted in the figure below, ensures that there is a framework in place for risk oversight and accountability across the organization.

Figure 3 – Governance Structure



The Board is accountable for setting the Company’s risk appetite and risk-bearing capacity and challenging management’s proposals and plans to determine that the forecast results are reasonable and in line with the Company’s capabilities and objectives. To do this, the Board determines that a monitoring and reporting framework is in place and operating in order to deliver risk information for their review and evaluation.

The Board, through its Risk and Capital Committee, determines that the significant risks to the Company are identified and managed. This is accomplished by reviewing and approving, on at least an annual basis, all risk policies; monitoring, on at least a quarterly basis, the Company’s actual exposures versus Board-approved limits; and providing direction to management where deemed necessary.

Senior management periodically reviews and validates the Company’s portfolio of key risk exposures through risk reporting as well as by a risk and control self-assessment process which is executed annually and reviewed monthly. Through this process, significant risks are identified in light of current business, market, and economic conditions, acknowledging that the risks we manage and monitor are not static but evolving in context with the greatest likelihood of impact on the Company at any given point in time.

The Company has identified and assessed the most significant inherent risks as well as management’s effectiveness in controlling those risks. The risk owner/champions are responsible for developing, implementing, and reporting regularly on the “in control” status.

In addition to our day-to-day risk management practices, a key component of our ERM framework is stress testing and scenario analysis. Management regularly evaluates a range of extreme but plausible scenarios and conducts stress tests to evaluate management’s contingency plans to deal with these unlikely, but severe, events and to mitigate the potential risk. A common set of scenarios is developed to assess the impact on the Company’s financial results, capital positions and operational capabilities to respond to the event. Management’s scenarios include a severe recession, a real estate crash, the loss of a significant funding source, as well as a selection of operational events. Based on the current economic environment, conditions have not yet reached the level of severity established in the scenarios.

Management's Discussion and Analysis

Some of the key accomplishments in 2008 include:

Risk Measurement

The Company enhanced its risk measurement and analysis to support management decisions and portfolio analysis

- > Successfully implemented a revised dual risk rating system for our commercial mortgage business. This provides separate risk measures of the sponsor's credit quality and the strength of the underlying property; and
- > Developed and embedded in our credit decisioning and monitoring processes, custom acquisition and behaviour scores which provide enhanced measures of default risk.

Risk Analysis and Reporting

Dedicated resources were added in our ERM department to increase the quality of our risk analysis

- > Improved credit portfolio management capabilities were developed and implemented that enhanced our analysis of geographic, product and economic sector concentrations and exposures;
- > Enhanced risk reporting was developed that provided greater transparency in our portfolio to senior management and the Board, which increased the effectiveness of risk discussions or reviews of our credit criteria; and
- > Stress testing and scenario analysis were embedded in our risk management practices. Management evaluated the potential impact to our strategies, income, balance sheet and operations from a range of extreme but plausible events. The results directly contributed to policy development, contingency plans and our Internal Capital Adequacy Assessment.

Business Continuity

Management conducted a comprehensive review of our business continuity plans and enhanced our related contingency planning

- > A new disaster recovery site was opened with significant IT capacity that will allow Home to continue operations under a range of interruptions with varying severities; and
- > Contingency capabilities were tested and adjustments made to the plan as necessary.

Credit Risk

Credit risk is the risk of the loss from the failure of debtors or counterparties, for any reason, to honour their financial or contractual obligations to the Company. Senior management is responsible for the oversight of credit risk policies and limits, which are reviewed and approved annually by the Risk and Capital Committee of the Board. Our lines of business are responsible for determining that all activities comply with policy and the ERM department independently monitors and reports on policy compliance. Due diligence on each individual transaction is the foundation of our approach to credit. All transactions are subject to underwriting, the assignment of a standard risk rating or credit score and a centralized and independent credit adjudication function. Credit risk limits are established for all types of credit exposures and include risk-sensitive single name limits in our commercial mortgage portfolio, as well as geographic, product, property type and security limits over all classes of exposure.

Credit risk mitigation is a key component of our approach to credit risk management. Substantially all of the Company's credit portfolio is secured by real property. As at December 31, 2008 the average loan to value ratio in the Company's residential loan portfolio was 66.6%, and 99.7% were first mortgages.

At December 31, 2008 the composition of the total mortgage portfolio was 79.8% residential and 20.2% non-residential, compared to a composition of 87.2% residential and 12.8% non-residential one year ago. The composition is well within the internal policy limits the Company's Risk and Capital Committee has approved. Within the Company's residential mortgage portfolio, 14.6% of the loans were insured by CMHC at the end of the year, compared to 5.4% one year ago. First mortgages represented 99.7% of the total mortgage portfolio at December 31, 2008, consistent with the comparable period. Further, with the launch of the Accelerator Program in June 2008, the Company continues a trend of originating higher volumes of government-insured mortgages. Of all residential mortgage originations and renewals over the twelve months of 2008, 50.9% were insured. This is up from the comparable period of 2007 where 32.3% of all residential mortgage originations and renewals were insured.

At December 31, 2008 the average loan to value on origination of the Company's residential mortgage loans portfolio was 66.6%, compared to 65.7% one year ago. The mortgage loans portfolio continues to perform well despite uncertain economic conditions, with 94.5% of the portfolio current and only 1.6% of the portfolio over 60 days in arrears at the end of December 2008. This is consistent with December 31, 2007 at which point 1.6% of loans were over 60 days in arrears. When the insured off-balance sheet mortgage portfolio of \$2.61 billion is also factored in, the combined mortgage loans portfolio continues to show positive performance, with 95.6% of the combined portfolio current at December 31, 2008, and only 1.3% over 60 days in arrears.

The Company continued to experience positive growth in other mortgage lending. The Company's industrial, commercial and other non-residential property types represented 18.4% of the total loans portfolio at December 31, 2008, compared to 11.6% at December 31, 2007. Management continues to monitor these properties on a regular basis and has instituted specific underwriting policies and procedures to address the specific credit risk associated with this lending. The new mortgages funded are diversified and include, but are not limited to, stores with adjoining apartments, residential construction, retail stores, office buildings and commercial properties. It is the Company's intention to continue to concentrate its core mortgage lending activities on residential properties and it has instituted policies and procedures to ensure a prudent balance between residential and commercial mortgage lending is maintained.

Personal loans and credit cards represented 8.2% of the total loans portfolio at December 31, 2008, compared to 8.1% at December 31, 2007. As at December 31, 2008 the gross credit card receivable balance totaled \$352.0 million, of which \$351.5 million, or 99.8% of the portfolio was secured either by cash deposits or residential mortgage collateral, and \$0.5 million, or 0.2% was unsecured. The total credit approved included \$414.3 million in secured and \$0.7 million in unsecured credit, compared to \$391.0 million in secured, and \$1.2 million of unsecured credit at December 31, 2007. Within the secured credit card portfolio, Equityline Visa credit cards represent the principal driver of receivable balances. Equityline Visa credit cards are secured by collateral residential mortgages, and this portfolio segment amounted to \$342.9 million of the total credit card receivable balance as at December 31, 2008, compared to \$302.7 million at December 31, 2007. Cash deposits securing credit card accounts amounted to \$14.5 million and are included in the Company's deposits. Further, the Equityline Visa portfolio has an average loan to value of 69.4% at December 31, 2008, down marginally from an average loan to value of 69.7% at December 31, 2007. At December 31, 2008, \$10.6 million or 3.0% of the credit card portfolio was over 60 days in arrears, compared to \$3.8 million or 1.2% at December 31, 2007.

Secured loans represented 1.6% of the total loan portfolio at December 31, 2008, compared to 2.0% at December 31, 2007 and are secured by second mortgages on residential property where the loan to value on the property may be over 80%. These loans are subject to similar credit and lending criteria that are used under the Company's first mortgage program. The Company has decided to discontinue advancing funds under this program and will redirect clients into the Company's Accelerator program on a go-forward basis.

Impaired loans are summarized as follows:

Table 14 – Impaired Loans

As at December 31		2008		2007		2006	
(000s, except %)	Gross	Net ¹	Gross	Net ¹	Gross	Net ¹	
Residential mortgages	\$ 34,643	\$ 32,963	\$ 27,849	\$ 27,215	\$ 21,521	\$ 21,135	
Personal and credit card loans	6,309	5,762	1,521	1,393	1,118	969	
Other mortgages	164	164	242	242	548	548	
Secured loans	1,007	308	400	169	258	150	
Impaired loans	\$ 42,123	\$ 39,197	\$ 30,012	\$ 29,019	\$ 23,445	\$ 22,802	
Total gross loans	\$ 4,531,568		\$ 4,045,571		\$ 3,328,858		
Net impaired loans as a % of gross loans		0.86%		0.72%		0.68%	
Total allowance for credit losses		\$ 28,103		\$ 24,393		\$ 20,286	
Total allowance as a % of total loans		0.62%		0.60%		0.61%	
Total allowance as a % of gross impaired loans		66.7%		81.3%		86.5%	

¹ Impaired loans are net of specific provisions as shown on Table 15 – Allocation of Allowance for Credit Losses.

As indicated in Table 14 gross impaired loans totaled \$42.1 million at December 31, 2008, an increase of \$12.1 million from 2007. The total allowance for credit losses increased by \$3.7 million to reach \$28.1 million at December 31, 2008, up from \$24.4 million recorded at December 31, 2007. The total dollar volume of impaired loans is expected to fluctuate over time based primarily on the health of the Canadian economy. Gross impaired loans continue to rise, consistent with the overall deterioration of the Canadian economy. As such, the Company anticipates that the currently impaired mortgages totaling \$42.1 million will result in moderate loan losses in the coming year. The Company believes the existing levels of both the general provision and related specifics are sufficient to absorb these anticipated losses.

Growth in the Company's loans portfolio has increased the number of accounts the Company services, as well as the total dollar volume. The number of accounts that were impaired at December 31, 2008 was 1.2% of total loan accounts, compared to 0.8% at December 31, 2007.

Management’s Discussion and Analysis

The Company has maintained a consistent allowance as a percentage of total loans over the past several years, recording an allowance of 0.62% in 2008 (0.60% in 2007). The total allowance as a percentage of gross loans has trended downward to end the year at 66.7% (81.3% in 2007) coverage of gross impaired loans. The Company continues to believe that the total specific and general allowances are more than sufficient to absorb losses.

Table 15 shows the year-over-year change in the allocation of the allowances for credit losses for specific provisions by category of impaired loans and to the general allowance for credit risk for the last two years.

Table 15 – Allocation of Allowance for Credit Losses

	2008 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2008 Ending Balance
For the year ended December 31 (000s)				
Specific provisions				
Residential mortgage loans	\$ 634	\$ 1,925	\$ 2,971	\$ 1,680
Personal loans and credit cards	128	518	937	547
Secured loans	231	485	953	699
Other mortgage loans	-	-	-	-
	993	2,928	4,861	2,926
General allowance				
Residential mortgage loans	17,127	-	(991)	16,136
Personal loans and credit cards	3,201	-	499	3,700
Secured loans	856	-	(95)	761
Other mortgage loans	2,216	-	2,364	4,580
	23,400	-	1,777	25,177
Total allowance for credit losses	\$ 24,393	\$ 2,928	\$ 6,639	\$ 28,103

	2007 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2007 Ending Balance
For the year ended December 31 (000s)				
Specific provisions				
Residential mortgage loans	\$ 386	\$ 935	\$ 1,183	\$ 634
Personal loans and credit cards	148	748	728	128
Secured loans	108	252	375	231
Other mortgage loans	-	-	-	-
	642	1,935	2,286	993
General allowance				
Residential mortgage loans	15,886	-	1,241	17,127
Personal loans and credit cards	2,378	-	823	3,201
Secured loans	721	-	135	856
Other mortgage loans	659	-	1,557	2,216
	19,644	-	3,756	23,400
Total allowance for credit losses	\$ 20,286	\$ 1,935	\$ 6,042	\$ 24,393

The allowance for credit losses has been established to cover both identified and unidentified losses in the loans portfolio and is comprised of \$2.9 million in specific allowances for credit risk and \$25.2 million in general allowances for credit risk, compared to \$1.0 million in specific allowances for credit risk and \$23.4 million in general allowances for credit risk in 2007. Specific allowances represent the amount on identified impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The balance will fluctuate from time to time and is driven by the performance of individual loans. The Company has seen a rise in the specific provision over 2007 due to the overall decline in the Canadian economy, resulting in an increasing trend of default. The general allowance for credit losses is established for future losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflect the relative risk of the various loan portfolios the Company manages. An assessment of the general allowance is conducted monthly and measured against loss history as described below. At December 31, 2008 the Company’s total allowance represented 62.4 basis points of gross outstanding loans (59.6 basis points at December 31, 2007) and 84.0 basis points of the Company’s risk-weighted assets (85.1 basis points at December 31, 2007).

The Company has developed a methodology to support testing of the sufficiency of the general allowance, which includes individual risk ratings based on statistics including asset quality, borrowers' creditworthiness, and economic conditions in the location of the secured asset and past loss experience. The Company's past loss experience on mortgages has amounted to 0.03% per annum over the past fifteen years, 0.01% for the past ten years and 0.001% for the past five years. Further, the Company has security by a mortgage, collateral mortgage or cash deposit on 99.9% of the loan portfolio. Based on this methodology, prior years' loss experience, the mix of the loan portfolio (99.9% secured by either a mortgage, collateral mortgage or cash deposit) and lending criteria, the Company still believes that it has more than adequate coverage in the event of unforeseen exposures. The Company continues to monitor the general allowance closely considering changes in the economy, interest rate fluctuations and conditions in housing markets and as these factors change, enhancements on how the Company supports the testing of the adequacy of the general allowance will evolve. For further information on the approach to setting the specific and general allowance, refer to Note 1 of the consolidated financial statements in this Annual Report.

