HOME CAPITAL GROUP INC.

Annual Report 2009

CANADA'S ONE-STOP MORTGAGE LENDER

Strong Growth
in challenging times

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 Gold *Visa* 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

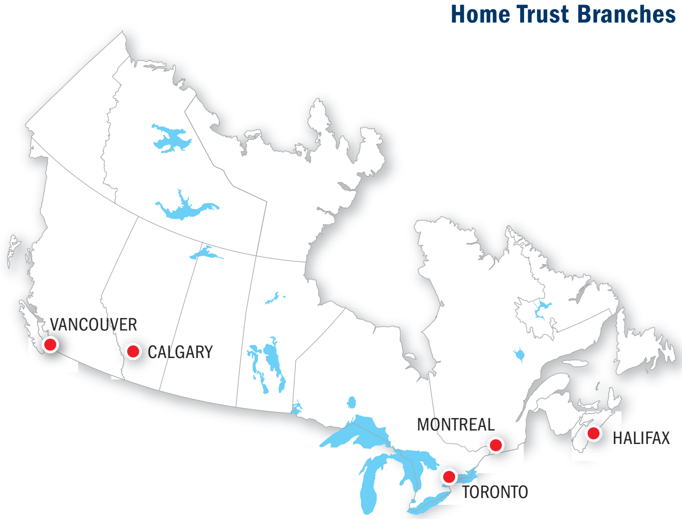
Home Trust provides a broad range of deposit investment services including Certificates of Deposit, Guaranteed Investment Certificates, Registered Retirement Savings Plans, Registered Retirement Income Funds and Tax Free Savings Accounts. The Company has developed an extensive client base through its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

MISSION STATEMENT

Home Capital Group Inc. exists to benefit its shareholders through the pursuit of above average returns over the long term and 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.

Contents

Home Trust Branches



Financial Highlights

(000s, except per share amounts)

For the years ended December 31	2009	2008	2007
Total assets	$ **7,360,874**	5,809,713	4,975,093
Loans	$ **5,440,747**	4,506,391	4,022,171
Deposits	$ **6,409,822**	5,102,781	4,413,984
Shareholders' equity	$ **590,288**	432,753	348,040
Mortgage-backed security assets under administration	$ **4,147,711**	2,614,258	1,459,455
Revenue	$ **489,179**	454,695	368,881
Net income	$ **144,493**	108,687	90,241
Book value of common shares	$ **17.00**	12.57	10.08
Earnings per share – basic	$ **4.19**	3.15	2.62
Earnings per share – diluted	$ **4.15**	3.13	2.59

Return on equity was 28.2%, over 20% for 12 consecutive years

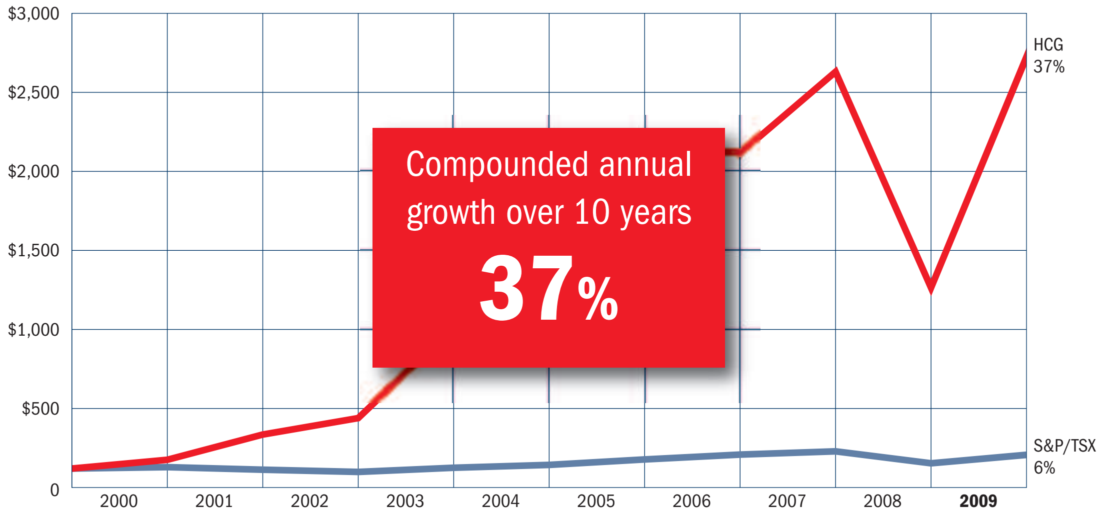
28.2%

Earnings for 2009 grew by 32.9% to $144.5 million

$144.5 million

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, 1999–December 31, 2009



HCG Stock Price Performance	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Closing Price as of December 31	$2.95	$5.58	$7.25	$16.63	$31.25	$34.75	$34.05	$41.90	$19.80	**$41.85**

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

2006	2005	2004	2003	2002	2001	2000
3,902,316	3,284,829	2,568,513	1,897,176	1,394,289	1,136,220	892,078
3,309,214	2,796,873	2,244,130	1,611,911	1,171,102	958,564	776,177
3,443,640	2,901,515	2,269,157	1,666,788	1,216,475	995,762	794,666
276,866	218,885	162,207	121,166	94,586	75,203	49,501
1,107,562	800,184	500,740	315,131	140,643	65,627	12,422
282,549	234,704	181,839	141,365	111,066	91,359	70,457
67,815	60,861	44,551	29,507	20,595	14,860	10,452
8.10	6.44	4.80	3.61	2.82	2.30	1.67
1.99	1.80	1.33	0.88	0.62	0.49	0.35
1.95	1.72	1.27	0.86	0.59	0.46	0.33

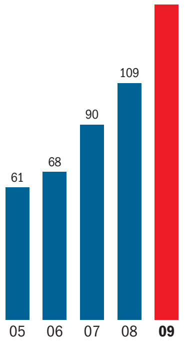
Total assets including MBS originated and administered by the Company grew 36.6% to $11.51 billion

$11.51 billion

Total on-balance sheet assets reached $7.36 billion, an increase of 26.7% over 2008

$7.36 billion

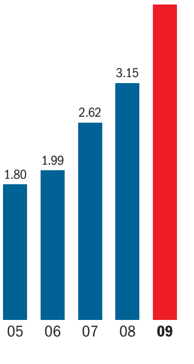
Net Income
(millions)



32.9%

Home Capital reported a 32.9% increase in net income over the $108.7 million attained in 2008, reaching $144.5 million for the year ended 2009.

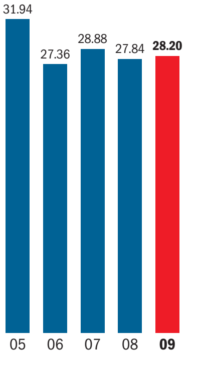
Earnings per Share
(basic in dollars)



33.0%

Basic earnings per share rose to $4.19 for the year ended December 31, 2009, a 33.0% increase over the $3.15 reported for 2008.

After-tax Return on Equity
(percentage)



28.2%

Home Capital surpassed 20% return on equity for the 12th consecutive year, and 25% ROE for the 7th successive year, reaching 28.2% at December 31, 2009.

Report to Shareholders

2009 was a very challenging period for the global economy and particularly the financial services industry. Despite this backdrop, Home Capital's tested and proven business model generated another year of record performance. All of our core businesses produced solid results, our capital base was strengthened, and our risk profile substantially reduced. Looking ahead, we are well positioned to build on this success and deliver further growth in earnings for our shareholders.

Strong Growth
in challenging times

Report to Shareholders

A Proven Business Model

Since Home Capital's founding almost 25 years ago, our team has evolved and executed a business plan aimed at building value through both good times and bad. Our main focus is to leverage the significant expertise and experience of our people to target underserved markets within the Canadian financial services industry. Our efforts are focused on delivering organic growth in earnings while maintaining a strong financial position.

As we look back on the growth and superior results delivered by the successful execution of our business model, we are proud to say that Home Capital's return on equity has consistently exceeded 20% in each of the past 12 years. Clearly our strategies have been successful, and we are confident they will continue to build value for our shareholders going forward.

Despite one of the most challenging economic environments faced by the global financial services industry in decades, all of our core business activities, including residential and non-residential mortgage lending, CMHC-insured mortgage-backed securities programs, and *Visa* lending, produced strong earnings. As a result, in 2009 we exceeded all of our annual performance targets by a considerable margin:

> **Net income** rose 32.9%, significantly beating our target of 10% to 15% growth.

> **Diluted earnings per share** were up 32.6%, also considerably exceeding our goal of 10% to 15% growth.

> **Combined total assets** and securitized mortgages originated and managed by Home Trust increased 36.6%, well above our 10% to 15% growth objective.

> Finally, our 28.2% **return on shareholders' equity** for the year also exceeded our 20% target.

Along with our record financial performance in 2009, we enhanced the quality and strength of our capital base and reduced the Company's risk profile. Home Trust remains well capitalized with improved Tier 1 and Total capital ratios as at December 31, 2009 of 16.4% and 18.0%, respectively, up from 12.9% and 14.2% at the end of 2008. In keeping with our business plan, these capital ratio increases were achieved without any equity dilution or the issuance of debt or preferred shares. The Company is well positioned to deliver stable and sustainable growth going forward derived from a strong capital base.

Focused

Home Capital continues to build on its objective of long-term organic growth and increased profitability. By focusing on its business fundamentals, Home Capital has maintained its strong financial position while enhancing its capital base.

Focusing on its core vision, creating stakeholder value, attaining its financial objectives, remaining true to its strategic plan, creating sustainable growth – these are the key factors of Home Capital's success.

Well-Managed

Our strong performance over the last five years has resulted in 11 increases in quarterly common share dividends. We are proud of this track record of increased shareholder returns, and believe that shareholders will value this over the long term.

Looking ahead, we will build on the progress generated in 2009 by continuing to capitalize on our key strengths, including the strategic diversification of our business, our 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 employees.

Key Growth Drivers

We believe there are three key growth drivers that will deliver increased profitability and enhanced returns on equity once again in 2010.

Our regular core residential lending business is one of the key sources for growth in 2010. We began to see a more stable and much healthier housing market in most regions across Canada during 2009. Looking ahead, we believe the Canadian housing market will continue to strengthen, providing an excellent opportunity to build earnings in this key segment of our business. With our proven experience and expertise, we are strongly positioned to attract business from the Canadian mortgage market as a whole, as well as our traditional customer base.

Another driver of growth in 2010 will be our Accelerator program, which offers a full range of insured mortgage products. During 2009 we substantially increased the number of insured mortgages underwritten in this program. The majority of these were subsequently sold through insured mortgage-backed securities and the Canada Mortgage Bond program. We believe that while spreads between mortgage originations and the returns generated from their sale will narrow in 2010, our volumes of insured mortgages will increase, thus generating gross income in line with 2009 for this segment. We continue to invest in staff and resources for our Accelerator program, and it remains a significant factor in the Company's profitability and reduced risk profile.

The consumer lending line of business, including our *Visa* and retail credit programs, will be a further driver of growth in 2010. Outstanding balances on our Equityline *Visa* portfolio declined modestly in 2009 as we maintained a prudent and cautious credit policy in light of the challenging conditions being faced by consumers across the country. However, with a strengthening Canadian economy, we are implementing new and innovative marketing initiatives to grow the portfolio in 2010, and expect to generate a solid increase in profitability in this segment of our business.

Our retail lending portfolio was further strengthened in early 2010 with the signing of a long-term agreement with National Energy Corporation to provide financing for residential water heaters. This new relationship further diversifies the Company's offerings to homeowners and provides a low-risk source of revenues.

In addition to these three key drivers of growth, we also see continued solid performance in our non-residential mortgage lending business. During 2009 we exercised caution and reduced this portfolio by approximately 15%. In 2010 we are planning to modestly increase the size of this portfolio by approximately 5% to 10%, while maintaining our cautious and prudent approach.

Investing for Growth

Our most important investments over the last few years have been in our people. Our head count grew from 395 at the end of 2008 to 491 at December 31, 2009. We have been able to attract and retain some of the best people in our business, and with our ongoing training and succession planning programs, we are confident we have the right people in the right places to manage anticipated growth in 2010 and going forward.

We were particularly pleased to appoint Martin Reid as President of Home Capital Group and Home Trust Company in December. Martin joined Home Capital in 2007 and has been responsible for the Company's liquidity, market risk, securitization program, asset and liability management and banking relationships. We are very proud to be strengthening our management team from within, and are confident Martin's depth of knowledge, extensive experience and strong interpersonal abilities will greatly contribute to our growth and enhanced performance in the years ahead.

Delivering Consistent Results

As a testament to its established business approach, and despite challenging economic conditions, Home Capital continues to generate solid financial returns, producing strong earnings growth and returns on equity.

Last year we embarked on a company-wide initiative to implement a new information technology solution that will transform how we conduct our business. It will drive significant improvements in all areas of the business and improve the speed and quality of our reporting. We expect this technology platform will be up and running in 2010.

Late in 2009 we arranged to take additional square footage in our head office premises in downtown Toronto to accommodate our continued growth. During 2009 we also moved into larger facilities in Calgary, further strengthening our presence in that market.

An Exciting Future

Looking ahead, we believe our proven business model, with a strong capital position, a focus on earnings sustainability and the minimization of risk, as well as a much healthier outlook for the Canadian housing market should result in another year of positive results. With this cautiously optimistic outlook, we have established the following targets for 2010:

- 15% to 20% growth in total net earnings;
- 15% to 20% growth in diluted earnings per share;
- 15% to 20% growth in combined total assets, including assets under administration; and
- 20% return on shareholders' equity.

The Board of Directors and management would like to acknowledge and thank Micheline Bouchard, who, over the past three years, has made a significant contribution as a member of the Board. Micheline will not be standing for re-election to the Board at this year's Annual and Special Shareholders' Meeting, and we wish her all the best for the future.

Finally, we want to thank our mortgage broker network and other business partners, shareholders and customers for their support and confidence, and everyone at Home Capital for their diligence, commitment and dedication over the last year. In what was one of the most challenging periods in decades for the global financial services industry, our people delivered record performance, strengthened our balance sheet, and reduced our risk profile. Going forward, we are confident our results will meet or exceed our targets as we continue to focus on, and execute, our proven and successful business strategies.

Norman F. Angus
Chairman of the Board

Gerald M. Soloway
Chief Executive Officer

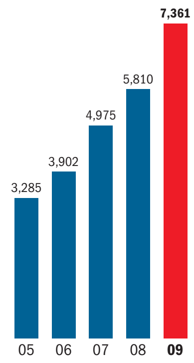
Additional information concerning the Company's targets and related expectations for 2010, including risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis in this 2009 Annual Report.

Proven Results

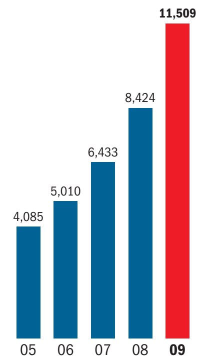
GROWTH

Home Capital sustained its strength in key financial measurements. The Company's core business activities generated strong results, contributing to asset growth of 26.7%, or 36.6% including assets under administration, and an increase in total revenue of 7.6%.

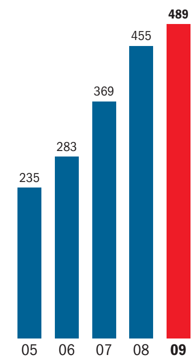
Assets
(millions)



Total Assets Including Assets under Administration
(millions)



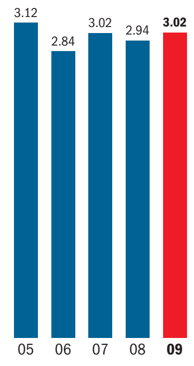
Revenue
(millions)



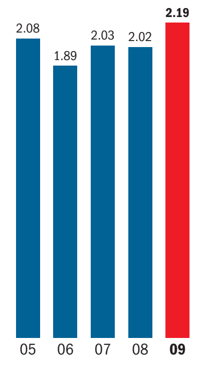
RETURNS

The Company recorded pre-tax return on assets of 3.02% and after-tax return on assets of 2.19%, while shareholders' equity increased to $590.3 million, a 36.4% rise from the previous year.

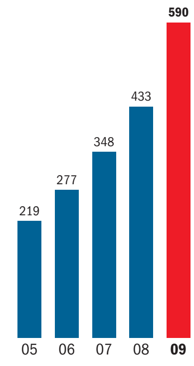
Pre-tax Return on Assets
(percentage)



After-tax Return on Assets
(percentage)



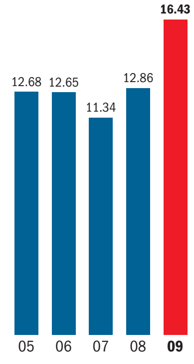
Shareholders' Equity
(millions)



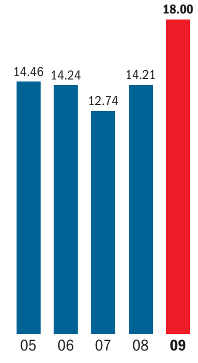
RISK

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.

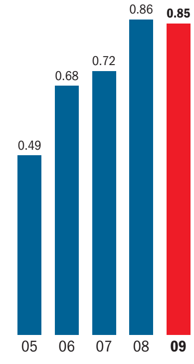
Tier 1 Capital to Risk-Weighted Assets
(percentage)



Total Capital to Risk-Weighted Assets
(percentage)



Net Impaired Loans of Loan Portfolio
(percentage)



Performance vs. Target

RETURN ON EQUITY

TARGET:

20% return on equity

Home Capital again exceeded 20% in after-tax return on equity, reaching 28.2% for the year ended December 31, 2009, representing the 12th consecutive year in which the Company surpassed 20% ROE.

After-tax return on equity at

28.2% ▲

for the year ended December 31, 2009

EARNINGS

TARGET:

10% to 15% increase in total earnings

The Company reported net earnings of $144.5 million for the year ended December 31, 2009, representing a 32.9% increase over the $108.7 million achieved in 2008.

Increase in earnings of

32.9% ▲

over 2008

EARNINGS PER SHARE

TARGET:

10% to 15% increase in diluted earnings per share

Diluted earnings per share rose to $4.15 for the year ended December 31, 2009, a 32.6% increase over the $3.13 recorded for 2008.

Diluted earnings per share grew

32.6% ▲

over 2008

ASSETS

TARGET:

10% to 15% increase in combined total assets and securitized mortgages originated and managed by the Company

Total assets, including insured securitized mortgages originated and administered by the Company, grew to $11.51 billion by December 31, 2009, an increase of 36.6% over the $8.42 billion recorded on December 31, 2008.

Total assets increased

36.6% ▲

over year-end 2008

Corporate Governance at Home Capital

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.

The Board has responsibility for the stewardship of Home Capital and for the supervision of the management of the business affairs of the Company, including creating a culture of integrity throughout the Company. All employees, officers and Directors are subject to Home Capital's Code of Conduct which requires that the highest standards of ethical behaviour be maintained in all dealings on behalf of the Company.

Highlights of Home Capital's corporate governance framework include:

> Seven of eight Directors are independent, and the roles of CEO and Chairman of the Board are separate

> The Board is responsible for adopting and annually approving the Company's strategic plan, including a review of business opportunities and risks

> The Board and its committees function under written charters which specify their roles and responsibilities

> Home Capital provides an orientation program for new Directors and conducts internal education sessions

> The Company maintains a minimum share ownership requirement for Directors and the Chief Executive Officer to ensure alignment with the interests of all shareholders

> The Board has adopted a Shareholder Rights Plan to preserve the fair treatment of all shareholders in the event of a take-over bid

> Home Capital has implemented appropriate systems to manage and mitigate risk and the Board is responsible for the oversight of the Company's risk management initiatives

Home Capital is committed to robust corporate governance principles and practices that support the Company's business. For more information about corporate governance at Home Capital, please refer to:

Home Capital's Management Information Circular
The Circular contains detailed information about Directors and management, as well as the Company's Statement of Corporate Governance Practices.

www.homecapital.com
The Company's website contains information about corporate governance at Home Capital, including the Statement of Corporate Governance Practices, Charters of the Board of Directors and Board committees, Position Descriptions, Director Independence Standards, Code of Conduct and Shareholder Rights Plan.

Annual Meeting
All shareholders are encouraged to attend the Company's Annual and Special Meeting on May 18, 2010 (details on page 77) or listen to the webcast available through the website at www.homecapital.com.

Environmental Responsibility at Home Capital

Home Capital is committed to raising environmental awareness throughout the Company and participates in a number of programs to reduce energy consumption and greenhouse gas emissions.

Highlights of Home Capital's green activities include:

> Establishing an Environmental Committee responsible for promoting green business practices and motivating employees to participate in environmentally friendly initiatives
> Participating in comprehensive composting, recycling and waste disposal programs where applicable
> Instituting a recycling program for toner and print cartridges
> Diverting electronic waste through donations of obsolete computer equipment to charitable organizations
> Reducing electricity consumption by installing Energy Star equipment in branches
> Switching to biodegradable plates, bowls and cups in office kitchens
> Offering filtered water to employees to reduce the demand for bottled water
> Establishing a lending library in the Company's Toronto branch for recycling gently used books, magazines and DVDs

The Environmental Committee fosters awareness by posting weekly green tips and monthly green challenges for employees on the Company's intranet. Employees are encouraged to turn off desktop electronic devices and lighting when not in use, reduce paper consumption by using available electronic communication methods, and use teleconferencing when applicable to reduce the need for travel.

