ANOTHER GREAT YEAR

and still growing...

HOME CAPITAL GROUP INC.

CANADA'S ONE-STOP MORTGAGE LENDER

ANNUAL REPORT 2010

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

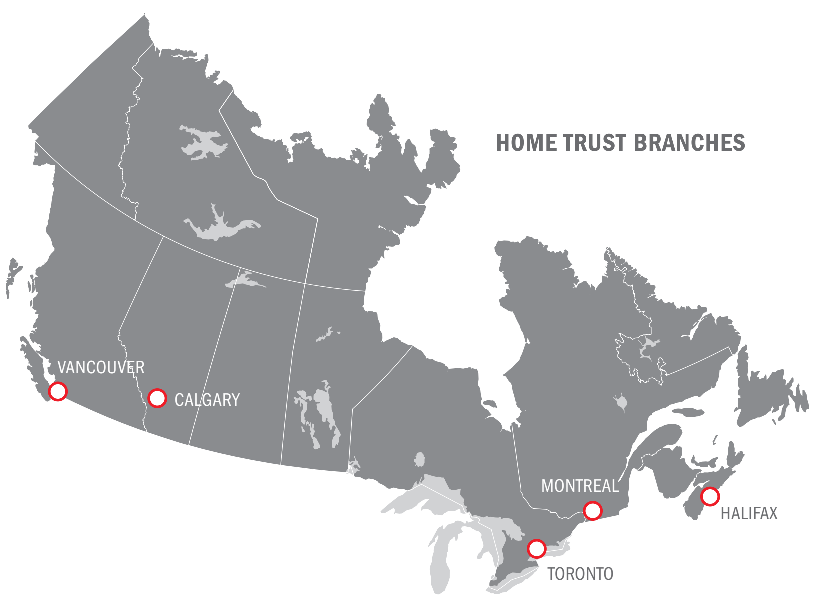
Home Trust's Equityline *Visa* program brings the advantages to cardholders of accessing the equity they have built in their homes together with the features and convenience of a Gold *Visa* card. The Company also offers deposit-secured credit cards for individuals who wish to build or re-establish a 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.



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Financial Highlights

(000s, except per share amounts)

For the years ended December 31		2010	2009	2008
Total assets	$	**7,712,239**	7,360,874	5,809,713
Loans	$	**5,832,569**	5,440,747	4,506,391
Deposits	$	**6,522,850**	6,409,822	5,102,781
Shareholders' equity	$	**742,280**	590,288	432,753
Mortgage-backed security (MBS) assets under administration	$	**8,166,533**	4,147,711	2,614,258
Revenue	$	**533,937**	489,179	454,695
Net income	$	**180,944**	144,493	108,687
Book value of common shares	$	**21.42**	17.00	12.57
Earnings per share – basic	$	**5.21**	4.19	3.15
Earnings per share – diluted	$	**5.20**	4.15	3.13

Return on equity was 27.2%, over 20% for 13 consecutive years

27.2%

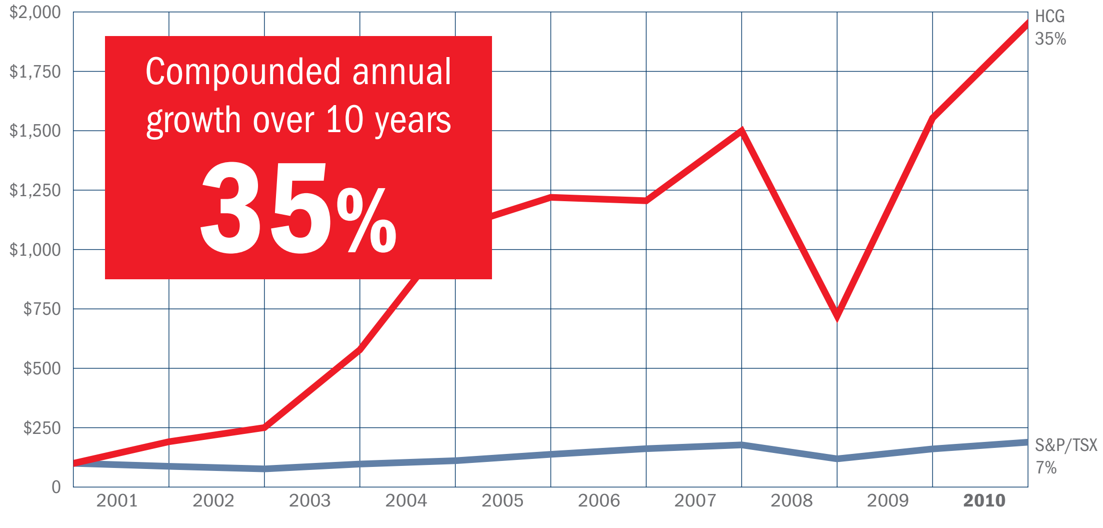
Earnings for 2010 grew by 25.2% to $180.9 million

$180.9 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, 2000–December 31, 2010



HCG Stock Price Performance	$5.58	$7.25	$16.63	$31.25	$34.75	$34.05	$41.90	$19.80	$41.85	**$51.79**

Closing Price as of December 31

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

2007	2006	2005	2004	2003	2002	2001
4,975,093	3,902,316	3,284,829	2,568,513	1,897,176	1,394,289	1,136,220
4,022,171	3,309,214	2,796,873	2,244,130	1,611,911	1,171,102	958,564
4,413,984	3,443,640	2,901,515	2,269,157	1,666,788	1,216,475	995,762
348,040	276,866	218,885	162,207	121,166	94,586	75,203
1,459,455	1,107,562	800,184	500,740	315,131	140,643	65,627
368,881	282,549	234,704	181,839	141,365	111,066	91,359
90,241	67,815	60,861	44,551	29,507	20,595	14,860
10.08	8.10	6.44	4.80	3.61	2.82	2.30
2.62	1.99	1.80	1.33	0.88	0.62	0.49
2.59	1.95	1.72	1.27	0.86	0.59	0.46

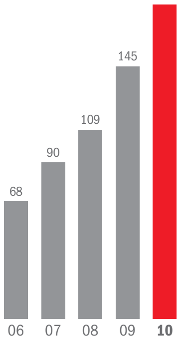
Total assets including MBS originated and administered by the Company grew 38.0% to $15.88 billion

$15.88 billion

Total residential mortgage originations reached $6.46 billion, an increase of 40.8% over 2009

$6.46 billion

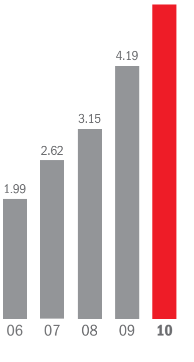
Net Income
(millions)



25.2% ▲

Home Capital reported a 25.2% increase in net income over the $144.5 million attained in 2009, reaching $180.9 million for the year ended 2010.

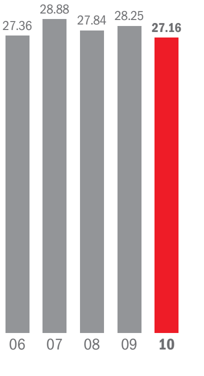
Earnings per Share
(basic in dollars)



24.3% ▲

Basic earnings per share rose to $5.21 for the year ended December 31, 2010, a 24.3% increase over the $4.19 reported for 2009.

After-tax Return on Equity
(percentage)



27.2% ▲

Home Capital surpassed 20% return on equity for the 13th consecutive year, and 25% ROE for the 8th successive year, reaching 27.2% at December 31, 2010.

Report to Shareholders

Capitalizing on an improving economy and housing market through 2010, Home Capital generated another year of record operating and financial performance in all of our core business lines. In addition, our capital base strengthened, we enhanced our risk profile, we increased our common share dividends, and we made further investments in our technologies, systems and people. Looking ahead, we remain excited about our future and our ability to continue generating solid returns for our shareholders over the long term.

Surpassing expectations

Growth that outperforms

At Home Capital, sustainable revenue growth comes from our ability to build relationships with our customers, the mortgage broker network and other stakeholders, the development of innovative product offerings and marketing programs, and our focus on careful lending practices while increasing our market penetration.

Another year of record results

2010 was indeed a year of "two halves." Through the first six months residential real estate activity was extremely strong as many home purchasers entered the market ahead of Canada Mortgage and Housing (CMHC) qualification changes, the introduction of the Harmonized Sales Tax, and in anticipation of higher interest rates. Over the final two quarters of the year, we observed a modest slowing in residential real estate activity and a reduction in the pace of house price appreciation that, in our view, reflects a more balanced, healthy and sustainable Canadian housing market.

Once again, our proven and tested business model allowed us to capitalize on the strong market through the first half of the year, and to continue generating solid growth and profitability as the markets stabilized. At Home Capital, our programs and strategies have been designed to deliver solid performance through all phases of the economic cycle. Since the Company's founding more than a quarter century ago, our focus has been on generating steady and sustainable organic growth in earnings while maintaining a stable risk profile, with a strong financial position and industry-leading capital ratios. 2010 was another year in which this business plan delivered record results that exceeded all of our goals and objectives:

> Net income rose 25.2%, exceeding our target of 15% to 20% growth;

> Diluted earnings per share were up 25.3% for the year, also beating our objective of 15% to 20% growth;

> Combined total assets and securitized mortgages originated and managed by Home Trust increased 38.0%, well above our 15% to 20% target;

> Our 27.2% return on shareholders' equity once again beat our 20% goal, the 13th consecutive year that our annual return on equity has exceeded 20%; and

> In light of our continuing strong growth and profitability, quarterly dividends rose to $0.18 per common share, up 12.5% and the 12th increase in the last six years.

Underpinning this record operating and financial performance were strong earnings and returns on equity in all of our business lines.

Residential and commercial mortgage originations were strong in 2010, the result of an improving economy and real estate market, as well as our ability to offer a full-service, one-stop shop to the Canadian mortgage broker network. With strengthening market conditions, we generated solid growth in our traditional, higher-return uninsured mortgage business as well as our Accelerator mortgage program, which offers a full range of insured mortgage products.

The Equityline *Visa* program surpassed our expectations in 2010, and with the continuing strength of the Canadian economy and the success of recently launched innovative marketing initiatives, we expect that we will continue to grow our *Visa* portfolio and generate further increases in profitability in this segment of our business.

Along with these record results, we further 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 at December 31, 2010 of 18.1% and 19.4%, respectively, up from 16.4% and 18.0% at the end of 2009. In addition, the credit performance of our loan portfolio strengthened significantly with net impaired loans representing only 0.58% of the total portfolio as at December 31, 2010, a solid improvement from the 0.85% at the end of the prior year.

We were also pleased to have received upgraded credit ratings from both Standard & Poor's and Fitch Ratings during the year, the result of our strong and sustainable operating performance, the quality of our assets, and the strength of our capital position. In fact, Home Trust is the only trust company in Canada that is not a subsidiary of a major bank to maintain an investment grade credit rating from Standard & Poor's in 2010, a reflection of our continuing ability to generate robust growth and strong financial results while enhancing our risk profile.

Looking ahead, we believe Home Capital is well-positioned for further growth in the coming years. We continue to experience increased market penetration across the country, the result of our innovative marketing programs, new product offerings, an expanded broker network, superior customer service, and our full-service mortgage offering. Clearly, our business plan is working, and we are confident that it will continue to build value for our shareholders in the years ahead.

Balancing risk and reward to deliver consistent results

With prudent lending strategies, a robust risk management framework, solid business fundamentals and rigorous processes, Home Capital strikes a balance between risk and reward, generating consistently strong financial results and creating value for all shareholders.

Adapting to accounting and regulatory changes

In 2011, the Company, along with all other Canadian federally regulated financial institutions, will adopt International Financial Reporting Standards (IFRS). The primary impact of these new standards will be in the way that we report our securitization activities. As these securitized mortgages will not be removed from our assets for accounting purposes, the timing of the recognition of income will be over the life of the securitization. However, the total amount of income earned over time will be unchanged. Moving forward, we will continue to generate growth in profitability on an IFRS basis. The adoption of IFRS has not changed the way we view our business or the overall strategies we employ to drive growth and profitability.

In addition, the Basel Committee on Banking Supervision has been developing a comprehensive set of measures to strengthen the liquidity and capital of the global banking sector. These measures are designed to improve the sector's ability to absorb shocks arising from financial and economic stress. At Home Capital, we welcome the adoption of these new measures, which will call for increased capital and liquidity in all banking industry participants, phased in through to 2018. It is important to note that Home Trust Company is currently fully compliant with all of the new measures anticipated to arise from the Basel III reforms.

Governance changes

Effective with this year's Annual Shareholders' Meeting, Dr. Kevin P.D. Smith will assume the position of Chairman of the Board of Directors of Home Capital Group. Dr. Smith has served on the Board since 2007, the last three years as Vice Chairman, and has been an invaluable contributor to the Board and the Company, bringing significant experience in governance in the public and not-for-profit sectors. He currently serves as President and CEO of St. Joseph's Health System in Hamilton and is Vice Chair of the Ontario Hospital Association, an organization representing all 158 hospitals in the Province of Ontario.

Kevin Smith will replace Norman F. Angus, who has served three years as Chairman and a member of the Company's Board of Directors since 2005. All of us at Home Capital extend our sincere thanks to Mr. Angus for his dedication and service, and wish him every success in his future endeavors.

The Board and management welcome Ms. Leslie Thompson, who was appointed as a new member to our Board of Directors in December 2010. Ms. Thompson is President of LESRISK, an enterprise risk management consulting firm working with both financial institutions and government. Ms. Thompson serves as corporate director on several boards including the Ontario Municipal Employees' Retirement System (OMERS AC) and the Deposit Insurance Corporation of Ontario. We look forward to working with Ms. Thompson in the years ahead.

We also welcome Mr. William Falk who will stand as a nominee for election to the Board at the upcoming Annual Meeting. Mr. Falk brings 19 years of strategic consulting experience, most recently as a senior executive with Accenture, a global management consulting, technology services and outsourcing company. Currently, Mr. Falk is an Adjunct Professor at the University of Toronto's Rotman School of Management and an Executive Fellow in Residence at the Mowat Centre for Policy Innovation. We are confident that his expertise will be an asset to the Company.

A solid future

2010 was another year in which we met and exceeded all of our annual performance objectives as we capitalized on a strengthening economy and a more sustainable and balanced Canadian housing market. As we look ahead, we believe our strong capital position, our focus on sustainability and accountability, and the continuing execution of our proven business plan will build on the strong momentum generated over the last twenty-five years. With this positive outlook, we have established the following targets under IFRS for 2011:

- 15% to 20% growth in total adjusted net earnings[1];
- 15% to 20% growth in adjusted diluted earnings per share[1];
- 13% to 18% growth in combined total assets, including assets under administration; and
- 20% return on shareholders' equity.

In conclusion, 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. Our people are our most important asset, and it is their contribution that led to our record performance in 2010 and will continue to build value for all our stakeholders in the years ahead.

Gerald M. Soloway
Chief Executive Officer

Additional information concerning the Company's targets and related expectations for 2011, including risks and assumptions underlying these expectations, may be found in Management's Discussion and Analysis in this 2010 Annual Report.

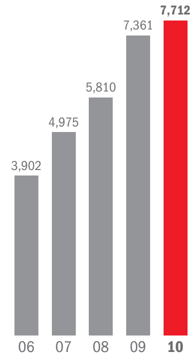
[1] See page 14 for definition of adjusted net earnings and earnings per share.

Proven Results

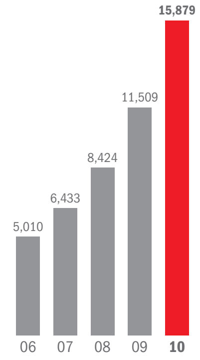
GROWTH

Home Capital sustained its strength in key financial measurements. The Company's core business activities generated strong results, contributing to asset growth, including assets under administration, of 38.0% and an increase in total revenue of 9.2%.

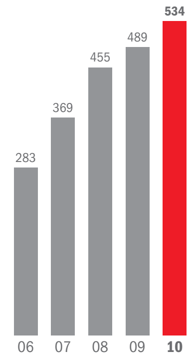
Assets
(millions)



Total Assets Including Assets under Administration
(millions)



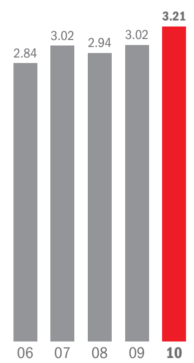
Revenue
(millions)



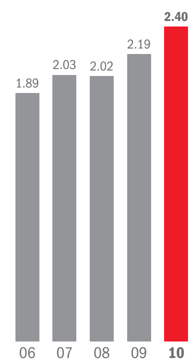
RETURNS

The Company recorded pre-tax return on assets of 3.21% and after-tax return on assets of 2.40%, while shareholders' equity increased to $742.3 million, a 25.7% rise from the previous year.

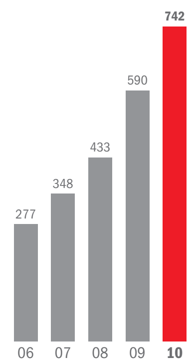
Pre-tax Return on Assets
(percentage)



After-tax Return on Assets
(percentage)



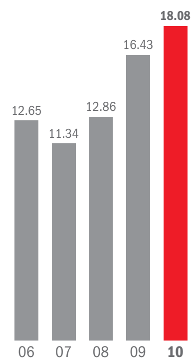
Shareholders' Equity
(millions)



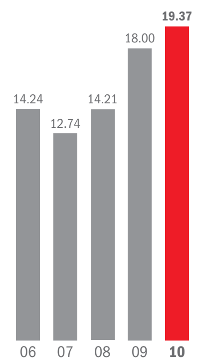
RISK

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.