Liquidity and Funding Risk

The objective of liquidity management and funding management is to determine the Company's ability to generate or obtain sufficient cash or equivalents in a timely manner and at a reasonable cost to meet its commitments (both on- and off-balance sheet) as they become due.

The Company's liquidity management framework is executed by the Company's treasury department and includes policy requirements relating to several key elements, such as the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by senior management and quarterly reporting to the Risk and Capital Committee. The Company manages liquidity using a model which considers two stress scenarios. In the "immediate" scenario, the Company experiences a sharp decline in new deposits over a period of one month. In the "ongoing" scenario, the situation is similarly stressed but is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet the potential and certain obligations for a period of one year beyond the time frame of the scenario. These scenarios require the Company to make assumptions regarding the probable behaviour and timing of cash flows for each type of asset and liability. The Company's liquidity ratio is the total of liquid assets, adjusted by the estimates in each scenario, divided by the adjusted liabilities.

At December 31, 2008 liquid assets amounted to 147% under the immediate scenario and 134% under the ongoing scenario, which are in excess of industry recommended levels of 120%. The Company continues to monitor these scenarios and will take appropriate actions should the need arise.

The Company holds liquid assets in the form of cash and bank deposits, treasury bills, bankers' acceptances, government bonds and debentures to comply with its liquidity policy. Due to the continuing liquidity crisis in Canadian and global credit markets, the Company has maintained more than sufficient liquidity to meet its obligations. At December 31, 2008 liquid assets amounted to \$880.7 million, compared to \$627.1 million at December 31, 2007. The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets. For the twelve months ended December 31, 2008 the Company maintained a monthly average of \$598.2 million, or 46.2% of 100-day obligations in liquid assets, compared to \$463.7 million, or 48.9% for the twelve months ended December 31, 2007.

Table 16 – Liquid Assets (Based only on the subsidiary, Home Trust Company)

As at December 31 (000s, except %)	2008	2007	2006	Growth 2008/2007	Growth 2007/2006
Cash and deposits with regulated financial institutions	\$ 21,334	\$ 55,092	\$ 29,287	(61.3%)	88.1%
Bankers' acceptances and Government of Canada treasury bills	503,853	275,342	99,862	83.0%	175.7%
Government of Canada and provincial bonds	355,513	296,624	209,857	19.9%	41.3%
Total liquid assets	\$ 880,700	\$ 627,058	\$ 339,006	40.4%	85.0%
Total liabilities maturing within 100 days	1,334,316	964,432	631,850	38.4%	52.6%
Total assets	5,784,605	4,953,017	3,898,458	16.8%	27.1%
Total liabilities	5,376,960	4,639,470	3,637,072	15.9%	27.6%
Liquid assets as a % of 100-day liabilities	66.0%	65.0%	53.7%		
Liquid assets as a % of total assets	15.2%	12.7%	8.7%		
Liquid assets as a % of total liabilities	16.4%	13.5%	9.3%		

Management's Discussion and Analysis

As shown in Table 16, liquid assets totaled \$880.7 million at December 31, 2008, an increase of \$253.6 million or 40.4% over 2007. The increase reflects the decisions of management to prudently hold higher levels of liquid assets to ensure the Company is well positioned to manage during the existing economic conditions.

The majority of liquid assets arise from the excess funds the Company receives through its deposits. Deposits are primarily generated through the deposit agent network. The agent network provides the Company with access to a very significant volume of potential deposits which are sourced almost entirely from individual investors or small businesses with no reliance on wholesale funding markets. The cost of accessing this network is the commission paid on deposits. It is the Company's conclusion that commission expenditures are considerably more cost effective than increasing the number of Company-owned branches. The Company has contractual agreements with certain major national investment dealers to offer Home Trust deposit products to their customers. As well, the Company has agreements in place with more than 180 independent deposit brokers who offer Home Trust Company's deposits to their clients. The Company continues to add new investment dealers and deposit brokers to diversify the Company's funding sources.

Table 17 – Deposits

As at December 31 (000s, except %)	2008	2007	2006	Growth 2008/2007	Growth 2007/2006
Payable on demand					
Savings	\$ 6	\$ 229	\$ 6	(97.4%)	3,716.7%
Real estate tax accounts	34,802	30,564	27,865	13.9%	9.7%
	34,808	30,793	27,871	13.0%	10.5%
Payable on a fixed date					
Guaranteed investment certificates	\$ 4,636,961	\$ 4,072,541	\$ 3,121,030	13.9%	30.5%
Registered retirement savings plans	156,589	139,472	132,861	12.3%	5.0%
Short-term certificates and savings	187,946	84,037	72,639	123.6%	15.7%
Registered retirement income funds	71,952	69,473	69,390	3.6%	0.1%
Visa card security deposits	14,525	17,668	19,849	(17.8%)	(11.0%)
	5,067,973	4,383,191	3,415,769	15.6%	28.3%
Total	\$ 5,102,781	\$ 4,413,984	\$ 3,443,640	15.6%	28.2%

Deposits increased by \$688.8 million or 15.6% in 2008 to achieve two objectives: to fund the growth in the loans portfolio of \$484.2 million and to prudently increase the Company's liquidity position by investing funds in the Company's liquidity and securities portfolio. The Company's deposit portfolio is primarily comprised of fixed term deposits which represent 99.3% of all deposits, reducing the risk of untimely withdrawal of funds from retail clients. Further, the Company's entire deposit portfolio is comprised of deposits from retail investors; the Company does not raise deposits through the wholesale market. Note 9 in the consolidated financial statements of this 2008 Annual Report provides a breakdown of the Company's deposit portfolio by maturity and yield.

2009 Outlook for Deposits

The Company will continue to source deposits from the public through diversified channels and will expand the agent network through agreements with additional deposit brokers that meet the Company's selection criteria. The rate of growth of the deposit portfolio is expected to mirror the growth in the Company's loan portfolio, as deposits will continue to be the primary source to fund this growth. Effectively managing liabilities and the resulting liquidity needs will remain a key objective for the Company.

Contractual Obligations

In addition to the obligations related to deposits discussed in the previous section and in Notes 9 and 17 of the consolidated financial statements in this 2008 Annual Report, the following table presents a summary of the Company's other contractual obligations as at December 31, 2008.

Table 18 – Contractual Obligations

As at December 31 (000s)	2009	2010	2011	2012	2013	Thereafter	Total
Deposits	\$ 3,332,755	\$ 918,486	\$ 400,438	\$ 310,895	\$ 140,207	\$ –	\$ 5,102,781
Commitments							
under leases	2,224	2,028	1,991	1,890	1,881	3,564	13,578
Total	\$ 3,334,979	\$ 920,514	\$ 402,429	\$ 312,785	\$ 142,088	\$ 3,564	\$ 5,116,359

In the normal course of its activities the Company enters into various types of contractual agreements. The main obligations result from the issuance of debt instruments, which include deposits written with individuals and businesses to finance its lending activities. The Company ensures that sufficient cash resources are available to meet these contractual obligations when they become due.

The Company also has outstanding commitments for future advances on mortgages and unutilized and available credit on its credit card products. Refer to the Derivatives and Off-balance Sheet Arrangements Section of this Annual Report for a description of those commitments.

Structural Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company's treasury department manages interest rate risk by employing a number of techniques. These include the matching of asset and liability terms, and modeling techniques that measure changes to the portfolios and the impact that interest rate changes would have on the earnings capacity. Policy requirements establish maximum tolerable earnings and market value of equity impacts from interest rate shocks as limits on the amount of interest rate risk the Company can assume.

The interest rate sensitivity position as at December 31, 2008 is presented under Note 17 in the consolidated financial statements. The table provided there represents these positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. Note 17 of the consolidated financial statements of this 2008 Annual Report summarizes both on- and off-balance sheet assets and liabilities in terms of their contractual amounts. Over the lifetime of certain assets, some contractual obligations, such as residential mortgages, will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be extended but not materialize. In measuring its interest rate risk exposure, the Company makes assumptions about these factors, taking into account aspects such as past borrower history.

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

Table 19 – 100 and 200 Basis Point Interest Rate Shift

As at December 31 (000s)	Increase in Interest Rates		Decrease in Interest Rates	
	2008	2007	2008	2007
100 basis point shift				
Impact on net interest income,				
after tax (for the next 12 months)	\$ 3,917	\$ 5,282	\$ (3,917)	\$ (5,282)
Impact on net present value of shareholders' equity	(7,157)	(8,909)	7,589	(9,750)
200 basis point shift				
Impact on net interest income,				
after tax (for the next 12 months)	7,835	(10,564)	(7,835)	10,564
Impact on net present value of shareholders' equity	(13,909)	17,052	15,637	(20,424)

The Company may enter into derivative transactions for the purpose of hedging commitment risk. The purpose is to manage interest rate exposures during the period between when a mortgage commitment is made and when this mortgage loan is securitized into an MBS pool. The Company held notional \$34.3 million in forward bond contracts for the sale of Government of Canada bond positions specific to hedging commitment risk at December 31, 2008 with no such positions in the comparative period. Through the Company's participation in CMHC's CMB program, the Company was required to enter into specific swap agreements to hedge interest rate risk and the reinvestment risk between the amortizing MBS pool and the CMB bullet note. Refer to Note 16 of the consolidated financial statements in this 2008 Annual Report.

Management's Discussion and Analysis

Operational Risk

Operational risk, which is inherent in all business activities, is the potential for loss as a result of external events, human error or inadequacy, or the failure of processes, procedures or controls. The impact may include financial loss, loss of reputation, loss of competitive position, or regulatory penalties. The Company is exposed to operational risks not only from internal business activities, but also from activities that are outsourced. While operational risk cannot be completely eliminated, the Company has taken proactive steps to mitigate this risk. The financial measure of operational risk is actual losses incurred. No material losses occurred as a result of operational risks in either 2008 or 2007.

Key strategies instituted to minimize and manage operational risk include:

- > Establishment of an annual risk and control self-assessment program to ensure all business lines have considered and documented significant operations risks within their particular business line;
- > A knowledgeable and experienced management team that is committed to complying with the risk management policies;
- > Establishment of whistleblower and employee code of conduct processes;
- > The adoption of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework for internal control assessment and the COBIT 4.0 Framework for IT governance;
- > Formation of the senior management committee, which meets monthly and is comprised of senior management personnel from all of the Company's business areas and is chaired by the Chief Executive Officer of the Company. The committee includes all individuals responsible for the development and recommendation of policies and procedures regarding day-to-day operations of the Company;
- > Communication of effective principles and practices of enterprise risk management to all levels of staff through training and policy implementation;
- > Regular review and testing for compliance of the Company's policies by an independent team; and
- > Continuous review and upgrades of systems and procedures, including updated and tested procedures and contingency plans for disaster recovery and business continuity.

The Company also maintains appropriate insurance coverage through a financial institution bond policy. The Company believes exposure to other price risk is not material.

Investment Portfolio Risk

The Company's Board of Directors meets on a quarterly basis to review the status of the investment portfolio, review transactions undertaken during the previous quarter, ensure compliance under The Trust and Loan Companies Act (Canada), and ensure compliance with the Company's investment policy. The Board of Directors approves specific investment limits. Further, an investment committee comprised of senior management of the Company meets on a bi-weekly basis to review the Company's investment portfolio, potential investment acquisitions and overall portfolio returns. The investment committee further reviews and monitors those investments where fair value is below book value to assess whether an other than temporary impairment exists in any individual investment.

The Company has set out four limitations to ensure that the objectives, as defined in the Company's investment policy, are met.

- > The first limit is that total investments in P1 and P2 rated preferred shares will not exceed 100% of regulatory capital. As at December 31, 2008 these were maintained at 31.9% of regulatory capital (36.1% at December 31, 2007).
- > The second limit is that the Company's total investment in common shares, income trusts or other structured products, mutual funds or similar products, preferred shares that do not qualify under the first limit, and managed funds in common shares will not exceed 40% of regulatory capital. As at December 31, 2008, these types of investments accounted for 7.7% of regulatory capital (14.3% at December 31, 2007). The significant drop reflects management's intentions to hold more term-structured investments.
- > The third limit is that the Company's total investment in bonds and debentures that are not guaranteed by the federal or provincial governments will not exceed 50% of regulatory capital. As at both December 31, 2008 and 2007 no investments were held in bonds or debentures that are not guaranteed by the federal or provincial governments.
- > The fourth limit is that the total value of the portfolio cannot exceed 100% of regulatory capital. As at December 31, 2008 the total investment portfolio as a percentage of regulatory capital was 39.6%.

Strategic and Business Risk

Strategic and business risk is the risk of loss due to fluctuations in the external business environment, the failure of management to adjust its strategies and business activities for external events or business results, or the inability of the business to change its cost levels in response. Strategic and business risk is managed by the CEO and senior management team. The Company has in place a structured business planning process overseen by the Vice President, Strategic Planning and Performance Measurement. On a regular basis the senior management team reviews the current environment, business results and the actions of our competitors and adjusts business plans accordingly. On at least an annual basis the Board approves the Company's strategies and reviews results against those strategies quarterly.

Reputational Risk

Reputational risk is the risk that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in it, resulting in a loss of business, legal action, or increased regulatory oversight. It can arise from various possible events and most typically occurs in connection with strategic and operational risk.

The Company views reputational risk as an exposure to earnings and/or capital from the consequence or failure to adequately manage its strategic and operational risks rather than a specific risk per se. Failure to effectively manage these risks can result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's growth objectives.

In taking a balanced view of risk, the most effective way for an institution to safeguard its public reputation is through the successful management of the underlying risks in the business. The Company believes that the means to achieve this is through the adoption of an enterprise risk management framework.

Regulatory and Legal Risk

Regulatory risk is the risk of a negative impact to the business activities, earnings or capital, regulatory relationships or reputation as a result of a failure to adhere to or comply with regulations or ethical standards. Legal risk is the risk of non-compliance with legal requirements, including the effectiveness in preventing or handling legal claims.