In 2009, Home Capital participated in the Carbon Disclosure Project, an independent not-for-profit organization holding the largest database of primary corporate climate change information in the world.

In addition, the office tower that accommodates Home Trust Company's main branch in Toronto has been recognized by the Building Owners and Managers Association as a building employing environmental best practices.

Home Capital remains dedicated to reducing the Company's environmental impact through supporting green business practices and encouraging employee awareness and participation.

Management's Discussion and Analysis

Caution Regarding Forward-looking Statements

From time to time Home Capital Group Inc. (the "Company" or "Home Capital") makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail on pages 32 through 41 of the Company's 2009 Annual Report, as well as its other publicly filed information, which may be located at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. 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 are 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 2010 and its effect on Home Capital's business are material factors the Company considers when setting its objectives. In setting performance target ranges for 2010, management's expectations assume:

- The Canadian economy will continue a slow recovery, with fragmented growth prospects across the country, and inflation will remain low;
- Unemployment levels will remain elevated through much of 2010 potentially beginning to show improvement later in 2010;
- Housing demand will remain strong in 2010 but the rate of increase in demand may begin to slow as interest rates begin to rise in the second half of 2010;
- A slowly increasing interest rate environment in the second half of 2010, supported by stable inflation, driven by lower demand for commodity and energy goods;
- Sound credit quality with actual losses within Home Capital's historical range of acceptable levels; and
- A compressed net interest margin and comparatively lower investment returns, reflecting the Company's shift to higher quality assets held in the security and liquidity portfolios and prudent levels of liquid assets being held in response to continuing uncertainty in the capital markets.

NON-GAAP MEASURES

The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with 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 and the provision for income taxes to what they would have been had the tax-exempt securities been taxed at the statutory tax rate. The TEB adjustment of $7.9 million (2008 – $4.3 million) increases net interest income. TEB does not have a standard meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Net interest income and income taxes are 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' equity as a percentage of the capital deployed to earn the income. The Company calculates its return on equity using average common shareholders' equity, including all components of shareholders' equity.

Return on Assets

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

Efficiency or Productivity Ratio

Management uses the efficiency ratio as a measure of the Company's productivity. 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 dividing net income, on a TEB, 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 the Office of the Superintendent of Financial Institutions Canada (OSFI). As of January 1, 2008 (refer to page 28 in the Capital Management Section of the MD&A) OSFI adopted a new capital management framework called Basel II. The Company manages and reports capital in accordance with the Basel II requirements. Ratios calculated prior to 2008 use the previous Basel I framework.

Regulatory Filings

The Company's continuous disclosure materials, including interim filings, annual MD&A 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, 2009. The discussion and analysis relates principally to the Company's subsidiary, Home Trust, which provides residential mortgage lending, non-residential 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 come 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. The Company obtains comparative performances from third-party sources. While the Company believes this information to be reliable, the Company 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, which offers deposits, residential and non-residential mortgage lending, consumer lending 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 12 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. 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 objectives:

STRATEGIC PRIORITY	2009 STRATEGIES AND ACHIEVEMENTS
Focused Marketplace Growth	**Build and maintain Canada's leading alternative financial institution** > Sustained our focus on underserved niches where we can achieve a market-leading position > Effectively expanded our residential mortgage product offering through the overwhelming success of the Accelerator mortgage program and positioning the Company as a "one-stop" lender, enabling Home Trust to expand its base of potential clients and develop mortgage broker relationships > Continued the expansion of business activities outside of Ontario > Maintained industry-leading service levels to clients and mortgage brokers
Prudent Balance Sheet Management	**Improve the financial strength of the Company so that it is capable of absorbing market events and position the Company for strong shareholder returns** > Built a stronger capital position; the Company's capital base is substantially all common equity and the year-end Tier 1 capital ratio was 16.4% > Reduced the overall credit risk profile of the loan portfolio > Accumulated and maintained strong liquidity positions; liquid assets increased 36.3% during the course of the year > Generated a flexible supply of funding through the deposit broker network and through securitization markets
Operational and Governance Excellence	**Invest in robust corporate governance, risk management and efficient customer-focused processes and systems** > 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 > Continued development of a significant core-banking system conversion that will enhance customer interactions and maintain the highest levels of efficiency and reliability

2009 Performance and 2010 Objectives

The table below summarizes the Company's 2009 performance and 2010 objectives.

Table 1 – 2009 Performance and 2010 Objectives

	2009 Objectives	2009 Actual	2010 Objectives
Net income	10%–15% ($119.6 million–$125.0 million)	**$144.5 million, or 32.9% increase over the same period last year**	**15%–20% ($166.2 million–$173.4 million)**
Diluted earnings per share	10%–15% ($3.44 per share–$3.60 per share)	**$4.15 per share, or 32.6% increase over the same period last year**	**15%–20% ($4.77 per share–$4.98 per share)**
Total assets and assets under administration	10%–15% ($9.27 billion–$9.69 billion)	**$11.51 billion, or 36.6% increase over the same period last year**	**15%–20% ($13.24 billion–$13.81 billion)**
Return on shareholders' equity	20%	**28.2%**	**20%**
Efficiency ratio (TEB)[1,2]	28.0%–34.0%	**26.5%**	**28.0%–34.0%**
Capital ratios[2]			
Tier 1	Minimum of 10.0%	**16.4%**	**Minimum of 10.0%**
Total	Minimum of 12.0%	**18.0%**	**Minimum of 12.0%**
Provision for credit losses as a percentage of total loans	0.2%–0.5%	**0.2%**	**0.2%–0.5%**

[1] TEB – Refer to the definition of TEB on page 11 of this Annual Report.

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

The Company generated record results in 2009 and significantly exceeded all of its stated objectives despite the challenging economic environment. The objectives presented above are solely intended to provide interested parties with information on how management measures its performance. The intent of the information is not to disclose the Company's expectations for future financial results. The 2010 objectives take into account a slow recovery for the Canadian economy tempered by remaining uncertainties regarding employment prospects, as well as broader implications the global economy will have on Canada's economy.

FINANCIAL HIGHLIGHTS

Overview

For the year ended December 31, 2009, the Company reported record net income of $144.5 million or $4.15 diluted earnings per share. This is up from $108.7 million or $3.13 diluted earnings per share in 2008. Return on shareholders' equity ended the year at 28.2% compared to 27.8% achieved in 2008, outperforming the industry average of 12.1%. The efficiency ratio (TEB) remained low (the lower the better) at 26.5% compared to 28.0% in 2008 and was significantly lower than the industry average of 59.6%.

The Company achieved double-digit asset and on-balance sheet loan growth of 26.7% and 20.7%, respectively. Total assets under administration, which include the off-balance sheet mortgages the Company has securitized and sold but continues to administer, grew 36.6% to $11.51 billion from $8.42 billion at the end of 2008. Credit quality continued to be strong and loan losses remained manageable when considered in light of the $5.44 billion on-balance sheet loans portfolio and the ongoing economic challenges in 2009. While achieving significant asset growth Home Capital also decreased the risk profile of the on-balance sheet loans portfolio by increasing the level of insured mortgages to 31.0% from 14.6% one year ago.

Net impaired loans as a percentage of the gross loans portfolio ended the year at 0.85% compared to 0.86% one year ago. While the expense for provisions for credit losses was $11.5 million for the year, up $4.9 million over last year, this represented only 0.2% of average gross loans, consistent with 2008.

The Company continued to strengthen capital levels as indicated by the Tier 1 and Total capital ratios of 16.4% and 18.0%, respectively, which exceed the Canadian Schedule I Bank Tier 1 averages of 11.5% and 14.5% as well as minimum regulatory requirements of 7% and 10%. Liquidity levels at year-end were $1.20 billion, greater than the $880.7 million at the end of 2008, reflecting the Company's strategy to hold higher levels of liquidity to manage through any continuing economic challenges and to maintain financial flexibility.

Table 2 – Key Performance Indicators

(000s, except % and per share amounts) For the years ended December 31	2009	2008	2007	2006	2005
FINANCIAL PERFORMANCE MEASURES					
Total revenue	**$ 489,179**	$ 454,695	$ 368,881	$ 282,549	$ 234,704
Net income	**144,493**	108,687	90,241	67,815	60,861
Basic earnings per share	**4.19**	3.15	2.62	1.99	1.80
Diluted earnings per share	**4.15**	3.13	2.59	1.95	1.72
Dividends per share	**0.62**	0.50	0.44	0.31	0.18
Return on average shareholders' equity	**28.2%**	27.8%	28.9%	27.4%	31.9%
Return on average total assets	**2.2%**	2.0%	2.0%	1.9%	2.1%
Net interest margin (TEB)	**2.7%**	2.9%	3.4%	3.4%	3.5%
Non-interest income to net revenue	**42.9%**	34.9%	24.7%	23.3%	24.2%
Efficiency ratio (non-interest expense as a % of net revenue)	**27.2%**	28.5%	27.9%	30.5%	29.1%
Efficiency ratio (TEB) (non-interest expense as a % of net revenue)	**26.5%**	28.0%	27.1%	29.9%	28.5%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 7,360,874**	$ 5,809,713	$ 4,975,093	$ 3,902,316	$ 3,284,829
Cash and securities-to-total assets	**21.5%**	18.5%	16.6%	12.5%	12.2%
Mortgage-backed securities under administration	**$ 4,147,711**	$ 2,614,258	$ 1,459,455	$ 1,107,562	$ 800,184
Tier 1 capital ratio[1]	**16.4%**	12.9%	11.1%	12.7%	12.7%
Total capital ratio[1]	**18.0%**	14.2%	12.5%	14.2%	14.5%
Credit quality					
Provision for credit losses as a % of total loans	**0.2%**	0.2%	0.2%	0.1%	0.1%
Net impaired loans as a % of total loans	**0.8%**	0.9%	0.7%	0.7%	0.5%
Allowances for loan losses as a % of gross impaired loans	**62.1%**	66.7%	81.3%	86.5%	120.6%

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

Income Statement Highlights for 2009

> Strong earnings for the Company reflect robust lending in the Company's traditional mortgage product and through the Accelerator program, as well as securitization growth during 2009. Net income increased to a record $144.5 million in 2009, up $35.8 million or 32.9% from the $108.7 million recorded in 2008.

> Diluted earnings per share increased to $4.15, up 32.6% over 2008, while basic earnings per share increased to $4.19, up 33.0% over 2008.

> Return on average shareholders' equity exceeded the Company's benchmark of 20%, ending the year at 28.2%, up from 27.8% in 2008.

> Net interest income increased to $165.0 million, up $14.4 million or 9.6% over the $150.6 million earned in 2008 and was driven by loan portfolio growth and declining deposit rates during the year.

> Non-interest income was up $43.4 million or 53.7% driven by robust growth in securitization income of $33.8 million, along with gains realized on the sale of securities and positive mark-to-market adjustments on the Canada Mortgage and Housing Corporation (CMHC) Canada Mortgage Bond (CMB) hedges. The Company securitized and sold $2.60 billion of mortgages in 2009 compared to $1.50 billion in 2008.

> Provisions for credit losses were $11.5 million for the year, up from the $6.6 million recorded in 2008. This represented 0.2% of gross loans, consistent with 2008.

> During 2009, the Company recognized a $9.8 million reduction in future tax provisions, which reflected declining federal and provincial tax rates and the extension of maturities on the net underlying tax liabilities. Of this total, $4.7 million is attributed to the province of Ontario's December 2009 enactment of its reduced tax rates, which are effective July 1, 2010.

Balance Sheet Highlights for 2009

> Total on-balance sheet assets increased to $7.36 billion, representing a 26.7% increase over the $5.81 billion recorded in 2008. The growth is a result of significant growth in the on-balance sheet loans portfolio of $934.4 million or 20.7%, an increase in cash resources of $375.7 million and growth in securitization receivables of $89.5 million due to increased securitization volumes.

> The Company achieved significant on-balance sheet asset growth even while reducing the loan portfolio's exposure to Equityline *Visa*, non-residential mortgages and secured loans during 2009. This reduction was a prudent strategic response to the economic climate in late 2008 and most of 2009. At the same time, the Company increased the percentage of insured mortgages on-balance sheet to 31.0% from 14.6% one year ago.

> The credit quality of the loans portfolio has remained strong despite the economic challenges of 2009. While the Company saw modest rises in net impaired loans year-over-year, the net impaired loans as a percentage of gross loans ended the year at 0.85%, slightly better than the 0.86% at the end of 2008.

> The allowance for credit losses continued to drop as a percentage of overall gross impaired loans to 62.1% at the end of 2009 compared to 66.7% in 2008. The Company is confident existing allowance levels are appropriate for the risk profile of the loans portfolio, given the increase in the level of insured mortgages on the Company's balance sheet.

> Total assets under administration, which include mortgages securitized and sold, reached $11.51 billion at the end of 2009, an increase of $3.09 billion or 36.6% from 2008.

> Liquid assets at December 31, 2009 increased to $1.20 billion compared to $880.7 million one year ago. The increase in liquid assets at year-end reflects the timing of certain securitization transactions closed near year-end, as well as the Company's strategy to hold prudent levels of liquidity to manage through any continuing economic challenges and to maintain financial flexibility. The Company's access to funds through deposits and securitization markets remains strong and will continue to accommodate growth in the Company's loans portfolio.

> The Company's capital position continued to strengthen in 2009, ending the year with Tier 1 and Total capital ratios of 16.4% and 18.0%, respectively, compared to 12.9% and 14.2% one year ago. This increase was achieved while increasing dividends paid to $21.4 million in 2009.

> Deposit liabilities as at December 31, 2009 grew 25.7% to reach $6.41 billion, compared to $5.10 billion at December 31, 2008. 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.

2010 Overall Outlook

As expected, the challenging market conditions persisted throughout 2009, with the Canadian economy experiencing retraction over the first half of 2009 and beginning a slow recovery towards the end of 2009. Also, as anticipated, interest rates declined during 2009. The expectation is that the slow recovery will continue throughout 2010 tempered with lingering employment concerns. The Company has cautiously commenced returning to its traditional mortgage lending markets and geographic distribution, growing Equityline *Visa*, as well as diversifying its consumer-lending portfolio. These trends should continue throughout 2010. The Company expects housing markets to remain favourable and interest rates to increase slowly beginning in or around the second quarter of 2010.

FINANCIAL PERFORMANCE REVIEW

Net Interest Income and Margin

Presented in the following table is an analysis of net interest income and net interest margin. 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 11 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		2009			2008	
(000s, except %)	**Average Balance**	**Income/ Expense**	**Average Rate**	Average Balance	Income/ Expense	Average Rate
Assets						
Cash and cash resources	**$ 742,278**	**$ 5,650**	**0.8%**	$ 454,379	$ 10,504	2.3%
Securities	**585,037**	**25,306**	**4.3%**	495,179	24,257	4.9%
Loans	**4,973,569**	**334,148**	**6.7%**	4,264,281	339,242	8.0%
Taxable equivalent adjustment[1]	**–**	**7,949**	**–**	–	4,353	–
Total earning assets	**6,300,884**	**373,053**	**5.9%**	5,213,839	378,356	7.3%
Other assets	**284,409**	**–**	**–**	179,855	–	–
Total assets	**$ 6,585,293**	**$ 373,053**	**5.7%**	$ 5,393,694	$ 378,356	7.0%
Liabilities and shareholders' equity						
Deposits and borrowings	**$ 5,756,301**	**$ 200,093**	**3.5%**	$ 4,758,382	$ 223,428	4.7%
Total interest-bearing liabilities	**5,756,301**	**200,093**	**3.5%**	4,758,382	223,428	4.7%
Other liabilities	**317,472**	**–**	**–**	244,915	–	–
Shareholders' equity	**511,521**	**–**	**–**	390,397	–	–
Total liabilities and shareholders' equity	**$ 6,585,293**	**$ 200,093**	**3.0%**	$ 5,393,694	$ 223,428	4.1%
Net interest income (TEB)		**$ 172,960**			$ 154,928	
Taxable equivalent adjustment[1]		**(7,949)**			(4,353)	
Net interest income per financial statements		**$ 165,011**			$ 150,575	
Net interest margin (net investment income divided by average total assets)			**2.7%**			2.9%
Spread of loans over deposits only			**3.2%**			3.3%

[1] Please refer to page 11 of this Annual Report where taxable equivalent basis (TEB) is defined.

As shown on the preceding table, net interest income (TEB) increased in 2009 by $18.0 million over 2008. Overall net interest margin declined to 2.7% in 2009 from 2.9% in 2008 and the spread of loans over deposits declined marginally to 3.2% from 3.3% in 2008.

Net interest income (TEB) was $173.0 million in 2009, compared to $154.9 million in 2008. Average income earned on interest-bearing assets declined to 5.9% in 2009 from 7.3% in 2008 due in part to the level of investment in the Company's liquidity portfolio earning a lower yield, dropping, on average, to 0.8% in 2009 from 2.3% in 2008 as a result of declining returns on government-quality liquid assets. Partially offsetting this decline was a reduction in the average interest expense for deposits to 3.5% from 4.7% in 2008. While the Company was able to re-price deposits during the year, the Company's deposits do not re-price as quickly as the Company's mortgage loans portfolio and there remained spread compression during the year.

The average interest spread between the loans portfolio and deposits at the end of the year was 3.2%, compared to 3.3% for the comparable 12-month period in 2008. The decrease in interest spread over the prior year was reflective of the effects of cuts to the prime lending rate, leading to lower rates on new and renewal loans replacing higher rate loans, combined with the increase in the level of lower risk insured mortgages, which carry lower interest rates. Offsetting this decline was a marginal improvement due to the conversion of variable rate non-residential mortgages to higher fixed rates during the year. At December 31, 2009, the prime interest lending rate was 2.25%, a 125 basis point drop from the same period last year. Also influencing the interest spread is the higher level of insured Accelerator program mortgages originated in 2009. These mortgages carry a lower interest rate due to their lower credit risk profile and, while most of these mortgages are eventually securitized, they do remain on-balance sheet for a short period.

Despite the modest decline in overall interest spreads, the Company's traditional residential mortgage portfolio continued to maintain historical spreads.

2010 Outlook for Net Interest Income

The Company expects net interest income to grow in proportion to the loan portfolio growth in 2010. The Company is cautiously returning to its growth strategy for the traditional mortgage and Equityline *Visa* portfolios, which should favourably influence net interest income in 2010. Tempering this influence on net interest income will be the continued growth in proportion of insured mortgages retained on-balance sheet, which have lower interest rates. The Company continues to review pricing, funding costs and product structures to look for new and innovative approaches to maximize spread returns, including diversification and growth of the consumer lending segment, which provides for higher spreads. Higher liquidity strengthens the Company's overall financial position but will continue to have a dampening 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 %)	**2009**	2008	2007	**Growth 2009/2008**	Growth 2008/2007
Fees and other income	**$ 29,326**	$ 28,452	$ 21,533	**3.1%**	32.1%
Securitization income on mortgage-backed securities	**92,397**	58,582	27,367	**57.7%**	114.1%
Net realized and unrealized gain (loss) on investment securities	**2,097**	(5,365)	(1,614)	**139.1%**	(232.4%)
Net gain on disposal of subsidiary	**–**	69	–	**–**	100.0%
Net gain (loss) on derivatives and short sales	**255**	(1,046)	781	**124.4%**	(233.9%)
Total non-interest income	**$ 124,075**	$ 80,692	$ 48,067	**53.8%**	67.9%

Non-interest income increased by $43.4 million or 53.8% compared to 2008. Most of the year-over-year increase is due to strong growth in securitization income from the Company's participation in the CMHC's CMB program and the Company's mortgage-backed securities (MBS) program (see Table 5 and Table 6).

Fees and other income are primarily generated from the charges to service new mortgages and Equityline *Visa* accounts and the residual servicing of those portfolios. Fees and other income increased marginally from 2008 but not at the same pace as the overall increase of 26.7% in the loans portfolio. This is due to a relative increase in the origination of insured single-family residential mortgages through the Accelerator program. Accelerator accounted for 46.1% of single-family residential mortgage originations in 2009, compared to 9.9% of single-family residential mortgage originations in 2008. Fees for the Accelerator program are relatively lower than the Company's traditional mortgage portfolio. Additionally, the Company prudently decreased its exposure to Equityline *Visa* during 2009, opening 2,677 new accounts in 2009 compared to 3,864 in 2008, which reduced the level of fees generated from new originations.

Table 5 – Summary of New Securitization Activity

The following table summarizes the securitization activities during 2009 compared to 2008:

December 31	**2009**				2008			
(000s, except %)	**Single Family Residential MBS Under 1 Year**	**Single Family Residential MBS Over 1 Year**	**Multi-Unit Residential MBS**	**Total**	Single Family Residential MBS Under 1 Year	Single Family Residential MBS Over 1 Year	Multi-Unit Residential MBS	Total
Book value of mortgages securitized	**$ 163,974**	**$ 1,374,616**	**$ 1,061,151**	**$ 2,599,741**	$ 289,066	$ 783,154	$ 426,646	$ 1,498,866
Gain on sale of mortgages	**$ 5,194**	**$ 43,032**	**$ 31,887**	**$ 80,113**	$ 6,763	$ 41,036	$ 13,515	$ 61,314
Prepayment rate	**4.2%**	**12.9%**	**0.0%**	**7.1%**	4.2%	13.0%	0.0%	7.6%
Excess spread	**4.8%**	**2.0%**	**1.4%**	**1.9%**	3.9%	3.9%	1.1%	2.6%
Discount rate	**1.1%**	**2.7%**	**2.9%**	**2.7%**	3.2%	4.7%	2.7%	3.4%

The Company experienced another strong year in new securitization activities, securitizing $2.60 billion of insured residential mortgages. This represents an increase of $1.10 billion over the $1.50 billion in mortgages securitized and sold in 2008.