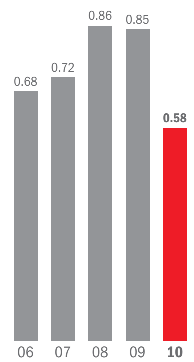
Tier 1 Capital to Risk-weighted Assets
(percentage)



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 27.2% for the year ended December 31, 2010, representing the 13th consecutive year in which the Company surpassed 20% ROE.	After-tax return on equity at **27.2%** ▲ for the year ended December 31, 2010
EARNINGS **TARGET:** 15% to 20% increase in total earnings	The Company reported net earnings of $180.9 million for the year ended December 31, 2010, representing a 25.2% increase over the $144.5 million achieved in 2009.	Increase in earnings of **25.2%** ▲ over 2009
EARNINGS PER SHARE **TARGET:** 15% to 20% increase in diluted earnings per share	Diluted earnings per share rose to $5.20 at December 31, 2010, a 25.3% increase over the $4.15 recorded for 2009.	Diluted earnings per share grew **25.3%** ▲ over 2009
ASSETS **TARGET:** 15% to 20% 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 $15.88 billion by December 31, 2010, an increase of 38.0% over the $11.51 billion recorded on December 31, 2009.	Total assets increased **38.0%** ▲ over year-end 2009

Green in action

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 2010, 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.

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 Chief Executive Officer 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 as well as conducting 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 the following:

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 Meeting on May 18, 2011 (details on page 89) or listen to the webcast available through the website at www.homecapital.com.

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 37 through 48 in this 2010 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, and 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 2011 and its effect on Home Capital's business are material factors the Company considers when setting its objectives and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical economic data provided by the Canadian government and its agencies. In setting performance target ranges and the outlook for 2011, management's expectations assume:

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

NON-GAAP MEASURES

The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with 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:

Return on Shareholders' Equity

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

Return on Assets

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

Efficiency or Productivity Ratio

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

Net Interest Margin

Net interest margin is calculated by dividing net interest income, on a taxable equivalent basis, 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). Refer to the Capital Management Section of the MD&A for further information.

Taxable Equivalent Basis (TEB)

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

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 Group Inc. for the year ended December 31, 2010. 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 that operates primarily through its principal, federally regulated subsidiary, Home Trust, which offers insured 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.

Business Segments and Portfolios

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

Mortgage Lending

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

The Company's traditional mortgage portfolio consists of mortgages with loan-to-value ratios of 80% or less, where the focus is on serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. Accelerator mortgages are insured, with loan-to-value ratios generally exceeding 80% at the time of origination, and are generally securitized and sold through Canada Mortgage and Housing (CMHC) sponsored Mortgage Backed Securities (MBS) and Canada Mortgage Bond (CMB) programs. Multi-unit residential lending includes both insured and uninsured mortgage loans. Non-residential lending includes store and apartment mortgages, commercial mortgages, construction loans and warehouse commercial mortgages, secured by real property.

Consumer Lending

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

Other

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

Mission, Vision and Values

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

Home Capital's vision is to be a "Best in Class" financial services company, delivering first class products and services to Canadians with a strong emphasis on customer service.

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

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

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

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 13 years without exception. Management also seeks to align its capital with the risk profile of the business through an understanding of the nature and level of risk being taken and how these risks attract regulatory and risk-based capital.

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

STRATEGIC PRIORITY	2010 STRATEGIES AND ACHIEVEMENTS
Focused Marketplace Growth	Build and maintain Canada's leading alternative financial institution > Sustained our focus on underserved niches and achieved a market-leading position > Continued to expand our residential mortgage product offering and strengthened our position as a "one-stop" lender, expanding the Company's base of potential clients and developing broader mortgage broker relationships > Continued the geographic expansion of the business > 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 > Continued to build a stronger capital position, increasing the Company's Tier 1 capital ratio to 18.1% from 16.4% one year ago > Reduced the overall credit risk profile of the loan portfolio, with net impaired loan ratios and loan provisions returning to levels observed in 2006 > Maintained and managed strong liquidity positions; liquid assets decreased during the course of the year as the Company balanced liquidity against investment returns > Maintained a flexible supply of funding through the deposit broker network and grew funding capacity through securitization markets
Operational and Governance Excellence	Invest in robust corporate governance, risk management and efficient customer-focused processes and systems > Achieved industry-leading returns to shareholders' equity > Further enhanced risk measurement, monitoring and reporting capabilities > Achieved significantly reduced credit losses through strong underwriting, active portfolio monitoring and collections activities > Maintained leading cost efficiencies through tight cost controls > Entered the last phase of development of a core banking system conversion that will enhance customer interactions and maintain high levels of efficiency and reliability

2010 Performance

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

Table 1(a) – 2010 Performance and Objectives

	2010 Objectives	**2010 Actual**
Net income	15%–20% ($166.2 million–$173.4 million)	**$180.9 million, or 25.2% increase over last year**
Diluted earnings per share	15%–20% ($4.77 per share–$4.98 per share)	**$5.20 per share, or 25.3% increase over last year**
Total assets and assets under administration	15%–20% ($13.24 billion–$13.81 billion)	**$15.88 billion, or 38.0% increase over last year**
Return on shareholders' equity	20.0%	**27.2%**
Efficiency ratio (TEB)[1]	28.0%–34.0%	**26.6%**
Capital ratios[2]		
Tier 1	Minimum of 10.0%	**18.1%**
Total	Minimum of 12.0%	**19.4%**
Provision for loan losses as a percentage of total loans	0.20%–0.50%	**0.16%**

[1] TEB – Refer to the definition of TEB in the Non-GAAP Measures Section of this Annual Report.

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

The Company reported record results in 2010 and significantly exceeded all of its stated objectives. 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.

2011 Objectives

The Company's income and earnings per share growth objectives for 2011 will be based on 2010 results presented on an International Financial Reporting Standards (IFRS) basis and will reflect ranges that are adjusted for 2010 IFRS comparatives.

Net income measured under IFRS in 2010 will exhibit volatility due to the impact of significant changes in the fair value of interest rate swaps used to hedge the interest rate risk associated with the CMB program. In 2011 and subsequent years, the Company will be able to apply hedge accounting under IFRS by designating the interest rate swaps as hedges of interest rate risk in the CMB program, removing much of the measurement volatility associated with the interest rate swaps and providing the risk coverage on the interest rate exposures under the program for which they are intended. Please see the International Financial Reporting Standards Section of this MD&A for more information.

In 2011, the Company will focus its earnings comparisons to 2010 on IFRS income, adjusted for this accounting mismatch, to remove the volatility introduced by this accounting framework change, which is not reflective of an operational change in the business. On this income adjusted basis, the Company expects that it will continue to report steady increases in profitability, as the total assets of the Company continue to grow.

Table 1(b) – 2010 Comparison

(millions, except % and per share amounts)	2010 Canadian GAAP (Audited)	2010 Approximate IFRS (Unaudited)
Total loans	$ 5,832	$ 13,900
Total assets	$ 7,712	$ 15,500
Total shareholders's equity	$ 742	$ 630 to $638
Net income	$ 181	$ 159 to $167
Earnings per share – diluted	$ 5.21	$ 4.59 to $4.82
Return on shareholders' equity	27.2%	28.9% to 30.1%
Capital ratios		
Tier 1	18.1%	17.6%
Total	19.4%	18.8%
Provision for credit losses as a percentage of total loans	0.16%	0.07%

Table 1(c) – 2011 Targets

(millions, except per share and %)	2010 Approximate IFRS (Unaudited)	2011 IFRS Target Range
Total loans	$ 13,900	13% to 18% growth
Total assets	$ 15,500	13% to 18% growth
Net income	$ 159 to $167	15% to 20% growth[1]
Earnings per share – diluted	$ 4.59 to $4.82	15% to 20% growth[1]
Return on shareholders' equity	28.9% to 30.1%	Minimum of 20%
Efficiency ratio (TEB)	30.0% to 31.0%	28.0% to 34.0%
Capital ratios		
Tier 1	17.6%	Minimum of 13%
Total	18.8%	Minimum of 14%
Provision for credit losses as a percentage of total loans	0.07%	0.05% to 0.15%

1 Targets are based on adjusted 2010 IFRS net income, before taxes. This adjustment was made to remove volatility associated with interest rate swaps and bond forwards that were unmatched in 2010 under IFRS. The company is applying hedge accounting to these derivatives starting in 2011. This adjustment was approximately $10.0 million, before taxes, favourable to IFRS income, in 2010.

FINANCIAL HIGHLIGHTS

Table 2 – Key Performance Indicators

(000s, except % and per share amounts) For the years ended December 31	**2010**	2009	2008	2007	2006
FINANCIAL PERFORMANCE MEASURES					
Total revenue	**$ 533,937**	$ 489,179	$ 454,695	$ 368,881	$ 282,549
Net income	**180,944**	144,493	108,687	90,241	67,815
Basic earnings per share	**5.21**	4.19	3.15	2.62	1.99
Diluted earnings per share	**5.20**	4.15	3.13	2.59	1.95
Dividends per share	**0.66**	0.58	0.50	0.44	0.31
Return on average shareholders' equity	**27.2%**	28.2%	27.8%	28.9%	27.4%
Return on average total assets	**2.4%**	2.2%	2.0%	2.0%	1.9%
Net interest margin (TEB)	**2.7%**	2.8%	2.9%	3.4%	3.4%
Spread of loans over deposits	**3.0%**	3.0%	3.3%	3.5%	3.5%
Non-interest income to net revenue	**43.9%**	42.9%	34.9%	24.7%	23.3%
Efficiency ratio (non-interest expense as a % of net revenue)	**27.2%**	27.2%	28.5%	27.9%	30.5%
Efficiency ratio (TEB) (non-interest expense as a % of net revenue)	**26.6%**	26.5%	28.0%	27.1%	29.9%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 7,712,239**	$ 7,360,874	$ 5,809,713	$ 4,975,093	$ 3,902,316
Cash and securities-to-total assets	**18.0%**	21.5%	18.5%	16.6%	12.5%
Mortgage-backed securities under administration	**$ 8,166,533**	$ 4,147,711	$ 2,614,258	$ 1,459,455	$ 1,107,562
Tier 1 capital ratio[1]	**18.1%**	16.4%	12.9%	11.1%	12.7%
Total capital ratio[1]	**19.4%**	18.0%	14.2%	12.5%	14.2%
Credit quality					
Provision for loan losses as a % of total loans	**0.16%**	0.21%	0.25%	0.25%	0.13%
Net impaired loans as a % of total loans	**0.58%**	0.85%	0.86%	0.72%	0.68%
Allowances for loan losses as a % of gross impaired loans	**87.0%**	62.1%	66.7%	81.3%	86.5%

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

Management's Discussion and Analysis

Overview

For the year ended December 31, 2010, the Company reported record net income of $180.9 million or $5.20 diluted earnings per share. Return on shareholders' equity remained strong at 27.2% for the year and outperformed the industry average of 14.8%. The efficiency ratio (TEB) remained low (the lower the better) at 26.6% and was significantly lower than the industry average of 52.4%. Loan originations reached record levels, while the Company maintained a prudent credit profile in the loan portfolio and a strong capital base. The Company's key financial highlights for 2010 are summarized below.

Income Statement Highlights for 2010

> Net income of $180.9 million in 2010 increased $36.4 million or 25.2% from the $144.5 million recorded in 2009, reflecting increased net interest and securitization income, and lower credit provisions driven by record loan originations, robust securitization volumes and improvements in the credit performance of the loan portfolio.

> Diluted earnings per share increased to $5.20, up 25.3% from the $4.15 earned in 2009, while basic earnings per share increased to $5.21, up 24.3% from the $4.19 earned in 2009.

> Return on average shareholders' equity exceeded 20% for the 13th consecutive year and 25% for the 8th consecutive year, ending the year at 27.2% compared to 28.2% in 2009.

> Net interest income increased to $193.9 million, up $28.9 million or 17.5% over the $165.0 million earned in 2009, primarily reflective of higher average on-balance sheet loan balances of $6.01 billion compared to $4.91 billion in 2009, offset marginally by a slight decline in net interest margin to 2.7% compared to 2.8% in 2009.

> Securitization income grew to $107.7 million, up 16.6% over the $92.4 million recorded in 2009, driven primarily by record securitization volumes of $5.17 billion compared to $2.60 billion in 2009 and partially offset by lower average excess spreads and higher average prepayment rates of 1.6% and 14.4%, respectively, compared to 1.9% and 7.1%, respectively, in 2009.

> Other non-interest income, excluding securitization income, was $44.0 million, an increase of 38.8% or $12.3 million from the $31.7 million recorded in 2009. The increase is primarily due to the realization of gains on the sale of securities and the sale of a portfolio of water heater loans in 2010.

> Expenses for provisions for credit losses were $9.4 million for the year, an improvement over the $11.5 million last year, representing 0.16% of gross loans, compared to 0.21% in 2009. Net write-offs were $5.7 million for 2010, representing 0.10% of average loans, an improvement from $9.3 million and 0.19% of average loans in 2009.

> Non-interest expenses, which include salaries, premises and general and administration expense, were $93.9 million in 2010, up 19.5% over the $78.6 million recorded in 2009, and reflect business growth and measured and prudent investment in people, business development, infrastructure and technology. The Company's efficiency ratio (TEB) remains low at 26.6% compared to 26.5% in 2009, an indication of a high level of operating efficiency.

Balance Sheet Highlights for 2010

- The Company's total assets and on-balance sheet loans increased 4.8% and 7.2%, respectively, over 2009 while total assets under administration, which include the off-balance sheet mortgages the Company has securitized and sold but continues to administer, grew 38.0% to $15.88 billion from $11.51 billion at the end of 2009. Mortgage originations reached a record $6.87 billion in 2010, an increase of 43.1% over the $4.80 billion originated in 2009, while the Company securitized and sold $5.17 billion in 2010 compared to $2.60 billion in 2009.
- Liquid assets at December 31, 2010 were $951.3 million, down from $1.20 billion at December 31, 2009. Liquid assets were high at the end of 2009, as the Company was maintaining prudent liquidity in light of the economic environment, and while the Company continues to reduce liquidity levels toward normalized levels, the timing of securitization transactions close to quarter-ends will increase the level of liquid assets at period ends. During the year, the Company maintained monthly average liquid assets of $783.6 million compared to $664.5 million in 2009.
- Credit quality of the loan portfolio improved over 2009. Net impaired loans as a percentage of the gross loans portfolio ended the year at 0.58% compared to 0.85% one year ago. At the end of 2010, 96.5% of the loan portfolio was current compared to 95.5% at the end of 2009.
- Capital levels remained strong, as indicated by the Tier 1 and Total capital ratios of 18.1% and 19.4%, respectively, at December 31, 2010, compared to 16.4% and 18.0%, respectively, at the end of 2009. This exceeds the Canadian Schedule I bank Tier 1 averages of 12.3% and 15.5% as well as minimum regulatory requirements of 7% and 10%. This increase is reflective of increased profitability in 2010 with minimal changes in the Company's risk-weighted assets.
- Deposit liabilities at December 31, 2010 were $6.52 billion, an increase of 1.8% from the $6.41 billion at December 31, 2009. Deposit liabilities remained relatively unchanged year-over-year as securitization and a reduction in liquidity funded most origination growth.

2011 Overall Outlook

The Company will continue to focus on its core business, which includes its traditional mortgage lending programs that have successfully operated for over 20 years, as well as developing innovative products in this suite of offerings. These products serve selected segments of the Canadian financial services marketplace that are generally not the focus of the major financial institutions. Additionally, the Company will continue offering insured mortgage products through its Accelerator program. Growth of the overall loans portfolio will continue through cautious and strategic geographic penetration, combined with ongoing measured growth of the consumer portfolio, while maintaining the Company's prudent credit policies.

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

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

With the adoption of IFRS for financial reporting starting January 1, 2010, comparative figures will change the way the Company accounts for securitization transactions, where gains on sale will be replaced by the net interest income on the securitized mortgages. Securitized mortgages will be included on the Company's balance sheet at amortized cost along with the associated secured borrowing.

FINANCIAL PERFORMANCE REVIEW

Net Interest Income and Margin

Presented in the following tables is an analysis of average rates, 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 borrowings 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 the Non-GAAP Measures Section of this Annual Report for a definition of TEB), for comparison purposes.