The financial services industry is heavily regulated with high standards expected in all of the Company's business dealings. As a result, the Company is exposed to regulatory risk in practically all of its activities. Failure to meet regulatory requirements not only poses a risk of regulatory constraints but also puts the reputation of the Company at risk.

Proactive management of regulatory risk is carried out through an entity-wide regulatory risk framework called the legislative compliance management framework (LCM). The compliance department is responsible for LCM and as such is responsible for managing day-to-day regulatory risk. The compliance department receives assistance when required from in-house counsel and internal audit.

Internal and external counsel work closely with the business units in daily operations to identify areas of potential legal risk, to draft and negotiate legal agreements to manage those risks, to provide advice on the performance of legal obligations under agreements and manage litigation as it arises to which the Company is party.

Additional Risk Factors that May Affect Future Results

In addition to the risks described in the Risk Management Section, there are numerous other risk factors, in particular macroeconomic and industry factors beyond the Company's control, which could cause our results to differ significantly from our plans, objectives and estimates. Some of these factors are described below. All forward-looking statements, by their very nature, including those in this MD&A, are subject to inherent risks and uncertainties, general and specific, which may cause the Company's actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these external factors are discussed below.

Monetary and Fiscal Policy

The Company's earnings are affected by the monetary policy of the Bank of Canada and the fiscal policy of the federal government of Canada and other governments in Canada and abroad. Changes in supply of money, government spending and the general level of interest rates can impact the Company's profitability. A change in the level of interest rates affects the interest spread between the Company's deposits and loans and as a result impacts the Company's net interest income. Changes in monetary and fiscal policy and in the financial markets are beyond the Company's control and are difficult to predict or anticipate. During the past year there have been significant changes in monetary and fiscal policy that have affected the Company's performance. Further developments, in particular stimulus packages, are expected to be enacted which may have additional impacts on the Company.

Level of Competition

The Company's performance is impacted by the level of competition in the markets in which it operates. The Company currently operates in a highly competitive industry. Customer retention can be influenced by many factors, such as the pricing of products or services, changes in customer service levels, changes in products or services offered and general trends in consumer demand.

Changes in Laws and Regulations

Changes in laws and regulations, including interpretation or implementation, could affect the Company by limiting the products or services it can provide and increasing the ability of competitors to compete with its products and services. Also, the Company's failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact its earnings and damage the Company's reputation.

Management's Discussion and Analysis

Accounting Policies and Estimates Used by the Company

The accounting policies and estimates the Company utilizes determine how the Company reports its financial condition and results of operations, and require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect the Company's results of operations and financial condition. Additional information is included in the discussion on Significant Accounting Estimates and Critical Accounting Policies on page 40.

Ability to Attract and Retain Employees and Executives

The Company's future performance depends to a large extent on its ability to attract and retain key personnel. There is strong competition for the best people in the financial services sector. There is no assurance that the Company will be able to continue to attract and retain key personnel, although this remains a fundamental corporate priority.

Operational and Infrastructure Risk

The Company is exposed to many types of operational risk that affect all corporations. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. Further, the Company is exposed to the risk that computer or telecommunication systems could fail, despite our efforts to maintain these systems in good working order. Shortcomings or failures in our internal processes, employees or systems, including any of our financial, accounting or other data processing systems, could lead to financial loss and damage to our reputation. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations.

SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

The financial results for each of the last eight quarters are summarized in the following table. The table illustrates the Company's continued positive earnings trend, return on shareholders' equity, and diluted earnings per share. Total revenues continued to rise on the growth in the Company's income-producing assets, strong securitization activities and cost containment efforts that resulted in an efficiency ratio (TEB) of 27.0% in the fourth quarter. The annualized provision remained consistent during the year despite an upward trend in net impaired loans as a percentage of gross loans.

Table 20 – Summary of Quarterly Results

		2008				2007			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income (TEB) ¹	\$	36,399	\$ 39,478	\$ 40,418	\$ 38,590	\$ 40,394	\$ 39,396	\$ 37,647	\$ 34,276
Less TEB adjustment		1,162	1,130	1,056	962	2,311	1,084	1,118	942
Net interest income									
per financial statements		35,237	38,348	39,362	37,628	38,083	38,312	36,529	33,334
Non-interest income		26,023	23,013	17,318	14,338	14,561	11,964	11,467	10,075
Non-interest expense		16,852	16,953	17,443	14,763	15,687	13,289	13,382	11,840
Total revenues		117,996	116,950	112,953	106,796	105,081	94,346	87,708	81,745
Net income		29,039	27,939	26,550	25,159	24,228	22,837	22,018	21,158
Return on common									
shareholders' equity		27.4%	27.6%	27.7%	27.9%	28.9%	28.9%	28.9%	29.3%
Return on average total assets		2.0%	2.0%	2.0%	1.9%	2.0%	2.0%	2.1%	2.1%
Earnings per common share									
Basic	\$	0.84	\$ 0.81	\$ 0.77	\$ 0.73	\$ 0.70	\$ 0.66	\$ 0.64	\$ 0.62
Diluted	\$	0.84	\$ 0.81	\$ 0.76	\$ 0.72	\$ 0.70	\$ 0.65	\$ 0.63	\$ 0.61
Book value per common share	\$	12.57	\$ 12.07	\$ 11.44	\$ 10.79	\$ 10.08	\$ 9.38	\$ 8.98	\$ 8.70
Efficiency ratio (TEB) ¹		27.0%	27.1%	30.2%	27.9%	28.5%	25.9%	27.3%	26.7%
Efficiency ratio		27.5%	27.6%	30.8%	28.4%	29.8%	26.4%	27.9%	27.3%
Tier 1 capital ratio ²		12.9%	12.7%	12.5%	12.0%	11.1%	11.7%	12.9%	12.7%
Total capital ratio ²		14.2%	14.0%	13.8%	13.4%	12.5%	13.1%	14.4%	14.3%
Net impaired loans									
as a % of gross loans		0.9%	0.7%	0.7%	0.7%	0.7%	0.6%	0.7%	0.7%
Annualized provision									
as a % of gross loans		0.2%	0.3%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%

¹ See page 9 for a discussion on TEB and other non-GAAP measures.
² These figures relate to the Company's operating subsidiary, Home Trust Company.

Net income was \$29.0 million in the fourth quarter of 2008, a \$4.8 million or 19.9% increase over the \$24.2 million recorded in the comparative quarter of 2007. The growth in earnings is attributable to a number of factors as the Company experienced strong growth in all business lines and particularly in securitization activities.

Total non-interest income was \$26.0 million for the quarter, a 78.7% increase over the comparable quarter in 2007. The quarter-over-quarter increase was driven largely by the strong growth in securitization gains through the Company's participation in the CMB program and additional short-term MBS securitizations. Offsetting the strong securitization gains were the losses incurred on the forward bond contracts which the Company entered into to economically hedge the commitment risk on these securitization transactions. The increases in fees generated from the administration of the loans portfolio were offset by losses incurred on the securities portfolio.

Total non-interest expense for the quarter was \$16.9 million, compared to \$15.7 million for the fourth quarter of 2007. The increases over the comparable quarter of 2007 were due to higher salary and benefit expenses and the inclusion of the operating expenditures of PSiGate, which was acquired in October 2007. Salaries and staff benefits expenses for the quarter increased by \$0.4 million or 4.9% over the fourth quarter of 2007. The Company ended the quarter with 395 employees, up from 377 employees at December 31, 2007. Premises expenses increased from the prior year period as the Company entered into a new lease arrangement effective June 2008, expanding the head office space with 50% more square footage to enable continued future growth, including the accommodation of additional staff from the relocation of the St. Catharines branch to the Toronto head office.

The Company expensed \$2.0 million during the quarter, compared to \$2.4 million in the fourth quarter of 2007 through the provision for credit losses. This expense represented 0.2% (2007 - 0.2% annualized) of total gross loans, on an annualized basis. The Company continues to add to the general allowance for credit losses as a prudent measure in line with overall asset growth. The total general allowance amounted to \$25.2 million at the end of 2008, an increase of \$1.8 million over the \$23.4 million recorded at December 31, 2007.

Total assets as at December 31, 2008 were \$5.81 billion, an increase of \$187.9 million or 3.3% over the September 30, 2008 asset balance of \$5.62 billion. The growth in total assets over the quarter was primarily generated from growth in cash resources and the Company's securities portfolio. The Company's cash resources increased by \$123.1 million while the securities portfolio rose by \$31.5 million over September 30, 2008. The loans portfolio declined slightly quarter-over-quarter as the Company capitalized on the strong spreads in the securitization market and securitized \$557.7 million in single family and multi-unit residential mortgages during the quarter. As a result of the strong securitization activity, securitization receivables increased by \$32.9 million or 30.8% over September 30, 2008. Other assets increased by \$9.4 million, primarily resulting from corporate income tax changes within the Company's tax balances, accrued interest earned on the loans portfolio and payments to be received from the Company's securitization activities.

Liabilities at December 31, 2008 rose to \$5.38 billion, an increase of \$171.4 million or 3.3% over the \$5.21 billion recorded at September 30, 2008. The rise in liabilities from September 30, 2008 resulted primarily from increased deposits of \$158.7 million. Excess deposit liabilities were invested in the Company's cash resources and securities portfolio. Other liabilities increased by \$13.9 million or 5.4% over September 30, 2008 primarily due to increases of \$6.6 million in the Company's corporate future tax liabilities, and increases of \$6.0 million in the servicing liability relating to Company's ongoing administration of the off-balance sheet residential mortgage loans portfolio.

Total shareholders' equity at December 31, 2008 rose by \$16.5 million or 4.0% over the \$416.3 million reported at September 30, 2008. This growth was internally generated from earnings in the quarter of \$29.0 million, less \$4.5 million for shareholder dividends. Offsetting the net growth in earnings in the quarter was a reduction in accumulated other comprehensive income of \$7.7 million. Additional movements resulted from amortization of the fair value of stock options, and the Company's buy-back of capital stock through its Normal Course Issuer Bid. At December 31, 2008 the book value per common share was \$12.57, compared to \$12.07 at September 30, 2008 and \$10.08 at December 31, 2007.

For further information and details refer to the Company's fourth quarter report filed on the Company's website at www.homecapital.com dated February 17, 2009.

Management's Discussion and Analysis

ACCOUNTING STANDARDS AND POLICIES

Significant Accounting Estimates and Critical Accounting Policies

The significant accounting policies are outlined in Note 1 to the consolidated financial statements starting on page 50 of this Annual Report. The following policies are critical, since they refer to material amounts and require management to make estimates that by their very nature involve uncertainties.

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

I) Allowance for Credit Losses

Specific Allowance

Specific allowances are established to cover estimated losses on the loans portfolio. Loan impairment is recognized when, based on management's judgement, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the loan agreement. Specific allowances are determined on a loan-by-loan basis and reflect the associated estimated credit loss. In the case of Equityline Visa credit cards, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. The fair value of the underlying security is used to estimate the realizable amount of the loan.

General Allowance

The general allowance is established to cover estimated credit losses that are incurred in the loans portfolio that have not yet been specifically identified as impaired. The general allowance is based upon statistical analysis of past performance, level of allowance already in place and management's judgement. The general allowance, based on the historical loss experience, adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. This estimate includes consideration of economic and business conditions, management's judgement and the risks related to the model. In determining the general allowance level, management must also consider current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. Any fundamental change in methodology is subject to independent vetting and review.

Total Allowance for Credit Losses

Based on the procedures above, management believes that the total allowance for credit losses of \$28.1 million is adequate to absorb estimated credit losses incurred in the loans portfolio as at December 31, 2008. At December 31, 2008 the Company's total allowance for credit losses was \$28.1 million (\$24.4 million at December 31, 2007), which included specific allowances of \$2.9 million (\$1.0 million at December 31, 2007) and general allowances of \$25.2 million (\$23.4 million at December 31, 2007). Additional information on the allowance for credit losses can be found in Notes 1 and 5 to the consolidated financial statements and the discussion of credit risk beginning on page 30 of this MD&A.

II) Securitization

Securitization is a process by which financial assets, including government guaranteed mortgage loans of the Company, are converted into securities and sold to investors. When the Company surrenders control over the mortgage loans sold and receives consideration other than beneficial interest in the transferred assets, this transaction is recorded as a sale. The determination of the initial gain depends on the value attributed to the retained interests, referred to as securitization receivable. Since quoted market prices are not available for this retained interest, the Company estimates the fair value based on the present value of estimated future cash flows. As a result, estimates and assumptions could have a material impact on results. Also, retained interests must be reviewed on an ongoing basis for changes in the estimates and assumptions. For further information on this refer to Note 6 of the consolidated financial statements in this 2008 Annual Report, which presents a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The Off-balance Sheet Arrangements Section of this MD&A provides further information on these transactions.

III) Financial Instruments Measured at Fair Value

Cash resources, held for trading, available for sale securities, securitization receivable and derivative financial instruments are reported on the consolidated balance sheet at fair value. The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Fair value can be defined as the amount at which a financial instrument could be bought or sold in a current transaction, other than in a forced or liquidation sale, between knowledgeable and willing parties in an arm's-length transaction under no compulsion to act. The best evidence of fair value is quoted bid or ask prices, as appropriate, in an active market. Where quoted prices are not available for a particular financial instrument, the Company uses the quoted price of a financial instrument with similar characteristics and risk profile or internal or external valuation models using observable market-based inputs to estimate the fair value.

The determination of fair value for actively traded financial instruments that have quoted market prices or readily observable model input parameters requires minimal subjectivity. Management's judgement is required, however, when the observable market prices and parameters do not exist.

The majority of the Company's financial assets that are classified as held for trading other than derivatives and classified as available for sale comprise or relate to actively traded debt and equity securities, which are carried at fair value based on available quoted prices. For derivative financial instruments where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis and other valuation techniques commonly used by market participants. The fair value of the securitization receivable (classified as available for sale in Table 21) is estimated using a discounted cash flow model and management's best estimates of key assumptions such as prepayment rates, discount rate, average term of assets sold and other factors that influence the value of the retained interest.