The spread earned on the securitized pools averaged 1.9% in 2009, down from 2.6% in 2008. During 2009, securitization spreads declined to levels that are more reflective of normal spreads as the credit markets stabilized.

The average unscheduled prepayment rate was 7.1%, down from 7.6% in 2008, as the Company issued 16 multi-unit residential MBS pools in 2009 where unscheduled prepayments are not permitted under the program. Of the $2.60 billion MBS pools issued during the year, $1.06 billion or 40.8% were pools containing prohibited unscheduled prepayments. Further, the Company issued several short-term MBS pools where the mortgages in the MBS pool were late in their term, and therefore the Company expects less prepayment. The remaining pools had unscheduled prepayment rates in line with historical levels.

The table below summarizes the reconciliation of the gains recorded during the year and the excess spread earned from the Company's ongoing servicing of these portfolios.

Table 6 – Reconciliation of Securitization Activity

(000s, except %)	2009	2008	% Change
Securitization gains	$ 80,113	$ 61,314	30.7%
Securitization hedging activity	(62)	(12,521)	(99.5%)
Securitization gains, net of hedging activity	80,051	48,793	64.1%
Recurring securitization income	12,346	9,789	26.1%
Net securitization income	$ 92,397	$ 58,582	57.7%

Net securitization income was $92.4 million in 2009, up 57.7% from the $58.6 million recorded in 2008. Robust growth is the result of an increase in volumes securitized.

The Company continues to enter into bond forward contracts to hedge commitment (interest rate) risk on the mortgage loans earmarked for securitization into the CMB program. The unwinding of the bond forward contracts during the year resulted in a net $0.06 million realized loss for 2009 compared to a net $12.5 million realized loss in 2008. Gains and losses on these hedging activities are impacted by the change in bond yields while the Company holds the forward contracts.

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 $2.60 billion securitized over the year, the Company securitized $1.96 billion ($1.09 billion in 2008) through the CMB program and recognized gains of $62.1 million ($36.4 million in 2008). For additional information on the Company's securitization activities refer to Note 6 of the consolidated financial statements of this Annual Report.

Recurring securitization income, earned from excess spreads and servicing income, net of servicing fees paid, was $12.3 million compared to $9.8 million in 2008. The Company continues to service most of the underlying mortgages and earned a continuing servicing income from this amounting to $3.7 million in 2009 ($1.0 million in 2008). This income is included in recurring securitization income. Increases reflect the growth in the underlying pools of mortgages on which this income is generated.

During the normal course of business, the Company sold certain holdings in its debt and equity portfolio realizing total gains of $11.4 million compared to $3.0 million of realized losses in 2008. The realized gains are a result of improvements in capital markets in 2009.

In 2009 the Company transferred unrealized losses to the income statement from accumulated other comprehensive income on certain available for sale assets that management deemed to be permanently impaired. Total unrealized losses transferred to income from this assessment were $9.3 million in 2009 compared to $2.4 million in 2008. Management believes the remaining unrealized losses on specific securities in the Company's available for sale portfolio are temporary in nature. The Company monitors the available for sale portfolio's performance through the investment committee and, on a quarterly basis, assesses the likelihood of whether specific investments might be permanently impaired and require write-off through the income statement. For additional information, refer to the Significant Accounting Estimates and Critical Accounting Policies Section on page 44 of this MD&A.

As described in the Derivatives and Off-balance Sheet Arrangements Section on page 31 of this MD&A, the Company enters into transactions that include derivative instruments. Gain (loss) on derivatives and short sales includes fair value changes and the net settlements of derivatives used in the CMB program and the fair value changes in bond forward contracts outstanding as at the balance sheet date. The Company recorded a net gain of $0.3 million in 2009, compared to a net loss of $1.0 million in 2008. For additional information, see Note 16 in the consolidated financial statements in this Annual Report.

2010 Outlook for Non-interest Income

The Company expects non-interest income to continue to grow in 2010 primarily through higher securitization volumes. The Company expects excess spreads on securitization activities to remain stable at the current normalized levels, subject to the performance of global credit markets. The Company will continue to maximize returns by adjusting its funding mix between deposits and securitization. The Company anticipates that fees and other income will grow over 2009 levels as the Company prudently returns to its broader Equityline *Visa* segments and renews focus on the traditional mortgage portfolio, both of which earn relatively higher fees.

Non-interest Expenses

Table 7 illustrates the changes in the components of non-interest expense in 2009 and the two prior years.

Table 7 – Non-interest Expenses

For the years ended December 31 (000s, except %)	2009	2008	2007	Growth 2009/2008	Growth 2008/2007
Salaries and employee benefits	**$ 41,559**	$ 36,182	$ 30,195	**14.9%**	19.8%
Premises and equipment					
Rent – premises	**4,319**	3,545	3,058	**21.8%**	15.9%
Equipment rental and repairs	**1,597**	894	779	**78.6%**	14.9%
	5,916	4,439	3,837	**33.3%**	15.7%
General and administrative					
Consulting and other professional services	**7,914**	5,264	4,823	**50.3%**	9.1%
Capital taxes and insurance	**5,294**	4,093	3,312	**29.4%**	23.6%
Outsourcing services	**4,415**	3,962	1,700	**11.4%**	133.1%
Depreciation and amortization	**3,583**	3,731	2,043	**(4.0%)**	82.6%
Other	**2,286**	2,408	2,167	**(5.1%)**	11.1%
Computer services	**2,949**	1,708	1,583	**72.6%**	7.9%
Advertising and business development	**1,894**	1,682	2,116	**12.6%**	(20.5%)
Stationery and publications	**1,430**	1,296	842	**10.4%**	54.0%
Communications and travel expenses	**1,361**	1,246	1,580	**9.3%**	(21.1%)
	31,126	25,390	20,166	**22.6%**	25.9%
Total non-interest expenses	**$ 78,601**	$ 66,011	$ 54,198	**19.1%**	21.8%
Average assets	**$ 6,585,293**	$ 5,394,694	$ 4,438,704		
As a % of average assets	**1.2%**	1.2%	1.2%		
Efficiency ratio					
Net interest income	**$ 165,011**	$ 150,575	$ 146,258		
Other income	**124,075**	80,692	48,067		
Total revenue, net of interest expense	**289,086**	231,267	194,325		
TEB adjustment	**7,949**	4,353	5,455		
Total revenue TEB, net of interest expense	**297,035**	235,620	199,780		
As a % of total revenue, net of interest expense	**27.2%**	28.5%	27.9%		
As a % of total revenue TEB, net of interest expense	**26.5%**	28.0%	27.1%		

In 2009, non-interest expenses increased to $78.6 million from $66.0 million, an increase of $12.6 million or 19.1% over 2008. This compares favourably to a 26.1% increase in total revenue in 2009 over 2008. The Company has been able to grow revenue at a faster rate than the increase in non-interest expenses, leading to an improvement in the efficiency ratio (TEB) to 26.5% compared to 28.0% in 2008.

Increases in non-interest expense in 2009 occurred in most expense categories and reflect an overall growth in the business. The Company's largest expenditure, and the key to the Company's future growth strategy, are the costs associated with the Company's employees. During the year, the overall staff level increased to 491 from 395 a year ago, increasing the Company's salaries and benefits expenses by $5.4 million or 14.9% for the year. Additional staff were required across all areas of the business to support the growth in the Company's assets and to further strengthen the senior management team.

Premises and equipment expenses increased in 2009 with the renewal of certain leases at higher lease rates and the addition of new equipment leases.

Consulting and professional expenses increased 50.3% over the prior year as the Company engaged consultants to advise on a number of specific projects including International Financial Reporting Standards (IFRS) and risk management.

Computer service costs, capital taxes and insurance increased in response to general growth of the Company's loan portfolio and additions in staff throughout 2009.

2010 Outlook for Non-interest Expenses

The Company anticipates another robust year of growth in total assets, including assets securitized and sold, and this will result in corresponding increases in non-interest expenses. The Company expects to begin the amortization of the development costs for the new core banking system in 2010. Despite the anticipated increases in expenses, cost discipline will continue to be a priority for the Company. The Company will continue to target an efficiency ratio on a TEB in the range of 28% to 34%. With the adoption of the Harmonized Sales Tax (HST) for the provinces of Ontario and British Columbia on July 1, 2010 some expenses will increase. Certain expenses such as professional services, which were not subject to the provincial sales tax, will be subject to the provincial portion under the new HST (8% for Ontario and 7% for British Columbia). The Company provides financial services, which are exempt services, therefore restricting the input tax credit entitlement.

Provisions for Credit Losses

Table 8 – Provisions for Credit Losses

For the year ended December 31 — **2009**

(000s, except %)	Specific Provisions for Credit Losses	General Provisions for Credit Losses	Total Provisions for Credit Losses	Net Write-offs	Net Impaired Loans	General Allowance	Specific Allowance	Total Allowance for Credit Losses
Residential mortgages	$ 6,178	$ 3,325	$ 9,503	$ 6,512	$ 39,803	$ 19,461	$ 1,346	$ 20,807
Non-residential mortgages	135	(182)	(47)	–	2,282	4,398	135	4,533
Personal and credit card loans	2,125	(253)	1,872	1,711	3,886	3,447	961	4,408
Secured loans	472	(274)	198	1,034	335	487	137	624
Total	$ 8,910	$ 2,616	$ 11,526	$ 9,257	$ 46,306	$ 27,793	$ 2,579	$ 30,372
Average loans			$4,973,569					
As a % of average loans			0.2%					

For the year ended December 31 — 2008

(000s, except %)	Specific Provisions for Credit Losses	General Provisions for Credit Losses	Total Provisions for Credit Losses	Net Write-offs	Net Impaired Loans	General Allowance	Specific Allowance	Total Allowance for Credit Losses
Residential mortgages	$ 2,971	$ (991)	$ 1,980	$ 1,925	$ 32,963	$ 16,136	$ 1,680	$ 17,816
Non-residential mortgages	–	2,364	2,364	–	164	4,580	–	4,580
Personal and credit card loans	937	499	1,436	518	5,762	3,700	547	4,247
Secured loans	953	(95)	858	485	308	761	699	1,460
Total	$ 4,861	$ 1,777	$ 6,638	$ 2,928	$ 39,197	$ 25,177	$ 2,926	$ 28,103
Average loans			$ 4,264,281					
As a % of average loans			0.2%					

The provisions for credit losses are charged to the income statement by an amount that brings the specific and general allowances for credit losses to the level determined by management to be adequate. Factors that influence the provisions for credit losses include the formation of new impaired loans, the level of write-offs, management's assessment of the level of specific and general allowances required, and the growth in the loans portfolio.

Provisions for credit losses increased to $11.5 million in 2009, up $4.9 million or 73.6% over 2008. This expense represented 0.2% of the average loan portfolio, consistent with 0.2% in 2008 and 2007.

During 2009, the level of net impaired loans as a percentage of the gross loan portfolio peaked at 1.3% ($61.1 million) at June 30, 2009, and then declined to 1.2% ($63.5 million) at September 30, 2009 and 0.8% ($46.3 million) at December 31, 2009. The level of net impaired loans as a percentage of gross loans was 0.9% ($39.2 million) at December 31, 2008.

Throughout the year, the increase in the provisions for credit losses reflected a rise in new impaired loans, higher write-offs, as well as portfolio growth. The year-over-year increase in impaired loans over December 31, 2008 was concentrated in the residential and non-residential portfolios, modestly offset by a decrease in impaired loans in personal and credit card loans. The Company reduced its exposure to personal and credit card loans and secured loans portfolios during 2009 in response to the uncertain economic climate. (Refer to Table 15 in this MD&A for a summary of the year-over-year changes in impaired loans.)

Because of the year-over-year increase in impaired loans, the specific provisions for credit losses increased to $8.9 million, up $4.0 million from the $4.9 million charged to income in 2008. Specific provisions for credit losses for residential mortgages make up $3.2 million of this increase, consistent with the increased size of the residential loan portfolio. The moderate increase in the specific provision for loan losses for personal and credit card loans reflects the increase in write-offs in this portfolio during the year.

The general allowance for credit losses increased to $27.8 million in 2009, up $2.6 million or 10.4% over 2008. This increase is mainly a function of the increased size of the residential mortgage portfolio. In 2008, the Company shifted to providing more specific allowances on certain loans, removing the credit risk from the general allowance for these specific loans. This shift continued in 2009 for the personal and credit card loans portfolio.

The decrease in the general provisions for credit losses for the non-residential mortgage, personal and credit card loan and secured loan portfolios is due to the decreased size of these portfolios compared to 2008, in line with the Company's strategy to reduce exposure to these business lines during the economic downturn.

As a percentage of the average loan portfolio, the total provisions for credit losses remained consistent at 0.2% in comparison to 2008. At December 31, 2009, 99.9% of the total loans portfolio was secured by way of cash deposits, mortgages or collateral mortgages. Additionally, when the loan-to-value ratio is diminished, the risk of loss to the Company is low and a provision may not be required. At December 31, 2009, the average loan to value on origination of the Company's mortgage loan portfolio was 68.8%, up slightly from 66.6% in 2008.

The general allowance was 86.1 basis points of the Company's risk-weighted assets at December 31, 2009 compared to 84.0 basis points at December 31, 2008. The increase year-over-year reflects the increase in the general allowance for overall portfolio growth and economic factors, even though the increase in risk-weighted assets was less due to the increase in the proportion of residential loans and reduced exposure to non-residential mortgage loans.

2010 Outlook for Provisions for Credit Losses

The Company's provisions for credit losses in 2010 will be influenced by the pace and strength of the recovery of the Canadian economy. There is remaining uncertainty related to unemployment and the growth prospects for certain sectors of the economy; however, the Company expects the housing markets to remain strong. While the Company is cautiously optimistic that credit losses will continue to improve throughout 2010, the Company is prepared for moderate volatility in this trend. The Company expects the provisions for credit losses to be between 0.2% and 0.5% of average loans in 2010. Specific allowances will continue to be determined and reviewed monthly on an account-by-account basis. However, the general allowance 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.

Taxes

The provision for income taxes for the fiscal year 2009 amounted to $54.5 million for an effective tax rate of 27.4% compared to $49.9 million in 2008 and an effective tax rate of 31.5%. These effective rates are lower than the legislated federal and provincial rates primarily due to tax-exempt dividend income and changes to future tax rates. This tax-exempt income lowered the tax provision by $5.7 million in 2009 and $2.9 million in 2008.

During 2009, the Company recognized a $9.8 million reduction in future tax provisions which reflected declining federal and provincial tax rates and the extension of maturities on the net underlying liabilities. Of this total, $4.7 million is attributed to the province of Ontario's December 2009 enactment of its reduced tax rates, which are effective July 1, 2010.

The Company had capital losses of $2.8 million ($2.8 million in 2008) which are available to reduce capital gains in future years and have no expiry date. The Company has not recognized the tax benefit of these capital losses.

Capital taxes reported under general and administration expenses amounted to $3.9 million, an increase over the $2.5 million reported in 2008. Capital taxes increased due to the Company's equity growth and growth in its future tax liabilities.

Note 13 to the consolidated financial statements on page 68 of the Annual Report offers more information about the Company's condition regarding current income taxes and provisions for income taxes.

2010 Outlook for Taxes

The Company expects the effective income tax rate in 2010 to be within the range of 26.5% to 30.0% based on lower federal and Ontario statutory rates as well as tax-exempt dividend income. Capital tax expense will decrease in 2010 because the province of Ontario eliminated this tax effective July 1, 2010.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Comprehensive income totalled $176.8 million for the year compared to $103.9 million in 2008. As noted above, net income was $144.5 million for the year, up 32.9% over the $108.7 million recorded in 2008. The Company's OCI includes unrealized gains, net of tax, on available for sale securities, and securitization receivables from market revaluations at the end of the year of $32.3 million compared to unrealized losses of $4.8 million at the end of 2008. The improvement is due to positive developments in Canadian capital markets and interest rate fluctuations.

During the year, the Company determined that certain available for sale equity holdings were other than temporarily impaired and recognized write-downs totalling $9.3 million ($2.4 million in 2008) in net income. These losses were previously included in accumulated other comprehensive income. The Company believes that any remaining unrealized losses on individual securities represent temporary declines in value due to the current securities market conditions.

BALANCE SHEET REVIEW

Overview

The Company's on-balance sheet assets were $7.36 billion at December 31, 2009 compared with $5.81 billion at December 31, 2008. This increase of $1.55 billion or 26.7% over 2008 was primarily attributable to the growth in the mortgage portfolio. Total loans increased $934.4 million or 20.7%, continuing the Company's trend of double-digit loan growth over the past 11 years.

Total assets under administration, which include mortgages securitized and sold, increased to $11.51 billion in 2009 from $8.42 billion in 2008. The Company securitized a record $2.60 billion of insured mortgages in 2009, up from $1.50 billion in 2008.

Deposit liabilities as at December 31, 2009 reached $6.41 billion, an increase of $1.31 billion or 25.7% over 2008, both to fund the Company's loan portfolio growth and to maintain prudent liquidity. The Company ended the year with $1.20 billion in liquid assets, up from $880.7 million a year ago.

Table 9 presents additional information on changes to balance sheet accounts.

Table 9 – Balance Sheet Accounts

As at December 31 (000s, except %)	**2009**	2008	2007	**Growth 2009/2008**	Growth 2008/2007
Cash resources	**$ 930,134**	$ 554,422	$ 354,336	**67.8%**	56.5%
Securities[1]	**650,597**	519,477	470,881	**25.2%**	10.3%
Total cash resources and securities	**1,580,731**	1,073,899	825,217	**47.2%**	30.1%
Residential mortgage loans	**4,369,458**	3,263,206	3,169,953	**33.9%**	2.9%
Non-residential mortgages	**708,425**	826,882	467,921	**(14.3%)**	76.7%
Personal and credit card loans	**342,918**	368,962	325,393	**(7.1%)**	13.4%
Secured loans	**47,739**	72,518	82,304	**(34.2%)**	(11.9%)
General allowance	**(27,793)**	(25,177)	(23,400)	**10.4%**	7.6%
Total loans	**5,440,747**	4,506,391	4,022,171	**20.7%**	12.0%
Other assets	**339,396**	229,423	127,705	**47.9%**	79.7%
Balance sheet assets	**7,360,874**	5,809,713	4,975,093	**26.7%**	16.8%
Deposits	**6,409,822**	5,102,781	4,413,984	**25.6%**	15.6%
Other liabilities	**360,764**	274,179	213,069	**31.6%**	28.7%
Shareholders' equity	**590,288**	432,753	348,040	**36.4%**	24.3%
Cash resources and securities as a % of balance sheet assets	**21.5%**	18.5%	16.6%		
Loans as a % of balance sheet assets	**73.9%**	77.6%	80.8%		

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

Cash Resources and Securities

Total cash resources and securities at December 31, 2009 increased by $506.8 million or 47.2%, ending the year at $1.58 billion. This represented 21.5% of the Company's total assets as at December 31, 2009 compared to 18.5% at December 31, 2008. The growth in cash resources and securities was primarily generated from excess funds raised through deposits and securitization, as well as internally generated earnings. Management continues to act prudently to maintain conservative overall cash and securities positions in the event of further economic challenges and to maintain financial flexibility.

Included in cash resources is $18.0 million in restricted cash (nil in 2008) held as collateral for interest rate swaps used to hedge the Company's CMB program activities.

The securities portfolio (available for sale and held for trading), which includes MBS securities, bonds, common and preferred shares, income trust units and mutual funds, increased by $131.1 million or 25.2% to end the year at $650.6 million.

At December 31, 2009, the preferred share portfolio, which represents 44.3% of the Company's securities portfolio, consisted of 74.5% of P1 and P2 rated stocks (80.5% in 2008). The Company's bond portfolio includes primarily debt securities issued by large Canadian banks and represents 29.8% of the securities portfolio at December 31, 2009 compared to 36.4% one year ago. The Company also holds MBS backed by insured mortgages in its securities portfolio, which it uses as replacement assets for the CMB program. At December 31, 2009, the Company held $56.1 million in MBS compared to $163.4 million in 2008. Common shares represent 1.0% of the total securities portfolio consistent with 2008. Income trusts and mutual funds represent less than 1.0% of the securities portfolio compared to 1.2% in 2008. For further information, refer to Note 4 in the consolidated financial statements of this Annual Report.

2010 Outlook for Cash Resources and Securities

In 2010, the Company expects cash resources and securities to increase in proportion with the growth in total assets. Asset growth and economic conditions will drive the need for liquid assets. The Company plans to target a conservative level of liquid assets to manage through any potential economic challenges while maintaining financial flexibility. A significant proportion of excess funds raised through the Company's retail deposits channel and securitization activities will be deployed into short-term, highly liquid investments while management continues to invest the balance in securities that provide attractive returns.

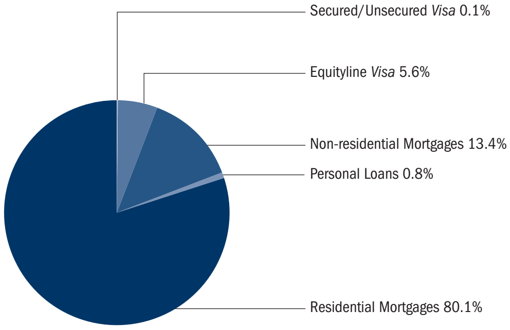
Loans Portfolio

The Company's loans portfolio consists of residential and non-residential mortgages, personal and credit card loans, and secured loans. Secured loans are backed by second residential mortgages. At December 31, 2009 the loans portfolio amounted to $5.44 billion, up $934.4 million or 20.7% over the $4.51 billion at December 31, 2008.