Table 3 – Net Interest Income (TEB)[1]

For the years ended December 31		2010				2009
(000s, except %)	**Average Balance[1]**	**Income/ Expense**	**Average Rate[1]**	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets						
Cash and cash resources	**$ 447,582**	**$ 5,342**	**1.2%**	$ 311,586	$ 5,650	1.8%
Securities	**708,211**	**22,668**	**3.2%**	600,405	25,306	4.2%
Loans	**6,006,554**	**354,222**	**5.9%**	4,913,942	334,148	6.8%
Taxable equivalent adjustment[2]	**–**	**7,900**	**–**	–	7,949	–
Total earning assets	**7,162,347**	**390,132**	**5.5%**	5,825,933	373,053	6.4%
Other assets	**397,141**	**–**	**–**	304,417	–	–
Total assets	**$ 7,559,488**	**$ 390,132**	**5.2%**	$ 6,130,350	$ 373,053	6.1%
Liabilities and shareholders' equity						
Deposits and borrowings	**$ 6,485,930**	**$ 188,370**	**2.9%**	$ 5,282,863	$ 200,093	3.8%
Total interest-bearing liabilities	**6,485,930**	**188,370**	**2.9%**	5,282,863	200,093	3.8%
Other liabilities	**414,331**	**–**	**–**	336,295	–	–
Shareholders' equity	**659,227**	**–**	**–**	511,192	–	–
Total liabilities and shareholders' equity	**$ 7,559,488**	**$ 188,370**	**2.5%**	$ 6,130,350	$ 200,093	3.3%
Net interest income		**$ 201,762**			$ 172,960	
Taxable equivalent adjustment[2]		**7,900**			7,949	
Net interest income per financial statements		**$ 193,862**			$ 165,011	
Net interest margin (net investment income divided by average total assets)			**2.7%**			2.8%
Spread of loans over deposits only			**3.0%**			3.0%

Table 3(a) – Interest Income and Average Rate by Loan Portfolio

For the years ended December 31		2010				2009
(000s, except %)	**Average Balance[1]**	**Income/ Expense**	**Average Rate[1]**	Average Balance[1]	Income/ Expense	Average Rate[1]
Traditional single family residential mortgages	**$ 3,879,119**	**$ 230,183**	**5.9%**	$ 3,182,091	$ 225,448	7.1%
Accelerator single family residential mortgages	**710,597**	**21,971**	**3.1%**	313,706	12,514	4.0%
Multi-unit residential mortgages	**251,498**	**12,992**	**5.2%**	302,925	12,186	4.0%
Non-residential mortgages	**746,801**	**46,574**	**6.2%**	765,765	44,254	5.8%
Personal and credit card loans	**418,539**	**42,502**	**10.2%**	349,455	39,746	11.4%
Total average loans	**$ 6,006,554**	**$ 354,222**	**5.9%**	$ 4,913,942	$ 334,148	6.8%

1 The average rate is an average calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. In 2010, the Company refined its calculation of average balances from simple quarterly averages to monthly averages; 2009 comparatives have been restated.

2 Please refer to page 11 of this Annual Report where taxable equivalent adjustment (TEB) is defined.

As shown in Table 3, net interest income (TEB) increased in 2010 by $28.8 million or 17.5% over 2009. Overall, net interest margin declined to 2.7% in 2010 from 2.8% in 2009 and spread of loans over deposits remained consistent year-over-year at 3.0%.

Net interest income (TEB) was $201.8 million in 2010, compared to $173.0 million in 2009. Average income earned on interest-bearing assets declined to 5.5% in 2010 from 6.4% in 2009, as market yields declined on each asset class. This was largely offset by a decline in the average interest expense on deposits and borrowings to 2.9% from 3.8% in 2009.

The average interest spread between the loans portfolio and deposits at the end of the year was 3.0%, in each of 2010 and 2009. The Company was able to effectively manage interest spread by closely matching on-balance sheet assets and liabilities and the re-pricing frequencies.

2011 Outlook for Net Interest Income

Upon adoption of IFRS on January 1, 2011 the mortgages underlying the MBS and CMB pools administered by the Company will be recorded on the balance sheet. The funds received on the sale of the MBS will be recorded as secured borrowings and carried at amortized cost which will reflect the effective yield on the MBS or related CMB. Net interest income will include interest income from the insured mortgages underlying the MBS under administration, and interest expense will include the effective interest on the related secured borrowing, resulting in increased net interest income. The portfolio net interest margin will be lower, as the spread between insured mortgages and the secured borrowing is lower than the spread between current non-securitized loans and deposits. The Company expects that the interest spread between the non-securitized loans and deposits to remain stable in 2011.

The Company expects net interest income to grow along with the loan portfolio growth in 2011. 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 2011. Tempering this influence on net interest income will be the continued growth in the proportion of insured mortgages, which have lower interest rates. The Company continually reviews pricing, funding costs and product structures to maximize spread returns, including diversification and growth of the consumer lending segment. The Company will continue to balance prudent liquidity with investment return options to optimize the risk/return relationship, in view of improving economic and credit conditions.

Non-interest Income

Table 4 – Non-interest Income

For the years ended December 31 (000s, except %)	2010	2009	Growth 2010/2009
Fees and other income	$ 30,690	$ 29,326	4.7%
Securitization income on mortgage-backed securities	107,724	92,397	16.6%
Gain on sale of loan portfolio	3,917	–	100.0%
Net realized and unrealized gain on investment securities	8,953	2,097	326.9%
Net gain on derivatives	421	255	65.1%
Total non-interest income	$ 151,705	$ 124,075	22.3%

Non-interest income increased by $27.6 million or 22.3% compared to 2009. Most of the year-over-year increase is due to strong growth in securitization income from the Company's participation in CMHC's CMB program and the Company's MBS program (see Table 5 and Table 6 and discussion below).

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 2009, but not at the same pace as the overall increase of 38.0% in the total portfolio of loans under administration. This is due to an increase in the origination of single family residential mortgages through the Accelerator program, which has lower fee structures than the Company's traditional mortgage portfolio.

The Company recognized a net gain of $9.0 million on investment securities for the 12 months ended December 31, 2010, compared to a net gain of $2.1 million in 2009. The net gain includes gains realized on the sale of certain debt and equity holdings. During the normal course of business, the Company takes advantage of improvements in securities markets and rebalances the investment portfolio as market conditions warrant. In 2010 the realized gain on the sale of securities amounted to $9.7 million compared to $11.4 million in 2009. Also included in the net gain are other than temporary impairments recognized in income on certain equity securities classified as available for sale. In 2010, the Company recognized $0.7 million in other than temporary impairments, a decline compared to $9.3 million in 2009, reflecting improved market conditions in 2010. 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 performance of the available for sale portfolio 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 of this MD&A.

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

As described in the Derivatives section 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 forwards outstanding at the balance sheet date. The Company recorded a gain of $0.4 million in 2010, compared to a gain of $0.3 million in 2009. For more information, see Note 15 in the consolidated financial statements of this Annual Report.

The following table summarizes the securitization activities during 2010 compared to 2009.

Table 5 – Summary of New Securitization Activity

For the years ended December 31	**2010**				2009			
(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	**$ 423,823**	**$ 4,217,235**	**$ 526,472**	**$ 5,167,530**	$ 163,974	$ 1,374,616	$ 1,061,151	$ 2,599,741
Gain on sale of mortgages	**$ 7,778**	**$ 79,500**	**$ 4,255**	**$ 91,533**	$ 5,194	$ 43,032	$ 31,825	$ 80,051
Prepayment rate	**17.9%**	**15.8%**	**0.0%**	**14.4%**	4.2%	12.9%	0.0%	7.1%
Excess spread	**3.2%**	**1.6%**	**0.8%**	**1.6%**	4.8%	2.0%	1.4%	1.9%
Discount rate	**1.4%**	**1.8%**	**3.1%**	**1.9%**	1.1%	2.7%	2.9%	2.7%

The Company increased its securitization activity as a key source of funding, securitizing $5.17 billion of insured residential mortgages in 2010. This represents an increase of $2.57 billion or 98.8% over the value of mortgages securitized and sold in 2009.

The spread earned on the securitized pools averaged 1.6% in 2010, down from 1.9% in 2009 and 2.6% in 2008. During 2010, securitization spreads continued to decline from the peak levels experienced in 2007 and 2008. The current spreads are more reflective of normal spreads as the credit markets continue to stabilize.

The Company's estimate of average unscheduled prepayment rates increased to 14.4% from the 7.1% estimated in 2009. Higher prepayment rates will reduce the gains recorded on securitization. The change in the estimated average prepayment rate reflects changes in the mix of assets securitized in 2010. Multi-unit residential mortgage securitizations, where prepayments are generally not permitted under the program and the prepayment assumption is 0.0%, were approximately one-half of the value securitized in 2009. Additionally, the Company securitized a larger portion of variable rate loans in 2010, where estimated average prepayment rates are higher. Further, the Company's experience with securitization of loans with terms of less than one year indicated an increase in the prepayment rate assumption on that segment. This segment was a relatively small portion of the assets securitized in the year.

The average discount rate used in the calculation of securitization gains was 1.9% in 2010 compared to 2.7% in 2009. In 2010, the MBS of single family residential mortgages with terms of one year or greater formed a much larger proportion of the assets securitized, and the coupon rates associated with this asset class dropped significantly. This resulted in a 90 basis point reduction in the discount rate applied to that segment. The other securitization segments were relatively small and the discount rates applied were similar to the prior year.

Table 6 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

For the years ended December 31 (000s, except %)	**2010**	2009	**Growth 2010/2009**
Securitization gains	**$ 98,684**	$ 80,113	**23.2%**
Securitization hedging activity	**(7,151)**	(62)	**–**
Securitization gains, net of hedging activity	**91,533**	80,051	**14.3%**
Recurring securitization income	**16,191**	12,346	**31.1%**
Net securitization income	**$ 107,724**	$ 92,397	**16.6%**

Net securitization income was $107.7 million in 2010, up 16.6% from the $92.4 million recorded in 2009. This growth in income reflects an increase in volumes securitized, tempered by reduced spreads and expected increases in prepayment rates. The gains were also reduced by losses recognized on hedging positions.

The Company continues to enter into bond forward contracts to hedge commitment (interest rate) risk on the mortgage loans originated for securitization into the CMB program. The unwinding of the bond forward contracts during the year resulted in a net $7.2 million realized loss for 2010 compared to a net $0.06 million realized loss in 2009. Gain and losses on these hedging activities are impacted by the change in bond yields while the Company holds the forward contracts. Losses realized on the bond forward contracts offset gains that arise in the value of mortgages between the commitment dates and the dates of securitization, which are reflected in the reported securitization gains. The opposite occurs when interest rates rise.

Recurring securitization income, earned from accretion of the discount rate and changes in estimated excess spreads and servicing income, net of servicing fees paid, was $16.2 million compared to $12.3 million in 2009. The Company continues to service most of the underlying mortgages and amortization of the servicing liability set up at the time of securitization amounted to $7.2 million in 2010 ($3.7 million in 2009). This income is included in recurring securitization income. Increases reflect the growth in the underlying pools of mortgages on which this income is generated.

The Company was an active participant in CMHC's CMB program, administered through Canada Housing Trust (CHT). This program provides the Company with an alternative distribution channel to diversify its funding stream for MBS pools. Of the $5.17 billion ($2.60 billion in 2009) securitized in 2010, the Company securitized $3.18 billion ($1.96 billion in 2009) through the CMB program and recognized gains of $36.7 million ($62.1 million in 2009). For additional information on the Company's securitization activities refer to Note 5 of the consolidated financial statements of this Annual Report.

2011 Outlook for Non-interest Income

The Company anticipates that fees and other income will grow over 2010 levels as the Company prudently returns to its broader Equityline *Visa* segments and renews focus on the traditional mortgage portfolio. Under IFRS, the Company will no longer calculate a gain on securitization, as this activity will be accounted for as part of the net interest income. The Company will continue to hedge its interest rate risk, associated with the loan commitments and replacement assets, through the use of bond forward contracts and interest rate swaps. The Company expects to apply hedge accounting to such instruments. This would be expected to reduce earnings volatility from derivatives gains and losses on a prospective basis.

Non-interest Expenses

Table 7 illustrates the changes in the components of non-interest expense in 2010 and 2009.

Table 7 – Non-interest Expenses

For the years ended December 31 (000s, except %)	2010	2009	Growth 2010/2009
Salaries and employee benefits	**$ 46,739**	$ 41,559	**12.5%**
Premises and equipment			
Rent – premises	**4,789**	4,319	**10.9%**
Equipment rental & repairs	**2,105**	1,597	**31.8%**
	6,894	5,916	**16.5%**
General and administrative			
Consulting and other professional services	**10,555**	7,914	**33.4%**
Capital taxes and insurance	**4,307**	5,294	**(18.6%)**
Outsourcing services	**7,058**	4,415	**59.9%**
Depreciation and amortization	**3,215**	3,583	**(10.3%)**
Other	**3,957**	2,286	**73.1%**
Computer services	**4,804**	2,949	**62.9%**
Advertising and business development	**3,254**	1,894	**71.8%**
Stationery and publications	**1,702**	1,430	**19.0%**
Communications and travel expenses	**1,454**	1,361	**6.8%**
	40,306	31,126	**29.5%**
Total non-interest expenses	**$ 93,939**	$ 78,601	**19.5%**
Average on-balance sheet assets	**$ 7,559,488**	$ 6,130,350	
As a % of on-balance sheet average assets	**1.24%**	1.28%	
Average assets under administration	**$ 13,486,005**	$ 9,568,838	
As a % of average assets under administration	**0.70%**	0.82%	
Efficiency ratio			
Net interest income	**$ 193,862**	$ 165,011	
Other income	**151,705**	124,075	
Total revenue, net of interest expense	**$ 345,567**	$ 289,086	
TEB adjustment	**7,900**	7,949	
Total revenue TEB, net of interest expense	**$ 353,467**	$ 297,035	
As a % of total revenue, net of interest expense	**27.2%**	27.2%	
As a % of total revenue TEB, net of interest expense	**26.6%**	26.5%	

In 2010, non-interest expenses increased to $93.9 million from $78.6 million, an increase of $15.3 million or 19.5% over 2009. This is consistent with a 19.0% increase in total revenue, net of interest expense (TEB), in 2010. Non-interest expenses as a percentage of average on-balance sheet assets and average assets under administration declined year-over-year, reflecting improved efficiency in administering assets. During the year, the Company increased spending primarily on outsourcing services, computer services and consulting associated with systems changes and the implementation of IFRS. The Company was able to balance the cost increases with lower relative increases in human resource costs and premises costs. Overall, the increase in non-interest expenses was closely matched to the increase in revenue. The efficiency ratio (TEB) for the year was 26.6% compared to 26.5% in 2009.

2011 Outlook for Non-interest Expenses

The continued expected expansion of revenue and assets under administration has required the Company to upgrade its resources in all areas. The primary strategy is to improve systems and processes to allow the Company's revenue to continue to grow, without equivalent increases in the rate of increases in costs. The 2010 year was a year of significant expenditures on improvements to systems and processes. These upgrades will continue in 2011, along with some additions to human resources. The overall rate of increase in non-interest expenses is expected to be consistent with the rate of growth in net interest income, as the Company continues to build out its key systems and processes in 2011. Realization of the benefits of these investments is expected in 2012 and future years.

Provisions for Credit Losses

Table 8 – Provisions and Allowance for Credit Losses

For the years ended December 31 (000s, except %)	2010	2009	Change 2010/2009
Specific provision	$ 8,051	$ 8,910	(9.6%)
General provision	1,360	2,616	(48.0%)
Total provision	$ 9,411	$ 11,526	(18.3%)
Provision as % of gross loans (annualized)	0.16%	0.21%	–
Net write-offs	$ 5,733	$ 9,257	(38.1%)
Net write-offs as % of gross loans (annualized)	0.10%	0.17%	–

As at December 31 (000s, except %)	2010	2009	Change 2010/2009
Net impaired loans	$ 34,225	$ 46,306	(26.1%)
Gross loans	5,866,619	5,471,119	7.2%
Net impaired loans as % of gross loans	0.58%	0.85%	–
General allowance	$ 29,153	$ 27,793	4.9%
Specific allowance	4,897	2,579	89.9%
Total allowance	$ 34,050	$ 30,372	12.1%

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 provision for credit losses include the formation of new impaired loans, current and forecasted levels of write-offs, management's assessment of the level of specific and general allowances required, and the growth and change in product mix of the loans portfolio.

Provisions for credit losses were $9.4 million in 2010, down $2.1 million or 18.3% from 2009. This expense represented 0.16% of the gross loan portfolio, compared to 0.21% in 2009. During the year, the Company expensed total specific provisions of $8.1 million compared to $8.9 million in 2009.

Total write-offs were $8.5 million, offset by recoveries of $2.8 million, compared to write-offs of $10.7 million and recoveries of $1.5 million in 2009. The reduction in net write-offs reflects the successful efforts of the Company's default loan department and the improving economic conditions.

As a percentage of the total loan portfolio, the total provision for credit losses declined to 0.16% in comparison to 0.21% in 2009. At December 31, 2010, 99.9% of the total loans portfolio was secured by way of cash deposits, mortgages or collateral mortgages. When the loan to value ratio is lower on the residential mortgage portfolio, the risk of loss to the Company is low and a specific provision may not be required. At December 31, 2010, the average loan to value on origination of the Company's mortgage loan portfolio was 77.1%, up slightly from the 76.7% in 2009.

The level of net impaired loans as a percentage of the gross loan portfolio peaked at 1.3% ($61.1 million) as at June 30, 2009, and then declined through the balance of 2009 and 2010. Net impaired loans were $34.2 million at December 31, 2010, representing 0.58% of gross loans.

There was a significant reduction in gross impaired loans in 2010, primarily related to the residential mortgage portfolio, with total impaired loans reduced to $29.6 million at December 31, 2010, compared to $41.6 million at December 31, 2009. Impaired personal and credit card loans increased from $4.8 million at the end of 2009 to $7.2 million at the end of 2010. The increase was principally related to issues involving a small group of credit card loans, totalling $3.2 million, which were identified in the fourth quarter. The specific allowance was increased accordingly.

The general allowance for credit losses increased to $29.2 million in 2010, up $1.4 million over 2009. The rate of increase was 4.9% as compared to 10.4% in 2009. This increase is mainly a function of the increased size of the mortgage portfolio. The general allowance was 77.2 basis points of the Company's risk-weighted assets at December 31, 2010 compared to 86.1 basis points at December 31, 2009. The decrease year-over-year reflects the decline in impaired loans and arrears and improving economic factors.