The following table summarizes the significant financial assets and liabilities carried at fair value, by valuation methodology as at December 31, 2008 and December 31, 2007.

Table 21 – Assets Carried at Fair Value by Valuation Methodology

2008						2007				
As at December 31										
		Quoted	Pricing Models with Significant Observable Market Parameters	Pricing Models with Significant Non-observable Market Parameters	Total	Fair Value	Quoted Prices	Pricing Models with Significant Observable Market Parameters	Pricing Models with Significant Non-observable Market Parameters	Total
(000s, except %)	Fair Value	Prices	Parameters	Parameters	Total	Fair Value	Prices	Parameters	Parameters	Total
Financial assets										
Required to be classified as held for trading other than derivatives	\$ 554,422	100%	-	-	100%	\$ 468,759	100%	-	-	100%
Derivatives	-	-	-	-	-	983	-	100%	-	100%
Classified as available for sale	659,347	79%	-	21%	100%	422,226	84%	-	16%	100%
	\$ 1,214,223					\$ 891,968				
Financial liabilities										
Derivatives	\$ 202	-	100%	-	100%	\$ -	-	-	-	-

Management's Discussion and Analysis

IV) Other Than Temporary Impairment of Available for Sale Securities

The Company reviews available for sale and financial assets at each quarter-end reporting period to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other than temporary. In making this assessment, we consider such factors as the type of investment, the length of time and extent to which the fair value has been below the cost, the financial condition and near-term prospects of the issuer, and our intent and ability to hold the investment long enough to allow for any anticipated recovery. If the decline in value is considered to be other than temporary, the cumulative changes in the fair values of available for sale securities previously recognized in Accumulated Other Comprehensive Income (AOCI) are reclassified to net income during that period. For further details, refer to Note 4 to the consolidated financial statements.

V) Goodwill

Under GAAP, goodwill is not amortized and is generally allocated to reporting units which are one level below the Company's operating segment. Goodwill is tested for impairment on an annual basis or more frequently if an event occurs or circumstances change such that the fair value of the reporting unit may be reduced to less than its book value. Testing goodwill begins with determining the fair value of each reporting unit and comparing the fair value to the carrying amount, including goodwill and other assets or liabilities attributable to that reporting unit. If the carrying value of the reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill must be determined and compared to its carrying value. The fair value of the goodwill is imputed by determining the fair value of the assets and liabilities of the reporting unit. Goodwill is deemed to be impaired if its carrying value exceeds the fair value. That excess is the amount of the impairment that would be recognized into income in the period it is identified. Subsequent reversal in value of goodwill is not permitted. The Company undertook a comprehensive review of goodwill during the year and concluded that the fair value of the reporting units to which goodwill was assigned exceeded the carrying value of the reporting unit and no goodwill impairment was recorded.

VI) Income Tax

Future income tax assets and liabilities reflect management's estimate of the value of temporary differences. The determination of an asset's or liability's value is based on assumptions related to the results of operations of future periods, the timing of reversals of temporary differences, and the tax rates anticipated on the date of reversals. The use of different assumptions may produce significantly different results, particularly if federal or provincial governments introduce changes in the budgets that were previously announced. For further information on income tax expense refer to Note 13 to the consolidated financial statements on page 65 of this Annual Report.

Changes in Accounting Policies During 2008

Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Company adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 3862, *Financial Instruments – Disclosures*; Section 3863, *Financial Instruments – Presentation*; and Section 1535, *Capital Disclosures*.

Section 3862 and Section 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revised and enhanced its disclosure requirements and continued its presentation requirements. These new sections place an increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 1535 specifies the disclosure of an entity's objectives, policy and processes in managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements and, if it has not complied, the consequences of non-compliance.

Future Accounting Policy Changes

Goodwill and Intangibles

The CICA has issued a new accounting standard, Handbook Section 3064, *Goodwill and Intangible Assets*, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. As a result, start-up costs must be expensed as incurred. The new standard takes effect January 1, 2009. The implementation of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

International Financial Reporting Standards

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

The Company will change over to IFRS starting with interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year-end December 31, 2010. The Company has commenced the process of transition from current Canadian GAAP to IFRS. It has established a project team that includes representatives from various areas of the organization as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted.

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

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

The Company completed the research, diagnostic and planning phase and started working on the impact analysis, evaluation and design phase during the fourth quarter of 2008. The Company's analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences. The extent of those differences is currently being analyzed and the Company will provide further information as it continues on its path to convergence.

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and the MD&A presents 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 Vice President, Finance, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2008. Based on that evaluation, the Company's management, including the Chief Executive Officer and Vice President, Finance, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2008.

Management's Discussion and Analysis

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 has used the COSO framework and COBIT 4.0, an IT governance framework, to evaluate the design of the Company's internal controls over financial reporting.

An evaluation of the design and operating effectiveness of internal controls over financial reporting was conducted as of December 31, 2008. Based on that evaluation, the Company's management, including the Chief Executive Officer and Vice President, Finance, concluded that the Company's internal controls over financial reporting were operating effectively as of December 31, 2008.

Changes to Internal Controls over Financial Reporting

During the year ended December 31, 2008, no changes to internal controls over financial reporting affected, nor are reasonably likely to materially affect, internal controls over financial reporting.

Updated Share Information

As at February 27, 2009 the Company had issued 34,399,290 common shares. In addition, outstanding director and employee stock options amounted to 1,436,750 (1,293,750 – 2007) of which 661,125 are exercisable as of the end of 2008 (526,250 – 2007) for proceeds to the Company upon exercise of \$12.4 million (\$7.9 million – 2007).

This Management's Discussion and Analysis is dated as of March 11, 2009.

Management's Responsibility for Financial Information

The consolidated financial statements of Home Capital Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control system designed to provide assurance that the transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.

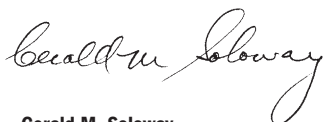
The internal control systems are further supported by a compliance function, which ensures that the Company and its employees comply with all regulatory requirements, as well as by a risk integration function and an operating risk management function that ensure proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditor periodically evaluates various aspects of the Company's operations and makes recommendations to management for, among other things, improvements to the control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada makes such examinations and inquiries as deemed necessary to satisfy itself that Home Trust Company is in a sound financial position and that it complies with the provisions of the Trust and Loan Companies Act (Canada).

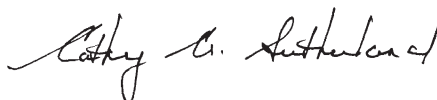
Ernst & Young LLP, independent auditors, appointed by the shareholders, perform an audit of the Company's consolidated financial statements and their report follows.

The internal auditor, the external auditors and the Office of the Superintendent of Financial Institutions Canada meet periodically with the Audit Committee, with management either present or absent, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial statements and Management's Discussion and Analysis of results of operations and financial condition appearing in the Annual Report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee. The Audit Committee is composed solely of Directors who are not Officers or employees of the Company.



Gerald M. Soloway
Chief Executive Officer
Toronto, Canada
March 9, 2009



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

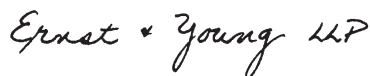
Auditors' Report

To the Shareholders of **Home Capital Group Inc.**

We have audited the consolidated balance sheets of **Home Capital Group Inc.** as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada
March 9, 2009

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at December 31 (000s)		2008	2007
ASSETS			
Cash resources			
Deposits with regulated financial institutions		\$ 554,422	\$ 344,464
Treasury bills guaranteed by Canada		-	9,872
		554,422	354,336
Securities (Note 4)			
Held for trading		-	114,423
Available for sale		519,477	356,458
		519,477	470,881
Loans (Note 5)			
Residential mortgages		3,263,206	3,169,953
Other mortgages		826,882	467,921
Personal and credit card loans		368,962	325,393
Secured loans		72,518	82,304
General allowance for credit losses		(25,177)	(23,400)
		4,506,391	4,022,171
Other			
Securitization receivables	(Note 6)	139,870	65,768
Capital assets	(Note 7)	5,325	4,837
Other assets	(Note 8)	84,228	57,100
		229,423	127,705
		\$ 5,809,713	\$ 4,975,093
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits (Note 9)			
Payable on demand		\$ 34,808	\$ 30,793
Payable on a fixed date		5,067,973	4,383,191
		5,102,781	4,413,984
Other			
Cheques and other items in transit		4,811	4,393
Other liabilities	(Note 10)	269,368	208,676
		274,179	213,069
Commitments and contingencies	(Note 15)	-	-
SHAREHOLDERS' EQUITY			
Capital stock	(Note 11)	39,094	38,899
Contributed surplus		3,283	1,818
Retained earnings		401,429	313,620
Accumulated other comprehensive loss		(11,053)	(6,297)
		432,753	348,040
		\$ 5,809,713	\$ 4,975,093

See accompanying notes

On behalf of the Board:



Gerald M. Soloway
Chief Executive Officer



Norman F. Angus
Chairman of the Board

Consolidated Statements of Income

Year ended December 31 (000s, except per share amounts)	2008	2007
Income		
Interest from loans	\$ 339,242	\$ 288,924
Dividends from securities	9,237	10,877
Other interest	25,524	21,013
	374,003	320,814
Interest expense		
Interest on deposits	223,428	174,556
Net interest income	150,575	146,258
Provision for credit losses (Note 5)	6,638	6,042
	143,937	140,216
Non-interest income (loss)		
Fees and other income	28,452	21,533
Securitization income (Note 6)	71,103	27,367
Net realized and unrealized losses on investment securities	(5,365)	(1,614)
Net gain on disposition of subsidiary (Note 3)	69	-
Net realized and unrealized gain (loss) on derivatives	(13,567)	781
	80,692	48,067
	224,629	188,283
Non-interest expenses		
Salaries and benefits	36,182	30,195
Premises	4,439	3,837
General and administration	25,390	20,166
	66,011	54,198
Income before income taxes	158,618	134,085
Income taxes (Note 13)		
Current	35,533	40,532
Future	14,398	3,312
	49,931	43,844
Net income for the year	\$ 108,687	\$ 90,241
Average number of common shares outstanding (Note 11)		
Basic	34,512	34,447
Diluted	34,669	34,857
Net income per common share (Note 11)		
Basic	\$ 3.15	\$ 2.62
Diluted	\$ 3.13	\$ 2.59

See accompanying notes

Consolidated Statements of Comprehensive Income

Year ended December 31 (000s)	2008	2007
Net income	\$ 108,687	\$ 90,241
Other comprehensive loss, net of tax		
Net unrealized losses on securities		
available for sale (net of (\$4,049) tax; (\$2,458) in 2007)	(10,463)	(4,899)
Transfers to net income (net of \$1,796 tax; (\$434) in 2007)	5,707	(768)
	(4,756)	(5,667)
Comprehensive income	\$ 103,931	\$ 84,574

See accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

Year ended December 31 (000s)	2008	2007
Capital stock (Note 11)		
Common shares		
Balance, beginning of year	\$ 38,899	\$ 35,436
Proceeds of options exercised	318	3,585
Repurchase of shares	(123)	(122)
Balance, end of year	\$ 39,094	\$ 38,899
Contributed surplus		
Balance, beginning of year	\$ 1,818	\$ 783
Amortization of fair value of employee stock options (Note 11)	1,516	1,129
Employee stock options exercised	(51)	(94)
Balance, end of year	\$ 3,283	\$ 1,818
Retained earnings		
Balance, beginning of year	\$ 313,620	\$ 240,647
Transitional adjustment on adoption of new accounting policies (Note 2)	-	1,391
Net income for the year	108,687	90,241
Dividends paid	(13,461)	(11,043)
Dividends declared	(4,477)	(3,799)
Repurchase of shares (Note 11)	(2,940)	(3,817)
Balance, end of year	\$ 401,429	\$ 313,620
Accumulated other comprehensive loss		
Balance, beginning of year	\$ (6,297)	\$ -
Transitional adjustment on adoption of financial instruments (Note 2)	-	(630)
Other comprehensive loss (net of (\$2,253) tax; (\$2,892) in 2007)	(4,756)	(5,667)
Balance, end of year	\$ (11,053)	\$ (6,297)

See accompanying notes

Consolidated Statements of Cash Flows

Year ended December 31 (000s)	2008	2007
OPERATING ACTIVITIES		
Net income for the year	\$ 108,687	\$ 90,241
Adjustments to determine net cash flows relating to operating activities		
Future income taxes	14,398	3,312
Amortization of capital assets	2,823	1,997
Amortization of intangible assets and other deferred assets	675	93
Amortization of securities	25,894	9,601
Amortization of fair value of employee stock options	1,516	1,129
Provision for credit losses	6,638	6,042
Change in accrued interest receivable	(2,553)	(6,262)
Change in accrued interest payable	23,965	23,730
Net realized and unrealized losses on investment securities	5,365	1,614
(Gain) loss realized and unrealized on derivatives	13,567	(781)
Securitization gains on mortgage-backed securities	(71,103)	(27,367)
Change in other assets	(25,250)	14,814
Change in cheques and other items in transit	418	1,738
Change in other liabilities	9,871	(368)
Cash provided by operating activities	114,911	119,533
FINANCING ACTIVITIES		
Net increase in deposits	688,797	972,192
Issuance of capital stock	318	3,585
Normal course issuer bid	(3,063)	(3,939)
Exercise of stock options	(51)	(94)
Dividends paid	(17,260)	(14,119)
Cash provided by financing activities	668,741	957,625
INVESTING ACTIVITIES		
Activity in available for sale and held for trading securities		
Purchases	(555,804)	(271,256)
Proceeds on sales	385,792	48,854
Proceeds on maturities	73,313	79,457
Activity in mortgages		
Net increase	(1,954,052)	(1,309,808)
Proceeds from securitization	1,478,138	673,920
Change in securitization receivables	28,031	32,372
Net increase in personal and credit card loans	(44,506)	(89,084)
Net increase in secured loans	8,833	(12,372)
Business acquisition (Note 3)	-	(16,563)
Purchase of capital assets	(3,311)	(1,873)
Cash used in investing activities	(583,566)	(866,353)
Net increase in cash and cash equivalents	200,086	210,805
Cash and cash equivalents, beginning of year	354,336	143,531
Cash and cash equivalents, end of year	\$ 554,422	\$ 354,336
Supplemental disclosure of cash flow information		
Amount of interest paid in year	\$ 199,440	\$ 150,824
Amount of income taxes paid in year	43,055	46,723

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Home Capital Group Inc. (the Company) have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries, after the elimination of intercompany transactions and balances.