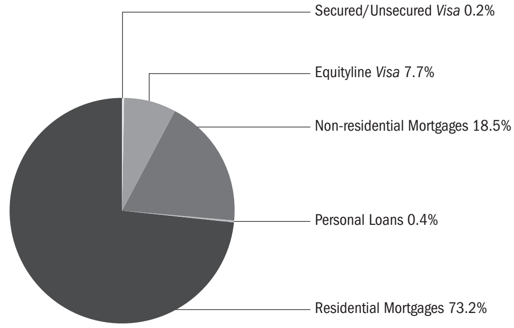
As illustrated in the following charts, the Company's residential mortgage lending continues to represent the most significant component of the Company's loans portfolio at 80.1% of the total portfolio compared to 73.2% one year ago. Year-over-year the residential proportion has increased as the Company prudently scaled back lending in the other loan portfolios in response to economic challenges. The Company is cautiously returning to expanding its personal and credit card loan portfolio, which is expected to grow moderately in 2010.

Figure 1 – Lending by Product Line

Lending Portfolio by Product Line[1] as at December 31, 2009



Lending Portfolio by Product Line[1] as at December 31, 2008



[1] The above figures exclude secured loans.

At December 31, 2009, on-balance sheet residential mortgage loans totalled $4.37 billion, up 33.9% from the $3.26 billion recorded in 2008. Included in residential mortgages are the Accelerator program mortgages and the traditional mortgage portfolio. Accelerator mortgages accounted for 33.1% of the residential mortgage portfolio at December 31, 2009 compared to 7.3% at the end of 2008. The majority of Accelerator mortgages are earmarked for securitization and sale.

The non-residential mortgage portfolio declined 14.3% to $708.4 million from $826.9 million last year, consistent with the Company's strategy to prudently reduce exposure to this sector in light of the uncertainty in commercial real estate markets. The non-residential portfolio continues to perform well with 98.8% of the portfolio current at December 31, 2009 compared to 99.1% at December 31, 2008. This portfolio experienced no write-offs in 2009 or 2008. The Company anticipates this portfolio will continue to perform well. Included in the non-residential category are stores with adjoined apartments, office buildings, residential and non-residential construction, retail stores and hotels and industrial.

All mortgages are secured by real property. Growth in total mortgage assets in 2009 was due to continued lending within the Company's target markets while employing additional prudence in certain areas where the housing and employment markets were relatively weaker. Historically low interest rates and improved affordability made home ownership attractive for many Canadians in 2009. While the Company tightened lending criteria in the second half of 2008 in response to existing market conditions, it has recently begun prudently returning to its traditional lending criteria, product lines and geographic diversification strategies.

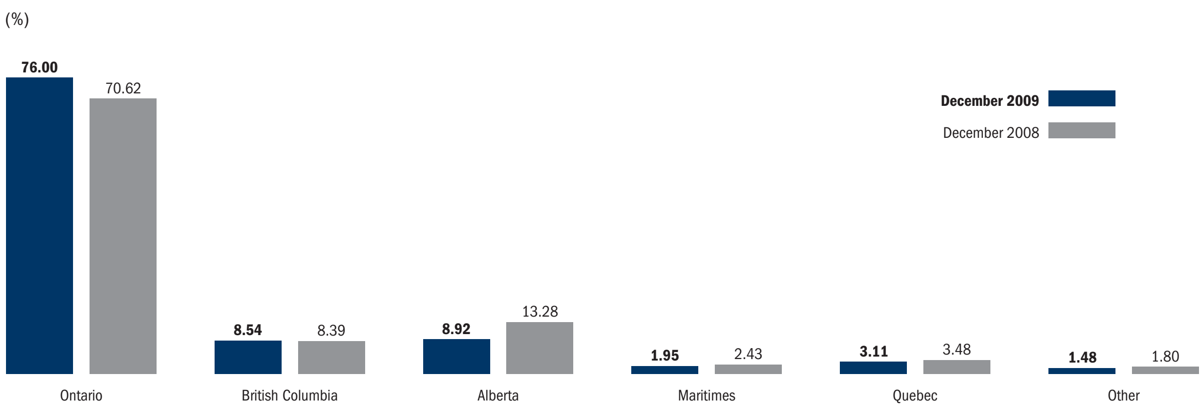
Insured mortgages have become an increasing component of the Company's mortgage portfolio. At December 31, 2009 the Company held $1.57 billion ($477.2 million in 2008) of insured mortgages, representing 31.0% of the total on-balance sheet mortgage loan portfolio. This compares to 14.6% in 2008. The increase over 2008 is consistent with the Company's overall strategy, which includes product diversification and credit risk mitigation. While insured mortgage lending remains intensely competitive, based on the success of its Accelerator mortgage program and the CMB and MBS securitization programs, the Company intends to continue growing in this market.

During 2009, the Company decreased its personal and credit card loan portfolio in response to economic volatility by tightening credit criteria in higher risk geographic regions. At December 31, 2009, the personal loan and credit card portfolio totalled $342.9 million, a decrease of $26.1 million or 7.1% over the $369.0 million recorded at December 31, 2008. The credit card operation ended the year with 17,605 accounts and contractual commitments of $357.5 million compared to 20,331 accounts and $415.0 million at December 31, 2008. Contractual commitments with cardholders to extend credit up to established credit limits represent 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 fully secured Equityline *Visa* product, which launched in January 2006. The Company does not offer unsecured *Visa* products. At December 31, 2009, secured and collateralized credit card accounts amounted to 99.9% of outstanding balances, as compared to 99.8% at the end of December 2008.

Building on past successes, the Company continues to grow its personal loan portfolio. On January 18, 2010 the Company announced a new long-term financing agreement with National Energy Corporation, which operates as National Home Services (NHS). The Company will finance current and future water heater installations by NHS.

The Company has an 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 Company purchases the investments. At the end of 2009 the Company held $47.7 million in secured loans as Notes Receivable issued by Regency, compared to $72.5 million at December 31, 2008. These Notes yield 5.3% with an average duration of 2.1 years. The Company also receives fee income for servicing and administering these mortgages for Regency. This income amounted to 0.3% of the portfolio value, on an annualized basis. The underlying credit quality of the mortgage loans securing the Notes Receivable remains high, with 0.9% of the portfolio in arrears over 60 days and continuing to experience only moderate losses. The Company had decided to discontinue advancing funds under this program during the economic downturn but recently resumed limited marketing of this product in anticipation of improving housing markets.

Figure 2 – Lending by Province



The Company, through past expansion, provides mortgages across Canada. The Company continues to seek diversification opportunities to its lending base across Canada while remaining responsive to changing economic conditions. The introduction of the Accelerator program has allowed the Company to maintain geographic diversification of mortgage portfolio originations while tightening credit in the traditional mortgage portfolio lending in certain geographic areas during the economic downturn.

Table 10 – Mortgage Loan Advances

December 31 (000s)	2009	2008
Traditional residential mortgages	$ 1,778,575	$ 2,164,395
Accelerator residential mortgages	1,519,024	236,935
Multi-unit residential mortgages	1,239,352	546,382
Warehouse residential mortgages	49,951	296,744
Non-residential mortgages	135,380	442,356
Stores and apartments	42,161	78,838
Warehouse non-residential mortgages	34,500	93,273
Total mortgage advances	$ 4,798,943	$ 3,858,923

The Company continues to achieve robust growth from mortgage lending as illustrated by $4.80 billion in advances in 2009 for a 24.3% increase over the $3.86 billion in 2008. Advances of Accelerator mortgages, which are fully insured single-family residential mortgages, increased $1.28 billion over 2008 and now comprise almost 50% of the single-family residential mortgage originations.

The Company also experienced substantial growth in multi-unit residential originations. Of the $1.24 billion originated, 68.7% were securitized and sold. The growth in this category reflects another area where the Company has expanded and diversified its sources of earnings.

Advances for non-residential mortgages declined by $307.0 million or 69.3% compared to 2008. This decline is consistent with the Company's stated objective to reduce its overall exposure to non-residential mortgages in 2009.

Outstanding commitments for future mortgage advances amounted to $380.8 million at December 31, 2009 compared to $242.4 million at December 31, 2008. The increase in mortgage loan commitments year-over-year was due to the overall growth in origination activity. Included within the outstanding commitments are unutilized non-residential advances of $48.6 million at December 31, 2009 compared to $89.6 million at December 31, 2008. The decline in non-residential commitments reflects the Company's strategy to reduce exposure to this sector. Loan commitments remain open for various dates through December 2010. The Company is also committed to refinance existing clients as their mortgage loans mature. During 2009, the Company successfully refinanced $1.51 billion in mortgage loans.

2010 Outlook for Loans Portfolio

The Company expects that the rate of growth in the mortgage portfolio will closely match the target growth in the Company's total assets for 2010 of 15% to 20%. The Company will prudently diversify its geographic and credit holdings where appropriate. The insured mortgage portfolio will continue to contribute a significant percentage of new origination volumes, consistent with 2009. The Company expects the credit card portfolio to resume growing as the Company seeks new and innovative products, expanded marketing initiatives and cross-selling efforts. The Company is targeting a growth rate of approximately 15% to 20% over the 2009 balance on the strength of the Equityline *Visa* product. The agreement with National Home Services is expected to add $90 million to $100 million to the consumer loans portfolio in 2010. The Company will continue to seek additional low credit risk opportunities to prudently broaden its consumer lending portfolio. The Company's growth targets will not be impacted by the federal government's recent announcement on the amendments to the criteria for CMHC qualifications.

Other Assets and Liabilities

Other assets increased by $20.9 million or 24.8% to end the year at $105.1 million. Other assets include accrued interest receivable, goodwill, intangible assets, capital assets, and other prepaid assets. In general, these balances grow as the Company's operations expand.

The goodwill balance of $15.7 million is subject to an annual impairment test to determine whether the asset continues to maintain its value. The Company completed an annual impairment analysis and concluded that the goodwill was not impaired.

Intangible assets include development expenditures to implement the Company's new core banking system. At the end of 2009, these development costs amounted to $25.4 million.

Securitization receivables, composed of residual interest spreads on the pools of securitized mortgages, accounted for $229.4 million, an increase of $89.5 million or 64.0% over 2008. The significant driver for the increase was the strong securitization activity in 2009 where the Company securitized $2.60 billion of CMHC-insured MBS for total gains of $80.1 million. For a further discussion on securitization receivables, refer to the Derivatives and Off-balance Sheet Arrangements 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 $86.8 million or 32.2% over the $269.4 million reported at December 31, 2008. Growth in this balance is due to increased future income tax liabilities of $20.6 million, an increase of $20.1 million in the servicing liability for the Company's ongoing administration of the off-balance sheet residential mortgage loans portfolio, and an increase of $50.9 million resulting from the timing of payments due to MBS investors. A decline of $21.1 million in accrued interest payable, reflecting lower deposit rates, offset the above increases.

Shareholders' Equity

Total shareholders' equity increased to $590.3 million, up $157.5 million or 36.4% over the $432.7 million reported at December 31, 2008. The vast majority of the increase was internally generated from net income of $144.5 million and an increase in accumulated other comprehensive income of $32.4 million due to improvement in the available for sale securities portfolio, offset by $21.4 million for dividends to shareholders. The Company also bought back $4.7 million of the Company's common shares through the Normal Course Issuer Bid.

Strong earnings contributed to a return on shareholders' equity of 28.2% versus 27.8% in 2008. Return on equity, when combined with the $0.61 per common share dividend paid or payable in fiscal 2009 ($0.50 per common share in 2008), illustrates the Company's continued commitment to total shareholder return.

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 2009 Annual Report.

Table 11 – Summary of Operating Segments

(000s, except %)	Mortgage Lending[1]		Consumer Lending[2]		Other[3]		Total	
Year ended December 31	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Net interest income	**$ 100,268**	$ 89,505	**$ 36,738**	$ 26,459	**$ 28,005**	$ 34,611	**$ 165,011**	$ 150,575
Provisions for credit losses	**(9,653)**	(5,202)	**(1,873)**	(1,436)	**–**	–	**(11,526)**	(6,638)
Fees and other income	**18,145**	15,163	**11,043**	12,888	**138**	401	**29,326**	28,452
Net gain on securities, mortgage-backed securities and disposition of subsidiary	**92,652**	57,536	**–**	–	**2,097**	(5,296)	**94,749**	52,240
Non-interest expenses	**(48,482)**	(39,528)	**(10,862)**	(9,000)	**(19,257)**	(17,483)	**(78,601)**	(66,011)
Income before income tax	**152,930**	117,474	**35,046**	28,911	**10,983**	12,233	**198,959**	158,618
Income tax	**(41,279)**	(37,749)	**(11,631)**	(9,849)	**(1,556)**	(2,333)	**(54,466)**	(49,931)
Net income	**$ 111,651**	$ 79,725	**$ 23,415**	$ 19,062	**$ 9,427**	$ 9,900	**$ 144,493**	$ 108,687
Goodwill	**$ 2,324**	$ 2,324	**$ 13,428**	$ 13,428	**$ –**	$ –	**$ 15,752**	$ 15,752
Total assets	**$ 5,510,368**	$ 4,709,313	**$ 384,528**	$ 392,458	**$ 1,465,978**	$ 707,942	**$ 7,360,924**	$ 5,809,713
Additional financial information								
Total revenue	**$ 408,113**	$ 372,902	**$ 50,817**	$ 51,926	**$ 30,249**	$ 29,867	**$ 489,179**	$ 454,695
as a percentage	**83.4%**	82.0%	**10.4%**	11.4%	**6.2%**	6.6%		
Net income	**$ 111,651**	$ 79,725	**$ 23,415**	$ 19,062	**$ 9,427**	$ 9,900	**$ 144,493**	$ 108,687
as a percentage	**77.3%**	73.4%	**16.2%**	17.5%	**6.5%**	9.1%		
Efficiency ratio	**23.0%**	24.4%	**22.7%**	22.9%	**63.7%**	58.8%	**27.2%**	28.5%
Efficiency ratio (TEB)	**23.0%**	24.4%	**22.7%**	22.9%	**50.4%**	51.3%	**26.5%**	28.0%
Net interest margin (TEB)	**2.0%**	2.1%	**9.5%**	7.2%	**3.3%**	5.3%	**2.7%**	2.9%

1 Mortgage lending includes mortgage lending and secured loans.

2 Consumer lending includes personal loans, credit cards and PSiGate.

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

Mortgage lending, including secured loans, contributed 77.3% (73.4% in 2008) to the Company's net income in 2009, consumer lending contributed 16.2% (17.5% in 2008) and the Other segment contributed 6.5% (9.1% in 2008). 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 $111.7 million in net income for the year, compared to $79.7 million for 2008. Significant increases in mortgage loan originations and robust growth in securitization volumes drove the increase over 2008. Net interest income increased $10.8 million or 12.1% over 2008, based on mortgage portfolio growth.

The mortgage lending segment continues to operate productively with an efficiency ratio (TEB) of 23.0% for 2009, an improvement from 24.4% in 2008. The mortgage segment continues to realize productivity gains from the investment in full-time employees to manage the existing and future growth in this business line.

Consumer Lending

Consumer lending, which includes personal loans, credit cards and PSiGate, continued to generate positive results for the year despite an overall reduction in total assets for this segment. Net income for the year was $23.4 million, up 23.0% over 2008. The increase over 2008 was driven by increases in net interest income from lower funding costs.

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

The Equityline *Visa* loans portfolio amounted to $297.3 million at December 31, 2009 compared to $342.9 million at December 31, 2008. Equityline *Visa* comprised 97.6% of the total gross credit card receivable balance at December 31, 2009, compared to 97.4% at December 31, 2008. The average interest rate on the Equityline *Visa* portfolio at December 31, 2009 was 10.3% compared to 10.6% at December 31, 2008.

During the 12-month period ended December 31, 2009, 2,677 Equityline *Visa* accounts with $100.5 million in authorized credit limits were issued, down from 3,864 Equityline *Visa* accounts with $172.0 million in authorized credit limits for the same period in 2008. The decline in new accounts from 2008 is due to the Company's efforts in 2009 to lower credit exposure in certain geographical locations in response to the current economic environment.

Included in the operating results of the consumer lending segment are the operations of Payment Services Interactive Gateway Corp. (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 2009, PSiGate contributed $1.5 million to net income of the consumer lending segment compared to $1.3 million in 2008.

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 $9.5 million, marginally down from $9.9 million for the comparative period in 2008. The decline reflects lower overall yields on the Company's securities portfolio offset by realized gains from the sale of certain securities.

2010 Outlook for Operating Segments

The Company's mortgage segment will continue to be the major contributor to the earnings of the Company in 2010. The Company will continue to take advantage of funding opportunities through the securitization market where appropriate. Growth in Equityline *Visa* and the continuing diversification of the consumer segment will contribute favourably to growth in this segment. Included in the consumer lending segment is the transaction with National Home Services to fund water heater installations, which is expected to contribute $90 million to $100 million in additional funding in 2010. The Other segment primarily generates its income from the Company's securities portfolio. Income from this source is highly correlated with the movement in interest rates and performance of 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

Two capital standards are addressed in the Company's policy, the asset to capital multiple and the risk-based capital ratio. The Board of Directors reviews both ratios quarterly.

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 are 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 one. The Company met and continues to meet the new capital requirements under this framework.

Table 12 below shows both the asset to capital multiple and the risk-based capital ratio.

Table 12 – Capital Structure and Regulatory Ratios at Year-end (Based only on the subsidiary, Home Trust Company)

As at December 31 (000s, except % and multiples)	**2009**	2008	2007	**Growth 2009/2008**	Growth 2008/2007
Tier 1 capital					
Capital stock	**$ 23,497**	$ 23,497	$ 23,497	**–**	–
Contributed surplus	**951**	951	951	**–**	–
Retained earnings	**505,808**	385,317	293,523	**31.3%**	31.3%
Accumulated other comprehensive loss[1]	**–**	(25,740)	(6,211)	**(100.0%)**	314.4%
Total	**530,256**	384,025	311,760	**38.1%**	23.2%
Tier 2 capital					
General allowance for credit losses[2]	**27,793**	25,177	23,400	**10.4%**	7.6%
Accumulated other comprehensive income	**7,987**	–	–	**100.0%**	–
Subordinated debentures	**15,000**	15,000	15,000	**–**	–
Total	**50,780**	40,177	38,400	**26.4%**	4.6%
Total regulatory capital	**$ 581,036**	$ 424,202	$ 350,160	**37.0%**	21.1%
Regulatory capital to risk-weighted assets					
Tier 1 capital	**16.4%**	12.9%	11.1%		
Tier 2 capital	**1.6%**	1.3%	1.4%		
Total regulatory capital ratio	**18.0%**	14.2%	12.5%		
Assets to regulatory capital multiple	**12.7**	13.7	14.2		

1 Accumulated other comprehensive loss relates to unrealized losses on certain available for sale equity securities, net of tax, which reduce 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, 2009, the Company's general allowance represented 0.861% of risk-weighted assets.

Home Trust's Total capital ratio and Tier 1 capital ratio increased to 18.0% and 16.4%, respectively, in 2009 from 14.2% and 12.9% in 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. Total capital has grown through retained earnings and the improvement in the fair value of the securities portfolio. Tier 2 capital has improved due to the increase in the allowable portion of the general allowance and unrealized gains on the available for sale securities portfolio.

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 $241.0 million, due to strong growth in conventional mortgages, claims on banks and municipal governments, securitization receivables and an increase in interest contracts associated with the CMB program. Operational risk charge also increased as the Company's gross income, on which the calculation is based, has increased.

Table 13 provides a further breakdown of risk-weighted assets.

Table 13 – Risk-weighted Assets (RWA) (Based only on the subsidiary, Home Trust Company)

As at December 31			**2009**
(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)	**$ 1,641,719**	**0%**	**$ –**
Claims on banks and municipal governments	**1,058,000**	**20%**	**211,600**
Conventional mortgages on owner-occupied residences	**2,955,844**	**35%**	**1,034,545**
Visa secured and consumer loans	**160,307**	**75%**	**120,230**
Commercial mortgages, equities, non-performing loans, securitization receivables and other assets	**1,537,196**	**100%**	**1,537,196**
Non-performing commercial	**2,282**	**150%**	**3,423**
Total assets subject to risk rating	**7,355,348**	**–**	**–**
General allowance	**(27,793)**	**–**	**–**
Total assets	**7,327,555**		**2,906,994**
Off-balance sheet items			
Loan commitments	**436,682**	**0%**	**–**
Interest rate contracts	**30,492**	**20%**	**6,098**
Total credit risk	**7,794,729**		**2,913,092**
Operational risk			**314,063**
Total	**$ 7,794,729**		**$ 3,227,155**

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, non-performing loans, securitization receivables 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	6,113,753		2,711,583
Operational risk			274,167
Total	$ 6,113,753		$ 2,985,750

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 Capital Adequacy Accord (Basel II). The Company has adopted the Standardized Approach for credit risk and the Basic Indicator Approach for operational risk.