The Company's analysis of credit risks indicated a reduction of the general allowance in the residential mortgage portfolio and an increase in the general allowance in the non-residential mortgage portfolio. This shift reflects the overall improvement in the credit status of the residential mortgage portfolio, which had significant reductions in the rate of impairment and delinquency, as well as changing risk assessment processes related to the non-residential portfolio. The increased level of the general allowance in the non-residential mortgage portfolio is primarily attributed to larger individual loans compared to the residential and consumer loans portfolios.

2011 Outlook for Provisions for Credit Losses

The Company's provision for credit losses in 2011 will be influenced by the pace and strength of the continued recovery of the Canadian economy and the resulting impact on employment and housing markets. There remains uncertainty related to unemployment and the growth prospects for certain sectors of the economy; however, the Company expects the housing markets to remain stable in 2011. While the Company is cautiously optimistic that credit losses will remain stable, it is prepared for moderate volatility in this trend. The Company's objective is for the provision for credit losses to be between 0.05% and 0.15% of total loans in 2011. Specific allowances will continue to be determined and reviewed monthly on an account-by-account basis. 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 2010 amounted to $61.3 million for an effective tax rate of 25.3%, compared to $54.5 million in 2009 and an effective rate of 27.4%. These effective rates are lower than the legislated federal and provincial rates primarily due to tax-exempt dividend income and lower tax rates on the recognition of future timing differences. Tax-exempt income lowered the tax provision by $5.5 million in 2010 and $5.7 million in 2009.

During 2010, the Company recognized a $7.1 million reduction in future tax provisions, compared to $9.8 million in 2009, which reflects the declining federal and provincial tax rates and the continued extension of maturities on the net underlying liabilities. Of this total, $4.7 million is attributed to reduced tax rates in the Province of Ontario, which were effective July 1, 2010.

The Company has capital losses of $2.8 million ($2.8 million in 2009), 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 $2.4 million, a reduction from the $3.9 million reported in 2009. The Company's capital taxes declined as the Province of Ontario eliminated its capital tax effective July 1, 2010.

Note 12 to the consolidated financial statements in the Annual Report offers more information about the Company's condition regarding current income taxes, and provisions for income taxes.

2011 Outlook for Taxes

The Company expects the effective income tax rate in 2011 to be within the range of 26.0% to 28.0% based on lower federal and Ontario statutory rates, as well as tax-exempt dividend income. Capital tax expense is expected to decrease significantly in 2011, as there will be no Ontario capital tax charged for the year.

Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (OCI). Comprehensive income totalled $178.4 million for the year compared to $176.8 million in 2009. As noted above, net income was $180.9 million for the year, up 25.2% over the $144.5 million recorded in 2009. The Company's OCI includes unrealized gains, net of tax, on available for sale securities and market revaluations of securitization receivables at the end of the year of $3.0 million unrealized gains, compared to unrealized gains of $22.1 million at the end of 2009.

OCI was also reduced in 2010 by reclassifications to net income for gains on available for sale securities that had previously been recognized but not realized of $6.2 million, which were realized during the year, less provisions for other than temporary impairments of $0.7 million, for a total transfer of $5.5 million. In 2009, OCI was increased for reclassifications to net income of previously recognized but not realized losses on securities of $0.9 million, which were realized in the year, and $9.3 million of provisions for other than temporary declines in value for a total transfer of $10.2 million.

BALANCE SHEET REVIEW

Overview

The Company's on-balance sheet assets were $7.71 billion at December 31, 2010 compared with $7.36 billion at December 31, 2009. The increase of $351.4 million or 4.8% over 2009 was primarily attributable to the moderate growth in the on-balance sheet mortgage portfolio. Total on-balance sheet loans increased $391.8 million or 7.2%.

The total assets under administration provides a more complete picture of the scope of the Company's operations and activities. Assets under administration, including mortgages securitized and sold, increased to $15.88 billion from $11.51 billion in 2009. The Company securitized a record $5.17 billion of insured mortgages in 2010, up from $2.60 billion in 2009.

Deposit liabilities as at December 31, 2010 reached $6.52 billion, representing an increase of $113.0 million, or 1.8%, over 2009. Deposit liabilities remained relatively unchanged year-over-year as securitization proceeds and a reduction in liquidity funded most of the origination growth (please see the Liquidity and Funding Risk Section of this MD&A for more information on the Company's deposits). The Company ended the year with $951.3 million in liquid assets, down from $1.20 billion 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 %)	2010	2009	Growth 2010/2009
Cash resources	$ 846,824	$ 930,134	(9.0%)
Securities[1]	543,892	650,597	(16.4%)
Total cash resources and securities	1,390,716	1,580,731	(12.0%)
Residential mortgage loans	4,570,130	4,417,197	3.5%
Non-residential mortgages	838,253	708,425	18.3%
Personal and credit card loans	453,339	342,918	32.2%
General allowance	(29,153)	(27,793)	4.9%
Total loans	5,832,569	5,440,747	7.2%
Other assets	488,954	339,396	44.1%
Balance sheet assets	7,712,239	7,360,874	4.8%
MBS assets under administration	8,166,533	4,147,711	96.9%
Total assets under administration	15,878,772	11,508,585	38.0%
Deposits	6,522,850	6,409,822	1.8%
Other liabilities	447,109	360,764	23.9%
Shareholders' equity	742,280	590,288	25.7%
Cash resources and securities as a % of balance sheet assets	18.0%	21.5%	
Loans as a % of balance sheets assets	75.6%	73.9%	

[1] Included in securities are available for sale and held for trading securities. See Note 3 of the consolidated financial statements.

Cash Resources and Securities

Total cash resources and securities at December 31, 2010 decreased by $190.0 million or 12.0%, ending the year at $1.39 billion. This represented 18.0% of the Company's total assets as at December 31, 2010 compared to 21.5% at December 31, 2009. The Company continued to reduce liquidity levels relative to December 31, 2009 as the overall economic environment started to stabilize in 2010. The decrease in cash resources and securities was primarily attributed to funding of record originations during the year while maintaining relatively flat deposits. Management continues to act prudently to maintain conservative overall cash and securities positions in the event of further economic challenges and maintain financial flexibility while ensuring that assets are deployed in the most efficient manner possible. During the year, the Company has, on average, maintained $783.6 million in liquid assets compared to $664.5 million in 2009.

Included in cash resources is $92.3 million in restricted cash ($64.1 million in 2009), which includes a deposit of $70.0 million ($46.1 million in 2009) and $22.3 million ($18.0 million in 2009) held as collateral for the Company's securitization activities and interest rate swaps used in the CMB program.

The securities portfolio consists of MBS securities, bonds, common and preferred shares, income trusts and mutual funds. The securities portfolio was $543.9 million at December 31, 2010, declining by $106.7 million during 2010 as the Company adjusted its asset mix and increased its position in treasury bills, which have a shorter duration and are classified in cash resources. In addition, the Company took advantage of market opportunities and sold certain securities for a pre-tax gain of $9.7 million during the year.

Management's Discussion and Analysis

At December 31, 2010, the preferred share portfolio represented $309.3 million or 56.9% of the Company's securities portfolio and 66.9% of the preferred share portfolio were P1 and P2 rated stocks (74.5% in 2009).

The Company's bond portfolio includes primarily debt securities issued by large Canadian banks, and represented $96.7 million or 18.7% of the securities portfolio at December 31, 2010 compared to 29.8% one year ago.

The Company's MBS securities portfolio, which it uses as replacement assets for the CMB program, represented $119.6 million or 22.0% of the securities portfolio at year-end compared to $56.1 million or 8.6% at the end of 2009.

Common shares represented 1.4% of the total securities portfolio, up slightly from 1.0% in 2009, and income trusts and mutual funds represent 1.1% of the securities portfolio, compared to 0.9% in 2009.

For further information, refer to Note 3 in the consolidated financial statements of this Annual Report.

2011 Outlook for Cash Resources and Securities

The Company will continue to target a conservative level of liquid assets, while maintaining financial flexibility and planning for the phased adoption of Basel III liquidity requirements between 2013 and 2018. The securities portfolio should increase in line with growth in total assets. A significant proportion of excess funds arising 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.

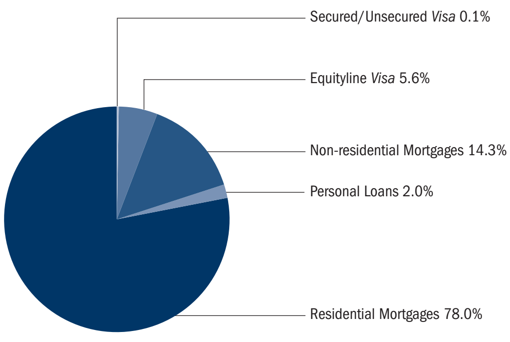
Loans Portfolio

The Company's loans portfolio consists of residential and non-residential mortgages and personal and credit card loans. At December 31, 2010 the loans portfolio amounted to $5.83 billion, up $391.8 million or 7.2% over the $5.44 billion at December 31, 2009. Much of the loan origination growth was in the insured portfolio, leading to record securitization activity in 2010. Total loans under administration, which includes the securitized mortgages, increased to $14.01 billion from $9.59 billion at the end of 2009.

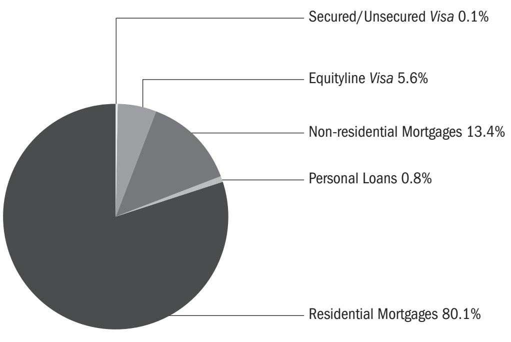
As illustrated in the following charts, the Company's residential lending continues to represent the most significant component of the Company's loans portfolio, at 78.0% of the total portfolio, compared to 80.1% one year ago. Year-over-year the residential proportion has declined even though residential originations increased by $1.88 billion, or 41.1%, over 2009. The decline was the result of increases in securitization volumes, which moved $5.17 billion off the balance sheet, and increases in other loan portfolios.

Figure 1 – Portfolio Composition by Product

Portfolio Composition by Product Line as at December 31, 2010



Portfolio Composition by Product Line as at December 31, 2009



At December 31, 2010, on-balance sheet residential mortgage loans totalled $4.57 billion, up 3.5% from the $4.42 billion recorded in 2009. Included in residential mortgages are the Accelerator program mortgages and the traditional mortgage portfolio. The majority of Accelerator mortgages are earmarked for securitization and sale.

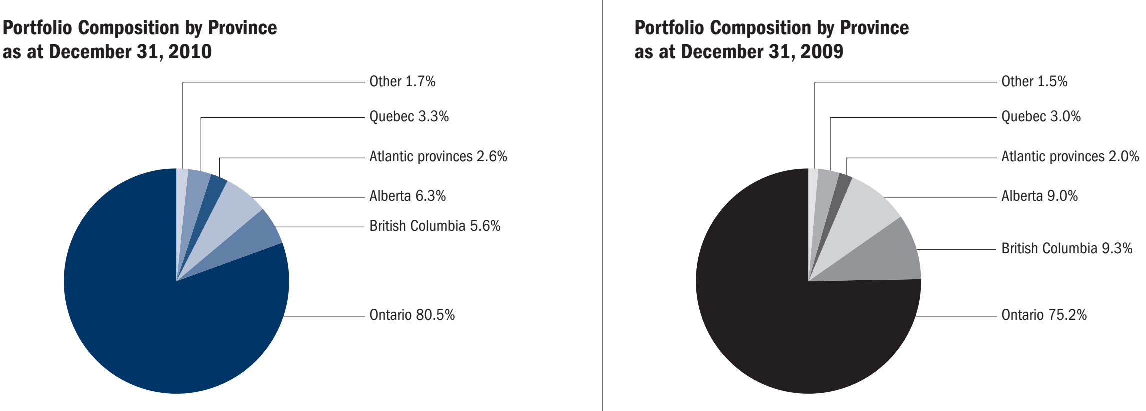
The non-residential mortgage portfolio increased 18.3% to $838.3 million from $708.4 million last year. The Company has gradually increased its exposure in this segment after reducing the portfolio in prior years in light of market uncertainty. The Company will continue to manage this portfolio in a conservative manner and grow the portfolio when assets of appropriate quality are available. The non-residential portfolio continues to perform well with 99.0% of the portfolio current at December 31, 2010 and no past due amounts greater than 60 days. This portfolio experienced no write-offs in 2010 or 2009. Included in the non-residential category are stores and apartments, office buildings, residential and non-residential construction, retail stores, hotels and industrial properties.

All mortgages are secured by real property. Growth in total mortgage assets in 2010 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.

Insured mortgages continued to be a significant component of the Company's mortgage portfolio. Mortgages are either insured at the time of origination or are later insured through portfolio insurance. Insured mortgages may be Accelerator or traditional mortgage loans. At December 31, 2010, there were $1.27 billion ($1.57 billion in 2009) of insured mortgages on-balance sheet, representing 23.4% of the total on-balance sheet mortgage loan portfolio. This compares to 31.0% in 2009. The decrease reflects significant levels of securitization in 2010, which reduced the proportion of insured mortgages on-balance sheet at the end of 2010. At December 31, 2010, 67.4% of the total loans under administration, including MBS under administration, were insured compared to 59.6% one year ago.

At December 31, 2010, the personal and credit card loans portfolio totalled $453.4 million, an increase of $110.5 million or 32.2% over the $342.9 million recorded at December 31, 2009. During 2010, the Company increased its credit card loan portfolio, included in the personal and credit card loans portfolio, as market conditions improved. 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 was launched in January 2006. The Company has strategically grown its Equityline *Visa* program during the year, adding 6,263 new accounts in 2010, compared to 2,677 accounts last year. As at December 31, 2010 Equityline *Visa* loans outstanding amounted to $331.4 million, an increase of $34.1 million compared to 2009. The Company's consumer loan portfolio, included in the personal and credit card loans portfolio, continues to be an integral part of the loans portfolio generating positive returns for the Company. Water heater loans, a loan financing product introduced in January 2010, are the largest component of the retail lending portfolio, amounting to $95.9 million or 79.7% of the loans outstanding.

Figure 2 – Portfolio Composition by Province



The Company, through past expansion, provides mortgages and loans across Canada. The Company began prudently re-entering certain of its existing markets outside Ontario, as well as entering new markets both outside Ontario and within Ontario, in order to facilitate expansion plans. The Company's activities are concentrated in the Ontario market, and the reduction of loan exposure in Western Canada reflects the Company's assessment of credit conditions in late 2009 and early 2010. The Company recently increased its activities outside Ontario, with a view to increasing its geographic diversification while remaining responsive to local economic conditions.

Table 10 – Mortgage Loan Advances by Type and Province

For the years ended December 31 (000s, except %)	2010	% of total	2009	% of total	Growth 2010/2009
Traditional residential mortgages	$ 2,853,385	41.5%	$ 1,778,575	37.1%	60.4%
Accelerator residential mortgages	2,839,394	41.3%	1,519,024	31.7%	86.9%
Multi-unit residential mortgages	766,483	11.2%	1,239,352	25.8%	(38.2%)
Warehouse residential mortgages	–	0.0%	49,951	1.0%	(100.0%)
Non-residential mortgages	219,760	3.2%	135,380	2.8%	62.3%
Store and apartments	108,769	1.6%	42,161	0.9%	158.0%
Warehouse commercial mortgages	80,800	1.2%	34,500	0.7%	134.2%
Total mortgage advances	$ 6,868,591	100.0%	$ 4,798,943	100.0%	43.1%

For the years ended December 31 (000s, except %)	2010	% of total	2009	% of total	Growth 2010/2009
Ontario	$ 5,278,029	76.9%	$ 3,456,222	72.0%	52.7%
British Columbia	542,518	7.9%	500,042	10.4%	8.5%
Alberta	371,143	5.4%	391,579	8.2%	(5.2%)
Atlantic provinces	222,944	3.2%	90,473	1.9%	146.4%
Quebec	334,568	4.9%	265,448	5.5%	26.0%
Other	119,389	1.7%	95,179	2.0%	25.4%
Total mortgage advances	$ 6,868,591	100.0%	$ 4,798,943	100.0%	43.1%

Mortgage advances reached a record $6.87 billion in 2010, a 43.1% increase over the $4.80 billion advanced in 2009. Advances of Accelerator mortgages, which are fully insured single family residential mortgages, increased $1.32 billion over 2009 to $2.84 billion and comprised approximately 50% of the single family residential mortgage originations in 2010.

Advances in traditional residential mortgages also experienced robust growth of 60.4% compared to 2009, in line with the strategy to refocus on prudent growth strategies for this line of business as the economic conditions improved.

The Company experienced a decline in multi-unit residential originations of $472.9 million or 38.2% to $766.5 million during 2010 compared to originations of $1.24 billion in 2009. Of the $766.5 million in originations, 68.7% were securitized and sold. The decline in this category is primarily attributed to the tightening of interest rate spreads and the availability of inventory of this product.

Advances for non-residential mortgages increased by $84.4 million or 62.3% compared to 2009. The Company's focus in early 2009 was to reduce its level of exposure in this segment due to overall economic uncertainty. During 2010 the Company prudently commenced growing this portfolio when high-quality assets were available.

While mortgage advances in Ontario remained a key driver of origination growth in 2010, the Company successfully increased originations outside Ontario, including growth in Quebec and the Atlantic provinces.