The Company also consolidates variable interest entities (VIEs) when it is the primary beneficiary. Under AcG-15, "Consolidation of Variable Interest Entities," guidance is provided for applying consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under this standard, the Company must consolidate these entities if it is the primary beneficiary that is, as a result of this investment, exposed to a majority of expected losses or is in a position to benefit from a majority of the returns. Under this guideline, the QSPE-HCC Trust (operating as Regency Finance Corp.) is consolidated and its assets are reported as secured loans on the balance sheet. Regency Finance Corp. consists only of these secured loans and the Company is the sole beneficiary.

Subsidiaries are defined as the corporations whose operations are controlled by the Company and are corporations in which the Company owns more than 50% of the voting shares. The subsidiaries included in the consolidated financial statements are Home Trust Company (Home Trust), Payment Services Interactive Gateway Corp. (PSiGate) and Home Trust Asset Management Inc. (HTAM), all of which are wholly owned.

Cash Resources

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at fair value. Interest income is recognized in income on an accrual basis and, to the extent not received at year-end, recorded as a receivable in other assets on the consolidated balance sheet.

Cheques and Other Items in Transit

Cheques and other items in transit represent uncleared settlements with other regulated financial institutions and are recorded at cost.

Securities

Securities are classified as either held for trading or available for sale based on management's intentions. On the settlement date, all securities are recognized at their fair value, which is normally the transaction price.

Held for trading securities are financial assets purchased for resale, generally within a short period of time and primarily held for liquidity purposes. Interest earned is included in other interest income. Held for trading securities are measured at fair value, using published bid prices, as at the consolidated balance sheet date. All realized and unrealized gains and losses are reported in income under non-interest income. Transaction costs are expensed as incurred. The Company has not elected under the fair value option to designate any financial asset or liability as held for trading.

Available for sale securities are financial assets purchased for longer-term investment that may be sold in response to or in anticipation of changes in market conditions. Dividends and interest earned are included in dividends from securities or other interest. Available for sale securities are measured at their fair value, using published bid prices, as at the consolidated balance sheet date. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income until the security is sold or an other than temporary impairment is recognized at which time the cumulative loss is transferred to net income. The Company conducts a quarterly review to identify securities which have indicators of possible impairment. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the likelihood for recovery. Transaction costs are generally capitalized.

Effective January 1, 2008, all new bond acquisitions were designated as available for sale securities consistent with the Company's intention to hold them longer term.

Loans

Loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the loan. Origination revenues and costs are applied to the carrying amount of the loan.

Loans are carried net of the specific allowance for credit losses and any unearned income.

Interest income is accrued as earned until such time as the loan is recognized as impaired. At that time interest ceases to accrue and all previously accrued interest is reversed.

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or when it has been in arrears for 90 days. Secured and unsecured credit card balances that have a payment that is contractually 180 days in arrears are written off. Equityline Visa credit card balances are measured on a basis consistent with mortgage loans.

When loans are classified as impaired, the book value of these loans is brought back to their estimated realizable value based on the fair value of any security underlying the loan, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for loan losses.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up to date and management is reasonably assured as to the recoverability of the loan.

Allowance for Credit Losses

An allowance for credit losses is maintained at an amount which in management's opinion is considered adequate to absorb all credit-related losses in its portfolio. Allowances are mainly related to loans but may also apply to other assets. The allowance consists of accumulated specific and general provisions, each of which is reviewed on a regular basis. The general allowance is increased by these provisions, which are charged to income, and reduced by write-offs, net of recoveries. The allowance is deducted from the loans on the consolidated balance sheet.

Specific Allowances

Specific allowances are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans and Equityline Visa credit cards, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. The fair value of the underlying security is used to estimate the realizable amount of the loan. The allowance is the difference between the loan's carrying value and its estimated realizable amount. For secured and unsecured credit cards, specific provisions are provided for arrears over 120 days.

General Allowances

General allowances are established to absorb credit losses on the aggregate exposures in each of the Company's business lines for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon statistical analysis of past performance, level of allowance already in place and management's judgement. The general allowance, based on the historical loss experience, adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. This estimate includes consideration of economic and business conditions, management's judgement and the risks related to the model.

The amount of the provision for credit losses that is charged to the consolidated statement of income is the amount that is required to establish a balance in the allowance for credit losses account that the Company's management considers adequate to absorb all credit-related losses in its portfolio of balance sheet items, after charging amounts written off during the year, net of any recoveries, to the allowance for credit losses account.

Loan Securitization (Securitization Receivables)

The Company periodically transfers pools of mortgages to special purpose entities or trusts which in turn issue securities to investors. Mortgage loan securitization is part of the Company's liquidity and capital management strategies. These transfers are accounted for as sales when the Company surrenders control of the transferred assets and receives consideration other than the beneficial interest in the transferred assets. The securitization trust has no recourse to the Company's other assets.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

When such sales occur, the Company retains interest-only strips and servicing responsibilities for the assets sold. Gains or losses on these transactions are recognized as income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer, net of transaction costs. Retained interests are classified as available for sale assets and are stated at their fair value with unrealized gains and losses reported in accumulated other comprehensive income. The fair value of the retained interests is estimated using discounted cash flow methodology and management's best estimates of key assumptions, such as prepayment rates, average term of assets sold and other factors, that influence the value of the retained interests.

Retained interests are revalued quarterly to assess for other than temporary impairment.

Capital Assets

Capital assets, which are comprised of office furniture and equipment, computer equipment, software and leasehold improvements, are recorded at cost and amortized over their estimated useful lives on a declining balance basis at the following annual rates:

Office furniture and equipment	20%
Computer equipment	30%-45%

Software is amortized on a straight-line basis over two years. Leasehold improvements are amortized on a straight-line basis over the remaining term of the leases.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the consolidated balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency transactions are included in fees and other income in the consolidated statement of income.

Goodwill and Intangible Assets

Goodwill and intangible assets are tested annually for impairment to ensure that their fair value is greater than or equal to book value. Any excess of book value over fair value is charged to income in the period in which the impairment is determined. It is management's belief that there is no impairment of goodwill or intangible assets as at December 31, 2008.

Intangible assets (customer contracts and lists acquired on acquisition) are amortized on a straight-line basis over their useful lives as determined at the time of valuation.

Derivative Financial Instruments

Home Trust enters into non-trading derivative financial instruments as part of the mortgage securitization program. Non-trading derivatives entered into are carried at fair value in other assets or liabilities, on a net basis, with changes in fair value recorded in non-interest income on the consolidated statements of income.

During 2008 and 2007, the Company did not designate any non-trading derivatives for hedge accounting.

Deposits

Deposits are financial liabilities that are measured at cost using the effective interest rate method. Deposit origination costs are added to deposits on the consolidated balance sheet as incurred and amortized to interest expense over the term of the deposit.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the period in which those temporary differences are expected to be recovered or settled.

Future tax liabilities are included in other liabilities on the consolidated balance sheet.

Employee Future Benefits

The Company accrues its obligations under employee benefit plans, which include post-retirement plans (health costs). The cost of the post-retirement benefits earned by the affected employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected health care costs.

Stock-based Compensation Plans

The Company has two stock-based compensation plans, which are described in Notes 11 and 14.

Under the Company's Stock Option Plan, the fair value of options granted after January 1, 2003 is charged to salary expense over the option vesting period. The fair value of the options granted is determined using the Black-Scholes option pricing model using management's best estimates. Refer to Note 11 for the estimates applied.

With respect to options granted prior to January 1, 2003, the Company continues to apply the previous standards under which no compensation expense is recognized at the grant date and the consideration paid by the employees or directors who exercise their stock options is credited to capital stock.

Under the Employee Share Purchase Plan, as described in Note 14, the Company's contribution is expensed when paid.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

2008

Effective January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation*. Adoption of these standards did not affect the financial position of the Company.

Capital Disclosures

As a result of adopting the new standard, additional information is provided in Note 11. The new standard requires disclosure of information about (i) the Company's objectives, policies and processes for managing capital; (ii) quantitative data about what the Company regards as capital; and (iii) whether the Company has complied with any capital requirements and consequences of non-compliance.

Financial Instruments – Disclosure and Presentation

As a result of adopting the new standards, enhanced disclosure is provided in Notes 4, 5, 12 and 20. These new standards place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

2007

Effective January 1, 2007, the Company adopted new accounting standards issued by the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; Section 3865, *Hedges*; and Section 1530, *Comprehensive Income*.

These standards have been applied as an adjustment to opening retained earnings and accumulated other comprehensive income as of January 1, 2007.

Financial Instruments – Recognition and Measurement

As a result of adopting the new standards, all financial assets were classified as held for trading, available for sale or loans and receivables. Financial liabilities were classified as held for trading or other liabilities. The new standards require that all financial assets and liabilities be measured at fair value with the exception of loans and receivables and other liabilities which are measured at amortized cost using the effective interest method.

Effective January 1, 2007, cash resources and securities issued or guaranteed by Canada and the provinces are considered held for trading. Other securities and securitization receivable have been designated as available for sale.

Deferred loan origination costs were adjusted to what the balance would have been had the Company always used the effective interest rate method to recognize loan origination costs. These costs were reclassified against the respective loans on the consolidated balance sheet. The amortization of these costs in the current and in the prior year was reclassified from fees and other income (non-interest income) and general and administrative non-interest expenses to interest from loans on the consolidated statement of income.

Deposit origination costs were reclassified from other assets to net against deposits on the consolidated balance sheets. The amortization of these costs in the current and in the prior year was reclassified from general and administrative non-interest expenses to interest on deposits on the consolidated statement of income.

The Company reviewed its other contractual arrangements for embedded derivatives which require bifurcation from the underlying investment and separate valuation. These embedded derivatives do not currently have a significant value and therefore are not reported separately.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Hedges

The Company does not hold any derivatives or other financial instruments which have been designated for hedge accounting treatment.

Comprehensive Income

The new standards require the presentation of a new consolidated statement of comprehensive income, which consists of net income and other comprehensive income. Other comprehensive income represents the unrealized gains and losses on available for sale financial instruments, net of any transfers to net income of any previously unrealized gains and losses on available for sale assets, when the asset is disposed of or an other than temporary impairment is recognized, at which time the cumulative loss is transferred to net income. Accumulated other comprehensive income (AOCI) is presented as a new category of shareholders' equity in the consolidated balance sheet.

The impact of adopting these standards as at January 1, 2007 on a net of tax basis was as follows:

(000s)	January 1, 2007	Retained Earnings	AOCI
Assets			
Cash resources	\$ 143,531	\$ (1)	\$ -
Securities	344,134	164	70
Loans	3,309,214	47	-
Other	105,437	-	(700)
	\$ 3,902,316	\$ 210	\$ (630)
Liabilities			
Deposits	\$ 3,443,640	\$ (1,181)	\$ -
Other liabilities	181,810	-	-
	3,625,450	(1,181)	-
Shareholders' equity			
Capital stock	34,551	-	-
Contributed surplus	783	-	-
Retained earnings	241,532	1,391	-
Accumulated other comprehensive loss	-	-	(630)
	276,866	1,391	(630)
	\$ 3,902,316	\$ 210	\$ (630)

NOTE 3 DISPOSITION AND ACQUISITION

On January 1, 2008, Home Trust sold all outstanding shares of its wholly owned subsidiary, HTAM, for proceeds of \$0.2 million cash, resulting in a gain on disposition of \$0.1 million.

On October 16, 2007, the Company acquired 100% of the outstanding common shares of PSiGate for cash consideration of \$18.4 million. The estimated fair values of total assets acquired and total liabilities assumed at the date of acquisition were \$20.4 million and \$2.0 million, respectively. Included within the assets acquired is \$13.4 million of goodwill (not deductible for tax), \$1.2 million of intangible assets and \$2.1 million of cash. Income and expenses from PSiGate are included in the consumer lending segment in Note 19 and have been consolidated in the accounts of the Company from October 16, 2007. Goodwill was increased by \$0.7 million in 2008 for revisions to the purchase price allocation based on final adjustments to the opening PSiGate balance sheet.

NOTE 4 SECURITIES
(a) Securities at Fair Value by Type and Remaining Term to Maturity

						2008	2007
(000s)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value	Total Fair Value	
Held for trading							
Securities issued or guaranteed by							
Canada	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	45,023
Provinces	-	-	-	-	-	-	300
Corporations	-	-	-	-	-	-	69,100
Available for sale							
Securities issued or guaranteed by							
Canada	20,201	60,860	82,427	-	163,488		179,969
Corporations	-	153,611	35,700	-	189,311		-
Equity securities							
Common	5,346	-	-	-	5,346		10,693
Fixed rate preferred	44,247	31,425	32,231	44,749	152,652		137,307
Floating rate preferred	-	76	2,309	-	2,385		8,384
Income trusts	5,662	-	-	-	5,662		16,021
Mutual funds	633	-	-	-	633		4,084
	\$ 76,089	\$ 245,972	\$ 152,667	\$ 44,749	\$ 519,477	\$	470,881

Effective January 1, 2008, all new bond acquisitions were designated as available for sale securities consistent with the Company's intention to hold them longer term.