Share Repurchase Program

On July 29, 2009, the Company filed a new Normal Course Issuer Bid through the Toronto Stock Exchange which allows it to purchase over a 12-month period, beginning August 1, 2009, up to 10% of the public float outstanding on July 29, 2009. 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 2009, the Company repurchased 165,400 common shares (2008 – 108,000 common shares) for an amount of $4.7 million (2008 – $3.1 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 enters into hedging transactions to mitigate the interest exposure on outstanding loan commitments. For example, the Company utilizes forward contracts to sell Government of Canada bonds to hedge the economic exposure to movements in interest rates between the time that mortgages are committed to being funded and the time those mortgages are actually sold through securitization. The intent of the forward bond contracts is to have the fair value movements of these instruments be effective in offsetting the fair value movements within a pool of mortgages during the period in which the fixed rate pool may be exposed to movements in interest rates, generally 60 to 150 days. During 2009, the Company entered into $2.10 billion in notional forward bond contracts to hedge the commitment risk on the Company's securitization activities.

Forward bond contracts are unwound at the time of securitization. A net realized loss of $0.06 million for the year on unwound forward bond contracts was included in the income statement in securitization income compared to a net realized loss of $12.5 million in 2008 (refer to Table 6 of this MD&A).

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

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

The notional values of the swaps, including both seller and hedge swaps at December 31, 2009, were $3.20 billion ($1.26 billion – December 31, 2008). The swaps were marked to market at December 31, 2009 for an unrealized loss of $10.7 million (unrealized gain of $0.4 million at December 31, 2008). Cumulative realized and unrealized gains and losses on the swaps are included in the consolidated statements of income through the gain (loss) on derivatives. Unrealized fair value changes on these derivatives are impacted by the total notional amount outstanding, changes in interest rates and changes in prepayment rates, each of which creates some volatility in the fair value which, over time, should stabilize. For additional information, refer to Note 16 of these consolidated financial statements.

When the Company originates and securitizes insured residential mortgage loans through sales of MBS and through participation in the CMB program, the Company retains rights to certain excess interest spreads, less servicing liabilities, which constitute retained interests, which are included on the consolidated balance sheet as securitization receivables. The Company periodically reviews the fair value of securitization receivables, and any other than temporary impairment in value is included in income. The Company continues to administer almost all securitized assets that the Company originates after the sale and, upon maturity of the mortgage, will renew or refinance these mortgage loans whenever possible. As at December 31, 2009 outstanding securitized mortgage loans under administration amounted to $4.15 billion ($2.61 billion – 2008) with a securitization receivable of $229.4 million ($139.9 million – 2008). The off-balance sheet securitized mortgage portfolio continues to perform well, with 97.9% of the portfolio current and 0.9% greater than 60 days in arrears. For additional information, refer to Note 6 in these consolidated financial statements.

In the normal course of its business, the Company offers credit products to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to $553.4 million at December 31, 2009 compared to $242.4 million at December 31, 2008. Included within the outstanding commitments are unutilized non-residential mortgage loan advances of $48.6 million at December 31, 2009 compared to $89.6 million at December 31, 2008. Commitments for the loans remain open for various dates through December 2010. As at December 31, 2009, unutilized authorized credit card balances amounted to $52.8 million, compared to $62.9 million at December 31, 2008. Outstanding commitments for future advances for the Equityline *Visa* portfolio were $2.9 million at December 31, 2009 compared to $2.5 million at December 31, 2008.

Credit Ratings

Table 14 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 2009, Standard & Poor's reaffirmed their long-term and short-term ratings of BBB– and A–3 for Home Capital and BBB and A–2 for Home Trust, respectively, with a stable outlook for both companies. Subsequent to year-end 2009, Fitch Ratings upgraded their long-term and short-term ratings for both Home Capital and Home Trust to BBB and F2, respectively, from BBB– and F3, with a stable outlook for both companies.

Table 14 – 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	F2	A–2	F2
Outlook	Stable	Stable	Stable	Stable

Credit ratings are as at March 15, 2010.

2010 Outlook for Capital Management

The Company expects to maintain robust capital ratios throughout 2010 and beyond. The Company's capital structure remains among the strongest in the industry with the entire capital base belonging to common shareholders and none attributed to debt or preferred shares. In 2010, the Company will continue to enhance shareholder value through prudent capital levels, a target return on equity of at least 20%, and stable dividend growth.

RISK MANAGEMENT

Overview

The shaded areas of this MD&A represent a discussion of risk management polices and procedures relating to credit, market and liquidity risks that are required under Canadian Institute of Chartered Accountants (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 33 to 39, form an integral part of the audited consolidated financial statements for the year ended December 31, 2009.

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and consistently high return on equity. The value of risk management was clearly demonstrated during the economic challenges of the past year. The Company continues to invest significantly in risk management practices that management believes are not only moving the Company toward leading practices but clearly differentiating the Company from its immediate peers.

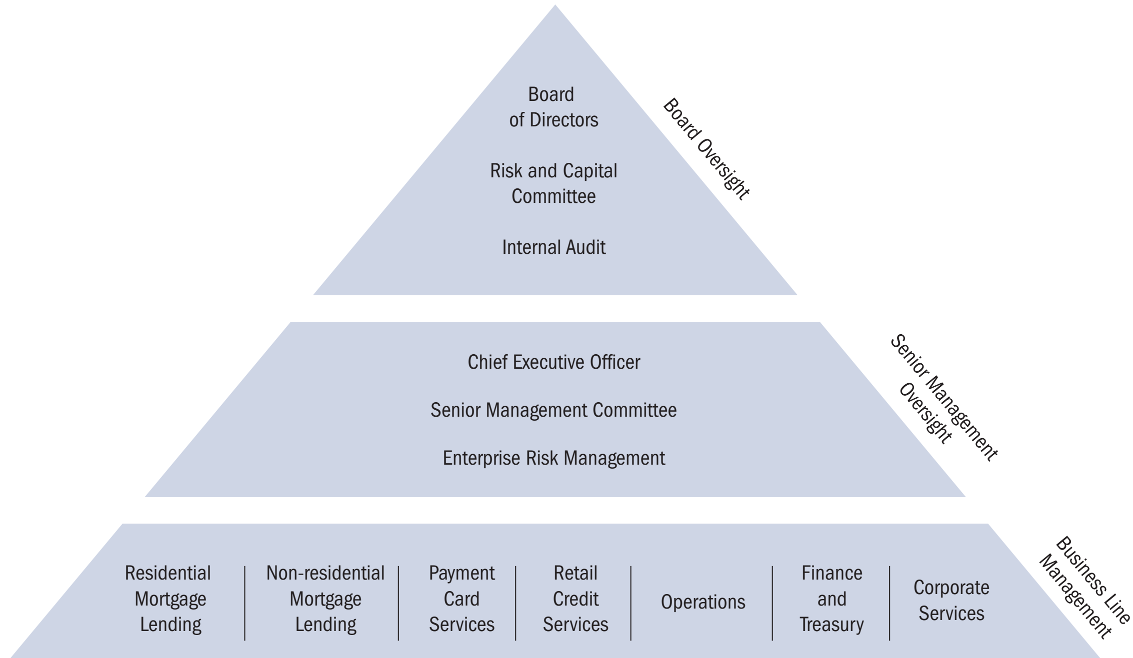
The Company's business strategies and operations expose the Company to a wide range of risks that could adversely affect its business, financial condition, or operating results, and which may influence an investor to buy, hold, or sell the Company's shares. Nevertheless, all businesses, in particular 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 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, measure, assess and respond to risks that may positively or negatively impact the organization as a whole. ERM is applied in a strategy setting and across the enterprise, and is designed to provide reasonable assurance that the Company's objectives can be realized given its stated risk appetite. The goal of ERM, 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.

Supporting the Company's ERM structure is a strong risk culture and a comprehensive governance framework, including effective Board and senior management oversight, and a robust set of risk policies, standards and guidelines, reflecting the Company's risk appetite, which set boundaries for acceptable business strategies, exposures and activities. The Company's governance structure is founded on three lines of defense. Authority is delegated by the Board of Directors through the CEO to business units that are responsible for managing 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, measured, 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 ensure that the forecast results are reasonable and in line with the Company's capabilities and objectives. To do this, the Board ensures that an appropriate monitoring and reporting framework is in place and operating effectively in order to deliver accurate, timely and meaningful risk information for its review and evaluation.

The Board, through its Risk and Capital Committee, ensures that the significant risks to the Company are proactively 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 regularly reviews and validates the Company's portfolio of key risk exposures through comprehensive 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, ensuring that the risks the Company manages and monitors 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 the day-to-day risk management practices, a key component of the ERM framework is stress testing and scenario analysis. Management regularly evaluates a range of extreme but plausible scenarios and stress tests to evaluate the potential impact of these events and the effectiveness of 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, the loss of a securitization conduit, as well as a selection of operational events. Based on the current economic environment, conditions have not reached the level in the severe recession or real estate crash scenarios.

Credit Risk

This is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties, for any reason, to honour their financial or contractual obligations to the Company. The Company's exposure to credit risk is monitored by senior management, the ERM group, the Audit Committee and the Risk and Capital Committee of the Board of Directors who undertake reviews of credit policies, lending practices, the adequacy of loan loss reserves and credit risk-based capital. The Company's policy is that credit is approved by different levels of senior management, based upon the level of risk and amount of the loan. The Risk and Capital Committee and the Board of Directors review compliance with credit risk requirements on a quarterly basis. A foundation of the Company's approach to credit is a high level of due diligence on each individual transaction. All transactions are subject to rigorous underwriting, the assignment of a standard risk rating or credit score and central independent approval, based on the amount of the loan and risk rating/credit score. Credit risk limits are established for all types of credit exposures and include risk sensitive single name limits in the non-residential mortgage portfolio, as well as geographic, product, property type and security over all classes of exposure.

Credit risk mitigation is a key component of the Company's approach to credit risk management. Substantially all of the Company's credit portfolio is secured by real property. As at December 31, 2009 the average loan-to-value ratio at origination in the Company's residential loan portfolio was 68.8%, and 99.7% were first mortgages.

At December 31, 2009 the composition of the total mortgage portfolio was 86.0% residential and 14.0% non-residential, compared to a composition of 79.8% residential and 20.2% non-residential one year ago. The composition is well within the internal policy limits the Company's Risk and Capital Committee and the Board of Directors have approved.

Within the Company's residential mortgage portfolio, 31.0% of the loans were insured by either CMHC or other approved insurers at the end of 2009, compared to 14.6% one year ago, reflecting the Company's strategic shift to reduce credit exposure. First mortgages represented 99.7% of the total mortgage portfolio at December 31, 2009, consistent with prior years. Through its Accelerator program the Company continues a trend of originating higher volumes of insured mortgages. Of all residential mortgage originations and renewals in 2009, 69.1% were insured compared to 50.9% for 2008. At December 31, 2009, the average loan-to-value on origination of the Company's non-insured residential mortgage loans portfolio was 68.8% compared to 66.6% at December 31, 2008. Refer to Note 5 of these consolidated financial statements for a further breakdown by geographic region.

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

The Company reduced its exposure to non-residential mortgage lending in 2009. The Company's industrial, commercial and other non-residential property types represented 13.0% of the total loan portfolio at December 31, 2009, compared to 18.4% at December 31, 2008. 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 non-residential mortgage lending is maintained.

Personal loans and credit cards represented 6.3% of the total loans portfolio at December 31, 2009 compared to 8.2% at December 31, 2008. As at December 31, 2009 the gross credit card receivable balance totalled $304.6 million ($352.0 million in 2008), of which $304.2 million or 99.9% of the portfolio was secured either by cash deposits or residential property, and $0.4 million or 0.1% was unsecured. The total credit approved included $356.9 million in secured credit and $0.5 million in unsecured credit, compared to $414.3 million in secured credit and $0.7 million in unsecured credit at December 31, 2008. Within the secured credit card portfolio, Equityline *Visa* credit cards represent the principal driver of receivable balances. Equityline *Visa* credit cards are secured by collateral residential mortgages, and this portfolio segment amounted to $297.3 million or 97.6% of the total credit card receivable balance as at December 31, 2009 compared to $342.9 million or 97.4% at December 31, 2008. Cash deposits that secure credit card accounts amounted to $12.5 million at December 31, 2009, and are included in the Company's deposits. Further, the Equityline *Visa* portfolio had a loan-to-value of 69.3% at December 31, 2009, comparable to the loan-to-value of 69.4% at December 31, 2008. At December 31, 2009, $7.5 million or 2.5% of the credit card portfolio was over 60 days in arrears, improving from the $10.6 million or 3.0% at December 31, 2008.

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

Impaired loans are summarized as follows:

Table 15 – Impaired Loans

As at December 31	**2009**		2008		2007	
(000s, except %)	**Gross**	**Net[1]**	Gross	Net[1]	Gross	Net[1]
Residential mortgages	**$ 41,149**	**$ 39,803**	$ 34,643	$ 32,963	$ 27,849	$ 27,215
Non-residential mortgages	**2,417**	**2,282**	164	164	242	242
Personal and credit card loans	**4,847**	**3,886**	6,309	5,762	1,521	1,393
Secured loans	**472**	**335**	1,007	308	400	169
Impaired loans	**$ 48,885**	**$ 46,306**	$ 42,123	$ 39,197	$ 30,012	$ 29,019
Total gross loans	**$ 5,468,540**		$ 4,531,568		$ 4,045,571	
Net impaired loans as a % of gross loans		**0.85%**		0.86%		0.72%
Total allowance for credit losses		**$ 30,372**		$ 28,103		$ 24,393
Total allowance as a % of total loans		**0.56%**		0.62%		0.60%
Total allowance as a % of gross impaired loans		**62.1%**		66.7%		81.3%

[1] Impaired loans are net of specific provisions as shown on Table 16 – Allocation of Allowance for Credit Losses.

As indicated in Table 15, gross impaired loans totalled $48.9 million at December 31, 2009, an increase of $6.8 million from 2008. Although impaired loans have increased over December 2008, the percentage of gross loans declined during the second half of 2009 from 1.3% at June 30, 2009 to 1.2% at September 30, 2009 and 0.8% at December 31, 2009. The total dollar volume of impaired loans is expected to fluctuate over time based primarily on the recovery of the Canadian economy. As such, the Company anticipates that the currently impaired mortgages totalling $48.9 million will result in moderate loan losses in the coming year. The Company strongly believes the existing levels of both the general and specific allowances will sufficiently absorb these expected losses. The total allowance for credit losses increased by $2.3 million to reach $30.4 million at December 31, 2009, up from $28.1 million recorded at December 31, 2008.

The Company has maintained a consistent allowance as a percentage of total loans over the past several years, recording an allowance of 0.6% in 2009. The total allowance as a percentage of gross impaired loans has trended downward to end the year at 62.1%.

Table 16 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 losses for the last two years.

Table 16 – Allocation of Allowance for Credit Losses

For the year ended December 31 (000s)	**2009 Opening Balance**	**Write-offs Net of Recoveries**	**Provisions for Credit Losses**	**2009 Ending Balance**
Specific allowances				
Residential mortgage loans	**$ 1,680**	**$ (6,512)**	**$ 6,178**	**$ 1,346**
Non-residential mortgage loans	**–**	**–**	**135**	**135**
Personal loans and credit cards	**547**	**(1,711)**	**2,125**	**961**
Secured loans	**699**	**(1,034)**	**472**	**137**
	2,926	**(9,257)**	**8,910**	**2,579**
General allowance				
Residential mortgage loans	**16,136**	**–**	**3,325**	**19,461**
Non-residential mortgage loans	**4,580**	**–**	**(182)**	**4,398**
Personal loans and credit cards	**3,700**	**–**	**(253)**	**3,447**
Secured loans	**761**	**–**	**(274)**	**487**
	25,177	**–**	**2,616**	**27,793**
Total allowance for credit losses	**$ 28,103**	**$ (9,257)**	**$ 11,526**	**$ 30,372**

For the year ended December 31 (000s)	2008 Opening Balance	Write-offs Net of Recoveries	Provisions for Credit Losses	2008 Ending Balance
Specific allowances				
Residential mortgage loans	$ 634	$ (1,925)	$ 2,971	$ 1,680
Non-residential mortgage loans	–	–	–	–
Personal loans and credit cards	128	(518)	937	547
Secured loans	231	(485)	953	699
	993	(2,928)	4,861	2,926
General allowance				
Residential mortgage loans	17,127	–	(991)	16,136
Non-residential mortgage loans	2,216	–	2,364	4,580
Personal loans and credit cards	3,201	–	499	3,700
Secured loans	856	–	(95)	761
	23,400	–	1,777	25,177
Total allowance for credit losses	$ 24,393	$ (2,928)	$ 6,638	$ 28,103

The allowance for credit losses has been established to cover identified losses and identified credit events in the loans portfolio and is comprised of $2.6 million in specific allowances for credit losses and $27.8 million in general allowances for credit losses. This compares to $2.9 million in specific allowances for credit losses and $25.2 million in general allowances for credit losses at the end of 2008.

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 modest decline in the specific allowance during 2009 due to a decline in impaired loans in the personal and credit card portfolio, as well as in the secured loans portfolio. 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 reflects the relative risk of the various loan portfolios the Company manages. The Company has developed a methodology to assess the adequacy of the general allowance and an assessment of the general allowance is conducted quarterly. This methodology considers current and forecasted probability of default and exposure at default based on product, risk ratings and credit scores, collateral quality and past loss experience. 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 in 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.

At December 31, 2009 the Company's total allowance represented 56 basis points of gross outstanding loans (62 basis points at December 31, 2008) and 86 basis points of the Company's risk-weighted assets (84 basis points at December 31, 2008).

Liquidity and Funding Risk

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

The Company's liquidity management framework includes a policy relating to several key elements, such as the minimum levels of liquid assets to be held at all times, the composition of types of liquid assets to be maintained, the daily monitoring of the liquidity position by senior management, the ERM group and quarterly reporting to the Risk and Capital Committee of the Board of Directors. As one of the tools used in managing liquidity, the Company runs a model which considers two stress scenarios. In the "immediate" scenario, the Company experiences a significant decline in new deposits over a one-month period. In the "ongoing" scenario, the situation is similarly stressed but it is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet 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.

At December 31, 2009 liquid assets amounted to 165% under the immediate scenario and 139% under the ongoing scenario, 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. At December 31, 2009, liquid assets amounted to $1.20 billion, compared to $880.7 million at December 31, 2008. The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets. For the 12 months ended December 31, 2009 the Company maintained a monthly average of $646.5 million or 44.8% of 100-day obligations in liquid assets, compared to $598.2 million or 46.2% for the 12 months ended December 31, 2008.

Table 17 – Liquid Assets (Based only on the subsidiary, Home Trust Company)

As at December 31 (000s, except %)	**2009**	2008	2007	**Growth 2009/2008**	Growth 2008/2007
Cash and deposits with regulated financial institutions	**$ 33,007**	$ 21,334	$ 55,092	**54.7%**	(61.3%)
Bankers' acceptances and Government of Canada treasury bills	**915,047**	503,853	275,342	**81.6%**	83.0%
Government of Canada and provincial bonds	**252,028**	355,513	296,624	**(29.1%)**	19.9%
Total liquid assets	**$ 1,200,082**	$ 880,700	$ 627,058	**36.3%**	40.4%
Total liabilities maturing within 100 days	**$ 1,426,711**	$ 1,334,316	$ 964,432	**6.9%**	38.4%
Total assets	**7,328,537**	5,784,605	4,953,017	**26.7%**	16.8%
Total liabilities	**6,777,010**	5,376,960	4,639,470	**26.0%**	15.9%
Liquid assets as a % of 100-day liabilities	**84.1%**	66.0%	65.0%		
Liquid assets as a % of total assets	**16.4%**	15.2%	12.7%		
Liquid assets as a % of total liabilities	**17.7%**	16.4%	13.5%		

As shown in Table 17, liquid assets totalled $1.20 billion at December 31, 2009, an increase of $319.3 million or 36.3% over 2008. The increase reflects the timing of securitization transactions and management's preference to hold higher levels of liquid assets to ensure the Company is well positioned to manage during the existing economic conditions and to maintain financial flexibility.

The majority of liquid assets arise from the excess funds the Company receives through its deposits and securitization transactions. 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 200 other independent deposit brokers who offer Home Trust's deposits to their clients. The Company continues to add new investment dealers and deposit brokers to diversify the Company's funding sources.

Table 18 – Deposits

For the years ended December 31 (000s, except %)	**2009**	2008	2007	**Growth 2009/2008**	Growth 2008/2007
Payable on demand					
Savings	**$ 6**	$ 6	$ 229	**–**	(97.4%)
Real estate tax accounts	**38,217**	34,802	30,564	**9.8%**	13.9%
	38,223	34,808	30,793	**9.8%**	13.0%
Payable on a fixed date					
Debenture investment certificates	**5,611,185**	4,636,961	$ 4,072,541	**21.0%**	13.9%
Registered retirement savings plans	**149,755**	156,589	139,472	**(4.4%)**	12.3%
Short-term certificates and savings	**519,835**	187,946	84,037	**176.6%**	123.6%
Registered retirement income funds	**78,917**	71,952	69,473	**9.7%**	3.6%
Visa card security deposits	**11,907**	14,525	17,668	**(18.0%)**	(17.8%)
	6,371,599	5,067,973	4,383,191	**25.7%**	15.6%
Total	**$ 6,409,822**	$ 5,102,781	$ 4,413,984	**25.6%**	15.6%

Deposits increased by $1.31 billion or 25.6% in 2009 to achieve two objectives – to fund the growth in the loans portfolio of $934.4 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 99.4% of all deposits, thereby 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 2009 Annual Report provides a breakdown by maturity and yield of the Company's deposit portfolio.