Outstanding commitments for future mortgage advances amounted to $458.8 million at December 31, 2010 compared to $553.4 million at December 31, 2009. Included within the outstanding commitments are unutilized non-residential advances of $45.4 million at December 31, 2010 compared to $48.6 million at December 31, 2009. Loan commitments remain open for various dates through November 2011.

2011 Outlook for Loans Portfolio

With the adoption of IFRS, securitized loans will be recorded on the Company's balance sheet, increasing the mortgages on-balance sheet by approximately $8.17 billion on January 1, 2011. In 2011 the Company expects the rate of growth in the mortgage portfolio, as measured by total assets under administration, to slow compared to the record rates of growth in 2009 and 2010, partially influenced by anticipated moderate slowing in housing activity in 2011. The Company will continue its focus on the traditional residential mortgage portfolio while continuing to offer Accelerator residential mortgages. The Company expects to continue prudently diversifying its geographic footprint and product offerings, leading to expanded presence outside Ontario and expanded offerings in the personal and credit card loans portfolio. The Equityline *Visa* credit card portfolio will continue to be a strong contributor to the growth in the personal and credit card loans portfolio. Non-residential mortgages are expected to moderately increase when appropriate assets are available in the market.

Securitization Receivables and Other Assets and Liabilities

Securitization receivables increased by $114.0 million or 49.7% to $343.4 million as at December 31 2010, compared to $229.4 million as at December 31, 2009. The securitization receivables represent the fair value of the residual interest cash flow on the pools of securitized mortgages. The increase over 2009 is due to the strong securitization activity in 2010. For a further discussion on securitization receivables, refer to the Non-interest Income and Off-balance Sheet Arrangements Sections of the MD&A and Note 5 of the consolidated financial statements of this Annual Report.

Other assets increased by $35.5 million or 33.8% to $140.7 million as at December 31, 2010. 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.

Goodwill of $15.8 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 2010 these development costs related to the new banking system amounted to $46.4 million. The Company expects to begin utilization of this new system in 2011 and amortization will commence at that time.

Other liabilities (refer to Note 9 of this Annual Report) increased by $85.7 million or 24.1% to $441.9 million as at December 31, 2010 compared to $356.2 million reported at December 31, 2009. The increase in other liabilities is primarily attributed to an increase in future income tax liabilities of $31.0 million, an increase in the servicing liability for the Company's ongoing administration of the off-balance sheet residential mortgage loans portfolio of $11.2 million, an increase of $32.7 million resulting from the timing of payments due to MBS investors and an increase of $7.3 million in accrued interest payable attributed to higher average deposits of 22.8% over 2009.

Please see the Liquidity and Funding Risk Section of the MD&A for a discussion of the Company's deposit portfolio.

Shareholders' Equity

Total shareholders' equity as at December 31, 2010 increased to $742.3 million, up $152.0 million, or 25.7%, compared to $590.3 million reported at December 31, 2009. The majority of the increase was internally generated from net income of $180.9 million. This increase was partially offset by dividends declared for the year in the amount of $23.2 million, a decrease in accumulated other comprehensive income of $2.6 million and the repurchase of $8.5 million of the Company's common shares through the Normal Course Issuer Bid.

Strong earnings contributed to continuing robust returns on shareholders' equity of 27.2% for the year ended December 31, 2010, compared to 28.2% in 2009. Return on equity when combined with the $0.66 per common share dividend paid or payable in fiscal 2010 ($0.58 per common share in 2009) illustrates the Company's continued commitment to total shareholder return.

OPERATING SEGMENT REVIEW

The following section summarizes the operating segments of the Company. For more detailed information, refer to Note 18 of the consolidated financial statements in this 2010 Annual Report.

Mortgage lending contributed 76.7% (77.3% in 2009) to the Company's net income in 2010, consumer lending contributed 13.7% (16.2% in 2009) and the Other segment contributed 9.6% (6.5% in 2009). The Other segment also includes dividend income, which is tax exempt for the Company, and therefore tax provisions in this segment are correspondingly reduced.

Mortgage Lending

Table 11 – Mortgage Lending

December 31 (000s, except %)	2010	2009	Growth 2010/2009
Net interest income	$ 130,691	$ 100,268	30.3%
Provision for credit losses	(5,284)	(9,653)	(45.3%)
Fees and other income	15,243	18,145	(16.0%)
Securitization income	107,724	92,397	16.6%
Net gain on securities and others	421	255	65.1%
Non-interest expenses	(59,577)	(48,482)	22.9%
Income before income tax	189,218	152,930	23.7%
Income tax	(50,377)	(41,279)	22.0%
Net income	$ 138,841	$ 111,651	24.4%
Goodwill	$ 2,324	$ 2,324	0.0%
Total assets	$ 5,990,623	$ 5,510,368	8.7%
Additional financial information			
Total segment revenue	$ 434,989	$ 408,113	
as a percentage of total revenue	81.5%	83.4%	
Net segment income	$ 138,841	$ 111,651	
as a percentage of total net income	76.7%	77.3%	
Efficiency ratio (TEB)	23.4%	23.0%	
Net interest margin (TEB)	2.3%	2.0%	

The Company's principal line of business contributed $138.8 million in net income for the year, compared to $111.7 million for 2009. Significant increases in loan originations and robust growth in securitization volumes drove the increase over 2009. Net interest income increased $30.4 million or 30.3% over 2009 based on mortgage portfolio growth.

The mortgage lending segment continues to operate productively with an efficiency ratio (TEB) of 23.4% for 2010, compared to 23.0% in 2009.

The increase in net interest income for the year ended December 31, 2010 over 2009 results from higher average mortgage loan balances than 2009 and higher net interest margin. Average loan balances were $1.02 billion higher for the 12 months ending December 31, 2010 compared to 2009. Average loan balances include loans that are eventually securitized but have generated interest income prior to securitization. Other income increased compared to 2009 mainly due to the $15.3 million increase in securitization income. For the 12 months ended December 31, 2010, gains on derivative instruments used in the securitization program were $0.4 million compared to $0.3 million last year.

The Company recorded increases in expenses of $59.6 million in 2010 compared to $48.5 million in 2009. The increases relate to higher costs associated with a significant growth in mortgage loans under administration. There were accompanying increases in income tax associated with higher income. Provisions for credit losses for the mortgage lending segment were $5.3 million for the year compared to $9.7 million for 2009. The decline in the provision year-over-year was in both the specific provision and general provision, reflecting lower write-offs, lower impaired loans and improved credit quality of the mortgage lending portfolio. Please see the Provisions for Credit Losses Section of this MD&A.

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

The Company securitized and sold $5.17 billion of insured residential mortgage loans through the creation of MBS securities during 2010. Continued strong Accelerator mortgage originations drove this record level of securitization. Securitization income was $107.7 million for the year compared to $92.4 million last year. Refer to the Securitization Receivables and Other Assets and Liabilities Section of this MD&A and Note 5 of the consolidated financial statements for additional information.

Consumer Lending

Table 12 – Consumer Lending

December 31 (000s, except %)		2010		2009	Growth 2010/2009
Net interest income	**$**	**35,761**	$	36,738	**(2.7%)**
Provision for credit losses		**(4,127)**		(1,873)	**120.3%**
Fees and other income		**15,229**		11,043	**37.9%**
Net gain on sale of portfolio		**3,917**		–	**100.0%**
Non-interest expenses		**(14,945)**		(10,862)	**37.6%**
Income before income tax		**35,835**		35,046	**2.3%**
Income tax		**(11,129)**		(11,631)	**(4.3%)**
Net income	**$**	**24,706**	$	23,415	**5.5%**
Goodwill	**$**	**13,428**	$	13,428	**–**
Total assets	**$**	**514,872**	$	384,528	**33.9%**
Additional financial information					
Total segment revenue	**$**	**61,681**	$	50,817	
as a percentage of total revenue		**11.5%**		10.4%	
Net segment income	**$**	**24,706**	$	23,415	
as a percentage of total net income		**13.7%**		16.2%	
Efficiency ratio (TEB)		**27.2%**		22.7%	
Net interest margin (TEB)		**8.0%**		9.5%	

Consumer lending, which includes retail loans, credit cards and PSiGate operations, continued to generate positive results for the year. Net income for the year was $24.7 million, up by 5.5% from $23.4 million in 2009. The increase over 2009 was primarily driven by increases in fees and other income and a gain on the sale of a portfolio of water heater loans. These were partially offset by a slight decrease in net interest income and increases in provisions and non-interest expense. The decrease in net interest income is primarily attributed to a reduction in the net interest margin of the Equityline *Visa* portfolio as the Company began to issue lower rate Equityline *Visa* cards to high-quality borrowers, and the introduction of water heater loans, which have lower average rates, and an increase in the allocated cost of funds. Provisions for credit losses increased as the Company identified and provided for specific issues identified in a small number of Equityline *Visa* accounts. Additionally, expenses increased across all categories to support the current and anticipated growth in this segment.

The Company's consumer loan portfolio, of which water heater loans comprise $95.9 million or 79.7%, continues to perform well. The Company added almost 100,000 new water heater accounts to the portfolio during the year.

The Equityline *Visa* loans portfolio grew to $331.4 million as at December 31, 2010 representing an increase of $34.1 million or 11.5% from $297.3 million at December 31, 2009. Equityline *Visa* comprised 97.5% of the total gross credit card receivable balance at December 31, 2010, compared to 97.6% at December 31, 2009. The average interest rate on the Equityline *Visa* portfolio at December 31, 2010 was 10.0%, compared to 10.3% at December 31, 2009, as the Company started to add borrowers with stronger credit, which in turn put downward pressure on average rates.

During 2010, 6,263 Equityline *Visa* accounts with $186.6 million in authorized credit limits were issued; this represented an increase of 134.0% and 85.7% on accounts and authorized credit, respectively, compared to the 2,677 Equityline *Visa* accounts with $100.5 million in authorized credit limits in 2009. Equityline *Visa* accounts are fully secured by residential real estate. The Company anticipates the momentum in this product line to continue building into 2011 through both the "one-stop" bundled mortgage and innovative and new marketing efforts that the Company has established as a key strategic initiative.

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

Included in the operating results of the consumer lending segment are the operations of PSiGate. PSiGate has provided the Company with the ability to offer full payment card services and has begun migrating clients onto Home Trust's *Visa* platform. The Company expects PSiGate to continue to contribute revenue growth for the consumer lending segment. For 2010, PSiGate contributed $1.6 million to the net income of the consumer lending segment, compared to $1.5 million in 2009.

Other

Table 13 – Other

December 31 (000s, except %)	**2010**	2009	**Growth 2010/2009**
Net interest income	**$ 27,410**	$ 28,005	**(2.1%)**
Fees and other income	**218**	138	**58.0%**
Net gain on securities and others	**8,953**	2,097	**326.9%**
Non-interest expenses	**(19,417)**	(19,257)	**0.8%**
Income before income tax	**17,164**	10,983	**56.3%**
Income tax recovery (expense)	**233**	(1,556)	**(115.0%)**
Net income	**$ 17,397**	$ 9,427	**84.5%**
Total assets	**$ 1,206,744**	$ 1,465,978	**(17.7%)**
Additional financial information			
Total segment revenue	**$ 37,267**	$ 30,249	
as a percentage of total revenue	**7.0%**	6.2%	
Net segment income	**$ 17,397**	$ 9,427	
as a percentage of total net income	**9.6%**	6.5%	
Efficiency ratio (TEB)	**43.6%**	50.4%	
Net interest margin (TEB)	**2.6%**	3.3%	

The Other segment is comprised of the operating results from the Company's securities portfolio and corporate activities. Net income for the year was $17.4 million, representing an increase of $8.0 million over the $9.4 million earned in 2009. The increase is primarily attributed to higher realized gains from the sale of certain securities as the Company took advantage of market opportunities.

2011 Outlook for Operating Segments

The Company's mortgage segment will continue to be the major contributor to the earnings of the Company in 2011. Growth in Equityline *Visa* and the continued diversification of the consumer segment will contribute favourably to growth in this segment. 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 and risk-based 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 (ACM) and the risk-based capital ratio. Management reviews both ratios on an ongoing basis and 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 ACM. This is defined as the ratio of regulatory capital to the total assets of Home Trust.

Table 14 below shows both the ACM and the risk-based capital ratio.

Table 14 – Capital Structure and Regulatory Ratios at Year-end (Based only on the subsidiary, Home Trust Company)

As at December 31 (000s, except % and multiples)	2010	2009	Growth 2010/2009
Tier 1 capital			
Capital stock	**$ 23,497**	$ 23,497	–
Contributed surplus	**951**	951	–
Retained earnings	**658,530**	505,808	**30.2%**
Total	**682,978**	530,256	**28.8%**
Tier 2 capital			
General allowance for credit losses[1]	**29,153**	27,793	**4.9%**
Accumulated other comprehensive income[2]	**4,545**	7,987	**(43.1%)**
Subordinated debentures	**15,000**	15,000	–
Total	**48,698**	50,780	**(4.1%)**
Total regulatory capital	**$ 731,676**	$ 581,036	**25.9%**
Regulatory capital to risk-weighted assets			
Tier 1 capital	**18.1%**	16.4%	
Tier 2 capital	**1.3%**	1.6%	
Total regulatory capital ratio	**19.4%**	18.0%	
Assets to capital multiple	**10.5**	12.7	

1 The Company is allowed to include its general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2A capital. At December 31, 2010, the Company's general allowance represented 0.72% of risk-weighted assets.

2 Accumulated other comprehensive income relates to unrealized gains on certain available for sale equity securities, net of tax, which increases Tier 2 capital.

Home Trust's Total capital ratio and Tier 1 capital ratio increased to 19.4% and 18.1%, respectively, in 2010 from 18.0% and 16.4% in 2009. 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 an increase in the general allowance, offset by a decline in the fair value of the securities portfolio carried as available for sale.

In the fourth quarter of 2010, additional clarification was provided on the proposed Basel III requirements. As anticipated, Basel III will affect the capital and liquidity requirements in Canada. The Company has completed a preliminary analysis of the proposed Basel III requirements and has determined that Home Trust could immediately adopt the Basel III capital requirements and would meet the Basel III minimum liquidity requirements as at December 31, 2010.

Upon adoption of IFRS on January 1, 2011, Home Trust's on-balance sheet assets increased by the amount of MBS assets under administration. For purposes of the ACM calculation, OSFI permitted the grandfathering of mortgages sold through CMHC-sponsored securitizations entered into on or before March 31, 2010 from inclusion in assets for purposes of the ACM calculation. Mortgages securitized after March 31, 2010 are included in the calculation of ACM and, therefore, upon adoption of IFRS on January 1, 2011, the inclusion of mortgages securitized after March 31, 2010 will increase Home Trust's ACM to approximately 15 times, but the ACM will remain within authorized limits. The Company will monitor ACM to ensure regulatory compliance. The Company does not anticipate that Home Trust's Tier 1 and Total capital ratios will be materially impacted by the adoption of IFRS.

Risk-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 $550.1 million due to growth in conventional mortgages, securitization receivables and an increase in interest rate contracts associated with the CMB program. The operational risk factor in the calculation has also increased as the Company's gross income, on which the calculation is based, has increased.

Table 15 provides a further breakdown of risk-weighted assets.

Table 15 – Risk-weighted Assets (RWA) (Based only on the subsidiary, Home Trust Company)

As at December 31			**2010**
(000s, except %)	**Balance Sheet Amounts**	**Risk Weighting**	**Risk-weighted Amount**
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	**$ 1,597,548**	**0%**	**$ –**
Claims on banks and municipal governments	**515,316**	**20%**	**103,063**
Conventional mortgages on owner-occupied residences	**3,415,969**	**35%**	**1,195,589**
Visa secured and consumer loans	**251,193**	**75%**	**188,395**
Commercial mortgages, equities, non-performing securitization receivables, and other assets	**1,923,776**	**100%**	**1,923,776**
Non-performing commercial	**155**	**150%**	**233**
Total assets subject to risk rating	**7,703,957**	**–**	**–**
General allowance	**(29,153)**	**–**	**–**
Total assets	**7,674,804**		**3,411,056**
Off-balance sheet items			
Loan commitments	**540,363**	**0%**	**–**
Interest rate contracts	**59,807**	**20%**	**11,961**
Total credit risk	**8,274,974**		**3,423,017**
Operational risk	**–**		**354,250**
Total	**$ 8,274,974**		**$ 3,777,267**

As at December 31			2009
(000s, except %)	Balance Sheet Amounts	Risk Weighting	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 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

Share Repurchase Program

On August 30, 2010, the Company filed a new Normal Course Issuer Bid through the Toronto Stock Exchange which allowed it to purchase over a 12-month period, beginning September 1, 2010, up to 10% of the public float outstanding on August 30, 2010. 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 2010, the Company repurchased 197,000 common shares (2009 – 166,000 common shares) for an amount of $8.6 million, thereby reducing retained earnings by $8.3 million and share capital by $0.3 million (2009 – $4.5 million and $0.2 million, respectively) under the Normal Course Issuer Bid.

Derivatives

From time to time, the Company enters into hedging transactions to manage interest rate exposure on outstanding loan commitments. The Company uses forward contracts to sell Government of Canada bonds to hedge the impact of movements in interest rates between the time mortgage commitments are made and the time the mortgages are funded and/or securitized. The intent of the forward bond contracts is to have the fair value movements of the forward bond contracts offset, within a reasonable range, the changes in the fair value of the pool of fixed rate mortgages due to interest rate fluctuations of the pool of fixed rate mortgages. This period is generally 60 to 150 days. For this purpose, during 2010, the Company entered into $1.97 billion of forward bond contracts.