During 2008, on held for trading securities, the Company recognized in net income \$0.7 million (2007 - \$0.6 million) for interest, \$1.5 million (2007 - \$0.1 million) for realized gains and nil (2007 - \$0.1 million) for unrealized gains.

(b) Unrealized Gains and Losses on Available for Sale Securities

						2008
(000s, except %)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield	
Securities issued or guaranteed by						
Canada	\$ 161,943	\$ 1,545	\$ -	\$ 163,488	4.2%	
Corporations	186,966	2,345	-	189,311	4.3%	
Equity securities						
Common	7,447	569	(2,670)	5,346	2.6%	
Fixed rate preferred	182,572	253	(30,173)	152,652	5.1%	
Floating rate preferred	4,756	-	(2,371)	2,385	3.2%	
Income trusts	8,408	-	(2,746)	5,662	6.9%	
Mutual funds	1,000	-	(367)	633	-	
	\$ 553,092	\$ 4,712	\$ (38,327)	\$ 519,477		

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						2007			
(000s, except %)	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses	Total Fair Value	Weighted-average Yield		
Securities issued or guaranteed by									
Canada	\$	180,080	\$	400	\$	(511)	\$	179,969	3.9%
Equity securities									
Common		11,187		538		(1,032)		10,693	2.1%
Fixed rate preferred		142,060		544		(5,297)		137,307	5.2%
Floating rate preferred		8,654		32		(302)		8,384	5.3%
Income trusts		18,912		67		(2,958)		16,021	7.7%
Mutual funds		4,089		-		(5)		4,084	4.2%
	\$	364,982	\$	1,581	\$	(10,105)	\$	356,458	

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

As at December 31, 2008, the Company had \$1.8 million of unrealized losses on available for sale securities which are other than temporary in nature and have been transferred into net income. These unrealized losses are not included in the table above.

NOTE 5 LOANS

(a) Loans by Geographic Region and Type

2008					
(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
British Columbia	\$ 333,668	\$ 31,118	\$ 8,998	\$ 9	\$ 373,793
Alberta	398,939	78,157	115,336	8,319	600,751
Ontario	2,267,199	250,611	630,953	61,929	3,210,692
Quebec	105,236	1,477	48,701	-	155,414
Maritimes	90,167	6,002	12,408	2,261	110,838
Manitoba and Saskatchewan	67,997	1,597	10,486	-	80,080
	\$ 3,263,206	\$ 368,962	\$ 826,882	\$ 72,518	\$ 4,531,568

2007					
(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
British Columbia	\$ 303,150	\$ 22,828	\$ 6,555	\$ 213	\$ 332,746
Alberta	387,168	70,781	50,210	7,957	516,116
Ontario	2,265,487	222,230	390,661	70,692	2,949,070
Quebec	59,952	24	12,066	-	72,042
Maritimes	118,297	7,661	8,429	3,442	137,829
Manitoba and Saskatchewan	35,899	1,869	-	-	37,768
	\$ 3,169,953	\$ 325,393	\$ 467,921	\$ 82,304	\$ 4,045,571

(b) Past Due Loans That Are Not Impaired**2008**

(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
1-30 days	\$ 142,287	\$ 3,365	\$ 4,406	\$ 973	\$ 151,031
31-60 days	9,249	1,896	2,407	98	13,650
61-90 days	31,828	2,527	647	-	35,002
91-120 days	-	1,887	-	-	1,887
	\$ 183,364	\$ 9,675	\$ 7,460	\$ 1,071	\$ 201,570

2007

(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
1-30 days	\$ 114,316	\$ 3,181	\$ 2,918	\$ 1,314	\$ 121,729
31-60 days	7,691	1,497	343	63	9,594
61-90 days	28,143	1,508	657	241	30,549
91-120 days	-	785	-	-	785
	\$ 150,150	\$ 6,971	\$ 3,918	\$ 1,618	\$ 162,657

(c) Impaired Loans and Specific Allowances for Credit Losses**2008**

(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
Gross amount of impaired loans	\$ 34,643	\$ 6,309	\$ 164	\$ 1,007	\$ 42,123
Specific allowances	(1,680)	(547)	-	(699)	(2,926)
	\$ 32,963	\$ 5,762	\$ 164	\$ 308	\$ 39,197

2007

(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total
Gross amount of impaired loans	\$ 27,849	\$ 1,521	\$ 242	\$ 400	\$ 30,012
Specific allowances	(634)	(128)	-	(231)	(993)
	\$ 27,215	\$ 1,393	\$ 242	\$ 169	\$ 29,019

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(d) Allowance for Credit Losses

	2008					
(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total	
Specific allowances						
Balance at the beginning of the year	\$ 634	\$ 128	\$ -	\$ 231	\$	993
Provision for credit losses	2,971	937	-	953		4,861
Write-offs	(2,176)	(644)	-	(541)		(3,361)
Recoveries	251	126	-	56		433
	1,680	547	-	699		2,926
General allowance						
Balance at the beginning of the year	17,127	3,201	2,216	856		23,400
Provision for credit losses	(991)	499	2,364	(95)		1,777
	16,136	3,700	4,580	761		25,177
Total allowance	\$ 17,816	\$ 4,247	\$ 4,580	\$ 1,460	\$	28,103
	2007					
(000s)	Residential Mortgages	Personal and Credit Card Loans	Other Mortgages	Secured Loans	Total	
Specific allowances						
Balance at the beginning of the year	\$ 386	\$ 148	\$ -	\$ 108	\$	642
Provision for credit losses	1,183	728	-	375		2,286
Write-offs	(1,001)	(918)	-	(262)		(2,181)
Recoveries	66	170	-	10		246
	634	128	-	231		993
General allowance						
Balance at the beginning of the year	15,886	2,378	659	721		19,644
Provision for credit losses	1,241	823	1,557	135		3,756
	17,127	3,201	2,216	856		23,400
Total allowance	\$ 17,760	\$ 3,329	\$ 2,216	\$ 1,088	\$	24,393

(e) Loan Maturities

	2008					2007
(000s)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Residential mortgages	\$ 1,574,657	\$ 1,126,767	\$ 512,973	\$ 48,809	\$ 3,263,206	\$ 3,169,953
Other mortgages	433,167	206,002	183,668	4,045	826,882	467,921
Personal and credit card loans	358,192	526	1,791	8,453	368,962	325,393
Secured loans ¹	31,860	29,335	11,323	-	72,518	82,304
	2,397,876	1,362,630	709,755	61,307	4,531,568	4,045,571
General allowance for credit losses	-	-	-	-	(25,177)	(23,400)
	\$ 2,397,876	\$ 1,362,630	\$ 709,755	\$ 61,307	\$ 4,506,391	\$ 4,022,171

¹ Secured loans are held by Regency Finance Corp., which is consolidated as a variable interest entity.

(f) 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. As at December 31, 2008, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, is \$302.8 million. For impaired mortgages, the total appraised value of collateral at December 31, 2008 is \$48.4 million.

NOTE 6 LOAN SECURITIZATION (SECURITIZATION RECEIVABLE)

The Company's subsidiary, Home Trust, securitizes residential mortgage loans, and in these securitizations Home Trust retains interest-only strips and servicing responsibilities. The retained interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to other assets of either the Company or Home Trust for failure of debtors to pay when due. During the year, Home Trust sold \$1.50 billion (2007 – \$692.3 million) of mortgages receivable in securitization transactions. This value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions totaled \$139.9 million (2007 – \$65.8 million). Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of \$10.3 million (2007 – \$1.8 million) included on the consolidated balance sheet. Mortgage payments, which have been collected and are payable to the National Housing Authority (NHA) trusts, as at December 31, 2008 totaled \$41.4 million (2007 – \$35.8 million) and are reported under other liabilities. There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

During the year, the Company expanded its loan securitization program by participating in the Canada Mortgage Bond (CMB) program. Total mortgage receivables of \$1.09 billion (2007 – \$119.6 million) were transferred. The securitization receivable includes \$89.6 million (2007 – \$7.8 million) for the CMB retained interest. A servicing liability of \$9.1 million (2007 – \$0.2 million) is included on the consolidated balance sheet.

The impact of securitizations on the consolidated statement of income for the years ended December 31 is as follows:

(000s)	2008	2007
Gain on sales of mortgages	\$ 61,314	\$ 22,763
Reduction in value to reflect increase in prepayment rate assumption	–	(770)
Change in retained interest	8,990	4,589
Change in servicing liability	1,004	772
Other securitization revenues (expenses)	(205)	13
	\$ 71,103	\$ 27,367

The following table provides quantitative information about key assumptions in measuring retained interests at the date of securitization of residential mortgages securitized during the years ended December 31:

	2008	2007
Prepayment rate	7.6%	13.2%
Discount rate	3.4%	4.3%
Excess spread	2.6%	2.7%
Weighted-average life in years	4.0	4.0

There are no assumptions for expected credit losses as these mortgages are all government-guaranteed.

At December 31, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

(000s, except % and number of years)	2008	2007
Carrying amount of retained interest	\$ 139,870	\$ 65,768
Weighted-average life in years	3.7	2.4
Prepayment rate	11.6%	19.4%
Impact on fair value of 10% adverse change	(2,280)	(1,481)
Impact on fair value of 20% adverse change	(4,491)	(2,916)
Residual cash flows discount rate	2.7%	4.2%
Impact on fair value of 10% adverse change	(647)	(330)
Impact on fair value of 20% adverse change	(1,287)	(656)

There are no assumptions for expected credit losses as these mortgages are all government-guaranteed.

The table below summarizes certain cash flows received from the securitization trusts:

(000s)	2008	2007
Net proceeds from new securitizations	\$ 1,478,138	\$ 673,920
Cash flows received on retained interests	46,780	32,772

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The table below summarizes quantitative information about the Company's loans:

2008		
(000s)	Total Principal Amount	Principal Amount of Loans 61 or More Days Past Due
Total loans managed or securitized	\$ 7,145,826	\$ 105,759
Less mortgages securitized	2,614,258	26,811
Total gross loans reported on the consolidated balance sheet	\$ 4,531,568	\$ 78,948
2007		
(000s)	Total Principal Amount	Principal Amount of Loans 61 or More Days Past Due
Total loans managed or securitized	\$ 5,505,026	\$ 46,401
Less mortgages securitized	1,459,455	10,605
Total gross loans reported on the consolidated balance sheet	\$ 4,045,571	\$ 35,796

NOTE 7 CAPITAL ASSETS				
			2008	2007
(000s)	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 8,907	\$ 7,058	\$ 1,849	\$ 1,793
Software	112	60	52	78
Office furniture and equipment	6,472	3,815	2,657	2,547
Leasehold improvements	2,920	2,153	767	419
	\$ 18,411	\$ 13,086	\$ 5,325	\$ 4,837

Amortization in respect of the above-noted capital assets for the year amounted to \$2.8 million (2007 – \$2.0 million).

NOTE 8 OTHER ASSETS		
(000s)	2008	2007
Accrued interest receivable	\$ 27,861	\$ 25,308
Income taxes receivable	10,472	-
Goodwill	15,752	15,028
Intangible assets	558	1,158
Other prepaid assets and deferred items	29,585	15,606
	\$ 84,228	\$ 57,100

The increase in goodwill reflects adjustments to the purchase price allocation related to the finalization of the PSiGate balance sheet as at October 16, 2007, the date of acquisition as described in Note 3.

NOTE 9		DEPOSITS					2008	2007
(000s, except %)		Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total	Total
Individuals	\$	34,808	\$ 3,269,000	\$ 1,310,772	\$ 447,023	\$ 5,061,603	\$	4,380,835
Businesses		-	28,947	8,151	4,080	41,178		33,149
	\$	34,808	\$ 3,297,947	\$ 1,318,923	\$ 451,103	\$ 5,102,781	\$	4,413,984
Effective yield		-	3.9%	4.4%	4.7%	4.1%		4.4%

NOTE 10		OTHER LIABILITIES			2008	2007
(000s)						
Accrued interest payable					\$ 159,615	\$ 135,650
Income taxes payable					-	5,795
Dividends payable					4,476	3,799
Future income taxes (Note 13)					36,974	16,586
Securitization servicing liability					10,288	1,786
Other, including accounts payable and accrued liabilities ¹					58,015	45,060
					\$ 269,368	\$ 208,676

¹ The Company has recognized a liability for employee future benefits in the amount of \$140,000 (2007 - \$128,000).

NOTE 11		CAPITAL			2008	2007
(a) Authorized						
An unlimited number of common shares.						
An unlimited number of preferred shares, issuable in series, to be designated as Senior preferred shares.						
An unlimited number of preferred shares, issuable in series, to be designated as Junior preferred shares.						
(b) Issued and Outstanding						
(000s)		Number of Shares	Book Value	Number of Shares	Book Value	
Common shares						
Balance, beginning of year		34,532	\$ 38,899	34,166	\$	35,436
Options exercised		10	318	477		3,585
Repurchase of shares		(108)	(123)	(111)		(122)
Balance, end of year		34,434	\$ 39,094	34,532	\$	38,899

The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between capital stock and retained earnings. Comparative figures have been reclassified to conform to this presentation.

(c) Normal Course Issuer Bid

On July 28, 2008, the Company filed a Normal Course Issuer Bid which allows it to purchase over a twelve-month period, beginning August 1, 2008, up to 10% of the public float outstanding on July 28, 2008.

On July 30, 2007, the Company filed a Normal Course Issuer Bid which allowed it to purchase over a twelve-month period, beginning August 1, 2007, up to 10% of the public float outstanding on July 27, 2007.

During the year, 108,400 (2007 - 110,400) common shares were purchased for \$3.0 million (2007 - \$3.9 million). The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between capital stock and retained earnings. Comparative figures have been reclassified to conform to this presentation. The cost of the common shares was reduced by \$123,000 in 2008 (2007 - \$122,000).