2010 Outlook for Deposits

The Company will continue to source deposits from the public through investment dealers and deposit brokers while seeking to 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 that is required to support the Company's on-balance sheet loan portfolio. Ensuring a reliable and sufficient source of deposits to fund operations and liquidity reserves 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 15 of the consolidated financial statements in this 2009 Annual Report, the following table presents a summary of the Company's other contractual obligations as at December 31, 2009.

Table 19 – Contractual Obligations

As at December 31 (000s)	2010	2011	2012	2013	2014	Thereafter	**Total**
Deposits	$ 3,383,516	$ 1,324,241	$ 915,974	$ 373,819	$ 412,272	$ –	**$ 6,409,822**
Commitments under leases	3,789	3,777	2,547	2,114	2,266	3,342	**17,835**
Total	$ 3,387,305	$ 1,328,018	$ 918,521	$ 375,933	$ 414,538	$ 3,342	**$ 6,427,657**

In the normal course of its activities the Company enters into various types of contractual agreements. The main obligations result from the issuance of deposits written with retail investors 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 on page 31 of this Annual Report for a description of those commitments.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to sudden changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings, and to the best of its abilities, matches liabilities to assets through its actions in the deposit market in priority to accessing off-balance sheet solutions. The Company's Asset Liability Management Committee (ALCO) manages exposure arising from interest rate and liquidity risk, and reports quarterly to the Board of Directors.

The interest rate sensitivity position as at December 31, 2009 is presented under Note 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. This note summarizes assets and liabilities in terms of their contractual amounts. Over the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be extended but not materialize. In measuring its interest rate risk exposure, the Company will make assumptions about these factors, taking into account aspects such as past borrower history.

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

Table 20 – 100 and 200 Basis Point Interest Rate Shift

	Increase in Interest Rates		Decrease in Interest Rates	
As at December (000s)	**2009**	2008	**2009**	2008
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 7,418**	$ 3,917	**$ (7,418)**	$ (3,917)
Impact on net present value of shareholders' equity	**(7,837)**	(7,157)	**9,245**	7,589
200 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 14,835**	$ 7,835	**$ (14,835)**	$ (7,835)
Impact on net present value of shareholders' equity	**(14,410)**	(13,909)	**20,059**	15,637

The Company may enter into hedging transactions for the purpose of hedging commitment risk. The purpose is to manage interest rate exposures during the period from when a mortgage commitment is made to when this mortgage loan is securitized into an MBS pool. The Company held notional $183.8 million in forward bond contracts for the sale of Government of Canada bond positions specific to hedging commitment risk at December 31, 2009 compared to $34.3 million in 2008. Through the Company's participation in CMHC's CMB program, the Company was required to enter into specific swap agreements to hedge interest rate risk and the reinvestment risk between the amortizing MBS pool and the CMB bullet bond. Refer to Note 16 of the consolidated financial statements in this 2009 Annual Report for more information.

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 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 2009 or 2008.

Key strategies instituted to minimize and manage operational risk include:

- The establishment of an annual risk and control self-assessment program to ensure all business lines have considered and assessed significant operational 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;

- The senior management committee, which meets monthly, made up of senior management personnel from all of the Company's business areas, and chaired by the Chief Executive Officer of the Company. This meeting 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 audit 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.

Investment Portfolio Risk

Investment risk is the risk of loss due to other than temporary impairment in the fair value of the investments. The Company's Board of Directors meets on a quarterly basis to review the status of the investments 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 monthly 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 the regulatory capital. As at December 31, 2009 these were maintained at 37.7% of total regulatory capital (31.9% at December 31, 2008).
- 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 25% of regulatory capital. As at December 31, 2009, these types of investments accounted for 14.2% of regulatory capital (7.7% at December 31, 2008).
- 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 25% of regulatory capital. As at both December 31, 2009 and 2008, no investments were held in bonds that were 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, 2009 the total investment portfolio as a percentage of regulatory capital was 51.9% (39.6% at December 31, 2008).

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 from the inability of the business to change its cost levels in response to those changes. Strategic and business risk is managed by the CEO and senior management team. On a regular basis, the senior management team reviews the current environment, business results and the actions of the Company's 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 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 group is responsible for LCM and as such is responsible for managing day-to-day regulatory risk. The Compliance group 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 to manage litigation as it arises to which the Company is party.

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 the Company's results to differ significantly from its 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 the supply of money, government spending and the general level of interest rates can affect 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.

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.

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 they may 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. More discussion is included in Significant Accounting Estimates and Critical Accounting Policies on page 44.

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 service 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.

SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

Table 21 – Summary of Quarterly Results and Fourth Quarter

(000s, except per share amounts and %)	2009				2008			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Net interest income (TEB)[1]	**$ 48,178**	**$ 45,254**	**$ 42,024**	**$ 37,505**	$ 36,399	$ 39,478	$ 40,418	$ 38,590
Less TEB adjustment	**2,842**	**2,300**	**1,535**	**1,273**	1,162	1,130	1,056	962
Net interest income per financial statements	**45,336**	**42,954**	**40,489**	**36,232**	35,237	38,348	39,362	37,628
Non-interest income	**28,015**	**33,589**	**30,437**	**32,034**	26,023	23,013	17,318	14,338
Non-interest expense	**19,856**	**21,674**	**18,222**	**18,849**	16,852	16,953	17,443	14,763
Total revenues	**121,381**	**125,299**	**121,778**	**120,721**	117,996	116,950	112,953	106,796
Net income	**40,481**	**38,243**	**34,351**	**31,418**	29,039	27,939	26,550	25,159
Return on common shareholders' equity	**28.4%**	**28.7%**	**27.9%**	**27.9%**	27.4%	27.6%	27.7%	27.9%
Return on average total assets	**2.4%**	**2.5%**	**2.3%**	**2.2%**	2.0%	2.0%	2.0%	1.9%
Earnings per common share								
Basic	**$ 1.17**	**$ 1.11**	**$ 1.00**	**$ 0.91**	$ 0.84	$ 0.81	$ 0.77	$ 0.73
Diluted	**$ 1.16**	**$ 1.10**	**$ 0.99**	**$ 0.91**	$ 0.84	$ 0.81	$ 0.76	$ 0.72
Book value per common share	**$ 17.00**	**$ 15.99**	**$ 14.99**	**$ 13.61**	$ 12.57	$ 12.07	$ 11.44	$ 10.79
Efficiency ratio (TEB)[1]	**26.1%**	**27.5%**	**25.1%**	**27.1%**	27.0%	27.1%	30.2%	27.9%
Efficiency ratio	**27.1%**	**28.3%**	**25.7%**	**27.6%**	27.5%	27.6%	30.8%	28.4%
Tier 1 capital ratio[2]	**16.4%**	**16.6%**	**15.2%**	**13.8%**	12.9%	12.7%	12.5%	12.0%
Total capital ratio[2]	**18.0%**	**18.2%**	**16.7%**	**15.2%**	14.2%	14.0%	13.8%	13.4%
Net impaired loans as a % of gross loans	**0.8%**	**1.2%**	**1.3%**	**1.2%**	0.9%	0.7%	0.7%	0.7%
Annualized provision as a % of gross loans	**0.2%**	**0.2%**	**0.3%**	**0.3%**	0.2%	0.3%	0.1%	0.1%

1 See page 11 for a discussion on TEB and other non-GAAP measures.

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

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability and return on equity, as well as efficiency and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions, and the fourth quarter normally experiencing increased credit card activity over the holiday period.

The Company continues to achieve positive financial results driven by strong growth in net interest income in all business segments and robust securitization volumes combined with continued low efficiency ratios. The increase in Tier 1 and Total capital ratios throughout 2008 and 2009 reflect the Company's continuing efforts to preserve its capital base and maintain financial flexibility during uncertain economic and capital markets. The net impaired loans as a percentage of gross loans trended upwards over the last half of 2008 and into 2009; however, it began to show improvement in the fourth quarter of 2009. The increase over 2008 and through much of 2009 was due to the effect of the economic slowdown in Canada driving higher unemployment levels. Modest improvements are expected to continue as the portfolio performance benefits from the underlying credit quality and cautious lending policies of 2008 and 2009.

Net impaired loans as a percentage of gross loans remained stable through much of 2009 and declined during the fourth quarter; however, the Company continues to take proactive steps to manage the higher than average level of impaired loans, including maintaining a strong mortgage servicing department to support clients in payment management.

The Company's key financial highlights for the fourth quarter and year ended December 31, 2009 are summarized below.

> Net income in the fourth quarter of 2009 was 39.4% higher than the fourth quarter of 2008 due to strong mortgage lending and robust securitization activity. Earnings for the year ended December 31, 2009 were 32.9% higher than 2008.

> Net interest income for the fourth quarter of 2009 was $45.3 million, compared to $43.0 million for the third quarter of 2009, $40.5 million for the second quarter of 2009, $36.2 million for first quarter of 2009 and $35.2 million in the fourth quarter of 2008. The increasing trend in net interest income is attributable to growth in the lending portfolio and the Company's ongoing strategy to maintain margins over the past several quarters.

> Non-interest income in the quarter was 7.7% higher than the fourth quarter of 2008 and was 53.8% higher than the year ended December 31, 2008. The quarter-over-quarter growth is attributable to increased securitization gains, marginally offset by mark-to-market adjustments on the hedging instruments associated with the CMB program.

> The efficiency ratio (TEB) reflects the Company's cost management leadership within the banking industry. The ratio was 26.1% for the fourth quarter and 26.5% for the year ended December 31, 2009, compared to 27.0% for the fourth quarter of 2008 and 28.0% for year-end 2008.

> During 2009, the Company recognized a $9.8 million reduction in future tax provisions, which reflected declining federal and provincial tax rates and the extension of maturities on the net underlying liabilities. Of this total, $4.7 million is attributed to the province of Ontario's December 2009 enactment of its reduced tax rates, which are effective July 1, 2010.

> Diluted earnings per share for the quarter increased 38.1% to $1.16 from $0.84 in the fourth quarter of 2008.

> Return on average shareholders' equity for the fourth quarter and twelve months ended December 31, 2009 was 28.4% and 28.2%, respectively, compared to 27.4% and 27.8% for the same periods in 2008.

> Total on-balance sheet assets at December 31, 2009 rose 17.1% from the third quarter of 2009, and 26.7% year-over-year, to reach $7.36 billion from the $5.81 billion reported at December 31, 2008. Asset growth was achieved across the Company's core asset base including the Company's loans, securities and liquidity portfolios. The Company was able to achieve significant asset growth while reducing the overall risk profile of the mortgage portfolio as the percentage of insured mortgages grew to 31.0% at December 31, 2009 from 14.6% one year ago.

> Total assets under administration, including the off-balance sheet securitized mortgages, were $11.51 billion at December 31, 2009, an increase of $1.62 billion or 16.4% from September 30, 2009, and an increase of $3.09 billion or 36.6% from December 31, 2008. A significant contributor to the growth in assets under administration is the success of the Accelerator mortgage program.

> Total on-balance sheet residential mortgages increased $277.0 million or 6.8% over the third quarter of 2009 and $1.11 billion or 33.9% over December 31, 2008. The growth reflects the Company's strategy to prudently grow its on-balance sheet loans portfolio and a cautious return to its traditional lending criteria.

> Liquid assets at December 31, 2009 increased to $1.20 billion, compared to $469.0 million at September 30, 2009 and $880.7 million at December 31, 2008. The increase in liquid assets at end of the fourth quarter reflects the timing of certain securitization transactions, as well as the Company's strategy to hold prudent levels of liquidity as the economy slowly recovers and to maintain financial flexibility.

> The Company's capital position remained strong in the fourth quarter, with Tier 1 and Total capital ratios of 16.4% and 18.0%, respectively, at December 31, 2009 compared to 16.6% and 18.2% at September 30, 2009 and 12.9% and 14.2% at December 31, 2008.

> Deposit liabilities as at December 31, 2009 were $6.41 billion, an increase of $1.04 billion from the $5.37 billion at September 30, 2009 and an increase of $1.31 billion from the $5.10 billion recorded December 31, 2008.

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 9, 2010.

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 55 of the 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. The specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be reasonably estimated, impairment is measured with respect to the fair market value of the underlying security.

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 and forecasted 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 $30.4 million ($28.1 million at December 31, 2008) is adequate to absorb estimated credit losses incurred in the loans portfolio as at December 31, 2009. The total allowance includes specific allowances of $2.6 million ($2.9 million at December 31, 2008) and general allowances of $27.8 million ($25.2 million at December 31, 2008). 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 34 of this Management's Discussion and Analysis.

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 2009 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 section on Derivatives and Off-balance Sheet Arrangements on page 31 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 financial assets 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 certain 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 values of certain other derivative financial instruments, which include CMB interest rate swaps required under the program, are determined by using valuation techniques that use a discounted cash flow analysis that includes both observable market inputs and inputs that are derived from market observable inputs. The fair value of the securitization receivable, classified as available for sale, 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 interest. Please see Notes 16 and 18 to the consolidated financial statements for additional information.

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, management considers 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 the Company's 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 of impairment 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 for 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.

ACCOUNTING DEVELOPMENTS

Changes in Accounting Policies During 2009

Goodwill and Intangible Assets

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

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

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

Financial Instruments – Disclosures

The Company adopted amendments to Section 3862, *Financial Instruments*, for its December 31, 2009 annual financial statements. The new standard provides for improved disclosures for fair value measurement which includes the classification of financial instruments into the three levels of the fair value hierarchy and additional details on financial instruments classified as level 3. The amendments also provide for additional disclosures regarding liquidity risk. The amendments did not have a material effect on the financial position or earnings of the Company as the standard impacts disclosures only. Please see Notes 6, 16 and 18 of the consolidated financial statements for the additional disclosures.

Financial Instruments – Recognition & Measurement

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

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 3862), Section 3863, *Financial Instruments – Presentation* (Section 3863) and Section 1535, *Capital Disclosures* (Section 1535).

Section 3862 and Section 3863 substantially 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 that non-compliance.

Future Accounting Policy Changes

International Financial Reporting Standards (IFRS)

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

The Company will change over to IFRS starting with interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and the year ended December 31, 2010. The Company commenced the process of transition from current Canadian GAAP to IFRS in 2008. It has established a project team which includes representatives from various areas of the organization as necessary to plan for and achieve a smooth transition to IFRS. Progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project is provided quarterly.

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

Research, diagnostic and planning phase – This phase includes performing a high-level assessment to identify key implications of the transition to IFRS. Because 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 processes, 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 in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS standards in business processes and related controls for certification of internal controls over financial reporting and Audit Committee approval of IFRS financial statements.

The Company's analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reporting results and financial positions. However, there may be significant changes following from the IFRS accounting principles and provisions for first-time adoption of IFRS standards on certain areas as described below.

Most adjustments required on transition to IFRS will be made retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presentation based on standards applicable at that time. Transitional adjustments relating to those standards, where comparative figures are not required to be restated, will only be made as of the first day of the year of adoption.

IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is analyzing the various accounting policy choices available and will implement those determined to be most appropriate for the Company's specific circumstances. The Company has completed preliminary conclusions on these choices but this is subject to ongoing assessment during the transition year. The 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 is currently completing the impact analysis, evaluation and design phase and has begun the implementation and review phase.

Key project milestones in 2010 include:

> quantification of the opening retained earnings adjustment – July 31, 2010;

> production of 2010 comparative IFRS financial information – Q3 2010; and

> design and testing of revised disclosure controls and internal controls over financial reporting – Q3 and Q4 2010.

The Company has not identified significant changes to information technology required for IFRS adoption nor has it identified significant changes required to the disclosure controls and internal controls over financial reporting.

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

IFRS Area	Identified Impact on Home Capital
Securitization Accounting	The most significant IFRS implication for the Company is the accounting for the securitization and sale of mortgages under the CMHC-sponsored CMB and MBS programs. Based on the current structure of these programs and the IFRS in effect at transition, the Company will no longer account for these transactions as sales of mortgages. As such, at the transition date to IFRS (January 1, 2010), all previously recognized securitization gains will be reversed through opening retained earnings. This reversal will be offset by the income that would have been recognized if the mortgages had not been securitized and sold, less the cost of the securitization funding. The Company's balance sheet at transition will include the mortgages previously securitized and sold and the associated liability to the security holders. Future securitization transactions using the current CMHC CMB and MBS structure under the current IFRS will not be accounted for as sales of mortgages. As such, upfront securitization gains will no longer be recognized and, instead, will be replaced by the interest income on the mortgages, less the interest expense on the funding. The Company has not yet quantified the impact on opening retained earnings or ongoing earnings. Based on OFSI's Draft IFRS Advisory for regulatory calculations, Home Capital will be able to exclude mortgages securitized prior to December 31, 2009 from the asset to capital multiple (measure of leverage). Please see below for more information.
Accounting for Loans	The Company anticipates that the loans portfolio will continue to be accounted for at amortized cost. However, non-performing loans will continue to accrue interest. This will be offset by an offsetting increase in provisions for credit losses.
Accounting for Investments	The Company's preliminary decision is to continue to account for the securities portfolio as available for sale under IFRS (fair value through OCI).
First-time Adoption of IFRS (IFRS 1)	The Company's preliminary elections under IFRS 1 are not expected to have a material financial impact on the Company. The Company will need to provide the additional reconciliations and disclosures required by IFRS throughout 2011.
Stock-based Compensation	The Company has identified differences in the way the vesting of options are treated under IFRS. This may lead to an acceleration in the recognition of the expense under IFRS. The Company has not yet quantified the potential impact.
Income Tax Impact of IFRS	Any financial statement adjustment under IFRS will have a related income tax accounting impact. The Company has identified tax accounting differences between Canadian GAAP and IFRS. The Company has not quantified the IFRS income tax accounting differences.
Additional Disclosure	There are a number of IFRS that require additional disclosures compared to Canadian GAAP. Additionally, any changes to the financial statement balances will change the related financial statement note disclosure on a comparative basis.

In October 2009 OSFI released a Draft Advisory on the conversion to IFRS by federally regulated entities (FREs) that, among other items, provided guidance on the capital treatment under IFRS of securitization activities under the CMB and National Housing Authority (NHA) MBS programs. These activities, as off-balance sheet items, were previously excluded from the calculation of the assets to capital multiple (ACM) prescribed by OSFI. The Draft Advisory proposes that these activities be included in the calculation of ACM when these activities are accounted for on-balance sheet under IFRS. Mortgages securitized and sold through NHA MBS or CMB programs on or before December 31, 2009 would be grandfathered for purposes of the ACM calculation and would never be included in the ACM calculation. The Company believes that the proposed ACM rules for securitization will not materially impact the Company's participation in the CMB and NHA MBS programs, nor affect the Company's ability to continue offering these competitive mortgage products which utilize these programs to provide additional funding sources. Additionally, OSFI's Draft Advisory clarified that FREs cannot early adopt IFRS that are not mandatory on transition to IFRS. For example, the Company is not permitted to adopt the amendments to the classification and measurement of financial instruments (IFRS 9) before the mandatory effective date of January 1, 2013, although early adoption is permitted by the standard.

Disclosure Controls and Internal Controls 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 GAAP. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and the MD&A present fairly, in all material respects, the financial position of the Company and the results of its operations. The Company has an established process in place which includes the continuous testing and reporting of the results to senior management and the Board of Directors on the effectiveness of the disclosure controls and internal controls over financial reporting.

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 Senior 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, 2009. Based on that evaluation, the Company's management, including the Chief Executive Officer and Senior Vice President, Finance, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009.

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, 2009. Based on that evaluation, the Company's management, including the Chief Executive Officer and Senior Vice President, Finance, concluded that the Company's internal controls over financial reporting were operating effectively as of December 31, 2009.

Changes to Internal Controls over Financial Reporting

During the year ended December 31, 2009, 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 26, 2010 the Company had issued 34,760,690 common shares. In addition, outstanding director and employee stock options amounted to 924,750 (1,436,750 – 2008) of which 458,000 are exercisable as of the end of the year (661,125 – 2008) for proceeds to the Company upon exercise of $15.8 million ($12.4 million – 2008).

This Management's Discussion and Analysis is dated as of March 9, 2010, except for credit ratings which are as at March 15, 2010.