The forward bond contracts are settled at the time of funding or securitization of the underlying mortgages. In 2010, a net realized loss of $7.2 million was recognized in the income statement through securitization income, compared to a net loss of $0.06 million in 2009. The gain or loss realized on settlement of these contracts is dependent upon interest rate movements on the underlying bonds while the Company holds the forward bond contracts. If bond rates increase, the Company will realize a gain on settlement that is offset by a decrease in the gross securitization gain and vice versa. At December 31, 2010, the Company continued to hold notional forward bond sale contracts of $252.2 million in anticipation of future securitizations, compared to $183.8 million at December 31, 2009. These contracts had a negative fair value of $0.7 million at December 31, 2010, compared to a positive fair value of $2.4 million at the end of 2009. The fair value changes in these contracts create unrealized gains or losses that are included in the consolidated statements of income through net realized and unrealized gain on derivatives.

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

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

From time to time, the Company may enter into interest rate swaps to manage the duration risk between the seller and the hedge swaps described in the above paragraph. At the time of entering into the hedge swap, management must estimate the expected rate of prepayment of the underlying securitized pool. Where actual prepayments differ from the original expectation, an unhedged reinvestment risk exposure will emerge. The Company enters into interest rate swaps to hedge this exposure. At December 31, 2010, the total notional value of these interest rate swaps was $75.0 million. The interest rate swap had a negative fair value of $2.0 million at December 31, 2010. There were no similar positions at December 31, 2009. For additional information, refer to Note 15 of the consolidated financial statements.

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

Off-balance Sheet Arrangements

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

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

In the normal course of its business, the Company offers credit products to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to $458.8 million at December 31, 2010 ($553.4 million – December 31, 2009). Included within the outstanding commitments are unutilized non-residential loan advances of $45.4 million at December 31, 2010 ($48.6 million – December 31, 2009). Commitments for the loans remain open for various dates through November 2011. As at December 31, 2010, unutilized credit card balances amounted to $76.5 million ($52.8 million – December 31, 2009). Outstanding commitments for future advances for the Equityline *Visa* portfolio were $5.1 million at December 31, 2010 ($2.9 million – December 31, 2009).

Credit Ratings

Table 16 presents the credit ratings for the Company and its subsidiary Home Trust. These credit ratings would allow the Company to obtain institutional debt financing should the need arise for additional capital. The Company has received investment grade ratings. In late 2010, Standard & Poor's increased its long-term and short-term ratings to BBB and A–2 for Home Capital and BBB+ and A–2 for Home Trust, respectively, with a stable outlook for both companies.

Table 16 – Credit Rating

	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–2	F2	A–2	F2
Outlook	Stable	Stable	Stable	Stable

2011 Outlook for Capital Management

The Company remains committed to maintaining its financial strength, strong capital ratios and a growing capital base throughout 2011 and beyond. The inclusion of mortgages securitized after March 31, 2010 in the ACM will make this measure the Company's primary capital constraint. The Company will proactively monitor and assess its ACM.

RISK MANAGEMENT

Overview

The shaded areas of this MD&A represent a discussion of risk management policies and procedures relating to credit, market and liquidity risks that are required under 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 38 to 45, form an integral part of the audited consolidated financial statements for the year ended December 31, 2010.

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 also demonstrated during the economic challenges of the past two years. The Company continues to invest significantly in risk management practices that management believes are moving the Company toward leading practices that differentiate the Company from its immediate peers.

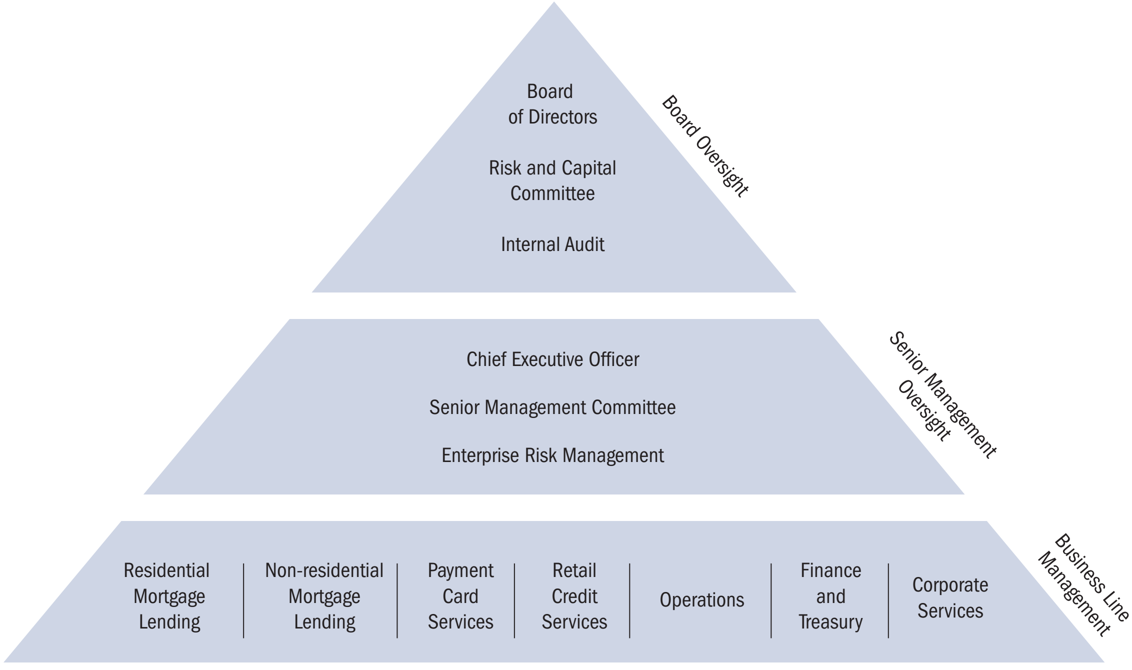
The Company's business strategies and operations expose the Company to a wide range of risks that could adversely affect its operations, financial condition, or financial performance, and which may influence an investor to buy, hold, or sell the Company's shares. Nevertheless, all businesses, in particular 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 accept, which risks to mitigate, offset or hedge, and which risks it will avoid. 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 overall 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 involving its Board of Directors, management and other personnel in the identification, measurement, assessment and response to risks that may positively or negatively impact the organization as a whole. ERM is applied in strategy setting 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 risk culture and a comprehensive governance framework, including effective Board and senior management oversight, and a robust set of risk policies, standards and guidelines reflective of the Company's risk appetite, which set boundaries on acceptable business strategies, exposures and activities. The Company's governance structure is founded on three lines of defence. 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. Risk owners are responsible for developing and executing strategies for controlling risk.

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 so as to deliver accurate, timely and meaningful risk information for its review and evaluation.

Senior management is responsible for establishing the basis for identifying risks and thus developing risk management policies and frameworks. The Board, through its Risk and Capital Committee, ensures that these significant risks to the Company are proactively identified and managed. This is accomplished by reviewing and approving, on at least an annual basis, all key 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.

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 the ability 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 real estate-driven recession, hyper-inflation, loss of a significant funding source and the loss of the securitization conduit, as well as a selection of operational events.

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 risk management policies, lending practices, the adequacy of loan loss reserves, review and approval of loans in excess of delegated limits 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 and exposures on a quarterly basis. A foundation of our approach to credit is a high level of due diligence on each individual transaction. All transactions are subject to underwriting criteria, 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 our non-residential mortgage portfolio, as well as geographic, product, property type and security over all classes of exposure. The Company's risk management policy limits the total aggregate exposure to any entity or connection.

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

Table 17 – Credit Risk Portfolio Monitors

For the years ended December 31 (000s, except % and number of credit cards issued)	**2010**	2009
Total on-balance sheet loans balance (net of specific allowances)	**$ 5,861,722**	$ 5,468,540
Mortgage portfolio		
Total on-balance sheet mortgage portfolio balance	**5,408,383**	5,125,622
Percentage of residential mortgages of total mortgages	**84.5%**	86.2%
Percentage of non-residential mortgages of total mortgages	**15.5%**	13.8%
Percentage of insured mortgages	**23.4%**	31.0%
Percentage of first mortgages	**99.7%**	99.7%
Percentage of mortgages current	**96.6%**	95.5%
Percentage of mortgages over 60 days past due	**0.8%**	1.1%
Percentage of new residential originations insured	**68.2%**	69.1%
Loan to value of on balance sheet residential mortgages	**67.0%**	68.6%
Credit card portfolio		
Total credit card portfolio balance	**$ 339,872**	$ 304,622
Percentage of Equityline *Visa* credit cards	**97.5%**	97.6%
Percentage of secured credit cards	**2.4%**	2.3%
Percentage of credit cards current	**95.1%**	95.4%
Percentage of credit cards over 60 days past due	**3.0%**	2.5%
Loan to value of Equityline *Visa*	**72.3%**	69.3%
Visa card security deposits	**$ 12,138**	$ 11,907
Total authorized limits of credit cards	**$ 416,388**	$ 357,459
Total number of credit cards issued	**21,447**	17,605
Average balance authorized	**$ 19**	$ 20

Credit risk mitigation is a key component of the Company's approach to credit risk management. Substantially all of the Company's loans portfolio is secured by real property. As at December 31, 2010, average loan to value ratio at origination in the Company's on-balance sheet residential loan portfolio was 67.0%, and 99.7% were first mortgages.

At December 31, 2010 the composition of the total mortgage portfolio was 84.5% residential and 15.5% non-residential, compared to a composition of 86.2% residential and 13.8% non-residential one year ago. The decrease in residential and increase in non-residential was in relation to the mortgage market improvements in late 2009 and throughout 2010. As these markets improved the Company slowly began lending in the non-residential markets. Store and apartments, which perform similarly to the residential mortgage markets, had an increase in advances to $108.8 million in 2010 compared to $42.2 million in 2009. The composition of residential to non-residential is well within the internal policy limits that the Company's Risk and Capital Committee and the Board of Directors have approved.

Within the Company's on-balance sheet residential mortgage portfolio, 23.4% of the loans were insured by either CMHC or other approved insurers at the end of 2010, compared to 31.0% one year ago. This decrease was related to the Company's increased securitization in the last quarter of the year, thus reducing the proportion of insured loans on the balance sheet. First mortgages represented 99.7% of the total mortgage portfolio at December 31, 2010, 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 2010, 68.2% were insured, compared to 69.1% for 2009. At December 31, 2010, the average loan to value on origination of the Company's non-insured residential mortgage loans portfolio was 67.0%, compared to 68.6% at December 31, 2009. Refer to Note 4 of these consolidated financial statements for a further breakdown by geographic region.

The mortgage loans portfolio is showing signs of improvement, with 96.6% of the portfolio current and 0.8% of the portfolio over 60 days in arrears at the end of 2010, comparing favourably to 95.5% of the portfolio current and 1.1% of the portfolio over 60 days in arrears at the end of 2009.

The Company slowly began increasing its exposure to non-residential mortgage lending in 2010. The Company's industrial, commercial and other non-residential property types represented 15.5% of the total mortgage loan portfolio at December 31, 2010, compared to 13.8% at December 31, 2009. 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 and 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 7.7% of the total loan portfolio at December 31, 2010, compared to 6.3% at December 31, 2009. As at December 31, 2010, the gross credit card receivable balance totalled $339.9 million ($304.6 million in 2009), of which $339.6 million or 99.9% of the portfolio was secured either by cash deposits or residential property, and $0.3 million or 0.1% was unsecured. The total credit approved included $416.0 million in secured and $0.4 million in unsecured credit, compared to $357.0 million in secured and $0.5 million in unsecured credit at December 31, 2009. Within the secured credit card portfolio, Equityline *Visa* credit cards represent the principal driver of receivable balances. Equityline *Visa* credit cards are secured by collateral residential mortgages, and this portfolio segment amounted to $331.4 million or 97.5% of the total credit card receivable balance as at December 31, 2010 compared to $297.4 million or 97.6% at December 31, 2009. Cash deposits that secure credit card accounts amounted to $12.1 million at December 31, 2010, up from $11.9 million at December 31, 2009 due to the increase in the secured card portfolio from 2.3% at December 31, 2009 to 2.4% at December 31, 2010. These deposits are included in the Company's deposits portfolio. Further, the Equityline *Visa* portfolio requires a collateral mortgage on the loan, and this portfolio has an average loan to value of 72.3% at December 31, 2010, compared to the loan to value of 69.3% at December 31, 2009. At December 31, 2010, $10.3 million or 3.0 % of the credit card portfolio was over 60 days in arrears, up from $7.5 million or 2.5% at December 31, 2009. The increase was largely related to a number of Equityline *Visa* credit cards that were deemed impaired very close to the year-end and therefore actions on these loans were just at the initial stage of the collection process.

Included in the residential portfolio is a secured loan portfolio that was $38.8 million at December 31, 2010, a decrease of $9.0 million from the December 31, 2009 balance of $47.8 million. These loans are secured by second mortgages on residential properties. At December 31, 2010, 97.2% of the secured loan portfolio was current, while $0.3 million or 0.8% was over 60 days in arrears. This compares to 96.6% of the secured loan portfolio being current, while $0.5 million or 0.9% was over 60 days in arrears at December 31, 2009.

Impaired loans are summarized in the table below.

Table 18 – Impaired Loans

As at December 31	2010		2009		Change 2010/2009	
(000s, except %)	**Gross**	**Net**[1]	Gross	Net[1]	**Gross**	**Net**[1]
Residential mortgages	**$ 29,586**	**$ 27,829**	$ 41,621	$ 40,138	**(28.9%)**	**(30.7%)**
Non-residential mortgages	**2,295**	**2,295**	2,417	2,282	**(5.0%)**	**0.6%**
Personal and credit card loans	**7,241**	**4,101**	4,847	3,886	**49.4%**	**5.5%**
Impaired loans	**$ 39,122**	**$ 34,225**	$ 48,885	$ 46,306	**(20.0%)**	**(26.1%)**
Total gross loans	**$ 5,866,619**		$ 5,471,119		**7.2%**	
Net impaired loans as a % of gross loans		**0.58%**		0.85%		
Total allowance for credit losses		**$ 34,050**		$ 30,372		
Total allowance as a % of gross loans		**0.58%**		0.56%		
Total allowance as a % of gross impaired loans		**87.0%**		62.1%		

1 Impaired loans are net of specific provisions as shown in Table 19 – Allocation of Allowance for Credit Losses.

As indicated in Table 18, gross impaired loans totalled $39.1 million at December 31, 2010, a decrease of $9.8 million or 20.0% from 2009. Impaired loans have decreased over December 2009 and the percentage of net impaired loans were at the following levels: 0.85% at December 31, 2009 to 0.91% at March 31, 2010 to 0.67% at June 30, 2010 to 0.57% at September 30, 2010 and ending at 0.58% at December 31, 2010. 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 current impaired mortgages totalling $39.1 million will result in moderate loan losses in the coming year. The total allowance for credit losses increased by $3.7 million to reach $34.1 million at December 31, 2010, up from $30.4 million recorded at December 31, 2009.

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 2010. The total allowance as a percentage of gross impaired loans moved upward at the end of the year to 87.0%, compared to 62.1% at December 31, 2009. This increase is the result of the reduction in the gross loans impaired, the increase in the specific allowance by $2.3 million and the increase in the general allowance by $1.4 million over the balance at December 31, 2009.

Table 19 shows the year-over-year change in the credit allowances and provisions.

Table 19 – Allocation of Allowance for Credit Losses

For the year ended December 31 (000s)	**2010 Opening Balance**	**Write-offs Net of Recoveries**	**Provisions for Credit Losses**	**2010 Ending Balance**
Specific allowances				
Residential mortgage loans	**$ 1,483**	**$ (3,835)**	**$ 4,109**	**$ 1,757**
Non-residential mortgage loans	**135**	**–**	**(135)**	**–**
Personal loans and credit cards	**961**	**(1,898)**	**4,077**	**3,140**
	2,579	**(5,733)**	**8,051**	**4,897**
General allowance				
Residential mortgage loans	**19,948**	**–**	**(3,649)**	**16,299**
Non-residential mortgage loans	**4,398**	**–**	**4,959**	**9,357**
Personal loans and credit cards	**3,447**	**–**	**50**	**3,497**
	27,793	**–**	**1,360**	**29,153**
Total allowance for credit losses	**$ 30,372**	**$ (5,733)**	**$ 9,411**	**$ 34,050**

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	$ 2,379	$ (7,546)	$ 6,650	$ 1,483
Non-residential mortgage loans	–	–	135	135
Personal loans and credit cards	547	(1,711)	2,125	961
	2,926	(9,257)	8,910	2,579
General allowance				
Residential mortgage loans	16,897	–	3,051	19,948
Non-residential mortgage loans	4,580	–	(182)	4,398
Personal loans and credit cards	3,700	–	(253)	3,447
	25,177	–	2,616	27,793
Total allowance for credit losses	$ 28,103	$ (9,257)	$ 11,526	$ 30,372

The allowance for credit losses has been established to cover identified losses and identified credit events in the loans portfolio and comprises $4.9 million in specific allowances for credit losses and $29.2 million in general allowances for credit losses. This compares to $2.6 million in specific allowances for credit losses and $27.8 million in general allowances for credit losses at the end of 2009.

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 experienced an increase in specific allowances at December 31, 2010, due to specific provisions allocated to loans that the Company identified as impaired at the end of the year. Net write-offs realized on specifically identified impaired loans have decreased to $5.7 million in 2010 as compared to $9.3 million during 2009.