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(d) Stock Options

The details and changes in the issued and outstanding options are as follows:

	2008		2007	
(000s, except exercise price and number of years)	Number of Options	Weighted-average Exercise Price	Number of Options	Weighted-average Exercise Price
Outstanding, beginning of year	1,294	\$ 27.15	1,266	\$ 15.43
Issued	205	16.27	505	37.78
Exercised	(10)	28.12	(477)	7.31
Cancelled	(82)	35.32	-	-
Outstanding, end of year	1,407	\$ 25.08	1,294	\$ 27.15
Exercisable at year end	661	\$ 18.73	526	\$ 15.04
Weighted-average term to maturity in years	3.4		3.9	

The Company's Stock Option Plan was approved by the shareholders of the Company on December 31, 1986. The plan was amended, effective May 29, 2002, to conform the plan to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. As at December 31, 2008, the maximum number of common shares that may be issued was 4,585,198, representing approximately 11.7% of the aggregate number of common shares. The exercise price of the options shall be fixed by the Board of Directors (the Board) at the time of issuance at the market price of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted-average price at which the common shares of the Company trade on the Toronto Stock Exchange during the two trading days immediately preceding the date on which the option is approved by the Board. The exercise period of any option will not extend beyond a period of seven years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant will be determined in each case by the Board.

As at December 31, 2008, stock options outstanding to acquire common shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price per Share	Expiry Date
Options granted to				
Directors	265,000	265,000	\$ 7.15	12/05/2009
	100,000	25,000	34.51 ¹	02/14/2012
	20,000	-	41.29 ¹	12/07/2014
	20,000	-	16.27 ²	12/08/2015
	405,000	290,000		
Employees	15,000	15,000	7.15	12/05/2009
	95,500	95,500	10.56	07/23/2010
	37,500	28,125	34.55	02/14/2010
	10,000	7,500	34.53	04/26/2010
	123,750	92,500	35.25	12/06/2010
	10,000	7,500	42.02	03/03/2011
	15,000	15,000	26.16	03/10/2011
	30,000	15,000	31.20	07/26/2011
	105,000	52,500	27.89	10/25/2011
	50,000	12,500	27.71	12/01/2011
	100,000	25,000	34.51 ¹	02/14/2012
	20,000	5,000	33.76 ¹	03/07/2014
	205,000	-	41.29 ¹	12/07/2014
	185,000	-	16.27 ²	12/08/2015
	1,001,750	371,125		
Total	1,406,750	661,125	\$ 18.73	

¹ In 2007, the Company granted certain employees the right to receive stock options of 200,000, 20,000, and 225,000 if certain performance criteria were met. As at December 31, 2008, one level of the performance criteria for the 200,000 and the 20,000 had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted income per common share.

² In 2008, the Company granted certain employees the right to receive stock options of 205,000 if certain performance criteria were met. As at December 31, 2008, none of the performance criteria had been met. As a result, the contingently assumable options have not been included in the computation of diluted income per common share.

(e) Fair Value Compensation of Stock Options

The Company determines the fair value of options granted using the Black-Scholes option pricing model. The weighted-average fair value of the options granted during the year ended December 31, 2008 was \$5.36 for the December 2008 issue. The weighted-average fair value of the options granted during the year ended December 31, 2007 was \$14.43 for the December 2007 issue, \$12.02 for the August 2007 issue, \$12.76 for the March 2007 issue and \$8.36 for the February 2007 issue.

The following weighted-average assumptions were used to determine the fair value of the options on the date of grant:

	December 2008			
Expected dividend yield	2.51%			
Expected share price volatility	33.2%			
Risk-free rate of return	2.67%			
Expected period until exercise in years	7.0			
	December 2007	August 2007	March 2007	February 2007
Expected dividend yield	1.20%	1.27%	1.04%	0.89%
Expected share price volatility	28.7%	28.3%	27.8%	27.0%
Risk-free rate of return	3.94%	4.53%	3.91%	4.06%
Expected period until exercise in years	7.0	7.0	7.0	5.0

For options granted after January 1, 2003, the Company determines the fair value of stock options on their grant date and records this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in capital stock. Employee compensation expense increased by \$1.5 million (2007 – \$1.1 million) and net income decreased by the same amount with respect to options granted during the year.

The Company will not record any compensation expense for stock options granted prior to January 1, 2003. When these stock options are exercised, the Company will include the amount of proceeds in capital stock. If the Company had recorded compensation expense for such options based on their fair value, the pro forma effect on net income and income per share would have been as follows:

(000s, except per share amounts)	2008	2007
Pro forma net income	\$ 108,687	\$ 90,241
Pro forma income per common share – basic	3.15	2.62
Pro forma income per common share – diluted	3.13	2.59

(f) Income per Common Share

Basic income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,512,283 (2007 – 34,446,847).

Diluted income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,512,283 (2007 – 34,446,847) plus the stock options potentially exercisable as determined under the treasury stock method of 157,019 (2007 – 410,106) for a total of 34,669,302 (2007 – 34,856,953) diluted common shares.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(g) Capital Management

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

The Company's subsidiary Home Trust is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions (OSFI). These requirements are consistent with international standards set by the Bank for International Settlements (BIS). Effective January 1, 2008, Home Trust Company adopted the new capital framework (Basel II) as required by OSFI. Under Basel II, the computation of risk-weighted assets was revised and a new measure for operational risk was introduced. 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 Company was as follows:

(000s, except ratios and multiple)	2008	2007
Regulatory capital		
Tier 1	\$ 384,025	\$ 311,760
Total	424,202	350,160
Regulatory ratios		
Tier 1	12.9%	11.1%
Total	14.2%	12.5%
Assets to capital multiple	13.7	14.2

Figures for 2007 were calculated in accordance with the Basel I capital rules in effect at the time.

Under Basel II, OSFI considers a financial institution to be well capitalized if it maintains a Tier 1 capital ratio of 7% and a total capital ratio of 10%. Home Trust Company is in compliance with the OSFI capital guidelines.

NOTE 12 ACCUMULATED OTHER COMPREHENSIVE LOSS

The components comprising the accumulated other comprehensive loss are:

(000s)	2008	2007
Unrealized losses on		
Available for sale securities	\$ (33,615)	\$ (8,524)
Income taxes recovery	10,473	2,226
	(23,142)	(6,298)
Unrealized gains on		
Securitization receivables	18,080	2
Income taxes expense	(5,991)	(1)
	12,089	1
Accumulated other comprehensive loss	\$ (11,053)	\$ (6,297)

NOTE 13 INCOME TAXES

(a) Components of the Provision for Income Taxes

(000s)	2008	2007
Current income taxes		
Federal	\$ 20,914	\$ 24,822
Provincial	14,619	15,710
	35,533	40,532
Future income taxes		
Federal	7,900	2,053
Provincial	6,498	1,259
	14,398	3,312
	\$ 49,931	\$ 43,844

(b) Reconciliation of Income Taxes

(000s)	2008	2007
Income before income taxes	\$ 158,618	\$ 134,085
Income taxes at statutory combined federal and provincial income tax rate	\$ 52,565	\$ 48,377
Increase (decrease) in income taxes resulting from:		
Tax-exempt income	(2,835)	(3,484)
Non-deductible expenses	1,491	723
Future tax rate changes	(1,378)	(1,503)
Other	88	(269)
	\$ 49,931	\$ 43,844

The combined federal and provincial income tax rate varies each year according to changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statement of income is different from the combined federal and provincial income tax rate of 31.5% (2007 – 32.7%).

(c) Sources of Future Income Tax Assets and Liabilities

(000s)	2008	2007
Future income tax liabilities		
Deferred agent commissions and other charges	\$ 7,761	\$ 7,907
Mortgage-backed securities receivable	40,828	21,282
	48,589	29,189
Future income tax assets		
Allowance for credit losses	7,776	6,767
Deferred commitment fees and unearned income	3,839	4,466
Future taxes recoverable in subsidiary	–	1,370
	11,615	12,603
Net future income tax liability	\$ 36,974	\$ 16,586

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 14EMPLOYEE BENEFITS

(a) Employee Share Purchase Plan

Effective January 1, 2001, qualifying employees of Home Trust have the ability to purchase shares in the Company. Under the Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their annual base earnings withheld to purchase common shares. The Company matches 50% of the employee's contribution amount. All contributions are used by the plan's trustee to purchase the common shares during each pay period in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totaled \$0.5 million for 2008 (2007 – \$0.4 million).

(b) Employee Retirement Savings Plan

During the year ended December 31, 2008, Home Trust contributed \$0.4 million (2007 – \$0.3 million) to the employee group registered retirement savings plan.

NOTE 15COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments

Contractual obligations in respect of premises and equipment leases as at December 31, 2008 are as follows:

(000s)			
2009		\$	2,224
2010			2,028
2011			1,991
2012			1,890
2013			1,881
2014 and thereafter			3,564
		\$	13,578
(000s)		2008	2007
Rent paid	\$	3,426	\$ 3,058

(b) Credit Commitments

Outstanding commitments for funding on mortgages amounted to \$242.4 million as at December 31, 2008 (2007 – \$447.3 million). The commitments remain open for various dates until December 2009 for 2008 and July 2009 for 2007. The average rate on mortgage commitments is 5.94% (2007 – 6.97%).

The Company also has contractual commitments to extend credit to its clients for its credit card products. The contractual commitment for this product represents the maximum potential credit risk, assuming the contractual amount is fully utilized and the client defaults and collection efforts are unsuccessful. At December 31, 2008, these contractual commitments in aggregate were \$415.0 million (2007 – \$392.2 million) of which \$62.9 million (2007 – \$78.0 million) has not been drawn by customers. In addition, outstanding commitments for new Equityline Visa accounts were \$2.5 million at December 31, 2008 (2007 – \$5.9 million).

These amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments. Secured credit cards have spending limits restricted by collateral held by the Company.

(c) Directors' and Officers' Indemnification

The Company indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors and officers at the request of the Company. The nature of this indemnification prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay to third parties. Management believes that the likelihood that the Company would incur a significant liability under these indemnifications is remote. The Company has purchased directors' and officers' liability insurance.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company enters into contracts and commitments in order to protect itself against the risk of fluctuations in interest rates.

During the year the Company entered into interest rate swaps to hedge the economic fair value exposure of movements in interest rates from the Company's participation in the CMB program. The intent of the swaps is to have fair value movements in the swap be effective in offsetting the fair value movements of the Company's funding commitments under the CMB program. These transactions did not qualify for hedge accounting and therefore were accounted for on a mark-to-market basis, with changes in the fair value of the swap being recognized in income.

The following table summarizes the Company's derivative holdings as at December 31, 2008:

						2008
(000s)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Fair Market Value	
Interest rate swaps						
Maturing in 2011	\$ 110,187	\$ 1,668	\$ 1,687	\$ 337	\$ 787	
Maturing in 2012	136,155	5,635	5,723	1,145	4,037	
Maturing in 2013	947,702	13,580	13,721	2,744	(3,443)	
Maturing in 2018	68,814	196	196	39	(947)	
	\$ 1,262,858	\$ 21,079	\$ 21,327	\$ 4,265	\$ 434	

The Company held the following financial derivatives as at December 31, 2007:

						2007
(000s)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Fair Market Value	
Interest rate swaps						
Maturing in 2012	\$ 120,715	\$ 983	\$ 2,794	\$ 559	\$ 983	

The following terms are used in the above table: "notional amount" represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract; "current replacement cost" represents the cost of replacing the contract which has a positive fair value using current market rates; "credit equivalent amount" represents the total replacement cost and the potential future credit exposure, if the counterparty defaults; "risk-weighted balance" represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by OFSI; and "fair market value" represents the value of the contract using current interest rates.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 17 INTEREST RATE SENSITIVITY

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

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

Based on the current interest rate gap position as at December 31, 2008, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income after tax over the next twelve months by \$3.9 million. A 100 basis point increase in interest rates would increase net income after tax over the next twelve months by a similar amount.

									2008
(000s, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total	
Assets									
Cash resources	\$ 29,006	\$ 525,416	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 554,422	
Weighted-average interest rate	0.5%	1.5%	-	-	-	-	-	1.5%	
Securities	-	17,336	32,670	26,083	245,972	197,416	-	519,477	
Weighted-average interest rate	-	5.0%	5.5%	4.2%	4.3%	4.7%	-	4.5%	
Loans	-	900,115	494,177	953,676	1,355,465	768,084	34,874	4,506,391	
Weighted-average interest rate	-	8.2%	7.0%	7.3%	7.3%	6.6%	-	7.3%	
Other assets	-	-	-	-	-	-	229,423	229,423	
Weighted-average interest rate	-	-	-	-	-	-	-	-	
Total	\$ 29,006	\$ 1,442,867	\$ 526,847	\$ 979,759	\$ 1,601,437	\$ 965,500	\$ 264,297	\$ 5,809,713	
Weighted-average interest rate	0.5%	5.7%	6.9%	7.2%	6.8%	6.3%	-	6.2%	
Liabilities and shareholders' equity									
Deposits payable on demand	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,802	\$ 34,808	
Weighted-average interest rate	-	-	-	-	-	-	-	-	
Deposits payable on a fixed date	-	923,590	574,581	1,785,252	1,318,923	451,102	14,525	5,067,973	
Weighted-average interest rate	-	4.0%	4.0%	3.9%	4.4%	4.7%	0.0%	4.1%	
Other liabilities	-	-	-	-	-	-	274,179	274,179	
Weighted-average interest rate	-	-	-	-	-	-	-	-	
Shareholders' equity	-	-	-	-	-	-	432,753	432,753	
Weighted-average interest rate	-	-	-	-	-	-	-	-	
Total	\$ 6	\$ 923,590	\$ 574,581	\$ 1,785,252	\$ 1,318,923	\$ 451,102	\$ 756,259	\$ 5,809,713	
Weighted-average interest rate	-	4.0%	4.0%	3.9%	4.4%	4.7%	-	3.6%	
	\$ 29,000	\$ 519,277	\$ (47,734)	\$ (805,493)	\$ 282,514	\$ 514,398	\$ (491,962)	2.3%	
Credit commitments and derivatives	-	(145,838)	30,130	34,825	80,837	46	-	-	
Weighted-average interest rate	-	6.2%	7.5%	5.0%	6.3%	3.5%	-	-	
Interest rate sensitivity gap	\$ 29,000	\$ 373,439	\$ (17,604)	\$ (770,668)	\$ 363,351	\$ 514,444	\$ (491,962)	\$ -	
Cumulative gap	\$ 29,000	\$ 402,439	\$ 384,835	\$ (385,833)	\$ (22,482)	\$ 491,962	\$ -	\$ -	