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

Gerald M. Soloway
Chief Executive Officer
Toronto, Canada
March 8, 2010

Cathy A. Sutherland

Cathy A. Sutherland, C.A.
Senior 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.** (the "Company") as at December 31, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 8, 2010

Consolidated Balance Sheets

As at December 31 (000s)		2009	2008
ASSETS			
Cash resources	(Note 4)		
Deposits with regulated financial institutions		**$ 912,169**	$ 554,422
Restricted cash		**17,965**	–
		930,134	554,422
Securities	(Note 4)		
Held for trading		**99,938**	–
Available for sale		**550,659**	519,477
		650,597	519,477
Loans	(Note 5)		
Residential mortgages		**4,369,458**	3,263,206
Non-residential mortgages		**708,425**	826,882
Personal and credit card loans		**342,918**	368,962
Secured loans		**47,739**	72,518
General allowance for credit losses		**(27,793)**	(25,177)
		5,440,747	4,506,391
Other			
Securitization receivables	(Note 6)	**229,418**	139,870
Capital assets	(Note 7)	**4,863**	5,325
Other assets	(Note 8)	**105,115**	84,228
		339,396	229,423
		$ 7,360,874	$ 5,809,713
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	(Note 9)		
Payable on demand		**$ 38,223**	$ 34,808
Payable on a fixed date		**6,371,599**	5,067,973
		6,409,822	5,102,781
Other			
Cheques and other items in transit		**4,617**	4,811
Other liabilities	(Note 10)	**356,147**	269,368
		360,764	274,179
Commitments and contingencies	(Note 15)	**–**	–
SHAREHOLDERS' EQUITY			
Capital stock	(Note 11)	**45,396**	39,094
Contributed surplus		**3,606**	3,283
Retained earnings		**520,018**	401,429
Accumulated other comprehensive income (loss)		**21,268**	(11,053)
		590,288	432,753
		$ 7,360,874	$ 5,809,713

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)		2009	2008
Income			
Interest from loans		**$ 334,148**	$ 339,242
Dividends from securities		**17,742**	9,237
Other interest		**13,214**	25,524
		365,104	374,003
Interest expense			
Interest on deposits		**200,093**	223,428
Net interest income		**165,011**	150,575
Provisions for credit losses	(Note 5(d))	**11,526**	6,638
		153,485	143,937
Non-interest income (loss)			
Fees and other income		**29,326**	28,452
Securitization income	(Note 6)	**92,397**	58,582
Net realized and unrealized gain (loss) on investment securities		**2,097**	(5,365)
Net gain on disposition of subsidiary	(Note 3)	**–**	69
Net realized and unrealized gain (loss) on derivatives		**255**	(1,046)
		124,075	80,692
		277,560	224,629
Non-interest expenses			
Salaries and benefits		**41,559**	36,182
Premises		**5,916**	4,439
General and administration		**31,126**	25,390
		78,601	66,011
Income before income taxes		**198,959**	158,618
Income taxes	(Note 13)		
Current		**27,825**	35,533
Future		**26,641**	14,398
		54,466	49,931
Net income for the year		**$ 144,493**	$ 108,687
Average number of common shares outstanding	(Note 11)		
Basic		**34,450**	34,512
Diluted		**34,795**	34,669
Net income per common share	(Note 11)		
Basic		**$ 4.19**	$ 3.15
Diluted		**$ 4.15**	$ 3.13

See accompanying notes

Consolidated Statements of Comprehensive Income

Year ended December 31 (000s)		2009		2008
Net income	$	**144,493**	$	108,687
Other comprehensive income (loss), net of tax				
Net unrealized gains (losses) on securities available for sale (net of $8,739 tax; ($4,049) in 2008)		**22,092**		(10,463)
Reclassification of earnings in respect of available for sale securities (net of $4,941 tax; $1,796 in 2008)		**10,229**		5,707
Total other comprehensive income (loss)		**32,321**		(4,756)
Comprehensive income	**$**	**176,814**	$	103,931

See accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

Year ended December 31 (000s)			2009		2008
Capital stock	(Note 11)				
Common shares					
Balance, beginning of year		$	**39,094**	$	38,899
Proceeds of options exercised			**6,498**		318
Repurchase of shares			**(196)**		(123)
Balance, end of year		**$**	**45,396**	$	39,094
Contributed surplus					
Balance, beginning of year		$	**3,283**	$	1,818
Amortization of fair value of employee stock options			**1,543**		1,516
Employee stock options exercised			**(1,220)**		(51)
Balance, end of year		**$**	**3,606**	$	3,283
Retained earnings					
Balance, beginning of year		$	**401,429**	$	313,620
Net income for the year			**144,493**		108,687
Dividends paid or declared during the year			**(21,435)**		(17,938)
Repurchase of shares	(Note 11)		**(4,469)**		(2,940)
Balance, end of year		**$**	**520,018**	$	401,429
Accumulated other comprehensive income (loss)					
Balance, beginning of year		$	**(11,053)**	$	(6,297)
Other comprehensive income (loss) (net of $13,680 tax; ($2,253) in 2008)			**32,321**		(4,756)
Balance, end of year		**$**	**21,268**	$	(11,053)

See accompanying notes

Consolidated Statements of Cash Flows

Year ended December 31 (000s)	2009	2008
OPERATING ACTIVITIES		
Net income for the year	$ 144,493	$ 108,687
Adjustments to determine net cash flows relating to operating activities		
Future income taxes	26,641	14,398
Amortization of capital assets	2,644	2,823
Amortization of intangibles and other deferred assets	908	675
Amortization of securities	(1,979)	136
Provisions for credit losses	11,526	6,638
Change in accrued interest payable	(21,117)	23,965
Change in accrued interest receivable	1,708	(2,553)
Net realized and unrealized (gain) loss on investment securities	(2,097)	5,365
(Gain) loss on derivatives	(255)	1,046
Securitization gains on mortgage-backed securities	(92,397)	(58,582)
Amortization of fair value of employee stock options	1,543	1,516
Change in payments received for securitized pools	50,883	6,199
Others	(12,949)	4,598
Cash provided by operating activities	109,552	114,911
FINANCING ACTIVITIES		
Net increase in deposits	1,307,041	688,797
Issuance of capital stock	6,498	318
Normal course issuer bid	(4,665)	(3,063)
Exercise of stock options	(1,220)	(51)
Dividends paid	(20,010)	(17,260)
Cash provided by financing activities	1,287,644	668,741
INVESTING ACTIVITIES		
Activity in available for sale and held for trading securities		
Purchases	(954,444)	(555,804)
Proceeds on sales	767,516	385,792
Proceeds on maturities	135,615	73,313
Activity in mortgages		
Net increase	(3,593,849)	(1,954,052)
Proceeds from securitization	2,550,007	1,478,138
Change in securitization receivables	53,800	28,031
Net decrease (increase) in personal and credit card loans	23,918	(44,506)
Net increase in restricted cash	(17,965)	–
Net decrease in secured loans	24,308	8,833
Purchase of capital assets	(2,181)	(3,311)
Purchase of intangible assets	(26,174)	–
Cash used in investing activities	(1,039,449)	(583,566)
Net increase in cash and cash equivalents	357,747	200,086
Cash and cash equivalents, beginning of year	554,422	354,336
Cash and cash equivalents, end of year	$ 912,169	$ 554,422
Supplemental disclosure of cash flow information		
Amount of interest paid in year	$ 221,209	$ 199,440
Amount of income taxes paid in year	45,506	43,055

See accompanying notes

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 and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Key areas where management has made estimates include allowance for credit losses, 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 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, a 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) and Payment Services Interactive Gateway Corp. (PSiGate), both 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.

Restricted cash is held as collateral by a third party for the Company's interest rate swap transactions.

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 allowances, each of which is reviewed on a regular basis. The allowance is increased for credit losses, which are charged to income. The general 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 allowance 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 have been incurred, but 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 provisions 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.

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 statements 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, 2009.

Intangible assets (customer contracts, lists acquired on acquisition and software development costs) are amortized on a straight-line basis over their useful lives. The Company capitalizes eligible development costs related to the development of its new core banking system. Amortization of these costs over its appropriate useful life will commence upon implementation.

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 2009 and 2008, 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 three 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.

The Company offers a deferred share unit plan (DSU) which is open to Directors of the Company who annually elect to accept remuneration in the form of cash, cash and DSUs, or DSUs. Under the plan, the obligations for the DSUs are accrued quarterly based on the Directors' remuneration for the quarter. The obligations are periodically adjusted for fluctuations in the market price of the Company's common shares and allow for dividend equivalents. Changes in obligations under the plan are recorded as salary expenses in the consolidated statements of income with a corresponding increase in other liabilities on the consolidated balance sheets.

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

Effective January 1, 2009 the Company adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA), Section 3064, *Goodwill and Intangible Assets*. The implementation of this standard did not have a material impact on the Company's consolidated financial position and results of operations.

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

The Company adopted CICA amendments to Section 3862, *Financial Instruments*, for its December 31, 2009 annual financial statements. The new standard provided for improved disclosures for fair value measurement, which include the classification of financial instruments into the three levels of the fair value hierarchy and additional details on financial instruments classified as level 3. The amendments also provide for additional disclosures regarding liquidity risk. The amendments did not have a material effect on the financial position or earnings of the Company as the standard impacts disclosures only. Please see Notes 6, 16 and 18 of these consolidated financial statements for the additional disclosures.

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

NOTE 3 DISPOSITION

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

NOTE 4 CASH RESOURCES AND SECURITIES

(a) Cash Resources

(000s)	2009	2008
Deposits with regulated financial institutions[1]	$ 912,169	$ 554,422
Restricted cash[2]	17,965	–
	$ 930,134	$ 554,422

[1] This includes a deposit of $46.1 million (2008 – $21.6 million) held as collateral for the Company's securitization activities.

[2] Restricted cash is held as collateral by a third party for the Company's interest rate swap transactions.

(b) Securities at Fair Value by Type and Remaining Term to Maturity

					2009	2008
(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	$ 99,938	$ –	$ –	$ –	$ 99,938	$ –
Available for sale						
Securities issued or guaranteed by						
Canada	40,122	–	16,051	–	56,173	163,488
Corporations	55,959	138,126	–	–	194,085	189,311
Equity securities						
Common	6,689	–	–	–	6,689	5,346
Fixed rate preferred	54,045	49,938	167,286	16,698	287,967	152,652
Floating rate preferred	–	–	–	–	–	2,385
Income trusts	4,800	–	–	–	4,800	5,662
Mutual funds	945	–	–	–	945	633
	$ 262,498	$ 188,064	$ 183,337	$ 16,698	$ 650,597	$ 519,477

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 2009, on held for trading securities, the Company recognized in net income $0.5 million (2008 – $0.7 million) for interest and nil (2008 – $1.5 million) for realized gains.

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

					2009
(000s, except %)	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield
Securities issued or guaranteed by					
Canada	$ 56,170	$ 3	$ –	$ 56,173	1.6%
Corporations	194,120	–	(35)	194,085	1.3%
Equity securities					
Common	6,329	891	(531)	6,689	2.5%
Fixed rate preferred	279,862	13,038	(4,933)	287,967	5.4%
Income trusts	2,483	2,317	–	4,800	5.0%
Mutual funds	1,000	–	(55)	945	–
	$ 539,964	$ 16,249	$ (5,554)	$ 550,659	

(000s, except %)	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	2008 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	

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 December 31, 2009 and continues to regularly monitor these investments and market conditions.

At December 31, 2009, the Company had a net $5.8 million (2008 – $1.8 million) of unrealized losses on available for sale securities that were other than temporary in nature and were transferred into net income. These unrealized losses are not included in the table above.

NOTE 5 LOANS

(a) Loans by Geographic Region and Type

As at December 31 — **2009**

(000s, except %)	**Residential[1] Mortgages**	**Non-residential[1] Mortgages**	**Personal and Credit Card Loans**	**Secured Loans**	**Total**	**Percentage of Portfolio**
British Columbia	**$ 476,418**	**$ 9,270**	**$ 22,617**	**$ 7**	**$ 508,312**	**9.3%**
Alberta	**358,683**	**76,424**	**54,209**	**5,367**	**494,683**	**9.1%**
Ontario	**3,241,147**	**570,339**	**258,952**	**40,749**	**4,111,187**	**75.2%**
Quebec	**131,776**	**31,660**	**1,594**	**–**	**165,030**	**3.0%**
Maritimes	**90,505**	**11,399**	**4,095**	**1,616**	**107,615**	**1.9%**
Manitoba and Saskatchewan	**70,929**	**9,333**	**1,451**	**–**	**81,713**	**1.5%**
	$ 4,369,458	**$ 708,425**	**$ 342,918**	**$ 47,739**	**$ 5,468,540**	**100.0%**

[1] Certain figures have been reclassified from the fourth quarter 2009.

As at December 31 — 2008

(000s, except %)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total	Percentage of Portfolio
British Columbia	$ 333,668	$ 8,998	$ 31,118	$ 9	$ 373,793	8.2%
Alberta	398,939	115,336	78,157	8,319	600,751	13.3%
Ontario	2,267,199	630,953	250,611	61,929	3,210,692	70.9%
Quebec	105,236	48,701	1,477	–	155,414	3.4%
Maritimes	90,167	12,408	6,002	2,261	110,838	2.4%
Manitoba and Saskatchewan	67,997	10,486	1,597	–	80,080	1.8%
	$ 3,263,206	$ 826,882	$ 368,962	$ 72,518	$ 4,531,568	100.0%

(b) Past Due Loans that Are Not Impaired

As at December 31					**2009**
(000s)	**Residential Mortgages**	**Non-residential Mortgages**	**Personal and Credit Card Loans**	**Secured Loans**	**Total**
1–30 days	**$ 133,967**	**$ 4,058**	**$ 5,204**	**$ 958**	**$ 144,187**
31–60 days	**35,922**	**1,910**	**1,428**	**227**	**39,487**
61–90 days	**3,080**	**–**	**2,162**	**–**	**5,242**
91–120 days	**8,911**	**–**	**749**	**–**	**9,660**
	$ 181,880	**$ 5,968**	**$ 9,543**	**$ 1,185**	**$ 198,576**

As at December 31					2008
(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
1–30 days	$ 142,287	$ 4,406	$ 3,365	$ 973	$ 151,031
31–60 days	9,249	2,407	1,896	98	13,650
61–90 days	31,828	647	2,527	–	35,002
91–120 days	–	–	1,887	–	1,887
	$ 183,364	$ 7,460	$ 9,675	$ 1,071	$ 201,570

(c) Impaired Loans and Specific Allowances for Credit Losses

As at December 31					**2009**
(000s)	**Residential Mortgages**	**Non-residential Mortgages**	**Personal and Credit Card Loans**	**Secured Loans**	**Total**
Gross amount of impaired loans	**$ 41,149**	**$ 2,417**	**$ 4,847**	**$ 472**	**$ 48,885**
Specific allowances	**(1,346)**	**(135)**	**(961)**	**(137)**	**(2,579)**
	$ 39,803	**$ 2,282**	**$ 3,886**	**$ 335**	**$ 46,306**

As at December 31					2008
(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Gross amount of impaired loans	$ 34,643	$ 164	$ 6,309	$ 1,007	$ 42,123
Specific allowances	(1,680)	–	(547)	(699)	(2,926)
	$ 32,963	$ 164	$ 5,762	$ 308	$ 39,197

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of $2.2 million.

(d) Allowance for Credit Losses

For the year ended **2009**

(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the year	$ 1,680	$ –	$ 547	$ 699	$ 2,926
Provisions for credit losses	6,178	135	2,125	472	8,910
Write-offs	(7,676)	–	(1,913)	(1,146)	(10,735)
Recoveries	1,164	–	202	112	1,478
	1,346	135	961	137	2,579
General allowance					
Balance at the beginning of the year	16,136	4,580	3,700	761	25,177
Provisions for credit losses	3,325	(182)	(253)	(274)	2,616
	19,461	4,398	3,447	487	27,793
Total allowance	$ 20,807	$ 4,533	$ 4,408	$ 624	$ 30,372

For the year ended 2008

(000s)	Residential Mortgages	Non-Residential Mortgages	Personal and Credit Card Loans	Secured Loans	Total
Specific allowances					
Balance at the beginning of the year	$ 634	$ –	$ 128	$ 231	$ 993
Provisions 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	2,216	3,201	856	23,400
Provisions for credit losses	(991)	2,364	499	(95)	1,777
	16,136	4,580	3,700	761	25,177
Total allowance	$ 17,816	$ 4,580	$ 4,247	$ 1,460	$ 28,103

(e) Loan Maturities

(000s)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2009 Total Book Value	2008 Total Book Value
Residential mortgages	$ 1,301,089	$ 1,693,621	$ 1,028,862	$ 345,886	$ 4,369,458	$ 3,263,206
Non-residential mortgages	256,787	248,484	158,549	44,605	708,425	826,882
Personal and credit card loans	312,970	2,119	2,219	25,610	342,918	368,962
Secured loans[1]	21,761	20,412	5,566	–	47,739	72,518
	1,892,607	1,964,636	1,195,196	416,101	5,468,540	4,531,568
General allowance for credit losses	–	–	–	–	(27,793)	(25,177)
	$ 1,892,607	$ 1,964,636	$ 1,195,196	$ 416,101	$ 5,440,747	$ 4,506,391

[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, 2009, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, is $361.7 million. For impaired mortgages, the total appraised value of collateral at December 31, 2009 is $71.5 million.

NOTE 6 LOAN SECURITIZATION (SECURITIZATION RECEIVABLES)

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 $2.60 billion (2008 – $1.50 billion) of mortgages in securitization transactions. As at December 31, 2009, the retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions totalled $229.4 million (2008 – $139.9 million). This value is subject to prepayment and interest rate risks on the transferred receivables. Since these loans are transferred on a serviced basis, Home Trust has a servicing liability of $30.4 million (2008 – $10.3 million) included in other liabilities.

Included in the above is participation in the Canada Mortgage Bond (CMB) program. Total mortgage receivables of $1.96 billion (2008 – $1.09 billion) were transferred through the CMB program. As at December 31, 2009, the securitization receivable includes $187.5 million (2008 – $89.6 million) for the CMB retained interest. A servicing liability of $28.5 million (2008 – $9.1 million) is included in other liabilities and relates to the Company's obligation to service the assets in the CMB program.

Mortgage payments, which have been collected and are payable to the National Housing Authority (NHA) trusts, as at December 31, 2009 totalled $92.9 million (2008 – $42.0 million) and are reported under other liabilities. There are no expected credit losses on the securitized mortgage assets as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

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

(000s)	**2009**	2008
Net gain on sales of mortgages (net of hedging)	**$ 80,051**	$ 48,793
Impact of changes in prepayment rate assumptions	**745**	–
Excess spread earned on securitization receivable	**10,622**	8,990
Amortization of servicing liability	**3,705**	1,004
Other securitization expenses	**(2,726)**	(205)
	$ 92,397	$ 58,582

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:

	2009	2008
Prepayment rate	**7.1%**	7.6%
Discount rate	**2.7%**	3.4%
Excess spread	**1.9%**	2.6%
Weighted-average life in years	**5.0**	4.0

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

The following table shows the impact on the fair value of the retained interest (level 3 financial instruments: see Note 18 for additional details) of using 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:

(000s, except % and number of years)	**2009**	2008
Carrying amount of retained interest	**$ 229,418**	$ 139,870
Weighted-average life in years	**4.7**	3.7
Prepayment rate	**7.7%**	11.6%
Impact on fair value of 10% adverse change	**(3,401)**	(2,280)
Impact on fair value of 20% adverse change	**(5,781)**	(4,491)
Residual cash flows discount rate	**2.7%**	2.7%
Impact on fair value of 10% adverse change	**(2,487)**	(647)
Impact on fair value of 20% adverse change	**(3,845)**	(1,287)

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

The table below presents a reconciliation of the retained interest (level 3 financial instrument) for the year ended December 31, 2009:

(000s)	**As at January 1, 2009**	**Total Gain (Loss) Recorded in OCI**	**Additions**	**Net Settlements**	**As at December 31, 2009**
Securitization receivable	**$ 139,870**	**$ 1,692**	**$ 156,996**	**$ (69,140)**	**$ 229,418**

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

(000s)	**2009**	2008
Net proceeds from new securitizations	**$ 2,550,007**	$ 1,478,138
Net cash flows received on retained interests	**72,290**	46,780

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

(000s)		**2009**
	Total Principal Amount	**Principal Amount of Loans 61 or More Days Past Due**
Total loans managed or securitized	**$ 9,616,251**	**$ 101,628**
Less mortgages securitized	**4,147,711**	**37,841**
Total gross loans reported on the consolidated balance sheet	**$ 5,468,540**	**$ 63,787**

(000s)		2008
	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

NOTE 7 CAPITAL ASSETS

			2009	2008
(000s)	**Cost**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer equipment	**$ 10,636**	**$ 8,768**	**$ 1,868**	$ 1,849
Software	**112**	**68**	**44**	52
Office furniture and equipment	**6,736**	**4,460**	**2,276**	2,657
Leasehold improvements	**3,221**	**2,546**	**675**	767
	$ 20,705	**$ 15,842**	**$ 4,863**	$ 5,325

Amortization in respect of the above-noted capital assets for the year amounted to $2.6 million (2008 – $2.8 million).

NOTE 8 OTHER ASSETS

(000s)	**2009**	2008
Accrued interest receivable	**$ 26,153**	$ 27,861
Income taxes receivable	**–**	10,472
Goodwill	**15,752**	15,752
Intangible assets[1]	**26,811**	1,449
Other prepaid assets and deferred items	**36,399**	28,694
	$ 105,115	$ 84,228

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

NOTE 9 DEPOSITS

(000s, except %)					2009	2008
	Payable on Demand	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Total**	Total
Individuals	**$ 38,223**	**$ 3,324,073**	**$ 2,227,286**	**$ 780,982**	**$ 6,370,564**	$ 5,061,603
Businesses	**–**	**21,222**	**12,928**	**5,108**	**39,258**	41,178
	$ 38,223	**$ 3,345,295**	**$ 2,240,214**	**$ 786,090**	**$ 6,409,822**	$ 5,102,781
Effective yield	**–**	**2.5%**	**3.4%**	**3.8%**	**3.0%**	4.1%

NOTE 10 OTHER LIABILITIES

(000s)	2009	2008
Accrued interest payable	**$ 138,498**	$ 159,615
Dividends payable	**5,901**	4,476
Future income taxes (Note 13)	**57,559**	36,974
Income tax payable	**3**	–
Securitization servicing liability (Note 6)	**30,389**	10,288
Payable to MBS and CMB holders (Note 6)	**92,896**	42,013
Other, including accounts payable and accrued liabilities[1]	**30,901**	16,002
	$ 356,147	$ 269,368

[1] The Company has recognized a liability for employee future benefits in the amount of $151,800 (2008 – $140,000).