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 that 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. As these factors change, methodologies used by the Company to support 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 4 of the consolidated financial statements in this Annual Report.

At December 31, 2010 the Company's total allowance represented 58 basis points of gross outstanding loans compared to 56 basis points at December 31, 2009. The general allowance represented 77 basis points of the Company's total risk-weighted assets, compared to 86 basis points at December 31, 2009. The decrease in the basis points as compared to the risk-weighted assets reflects the Company's view of the overall improvement in the credit quality of the portfolio and the improving economic conditions.

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. This risk will arise from fluctuations in cash flows in the Company's lending, deposit-taking, investing and other business activities.

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, an approved contingency plan. As one of the tools used in managing liquidity, the Company employs 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 is spread out over the course of one year. In each scenario, the Company must hold sufficient liquid assets to meet the potential and certain obligations for a period of one year beyond the time frame of the scenario. These scenarios require the Company to make assumptions regarding the probable behaviour and timing of cash flows for each type of asset and liability.

At December 31, 2010 liquid assets amounted to 174% under the immediate scenario and 137% 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 and corporate bonds and debentures to comply with its liquidity policy. At December 31, 2010, liquid assets amounted to $951.3 million, compared to $1.20 billion at December 31, 2009. The Company's policy is to maintain a minimum 20% of 100-day obligations in liquid assets. For the 12 months ended December 31, 2010, the Company maintained a monthly average of $783.6 million, or 43.0% of 100-day obligations in liquid assets compared to $664.5 million, or 45.9% for the 12 months ended December 31, 2009.

Table 20 – Liquid Assets (Based only on the subsidiary, Home Trust Company)

As at December 31 (000s, except %)	2010	2009	Growth 2010/2009
Cash and deposits with regulated financial institutions	**$ 37,634**	$ 33,007	**14.0%**
Government of Canada treasury bills, bankers' acceptances and GICs	**691,027**	915,047	**(24.5%)**
Government of Canada and provincial bonds	**222,610**	252,028	**(11.7%)**
Total liquid assets	**$ 951,271**	$ 1,200,082	**(20.7%)**
Monthly average of liquid assets	**$ 783,596**	$ 664,530	**17.9%**
Total liabilities maturing within 100 days	**1,507,508**	1,426,711	**5.7%**
Monthly average of total liabilities maturing within 100 days	**1,824,257**	1,448,655	**25.9%**
Total assets	**7,675,856**	7,328,537	**4.8%**
Total liabilities	**6,974,148**	6,777,010	**2.9%**
Liquid assets as a % of 100-day liabilities	**63.1%**	84.1%	
Average liquid assets as a % of average 100-day liabilities	**43.0%**	45.9%	
Liquid assets as a % of total assets	**12.4%**	16.4%	
Liquid assets as a % of total liabilities	**13.6%**	17.7%	

As shown in Table 20, liquid assets totalled $951.3 million at December 31, 2010, a decrease of $248.8 million, or 20.7%, over 2009. The decrease reflects the timing of securitization transactions and management's actions to reduce the level of liquid assets in 2010 as the markets began to improve with reduced unemployment rates and stable interest rates. The Company must weigh the costs of holding relatively lower return, shorter term investments compared to lending at a more profitable yield. At the current liquidity levels the Company remains well positioned to manage during the existing economic conditions and 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 Company's deposits to their clients. The Company continues to add new investment dealers and deposit brokers to diversify the Company's funding sources.

Table 21 – Deposits and Borrowings

For the years ended December 31 (000s, except %)	2010	2009	Growth 2010/2009
Payable on demand	**$ 50,359**	$ 38,223	**31.8%**
Payable on a fixed date			
Debenture investment certificates	**5,660,817**	5,611,185	**0.9%**
Short-term certificates and savings	**553,793**	519,835	**6.5%**
Registered retirement savings plans	**143,333**	149,755	**(4.3%)**
Registered retirement income funds	**82,986**	78,917	**5.2%**
Tax Free Savings Accounts	**19,424**	–	**100.0%**
Visa card security deposits	**12,138**	11,907	**1.9%**
	6,472,491	6,371,599	**1.6%**
Total	**$ 6,522,850**	$ 6,409,822	**1.8%**

Deposits increased by $113.0 million or 1.8% in 2010 to primarily provide a portion of the funding for the on-balance sheet loan portfolio. Due to the high volumes of securitization during the year, deposit levels remained relatively consistent year-over-year. The Company's deposit portfolio is primarily comprised of fixed term deposits, which represent 99.2% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company will continue to take advantage of new product offerings that comply with Canada Deposit Insurance Corporation (CDIC) coverage, as seen with our entry into Tax Free Savings Accounts in 2010. 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 8 in the consolidated financial statements of this 2010 Annual Report provides a breakdown by maturity and yield of the Company's deposit portfolio.

2011 Outlook for Deposits

The Company will continue to source deposits from the public through investment dealers and deposit brokers while seeking to expand this network through agreements with additional deposit brokers that meet the Company's selection criteria and through additional products that meet the requirements for CDIC coverage. The rate of growth of the deposit portfolio is expected to mirror the growth that is required to support the Company's traditional loan portfolio, while securitization will continue to support the insured mortgages. 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 Note 8 of the consolidated financial statements in this 2010 Annual Report, the following table presents a summary of the Company's other contractual obligations as at December 31, 2010.

Table 22 – Contractual Obligations

As at December 31 (000s)	2011	2012	2013	2014	2015	Thereafter	Total
Deposits	$ 3,484,568	$ 1,650,075	$ 756,453	$ 464,883	$ 166,871	$ –	**$ 6,522,850**
Commitments under leases	3,989	3,064	2,413	2,120	1,742		**13,328**
Total	$ 3,488,557	$ 1,653,139	$ 758,866	$ 467,003	$ 168,613	$ –	**$ 6,536,178**

In the normal course of its activities, the Company enters into various types of contractual agreements. The main obligations result from the acceptance of deposits from 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 Off-balance Sheet Arrangements Section of this Annual Report and Note 14 of the consolidated financial statements 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, 2010 is presented under Note 16 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 made but may 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 objective is to manage the interest rate risk within prudent guidelines. The interest rate risk policies are reviewed and approved by the Board of Directors at least annually.

The following table provides measurements of interest rate sensitivity and the potential after-tax impact of immediate and sustained 100 basis point and 200 basis point increases and decreases in interest rates on net interest income and on the economic value of shareholders' equity.

Table 23 – 100 and 200 Basis Point Interest Rate Shift

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

As illustrated in Table 23, an increase in interest rates will have a positive impact on net interest income after tax and increase in the net present value of shareholders' equity in both a 100 and 200 basis point movement in rates. A positive gap exists when interest-sensitive assets exceed interest-sensitive liabilities on specific maturity or repricing periods. As these gaps widen the fluctuation in the sensitivity becomes more pronounced, and this is why the Company's ALCO manages this to within prudent authorized limits.

The sensitivity provided in Table 23 contains certain management estimates and assumptions which are not used in the interest sensitivity gap analysis provided in Note 16. Some of these management estimates and assumptions include:

> Interest rate changes which affect interest sensitive liabilities have a lesser impact than interest sensitive assets.

> Early redemptions are estimated at a percentage of the earlier re-pricing date of the underlying assets or liabilities.

The gap analysis presented in Note 16 is a static measurement of interest sensitive gaps at a specific time and can change significantly in a short time frame based on actual settlement of interest sensitive assets and liabilities. During the year, the one year and under cumulative gap decreased to (1.2%) from 2.5% at December 31, 2009. Note 16 categorized the interest sensitive assets or liabilities at the earliest contractual re-pricing or maturity date. Note 16 also does not include the management of non-interest sensitive assets, liabilities and shareholders' equity.

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 funded or securitized into an MBS pool. The Company held notional $252.2 million in forward bond contracts for the sale of Government of Canada bonds. These positions were specific to hedging commitment risk at December 31, 2010, compared to $183.8 million in 2009. 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 15 of the consolidated financial statements in this 2010 Annual Report.

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 2010 or 2009.

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 framework for IT governance;

> Weekly meetings of the senior management committee, made up of senior management personnel from all of the Company's business areas, and chaired by the President of the Company. This committee includes all individuals responsible for the development and recommendation of policies and procedures regarding day-to-day operations of the Company;

> Monthly meetings of the operational risk committee, chaired by the Chief Risk Officer, with representatives from the finance, human resources, technology, compliance, fraud and operations departments of the Company. This committee monitors and assesses operational risk issues, key risk indicators, operational risk stress testing and contingency plans;

> 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 internal audit team;

> Continuous review and upgrades of systems and procedures, including updated and tested procedures and contingency plans for disaster recovery and business continuity; and

> The external auditors' provision to management and the Audit Committee of any recommendations for improvements in internal controls or procedures the external auditors identified during their annual audit.

The Company also maintains appropriate insurance coverage through a financial institution bond policy, which is reviewed at least annually for changes to coverage and the Company's operations.

Investment Portfolio Risk

Investment risk is the risk of loss due to other than temporary impairment in the fair value of 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 limitations to ensure that the objectives, as defined in the Company's Investment Policy, are met. These limitations have three tiers: the policy limits, senior management limits and treasury limits. The following are based on the policy limits:

> 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, 2010, these were maintained at 28.4% of the total regulatory capital (37.7% at December 31, 2009).

> 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, 2010, these types of investments accounted for 15.8% of the regulatory capital (14.2% at December 31, 2009).

> 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, 2010 and 2009, 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, 2010 the total investment portfolio as a percentage of regulatory capital was 44.3% (51.9% at December 31, 2009).

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. The Board approves the Company's strategies on at least an annual basis 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. Such risk 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 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, Internal Audit and external counsel when needed.

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 in which the Company is party, as it arises.

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. 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 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.

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 earnings and damage the Company's reputation.

Information Systems and Technology

The Company is highly dependent upon its information technology systems. The Company uses third-party software for its main operations and relies on third parties for credit card processing, Internet connections and access to external networks. Should the Company experience any major disruptions in connections for software, Internet or telecommunications for voice or data, this would impair its ability to provide service to clients. The longer and more severe the disruption, the more the Company's ability to conduct business would be impaired.

The Company is currently implementing a new core banking system to ensure that the Company systems can grow with the increasing growth in the Company's product offerings.

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 the Significant Accounting Estimates and Critical Accounting Policies Section and within the notes of the consolidated financial statements.

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 24 – Summary of Quarterly Results

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

1 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 measures and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions, and the fourth quarter normally experiencing increased credit card activity over the holiday period.

The Company continues to achieve positive financial results driven by revenue growth in mortgage lending and continued low efficiency ratios. Tier 1 and Total capital ratios throughout 2009 and into 2010 reflect the Company's prudent capital management strategies and the proactive approach to increase the capital base during the economic downturn.

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

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

Management's Discussion and Analysis

The Company's key financial highlights for the fourth quarter and year ended December 31, 2010 are summarized below.

Income Statement Highlights

> Net income grew to $50.4 million for the fourth quarter and $180.9 million for the 12 months ended December 31, 2010, an increase of 24.5% and 25.2% over the comparable three- and 12-month periods of 2009.

> Net interest income reached $49.8 million and $193.9 million for the three and 12 months ended December 31, 2010, an increase of 9.9% and 17.5%, respectively, over the comparable periods of 2009.

> Diluted earnings per share for the fourth quarter increased 25.0% to $1.45, compared to $1.16 in the fourth quarter of 2009, and increased 25.3% to $5.20 for the 12 months ended December 31, 2010, compared to $4.15 in the same period of 2009.

> Provisions for credit losses were $5.8 million, compared to $2.3 million the fourth quarter of 2009, and declined to $9.4 million for the 12 months of 2010, compared to $11.5 million for the same period last year. Provisions as a percentage of gross loans remain low at 0.16% for the year ended December 31, 2010, compared to 0.21% for the year ended December 31, 2009. Additional specific provisions were identified in the fourth quarter related to a small number of credit card accounts. General provisions decreased by $1.3 million compared to the fourth quarter and 12 months of 2009.

> Securitization income was $37.4 million in the fourth quarter and $107.7 million for the year, compared to $24.3 million and $92.4 million in the same periods of 2009, representing increases of 54.1% and 16.6% over the same periods, respectively. Securitization volumes were $1.86 billion and $5.17 billion for the three and 12 months ended December 31, 2010, compared to $863.4 million and $2.60 billion in the same periods of 2009, representing increases of 115.6% and 98.8%, respectively. Market spreads earned on securitization transactions continue to reflect normalized levels in this quarter compared to 2009.

> The efficiency ratio (TEB) remained low (the lower the better) at 27.3% for the quarter and 26.6% for the year, compared to 26.1% and 26.5% in the comparable 2009 periods, reflecting the Company's continued diligence in expense management.

> Return on average shareholders' equity continued to exceed the Company's performance objectives at 28.0% for the quarter and 27.2% for the year, compared to 28.4% and 28.2% for the same periods last year.

Balance Sheet Highlights

> Total assets under administration, including the off-balance sheet securitized mortgages, reached $15.88 billion in the fourth quarter, an increase of 38.0% over the $11.51 billion recorded at December 31, 2009, reflective of continued robust growth in residential mortgage originations spanning across both the traditional and Accelerator mortgage products.

> Total on-balance sheet assets ended the quarter at $7.71 billion, compared to $7.36 billion at December 31, 2009. The increase reflects growth in the on-balance sheet loan portfolio of 4.8%, compared to December 31, 2009.

> Liquid assets at December 31, 2010 were $951.3 million, down from $1.20 billion at December 31, 2009. While the Company continues to reduce liquidity levels toward normalized levels, the timing of securitization transactions close to quarter ends will increase the level of liquid assets. The Company maintained a monthly average of $864.6 million in liquid assets during the fourth quarter, and an average of $783.6 million for the 12 months ended December 31, 2010.

> The Company's capital position remains strong with Tier 1 and Total capital ratios of 18.1% and 19.4%, respectively, at the end of the quarter, compared to 16.4% and 18.0%, respectively, at December 31, 2009. This reflects increased profitability while the risk weighting of the assets remained relatively unchanged year-over-year.

> Deposit liabilities at December 31, 2010 were $6.52 billion, an increase of 1.8% from the $6.41 billion at December 31, 2009. Deposit liabilities remained relatively unchanged year-over-year as securitization and a reduction in liquidity funded most origination growth.

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, 2011.

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 of this Annual Report. The following policies are critical as they refer to material amounts and require management to make estimates that, by their 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 but 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.

Total Allowance for Credit Losses

Based on the procedures above, management believes that the total allowance for credit losses of $34.0 million ($30.4 million at December 31, 2009) is adequate to absorb estimated credit losses incurred in the loans portfolio as at December 31, 2010. The total allowance includes specific allowances of $4.9 million ($2.6 million at December 31, 2009) and general allowances of $29.2 million ($27.8 million at December 31, 2009). Additional information on the allowance for credit losses can be found in Notes 1 and 4 to the consolidated financial statements and the discussion of credit risk in this MD&A.

II) Securitization

Securitization is a process by which financial assets, including government-guaranteed mortgage loans of the Company, are converted into securities and sold to investors. When the Company surrenders control over the mortgage loans sold, and receives consideration other than beneficial interest in the transferred assets, this transaction is recorded as a sale. The determination of the initial gain depends on the value attributed to the retained interests, referred to as securitization receivable. As specifically 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 5 of the consolidated financial statements in this Annual Report which presents a sensitivity analysis of the current fair value of the retained interests to immediate 10% and 20% adverse changes in key assumptions. The Off-balance Sheet Arrangements Section of this MD&A provides further information on these transactions.

III) Financial Instruments Measured at Fair Value

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

The determination of fair value for actively traded financial instruments that have quoted market prices or readily observable model input parameters requires minimal subjectivity. Significant management 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 and 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 use observable market data, including discounted cash flow analysis and other valuation techniques commonly used by market participants. The fair value of certain other derivative financial instruments, which includes the interest rate swaps required under the CMB 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 data. 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 15 and 17 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 3 to the consolidated financial statements.

V) Goodwill

Under GAAP, goodwill is not amortized and is generally allocated to reporting units that 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 to which goodwill was assigned exceeded the carrying value of the reporting unit, and no goodwill impairment was recorded.

VI) Income Tax

Future income tax assets and liabilities reflect management's estimate of the value of temporary differences. The determination of an asset's or liability's value is based on assumptions related to the results of operations of future periods, the timing of reversals of temporary differences, and the tax rates anticipated on the date of reversals. The use of different assumptions may produce significantly different results, particularly if federal or provincial governments introduce changes in the budgets that were previously announced. For further information on income tax expense, refer to Note 12 to the consolidated financial statements of this Annual Report.

ACCOUNTING DEVELOPMENTS

There were no changes in Accounting Policies in 2010.

Changes in Accounting Policies During 2009

Goodwill and Intangible Assets

Effective 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 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 disclosure 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 5 and 17 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 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.

International Financial Reporting Standards (IFRS)

IFRS Project

The Company will change its accounting framework from Canadian GAAP to IFRS starting with interim and annual financial statements relating to fiscal periods beginning on or after January 1, 2011. The transition date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and the year ended December 31, 2010. Consequently, January 1, 2010 is the Company's transition date.

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

Most adjustments required on transition to IFRS will be made retrospectively, against opening retained earnings as of January 1, 2010, the date of the first comparative balance sheet. The presentation is on the IFRS applicable at that time. Transitional adjustments relating to those standards where comparative figures are not required to be restated will be made only as of the first day of the year of adoption, generally January 1, 2011.