2007

(000s, except %)	Floating	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash resources	\$ 59,161	\$ 261,438	\$ 13,837	\$ 19,900	\$ -	\$ -	\$ -	\$ 354,336
Weighted-average interest rate	3.0%	4.7%	4.2%	4.3%	-	-	-	4.4%
Securities	-	96,112	19,872	46,833	183,327	124,737	-	470,881
Weighted-average interest rate	-	4.7%	5.8%	4.1%	4.4%	4.8%	-	4.6%
Loans	-	543,641	390,245	1,163,166	1,423,865	471,387	29,867	4,022,171
Weighted-average interest rate	-	9.2%	7.3%	7.5%	7.3%	7.3%	-	7.6%
Other assets	-	-	-	-	-	-	127,705	127,705
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ 59,161	\$ 901,191	\$ 423,954	\$ 1,229,899	\$ 1,607,192	\$ 596,124	\$ 157,572	\$ 4,975,093
Weighted-average interest rate	3.0%	7.4%	7.2%	7.3%	7.0%	6.8%	-	6.9%
Liabilities and shareholders' equity								
Deposits payable on demand	\$ -	\$ 229	\$ -	\$ -	\$ -	\$ -	\$ 30,564	\$ 30,793
Weighted-average interest rate	-	2.9%	-	-	-	-	-	-
Deposits payable on a fixed date	-	445,878	630,401	1,506,590	1,330,558	452,096	17,668	4,383,191
Weighted-average interest rate	-	4.1%	4.3%	4.5%	4.4%	4.7%	-	4.4%
Other liabilities	-	-	-	-	-	-	213,069	213,069
Weighted-average interest rate	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	348,040	348,040
Weighted-average interest rate	-	-	-	-	-	-	-	-
Total	\$ -	\$ 446,107	\$ 630,401	\$ 1,506,590	\$ 1,330,558	\$ 452,096	\$ 609,341	\$ 4,975,093
Weighted-average interest rate	-	4.1%	4.3%	4.5%	4.4%	4.7%	-	3.9%
	\$ 59,161	\$ 455,084	\$ (206,447)	\$ (276,691)	\$ 276,634	\$ 144,028	\$ (451,769)	3.0%
Credit commitments and derivatives	-	(437,032)	2,414	191,279	110,534	132,805	-	-
Weighted-average interest rate	-	6.9%	3.2%	3.2%	7.4%	7.0%	-	-
Interest rate sensitivity gap	\$ 59,161	\$ 18,052	\$ (204,033)	\$ (85,412)	\$ 387,168	\$ 276,833	\$ (451,769)	\$ -
Cumulative gap	\$ 59,161	\$ 77,213	\$ (126,820)	\$ (212,232)	\$ 174,936	\$ 451,769	\$ -	\$ -

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 18 FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments, both on- and off-balance sheet, the valuation methods and assumptions of which are described below.

The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. For financial instruments which lack an available trading market, the Company applies present value and valuation techniques that use observable or unobservable market inputs. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

(000s)	2008			2007		
	Carrying Value	Fair Value	Fair Value Over Carrying Value	Carrying Value	Fair Value	Fair Value Over Carrying Value
Assets						
Cash resources	\$ 554,422	\$ 554,422	\$ -	\$ 354,336	\$ 354,336	\$ -
Securities	519,477	519,477	-	470,881	470,881	-
Loans	4,506,391	4,532,833	26,442	4,022,171	4,032,040	9,869
Other	229,423	229,423	-	127,705	127,705	-
Liabilities						
Deposits and borrowings	5,102,781	5,411,281	308,500	4,413,984	4,519,437	105,453
Other	274,179	274,179	-	213,069	213,069	-
Off-balance sheet financial instruments						
Credit commitments	\$ 307,820	\$ 305,468	\$ (2,352)	\$ 531,151	\$ 541,005	\$ 9,854

The following methods and assumptions were used to estimate the fair values of both on- and off-balance sheet financial instruments:

- > Cash resources are assumed to approximate their carrying values due to their short-term nature. The fair value of treasury bills is determined using rates from the Bank of Canada.
- > Securities are valued based on the quoted bid price as provided in Note 4.
- > Fair value of loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks.
- > Other assets are assumed to approximate their carrying values due to their short-term nature. Other assets include securitization receivable which is valued as described in Notes 1 and 6.
- > Fair value of deposits payable on demand approximates their carrying value; fixed-rate deposits are determined by discounting the contractual cash flows using the market interest rates currently offered for deposits with similar terms and risks.
- > Other liabilities are assumed to approximate their carrying values due to their short-term nature.
- > Fair value of credit commitments is determined by discounting the expected future cash flows of the credit commitments at market rates for loans with similar terms and credit risks. Book and fair value amounts for credit commitments represent the notional amount of the commitment.
- > Derivative financial instruments are assumed to approximate their fair values as provided in Note 16.

NOTE 19 EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two operations – mortgage lending and consumer lending. The mortgage lending operation consists of mortgage lending, securitization of government-insured mortgages and secured loans. The consumer lending operation consists of credit cards, PSiGate and individual loans to customers of retail businesses. The other category includes treasury and security investments and corporate activities.

The following tables detail the earnings of the Company by business segment:

					2008
(000s)	Mortgage Lending	Consumer Lending	Other	Total	
Net interest income	\$ 89,505	\$ 26,459	\$ 34,611	\$ 150,575	
Provision for credit losses	(5,202)	(1,436)	-	(6,638)	
Fees and other income	15,163	12,888	401	28,452	
Gain on securities and mortgage-backed securities and disposition of subsidiary	57,536	-	(5,296)	52,240	
Non-interest expenses	(39,528)	(9,000)	(17,483)	(66,011)	
Income before income taxes	117,474	28,911	12,233	158,618	
Provision for income taxes	37,749	9,849	2,333	49,931	
Net income	\$ 79,725	\$ 19,062	\$ 9,900	\$ 108,687	
Goodwill	\$ 2,324	\$ 13,428	\$ -	\$ 15,752	
Total assets	\$ 4,709,331	\$ 392,458	\$ 707,924	\$ 5,809,713	

					2007
(000s)	Mortgage Lending	Consumer Lending	Other	Total	
Net interest income	\$ 93,466	\$ 21,005	\$ 31,787	\$ 146,258	
Provision for credit losses	(4,491)	(1,551)	-	(6,042)	
Fees and other income	12,050	9,155	328	21,533	
Gain on securities and mortgage-backed securities	28,148	-	(1,614)	26,534	
Non-interest expenses	(35,050)	(5,068)	(14,080)	(54,198)	
Income before income taxes	94,123	23,541	16,421	134,085	
Provision for income taxes	32,093	8,451	3,300	43,844	
Net income	\$ 62,030	\$ 15,090	\$ 13,121	\$ 90,241	
Goodwill	\$ 2,324	\$ 12,704	\$ -	\$ 15,028	
Total assets	\$ 3,867,949	\$ 337,783	\$ 769,361	\$ 4,975,093	

Notes to Consolidated Financial Statements

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NOTE 20

RISK MANAGEMENT

The Company is exposed to various types of risks owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include credit, liquidity, interest rate and other price risks. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company's ERM structure is supported by a comprehensive governance framework which includes policies, management standards, guidelines and procedures appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

A description of the Company's risk management policies and procedures is included in the shaded text on pages 28 to 35 of the Risk Management Section of the MD&A. Significant exposures to credit, liquidity, interest rate risks are described in Notes 4, 5, 16 and 17.

NOTE 21

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

NOTE 22

FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards

The CICA will transition financial reporting for Canadian public entities to International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. The Company has initiated an IFRS transition project. At this time, it is too early to comment on the anticipated financial impact to the balance sheet and income statement. The Company will provide progress updates through its quarterly reports during 2009. For additional information about the project, refer to page 43 in the MD&A.

Corporate Directory

HOME CAPITAL GROUP INC.

Directors:



Norman F. Angus^{2,3}
Chairman of the Board
and Corporate Director
Old Lyme, Connecticut



Micheline Bouchard^{1,3}
Corporate Director
Montreal, Quebec



Hon. William G. Davis^{3,4}
P.C., C.C., Q.C.
Counsel
Torys LLP
Brampton, Ontario



Janet L. Ecker^{1,4}
Advisor
The Tramore Group
Ajax, Ontario



John M. E. Marsh^{1,4}
Corporate Director
Port Colborne, Ontario



Robert A. Mitchell^{1,2}
Corporate Director
Oakville, Ontario



Kevin P. D. Smith^{2,3,4}
President and
Chief Executive Officer
St. Joseph's Health System
Hamilton, Ontario



Gerald M. Soloway²
Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario



Bonita Then¹
President and
Chief Executive Officer
Specialty Foods Group
Toronto, Ontario

¹ Member of the Audit Committee

² Member of the Risk and Capital Committee

³ Member of the Governance, Nominating
and Conduct Review Committee

⁴ Member of the Human Resources
and Compensation Committee

Committees:

Audit Committee

Robert A. Mitchell
Chair

Risk and Capital Committee

Norman F. Angus
Chair

Governance, Nominating and Conduct Review Committee

Micheline Bouchard
Chair

Human Resources and Compensation Committee

Janet L. Ecker
Chair

Officers:

Gerald M. Soloway

Chief Executive Officer

Nick Kyprianou

President

Brian R. Mosko

*Chief Operating Officer and
Senior Vice President*

John R. K. Harry

*Senior Vice President,
Commercial Mortgage
Lending*

Cathy A. Sutherland, C.A.

Vice President, Finance

Chris Ahlvik

*Vice President,
Corporate Counsel*

Martin Reid

Treasurer

Chair Emeritus:

William A. Dimma

Toronto, Ontario

Annual Meeting Notice:

The Annual and Special Meeting of Shareholders of Home Capital Group Inc. will be held at the Design Exchange, Trading Floor, Second Floor, 234 Bay Street, Toronto, Ontario, on Wednesday, May 13, 2009 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

Corporate Governance:

Home Capital recognizes the importance of strong and effective corporate governance. As a publicly traded company, Home Capital has governance practices consistent with the corporate governance guidelines set out by the Toronto Stock Exchange and compliant with applicable rules adopted by the Canadian Securities Administrators. The Board of Directors of Home Capital ensures that appropriate structures and procedures are in place so that it can independently and effectively oversee the Company's operations with the objective of enhancing shareholder value.

For a complete statement of Home Capital's corporate governance practices, please refer to the Company's Management Information Circular, the details of which are also posted on the Company's website, www.homecapital.com.

Corporate Directory

HOME TRUST COMPANY

Directors:

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

Norman F. Angus
Micheline Bouchard
Janet L. Ecker
Nick Kyprianou
John M. E. Marsh
Robert A. Mitchell
Brian R. Mosko
Kevin P. D. Smith
Gerald M. Soloway
Bonita Then

Officers:

Gerald M. Soloway
Chief Executive Officer

Nick Kyprianou
President

Brian R. Mosko
Chief Operating Officer and Senior Vice President

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

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

Chris Ahlvik
Vice President, Corporate Counsel

Martin Reid
Treasurer

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Corporate
Stephen Copperthwaite
Vice President, Enterprise Risk Management and Chief Risk Officer

Kerry Reinke
Vice President, Strategic Planning and Performance Measurement

Pamela Moore, C.A.
Vice President, Finance

Geoff Behm, C.A.
Jens Ehlers, C.A., CFA
Assistant Vice Presidents, Finance

Dinah Henderson, CGA
Director, Corporate Accounting

Norm Thacker
Vice President, Information Technology

Commercial Mortgage Lending
Shaun Gonsalves
Senior Manager

Donald Correia
Senior Credit Manager

Residential Mortgage Lending
Pino Decina
Senior Vice President

Armando Diseri
James Hill
Marguerite Ryan
Assistant Vice Presidents

Ron Cuadra
Director, National Sales

Jeff Barbour
Senior Credit Manager

Laurie Chalabardo
Bobby Ramgoolam
Senior Managers

Massimo DeNegris
Michael Forshee
Michael Hewitt
Frank Lee
Ivano Metallo
Scott Smith
Frank Tuzi
Jean Pierre Vico
Managers

Sales and Service
Domenic Cosentino
Assistant Vice President

Direct Client Services
Alex Godfrey
Assistant Vice President

Equityline Visa
Agostino Tuzi
Assistant Vice President

Retail Credit Services
Cathy Boon
Assistant Vice President, Sales

Calgary:
Suite 720
5920 MacLeod Trail SW
Calgary, Alberta T2H 0K2
Tel: 403-244-2432
1-866-235-3081
Fax: 403-244-6542
1-866-544-3081

Kris Chester
Branch Manager

Vancouver:
Suite 1288
200 Granville Street
Vancouver, British Columbia V6C 1S4
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Fax: 604-484-4664
1-866-564-3524

Greg Domville
Branch Manager

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

Scott Congdon
Regional Manager, Mortgages

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

Michelle Newton
Branch Manager

Corporate Directory

Memberships:

Canada Deposit
Insurance Corporation

Trust Companies
Association of Canada

Auditors:

Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Banker:

Bank of Montreal
St. Catharines, Ontario

Transfer Agent:

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

Stock Listing:

Toronto Stock Exchange
Ticker Symbol: HCG

Capital Stock:

As at December 31, 2008,
there were 34,433,590
Common Shares outstanding

For Shareholder

Information, Please

Contact:

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Corporate Counsel
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