NOTE 11 CAPITAL

(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

	2009		2008	
(000s)	**Number of Shares**	**Book Value**	Number of Shares	Book Value
Common shares				
Balance, beginning of year	**34,434**	**$ 39,094**	34,532	$ 38,899
Options exercised	**445**	**6,498**	10	318
Repurchase of shares	**(166)**	**(196)**	(108)	(123)
Balance, end of year	**34,713**	**$ 45,396**	34,434	$ 39,094

(c) Normal Course Issuer Bid

On July 29, 2009, the Company filed a Normal Course Issuer Bid which allowed it to purchase over a 12-month period, beginning August 1, 2009, up to 10% of the public float outstanding on July 29, 2009.

On July 28, 2008, the Company filed a Normal Course Issuer Bid which allowed it to purchase over a 12-month period, beginning August 1, 2008, up to 10% of the public float outstanding on July 28, 2008.

During the year, 165,400 (2008 – 108,400) common shares were purchased for $4.7 million (2008 – $3.0 million). The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between capital stock and retained earnings. The cost of the common shares was reduced by $195,924 in 2009 (2008 – $123,000).

(d) Stock Options

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

(000s, except exercise price and number of years)	**2009** Number of Options	**2009** Weighted-average Exercise Price	2008 Number of Options	2008 Weighted-average Exercise Price
Outstanding, beginning of year	**1,407**	**$ 25.08**	1,294	$ 27.15
Issued	**168**	**30.12**	205	16.27
Exercised	**(445)**	**11.86**	(10)	28.12
Cancelled	**(205)**	**29.76**	(82)	35.32
Outstanding, end of year	**925**	**$ 31.32**	1,407	$ 25.08
Exercisable at year-end	**458**	**$ 32.84**	661	$ 18.73
Weighted-average term to maturity in years		**3.8**		3.4

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 to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. As at December 31, 2009, the maximum number of common shares that may be issued was 4,585,198, representing approximately 13.2% 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, 2009, 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	100,000	25,000	$ 34.51[2]	02/14/2012
	20,000	10,000	41.29[2]	12/07/2014
	20,000	5,000	16.27[3]	12/08/2015
	140,000	40,000		
Employees	3,000	3,000	10.56	07/23/2010
	25,000	25,000	34.55	02/14/2010
	93,750	93,750	35.25	12/06/2010
	10,000	10,000	42.02	03/03/2011
	105,000	78,750	27.89[1]	10/25/2011
	45,000	22,500	27.71[1]	12/01/2011
	50,000	50,000	34.51[2]	02/14/2012
	20,000	10,000	33.76[2]	03/07/2014
	170,000	85,000	41.29[2]	12/07/2014
	155,000	38,750	16.27[3]	12/08/2015
	25,000	–	17.06[4]	02/12/2016
	15,000	–	31.87[4]	05/05/2016
	10,000	–	35.56[4]	08/04/2016
	35,000	–	40.70[4]	11/03/2016
	22,500	–	41.06[4]	12/02/2016
	784,250	416,750		
	924,250	456,750	$ 32.84	

1 In 2006, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2009, three levels of performance had been met for 105,000 options and two levels of performance had been met for 45,000 options. As a result, 75% and 50%, respectively, of these contingently assumable options have been included in the computation of diluted income per common share.

2 In 2007, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2009, two levels of performance had been met. As a result, 50% of these contingently assumable options have been included in the computation of diluted income per common share.

3 In 2008, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2009, one level of performance had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted income per common share.

4 In 2009, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2009, 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, 2009 was $14.55 for the 2009 issue. The weighted-average fair value of the options granted during the year ended December 31, 2008 was $5.36 for the 2008 issue.

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

	2009	2008
Expected dividend yield	**1.54%**	2.51%
Expected share price volatility	**38.0%**	33.2%
Risk-free rate of return	**2.72%**	2.67%
Expected period until exercise in years	**6.0**	7.0

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 (2008 – $1.5 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, there would have been no impact on 2009 and 2008 net income and income per share as these options are now fully vested.

(f) Deferred Share Units

The Company grants deferred share units (DSUs) to Directors of the Company. Under the plan, the Directors may annually elect to accept remuneration in the form of cash, cash and DSUs or DSUs prior to the beginning of the year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement or termination of directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs liability as at December 31, 2009, was $0.27 million (2008 – nil).

As of December 31, 2009, there were 6,468 DSUs available for grant under the plan. Of the DSUs issued, 6,468 DSUs remain outstanding at December 31, 2009.

(g) Income per Common Share (000s)

Basic income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,450 (2008 – 34,512).

Diluted income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,450 (2008 – 34,512) plus the stock options potentially exercisable, as determined under the treasury stock method, of 345 (2008 – 157) for a total of 34,795 (2008 – 34,669) diluted common shares.

(h) 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 meet regulatory capital requirements, while also providing a sufficient return to investors. The Risk and Capital Committee and the Board of Directors annually review the policy and monitor compliance with the policy on a quarterly basis.

The Company's subsidiary, Home Trust, is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions Canada (OSFI). These requirements are consistent with international standards 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 was as follows:

(000s, except ratios and multiple)	2009	2008
Regulatory capital		
Tier 1	**$ 530,256**	$ 384,025
Total	**581,036**	424,202
Regulatory ratios		
Tier 1	**16.4%**	12.9%
Total	**18.0%**	14.2%
Assets to capital multiple	**12.7**	13.7

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

NOTE 12 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components comprising the accumulated other comprehensive income (loss) are:

(000s)	2009	2008
Unrealized gains (losses) on:		
Available for sale securities	$ 10,695	$ (33,615)
Income taxes (expense) recovery	(2,733)	10,473
	7,962	(23,142)
Unrealized gains on:		
Securitization receivables	19,772	18,080
Income taxes (expense)	(6,466)	(5,991)
	13,306	12,089
Accumulated other comprehensive income (loss)	$ 21,268	$ (11,053)

NOTE 13 INCOME TAXES

(a) Components of the Provision for Income Taxes

(000s)	2009	2008
Current income taxes		
Federal	$ 16,106	$ 20,914
Provincial	11,719	14,619
	27,825	35,533
Future income taxes		
Federal	15,529	7,900
Provincial	11,112	6,498
	26,641	14,398
	$ 54,466	$ 49,931

(b) Reconciliation of Income Taxes

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 32.7% (2008 – 31.5%).

(000s)	2009	2008
Income before income taxes	$ 198,959	$ 158,618
Income taxes at statutory combined federal and provincial income tax rate	$ 65,082	$ 52,565
Increase (decrease) in income taxes resulting from:		
Tax-exempt income	(5,657)	(2,835)
Non-deductible expenses	1,792	1,491
Future tax rate changes	(9,762)	(1,378)
Other	3,011	88
	$ 54,466	$ 49,931

(c) Sources of Future Income Tax Assets and Liabilities

(000s)	2009	2008
Future income tax liabilities		
Deferred agent commissions and other charges	**$ 18,761**	$ 7,761
Mortgage-backed securities receivable	**49,560**	40,828
	68,321	48,589
Future income tax assets		
Allowance for credit losses	**7,549**	7,776
Deferred commitment fees and unearned income	**3,213**	3,839
	10,762	11,615
Net future income tax liability	**$ 57,559**	$ 36,974

NOTE 14 EMPLOYEE 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 totalled $0.5 million for 2009 (2008 – $0.5 million).

(b) Employee Retirement Savings Plan

During the year ended December 31, 2009, Home Trust contributed $0.7 million (2008 – $0.4 million) to the employee group registered retirement savings plan.

NOTE 15 COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments

Contractual obligations in respect of premises and equipment leases at December 31, 2009 are as follows:

(000s)	
2010	$ 3,789
2011	3,777
2012	2,547
2013	2,114
2014	2,266
2015 and thereafter	3,342
	$ 17,835

(000s)	2009	2008
Rent paid	**$ 4,224**	$ 3,426

(b) Credit Commitments

Outstanding commitments for funding on mortgages amounted to $553.4 million as at December 31, 2009 (2008 – $242.4 million). Commitments for loans remain open for various dates through December 2010. The average rate on mortgage commitments is 3.82% (2008 – 5.94%).

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, 2009, these contractual commitments in aggregate were $357.5 million (2008 – $415.0 million) of which $52.8 million (2008 – $62.9 million) has not been drawn by customers. In addition, outstanding commitments for new Equityline *Visa* accounts were $2.9 million at December 31, 2009 (2008 – $2.5 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, 2009:

					2009
(000s)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Net Fair Market Value
Interest rate swaps[1]					
Maturing in 2011	$ 124,870	$ 1,037	$ 1,130	$ 226	$ (28)
Maturing in 2012	214,716	3,797	4,252	850	1,718
Maturing in 2013	1,044,775	7,605	8,995	1,799	1,560
Maturing in 2014	1,326,383	6,571	10,157	2,032	(1,918)
Maturing in 2018	234,936	41	1,446	289	(3,796)
Maturing in 2020	256,562	–	–	–	(8,193)
	$ 3,202,242	$ 19,051	$ 25,980	$ 5,196	$ (10,657)
Bonds[2]					
Maturing in 2014	$ 17,200	$ 307	$ 393	$ 79	$ 307
Maturing in 2015	70,000	327	852	170	312
Maturing in 2018	74,700	1,459	2,580	516	1,459
Maturing in 2020	21,900	359	687	137	359
	$ 183,800	$ 2,452	$ 4,512	$ 902	$ 2,437

[1] Interest rate swaps include CMB interest rate swaps and additional interest rate swaps the Company enters into to manage the reinvestment risk of the CMB program.

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

The Company held the following financial derivatives as at December 31, 2008:

(000s)	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Net Fair Market Value
					2008
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
Bonds					
Maturing in 2013	$ 34,300	$ –	$ –	$ –	$ (636)

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 OSFI; and “fair market value” represents the net value of the contracts using current interest rates.

In the previous table CMB interest rate swaps with a fair value of $(10.3) million that are required for participation in the CMB program have fair values derived from inputs which the Company considers to be non-observable (level 3 financial instruments). The effect of changing one or more of the assumptions used to fair value these swaps to reasonably possible alternatives would impact net income as shown below:

(000s)	**2009**
Fair value of CMB interest rate swaps (level 3 financial instrument: see Note 18 for additional details)	**$ (10,307)**
Parallel shift in discount rate	
Impact on fair value of 1% decrease	**750**
Impact on fair value of 1% increase	**(884)**
Prepayment rate	
Impact on fair value of 5% decrease	**(1,157)**
Impact on fair value of 5% increase	**813**

The table below presents a reconciliation of the CMB interest rate swaps for the year ended December 31, 2009:

(000s)	**As at January 1, 2009**	**Total Gain (Loss) Recorded in Income Statement Excluding Net Settlements**	**Additions**	**Net Settlements Recorded in Income Statement**	**As at December 31, 2009**
CMB interest rate swap	**$ (20,646)**	**$ 7,682**	**–**	**$ 2,657**	**$ (10,307)**

Total gain (loss) and net settlements on CMB interest rate swaps are recorded in the consolidated statement of income under securitization income and net realized and unrealized gain (loss) on derivatives.

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 at December 31, 2009, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income after tax and net present value of shareholders' equity over the next 12 months by $7.4 million and $9.2 million, respectively. A 100 basis point increase in interest rates would increase net interest income after tax and net present value of shareholders' equity over the next 12 months by $7.4 million and $7.8 million, respectively.

								2009
(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	$ 68,941	$ 815,093	$ –	$ 46,100	$ –	$ –	$ –	$ 930,134
Weighted-average interest rate	0.3%	0.3%	–	0.5%	–	–	–	0.3%
Securities	–	21,989	133,613	106,896	188,064	200,035	–	650,597
Weighted-average interest rate	–	3.3%	1.4%	1.8%	2.5%	5.5%	–	3.1%
Loans	–	693,348	361,331	778,203	1,950,673	1,606,232	50,960	5,440,747
Weighted-average interest rate	–	8.5%	7.3%	6.5%	6.1%	4.6%	–	6.0%
Other assets	–	–	–	–	–	–	339,396	339,396
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 68,941	$1,530,430	$ 494,944	$ 931,199	$ 2,138,737	$1,806,267	$ 390,356	$7,360,874
Weighted-average interest rate	0.3%	4.0%	5.7%	5.7%	5.8%	4.7%	–	4.8%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 6	$ –	$ –	$ –	$ –	$ –	$ 38,217	$ 38,223
Weighted-average interest rate	–	–	–	–	–	–	–	–
Deposits payable on a fixed date	–	568,242	632,830	2,132,314	2,240,214	786,090	11,909	6,371,599
Weighted-average interest rate	–	3.0%	2.7%	2.3%	3.4%	3.8%	–	3.0%
Other liabilities	–	–	–	–	–	–	360,764	360,764
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	590,288	590,288
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 6	$ 568,242	$ 632,830	$ 2,132,314	$ 2,240,214	$ 786,090	$1,001,178	$7,360,874
Weighted-average interest rate	–	3.0%	2.7%	2.3%	3.4%	3.8%	–	2.6%
	$ 68,935	$ 962,188	$ (137,886)	$(1,201,115)	$ (101,477)	$ 1,020,177	$ (610,822)	–
Credit commitments and derivatives	–	(537,393)	70,977	29,137	262,865	174,414	–	–
Weighted-average interest rate	–	2.7%	6.6%	5.3%	2.8%	6.9%	–	–
Interest rate sensitivity gap	$ 68,935	$ 424,795	$ (66,909)	$(1,171,978)	$ 161,388	$ 1,194,591	$ (610,822)	–
Cumulative gap	$ 68,935	$ 493,730	$ 426,821	$ (745,157)	$ (583,769)	$ 610,822	$ –	–

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%	–	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	$ –	$ –

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.

			2009			2008
(000s)	**Carrying Value**	**Fair Value**	**Fair Value Over Carrying Value**	Carrying Value	Fair Value	Fair Value Over Carrying Value
Assets						
Cash resources	**$ 930,134**	**$ 930,134**	**$ –**	$ 554,422	$ 554,422	$ –
Securities	**650,597**	**650,597**	**–**	519,477	519,477	–
Loans	**5,440,747**	**5,775,417**	**334,670**	4,506,391	4,532,833	26,442
Securitization receivable	**229,418**	**229,418**	**–**	139,870	139,870	–
Other	**109,978**	**109,978**	**–**	89,553	89,553	–
Liabilities						
Deposits and borrowings	**6,409,822**	**6,613,327**	**203,505**	5,102,781	5,411,281	308,500
Derivatives	**8,220**	**8,220**	**–**	202	202	–
Other	**352,544**	**352,544**	**–**	273,977	273,977	–
Off-balance sheet financial instruments						
Credit commitments	**$ 609,224**	**$ 629,318**	**$ 20,094**	$ 307,820	$ 305,468	$ (2,352)

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 fair 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. Carrying value amount represents the notional amount of the commitments. Fair value amount represents the original notional amount adjusted for change in fair value.

> Fair value of derivative financial instruments are assumed to approximate their fair values as provided in Note 16.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (Unadjusted) Prices in Active Markets for Identical Assets or Liabilities: This level of hierarchy includes equity securities traded on the TSX and quoted corporate debt instruments.

Level 2: Valuation Techniques with Observable Parameters: This level of hierarchy includes interest rate swaps and bond forwards and certain corporate debt instruments.

Level 3: Valuation Techniques with Significant Unobservable Parameters: Instruments classified in this category have a parameter input or inputs which are unobservable and which have more than insignificant impact on either the fair value of the instrument or profit or loss of the instrument. This category includes the securitization receivable and certain interest rate swaps used for hedging in the CMB program. Please see Notes 6 and 16 for further information on the securitization receivable and interest rate swaps.

The following table presents the carrying value of financial instruments held at fair value across all three levels of the fair value hierarchy.

				2009
(000s)	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Bond forward contracts	$ –	$ 2,437	$ –	$ 2,437
Securities issued or guaranteed by Canada	99,938	–	–	99,938
Financial instruments available for sale				
Securities issued or guaranteed by				
Canada	–	56,173	–	56,173
Corporations	194,085	–	–	194,085
Equity securities				
Common	6,689	–	–	6,689
Fixed rate preferred	287,967	–	–	287,967
Income trusts	4,800	–	–	4,800
Mutual funds	–	945	–	945
Securitization receivable	–	–	229,418	229,418
Total	$ 593,479	$ 59,555	$ 229,418	$ 882,452
Financial liabilities at fair value				
Interest rate swaps	$ –	$ 350	$ 10,307	$ 10,657

During the year, the Company has not transferred any financial instrument from level 1 and level 2 to level 3 of the fair value hierarchy.

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:

				2009
(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	$ 100,268	$ 36,738	$ 28,005	$ 165,011
Provisions for credit losses	(9,653)	(1,873)	–	(11,526)
Fees and other income	18,145	11,043	138	29,326
Net gain on securities and mortgage-backed securities	92,652	–	2,097	94,749
Non-interest expenses	(48,482)	(10,862)	(19,257)	(78,601)
Income before income taxes	152,930	35,046	10,983	198,959
Income taxes	(41,279)	(11,631)	(1,556)	(54,466)
Net income	$ 111,651	$ 23,415	$ 9,427	$ 144,493
Goodwill	$ 2,324	$ 13,428	$ –	$ 15,752
Total assets	$ 5,510,368	$ 384,528	$ 1,465,978	$ 7,360,874

				2008
(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	$ 89,505	$ 26,459	$ 34,611	$ 150,575
Provisions for credit losses	(5,202)	(1,436)	–	(6,638)
Fees and other income	15,163	12,888	401	28,452
Net gain (loss) 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
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

NOTE 20 RISK MANAGEMENT

The Company is exposed to various types of risk 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 32 to 39 of the Risk Management Section of the MD&A. Significant exposures to credit, liquidity and 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's 2011 quarterly and annual reports will include comparative 2010 financial results under IFRS. The Company's IFRS transition project is underway and the Company is currently determining the financial impact to the balance sheet and income statement. The Company will provide progress updates through its quarterly reports during 2010. Please see pages 46 to 48 of the MD&A for further information.

Corporate Directory

HOME CAPITAL GROUP INC.

Directors:

Norman F. Angus[2,3]
Chairman of the Board and
Corporate Director
Old Lyme, Connecticut

Micheline Bouchard[3,4]
Corporate Director
Montreal, Quebec

Hon. William G. Davis P.C., C.C., Q.C.[3,4]
Counsel
Davis Webb LLP
Brampton, Ontario

John M. E. Marsh[1]
Corporate Director
Port Colborne, Ontario

Robert A. Mitchell[1, 2]
Corporate Director
Oakville, Ontario

Kevin P. D. Smith[2,3,4]
Vice Chairman of the Board and
President and Chief Executive Officer
St. Joseph's Health System
Hamilton, Ontario

Gerald M. Soloway[2]
Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario

Bonita Then [1,2]
President and
Chief Executive Officer
Specialty Foods Limited
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
Kevin P. D. Smith
Chair

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

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

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

Pino Decina
Senior Vice President, Residential Mortgage Lending

Chris Ahlvik
Senior Vice President, Corporate Counsel

Chair Emeritus:

William A. Dimma

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 Tuesday, May 18, 2010 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 Directory

HOME TRUST COMPANY

Directors:

Hon. William G. Davis
P.C., C.C., Q.C.
Chairman of the Board
Norman F. Angus
Micheline Bouchard
John M. E. Marsh
Robert A. Mitchell
Brian R. Mosko
Martin Reid
Kevin P. D. Smith
Gerald M. Soloway
Bonita Then

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

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

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

Pino Decina
Senior Vice President, Residential Mortgage Lending

Chris Ahlvik
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Corporate
Stephen Copperthwaite, CMA, ORMP
Vice President, Administration and Relationship Manager

Kerry Reinke, C.A.
Vice President, Enterprise Risk Management and Chief Risk Officer

Corporate (continued)
Jens Ehlers, C.A., CFA
Vice President, Planning and Performance Measurement

Dinah Henderson, CGA
Vice President, Corporate Accounting

Marissa Lauder, C.A.
Assistant Vice President, Financial Reporting and Accounting Policies

Norm Thacker
Vice President, Information Technology

Donald Correia
Assistant Vice President, Credit

Commercial Mortgage Lending
Shaun Gonsalves
Assistant Vice President

Residential Mortgage Lending
Armando Diseri
Vice President

Laurie Chalabardo
Michael Forshee
James Hill
Bobby Ramgoolam
Marguerite Ryan
Agostino Tuzi
Assistant Vice Presidents

Ron Cuadra
Vice President, National Sales

Jean-Pierre Vico
Senior Manager

Jeffrey Barbour
Senior Credit Manager

Brendon Callender
John DeCastro
Michael Hewitt
Ivano Metallo
Tim Nason
Scott Smith
Frank Tuzi
Todd Wilson
Managers

Sales and Service
Domenic Cosentino
Assistant Vice President

Direct Client Services
Frank Lee
Manager

Payment Card Services
Raymond St. Aubin
Senior Operations Manager

Equityline *Visa*
Alex Godfrey
Assistant Vice President

Retail Credit Services
Cathy Boon
Vice President

Wayne Dickie
Assistant Vice President

Deposits
Yin Tan
Manager

Nicole Kotsifas
Business Development Manager

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Danny Antoniazzi
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, 2009,
there were 34,713,190
common shares outstanding

For Shareholder Information,
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