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

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

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

Key remaining project milestones include:

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

Transition Adjustment at January 1, 2010

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

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

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

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

Impact of Securitization Accounting Changes on IFRS Net Income in 2010

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

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

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

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

In 2011, the Company will develop its earnings comparisons to 2010 to remove the volatility introduced by this accounting framework change. Please refer to Table 1(c) for details on targets under IFRS for 2011. The Company expects that it will report steady increases in profitability in 2011 as the total assets of the Company continue to grow.

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

Summary of IFRS Impacts

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

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

Information Technology Impacts

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

Disclosure Controls and Internal Controls over Financial Reporting Impacts

Management has determined that the Company's internal controls over financial reporting and its disclosure controls and procedures will require changes due to the transition to IFRS. Effects involve the development of internal controls and procedures over the accounting processes related to IFRS, which are different from Canadian GAAP, and communication of IFRS financial and non-financial information. The primary difference relates to changes in the accounting treatment for securitization activities and the additional required disclosures in the Company's financial statements. Management has identified potential changes to its control environment and has incorporated the development and testing of new internal controls into its IFRS implementation plan.

IFRS Education and Corporate Governance

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

Regulatory and Capital Considerations

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

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

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, 2010. 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, 2010.

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, 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, 2010. 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, 2010.

Changes to Internal Controls over Financial Reporting

During the year ended December 31, 2010, 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 March 8, 2011 the Company had issued 34,739,040 common shares. In addition, outstanding director and employee stock options amounted to 1,065,500 (924,750 – 2009) of which 421,250 are exercisable as of the end of the year (458,000 – 2009) for proceeds to the Company upon exercise of $13.9 million ($15.0 million – 2009).

This Management's Discussion and Analysis is dated as of March 9, 2011.

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 9, 2011

Cathy A. Sutherland

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of **Home Capital Group Inc.**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Home Capital Group Inc. as at December 31, 2010 and 2009 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 9, 2011

Consolidated Balance Sheets

As at December 31 (000s)		2010	2009
ASSETS			
Cash resources	(Note 3)	**$ 846,824**	$ 930,134
Securities	(Note 3)		
Held for trading		**–**	99,938
Available for sale		**543,892**	550,659
		543,892	650,597
Loans	(Note 4)		
Residential mortgages		**4,570,130**	4,417,197
Non-residential mortgages		**838,253**	708,425
Personal and credit card loans		**453,339**	342,918
		5,861,722	5,468,540
General allowance for credit losses		**(29,153)**	(27,793)
		5,832,569	5,440,747
Other			
Securitization receivables	(Note 5)	**343,402**	229,418
Capital assets	(Note 6)	**4,894**	4,863
Other assets	(Note 7)	**140,658**	105,115
		488,954	339,396
		$ 7,712,239	$ 7,360,874
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	(Note 8)		
Payable on demand		**$ 50,359**	$ 38,223
Payable on a fixed date		**6,472,491**	6,371,599
		6,522,850	6,409,822
Other			
Cheques and other items in transit		**5,241**	4,617
Other liabilities	(Note 9)	**441,868**	356,147
		447,109	360,764
		6,969,959	6,770,586
Commitments and contingencies	(Note 14)	**–**	–
SHAREHOLDERS' EQUITY			
Capital stock	(Note 10)	**50,427**	45,396
Contributed surplus		**3,649**	3,606
Retained earnings		**669,475**	520,018
Accumulated other comprehensive income		**18,729**	21,268
		742,280	590,288
		$ 7,712,239	$ 7,360,874

See accompanying notes

On behalf of the Board:

Gerald M. Soloway
Chief Executive Officer

Robert A. Mitchell
Chair of Audit Committee

Consolidated Statements of Income

Year ended December 31 (000s, except per share amounts)		**2010**	2009
Income			
Interest from loans		**$ 354,222**	$ 334,148
Dividends from securities		**18,204**	17,742
Other interest		**9,806**	13,214
		382,232	365,104
Interest expense			
Interest on deposits		**188,370**	200,093
Net interest income		**193,862**	165,011
Provision for credit losses	(Note 4(e))	**9,411**	11,526
		184,451	153,485
Non-interest income			
Fees and other income		**30,690**	29,326
Securitization income	(Note 5)	**107,724**	92,397
Gain on sale of loan portfolio	(Note 4(g))	**3,917**	–
Net realized and unrealized gain on securities		**8,953**	2,097
Net realized and unrealized gain on derivatives		**421**	255
		151,705	124,075
		336,156	277,560
Non-interest expenses			
Salaries and benefits		**46,739**	41,559
Premises		**6,894**	5,916
General and administration		**40,306**	31,126
		93,939	78,601
Income before income taxes		**242,217**	198,959
Income taxes	(Note 12)		
Current		**35,231**	27,825
Future		**26,042**	26,641
		61,273	54,466
Net income for the year		**$ 180,944**	$ 144,493
Average number of common shares outstanding	(Note 10)		
Basic		**34,697**	34,450
Diluted		**34,776**	34,795
Net income per common share	(Note 10)		
Basic		**$ 5.21**	$ 4.19
Diluted		**$ 5.20**	$ 4.15

See accompanying notes

Consolidated Statements of Comprehensive Income

Year ended December 31 (000s)	2010	2009
Net income	$ 180,944	$ 144,493
Other comprehensive (loss) income, net of tax		
Net unrealized gains on securities available for sale (net of $(221) tax; $8,739 in 2009)	3,003	22,092
Reclassification of (gains) losses in respect of available for sale securities (net of $2,728 tax; $(4,941) in 2009)	(5,542)	10,229
Total other comprehensive (loss) income	(2,539)	32,321
Comprehensive income	$ 178,405	$ 176,814

See accompanying notes

Consolidated Statements of Changes in Shareholders' Equity

Year ended December 31 (000s)		2010	2009
Capital stock	(Note 10)		
Common shares			
Balance, beginning of year		$ 45,396	$ 39,094
Proceeds of options exercised		5,309	6,498
Repurchase of shares		(278)	(196)
Balance, end of year		$ 50,427	$ 45,396
Contributed surplus			
Balance, beginning of year		$ 3,606	$ 3,283
Amortization of fair value of employee stock options		1,203	1,543
Exercise of stock appreciation rights		(280)	–
Employee stock options settled		(880)	(1,220)
Balance, end of year		$ 3,649	$ 3,606
Retained earnings			
Balance, beginning of year		$ 520,018	$ 401,429
Net income for the year		180,944	144,493
Dividends paid or declared during the year		(23,241)	(21,435)
Repurchase of shares	(Note 10(c))	(8,246)	(4,469)
Balance, end of year		$ 669,475	$ 520,018
Accumulated other comprehensive income (loss)	(Note 11)		
Balance, beginning of year		$ 21,268	$ (11,053)
Other comprehensive (loss) income (net of $2,507 tax; $3,798 in 2009)		(2,539)	32,321
Balance, end of year		$ 18,729	$ 21,268

See accompanying notes

Consolidated Statements of Cash Flows

Year ended December 31 (000s)		2010	2009
OPERATING ACTIVITIES			
Net income for the year		**$ 180,944**	$ 144,493
Adjustments to determine net cash flows relating to operating activities			
Future income taxes		**26,042**	26,641
Amortization of capital assets		**2,881**	2,644
Amortization of intangibles and other deferred assets		**77**	908
Amortization of securities		**2,073**	(1,979)
Provision for credit losses		**9,411**	11,526
Change in accrued interest payable		**7,261**	(21,117)
Change in accrued interest receivable		**165**	1,708
Net realized and unrealized gains on investment securities		**(8,953)**	(2,097)
Gain on sale of portfolio		**(3,917)**	–
Gain on derivatives		**(421)**	(255)
Securitization gains on mortgage-backed securities		**(91,533)**	(80,051)
Amortization of fair value of employee stock options		**1,203**	1,543
Change in amounts payable to MBS and CMB holders		**32,683**	50,883
Other		**6,855**	(12,949)
Cash provided by operating activities		**164,771**	121,898
FINANCING ACTIVITIES			
Net increase in deposits		**113,028**	1,307,041
Repurchase of shares		**(8,524)**	(4,665)
Exercise of stock options and stock appreciation rights		**4,149**	5,278
Dividends paid		**(22,906)**	(20,010)
Cash provided by financing activities		**85,747**	1,287,644
INVESTING ACTIVITIES			
Activity in available for sale and held for trading securities			
Purchases		**(1,804,301)**	(954,444)
Proceeds on sales		**1,409,583**	767,516
Proceeds on maturities		**503,873**	135,615
Activity in mortgages			
Net increase		**(5,454,266)**	(3,569,541)
Proceeds from securitization		**5,091,160**	2,550,007
Change in securitization receivables		**54,799**	41,454
Net (increase) decrease in personal and credit card loans		**(110,581)**	23,918
Net increase in restricted cash		**(28,190)**	(42,465)
Purchase of capital assets		**(2,989)**	(2,181)
Purchase of intangible assets		**(21,106)**	(26,174)
Cash used in investing activities		**(362,018)**	(1,076,295)
Net (decrease) increase in unrestricted cash and cash equivalents		**(111,500)**	333,247
Cash and cash equivalents, beginning of year	(Note 3(a))	**866,069**	532,822
Cash and cash equivalents, end of year	(Note 3(a))	**$ 754,569**	$ 866,069
Supplemental disclosure of cash flow information			
Amount of interest paid in year		**$ 181,109**	$ 221,209
Amount of income taxes paid in year		**42,114**	45,506

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.

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 securitization and 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.

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. Residential mortgages guaranteed by the Government of Canada where payment is contractually past due 365 days are automatically placed on a non-accrual basis. Secured and unsecured credit card balances that have a payment that is contractually 180 days in arrears are written off. Equityline *Visa* credit card balances are measured on a basis consistent with mortgage loans.

When loans are classified as impaired, the book value of these loans is adjusted 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 is not returned 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 which have occurred in the portfolio whether or not detected at the year-end. 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 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 allowances are the amounts 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 and management's judgement.

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

Loan Securitization (Securitization Receivables)

The Company periodically transfers pools of mortgages to special purpose entities or trusts which, in turn, issue securities to investors. Mortgage loan securitization is part of the Company's liquidity and capital management strategies. These transfers are accounted for as sales when the Company surrenders control of the transferred assets and receives consideration other than the beneficial interest in the transferred assets. The securitization trusts have 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 and 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%

Application 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, 2010.

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

The Company 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 2010 and 2009, 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 10 and 13.

The Company's Employee Stock Option Plan provides for the granting of stock options to certain employees and Directors of the Company. In some cases, stock appreciation rights are also granted in tandem with the stock option, providing the Company with, at its sole discretion, the alternative of settling the award in cash at an amount equal to the excess of the market price of the shares to which the option relates over the exercise price of the option. The Company accounts for stock options, including those with tandem stock appreciation rights, as equity-settled transactions where 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 10 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 13, the Company's contribution is expensed when paid.

NOTE 2 FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (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.

NOTE 3 CASH RESOURCES AND SECURITIES

(a) Cash Resources

(000s)	2010	2009
Deposits with regulated financial institutions	$ 347,631	$ 866,069
Treasury bills guaranteed by government	406,938	–
Cash and cash equivalents	754,569	866,069
Restricted cash[1]	92,255	64,065
	$ 846,824	$ 930,134

[1] Restricted cash includes a deposit of $70.0 million (2009 – $46.1 million) and $22.3 million (2009 – $18.0 million) held as collateral for the Company's securitization activities and the Company's interest rate swap transactions.

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

					2010	2009
(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
Available for sale						
Securities issued or guaranteed by						
Canada	13,944	66,148	44,613	–	124,705	56,173
Corporations	76,021	20,631	–	–	96,652	194,085
Equity securities						
Common	7,362	–	–	–	7,362	6,689
Fixed rate preferred	69,557	44,378	159,662	35,734	309,331	287,967
Income trusts	4,727	–	–	–	4,727	4,800
Mutual funds	1,115	–	–	–	1,115	945
	$ 172,726	$ 131,157	$ 204,275	$ 35,734	$ 543,892	$ 650,597

During 2010, on held for trading securities, the Company recognized in net income $0.2 million (2009 – $0.5 million) of interest and $nil (2009 – $nil) realized gains.

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

					2010
(000s, except %)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield
Securities issued or guaranteed by					
Canada	$ 124,838	$ –	$ (133)	$ 124,705	1.9%
Corporations	96,522	130	–	96,652	1.8%
Equity securities					
Common	7,049	611	(298)	7,362	2.1%
Fixed rate preferred	303,049	7,631	(1,349)	309,331	5.0%
Income trusts	5,185	–	(458)	4,727	5.1%
Mutual funds	1,000	115	–	1,115	–
	$ 537,643	$ 8,487	$ (2,238)	$ 543,892	

(000s, except %)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-average Yield
					2009
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	

The above unrealized losses represent differences between the cost 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, 2010, and continues to regularly monitor these investments and market conditions.

For the year ended December 31, 2010, the Company determined that $0.7 million (2009 – $5.8 million) of unrealized losses on available for sale securities were other than temporary in nature. These losses were transferred into net income. These unrealized losses are not included in the table above.

NOTE 4 LOANS

(a) Loans by Geographic Region and Type (net of specific allowances for credit losses)

As at December 31

(000s, except %)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Total	Percentage of Portfolio
					2010
British Columbia	**$ 303,458**	**$ 9,580**	**$ 15,921**	**$ 328,959**	**5.6%**
Alberta	**297,544**	**31,813**	**39,090**	**368,447**	**6.3%**
Ontario	**3,592,856**	**736,310**	**391,976**	**4,721,142**	**80.5%**
Quebec	**154,793**	**34,710**	**1,482**	**190,985**	**3.3%**
Atlantic provinces	**124,980**	**25,840**	**3,661**	**154,481**	**2.6%**
Other	**96,499**	**–**	**1,209**	**97,708**	**1.7%**
	$ 4,570,130	**$ 838,253**	**$ 453,339**	**$ 5,861,722**	**100.0%**
As a % of portfolio	**78.0%**	**14.3%**	**7.7%**	**100.0%**	

As at December 31

(000s, except %)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Total	Percentage of Portfolio
					2009
British Columbia	$ 476,425	$ 9,270	$ 22,617	$ 508,312	9.3%
Alberta	364,050	76,424	54,209	494,683	9.0%
Ontario	3,281,896	570,339	258,952	4,111,187	75.2%
Quebec	131,776	31,660	1,594	165,030	3.0%
Atlantic provinces	92,121	11,399	4,095	107,615	2.0%
Other	70,929	9,333	1,451	81,713	1.5%
	$ 4,417,197	$ 708,425	$ 342,918	$ 5,468,540	100.0%
As a % of portfolio	80.8%	12.9%	6.3%	100.0%	

(b) Past Due Loans That Are Not Impaired

As at December 31				**2010**
(000s)	**Residential Mortgages**	**Non-residential Mortgages**	**Personal and Credit Card Loans**	**Total**
1–30 days	**$ 108,842**	**$ 4,671**	**$ 4,706**	**$ 118,219**
31–60 days	**26,027**	**1,022**	**1,922**	**28,971**
61–90 days	**6,038**	**–**	**1,857**	**7,895**
Over 91 days	**7,080**	**–**	**1,384**	**8,464**
	$ 147,987	**$ 5,693**	**$ 9,869**	**$ 163,549**

As at December 31				2009
(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Total
1–30 days	$ 134,925	$ 4,058	$ 5,204	$ 144,187
31–60 days	36,149	1,910	1,428	39,487
61–90 days	3,080	–	2,162	5,242
Over 91 days	8,911	–	749	9,660
	$ 183,065	$ 5,968	$ 9,543	$ 198,576

(c) Impaired Loans and Specific Allowances for Credit Losses

As at December 31				**2010**
(000s)	**Residential Mortgages**	**Non-residential Mortgages**	**Personal and Credit Card Loans**	**Total**
Gross amount of impaired loans	**$ 29,586**	**$ 2,295**	**$ 7,241**	**$ 39,122**
Specific allowances	**(1,757)**	**–**	**(3,140)**	**(4,897)**
	$ 27,829	**$ 2,295**	**$ 4,101**	**$ 34,225**

As at December 31				2009
(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Total
Gross amount of impaired loans	$ 41,621	$ 2,417	$ 4,847	$ 48,885
Specific allowances	(1,483)	(135)	(961)	(2,579)
	$ 40,138	$ 2,282	$ 3,886	$ 46,306

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of $1.6 million (2009 – $2.2 million).

(d) Collateral

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant it or if a mortgage becomes impaired. As at December 31, 2010, the total appraised value of the collateral for mortgages past due that are not impaired, as determined when the mortgages were originated, was $380.8 million (2009 – $361.7 million). For impaired mortgages, the total appraised value of collateral at December 31, 2010 was $49.3 million (2009 – $71.5 million).

(e) Allowance for Credit Losses

For the year ended				**2010**
(000s)	**Residential Mortgages**	**Non-residential Mortgages**	**Personal and Credit Card Loans**	**Total**
Specific allowances				
Balance at the beginning of the year	**$ 1,483**	**$ 135**	**$ 961**	**$ 2,579**
Provisions for credit losses	**4,109**	**(135)**	**4,077**	**8,051**
Write-offs	**(6,345)**	**–**	**(2,177)**	**(8,522)**
Recoveries	**2,510**	**–**	**279**	**2,789**
	1,757	**–**	**3,140**	**4,897**
General allowance				
Balance at the beginning of the year	**19,948**	**4,398**	**3,447**	**27,793**
Provisions for credit losses	**(3,649)**	**4,959**	**50**	**1,360**
	16,299	**9,357**	**3,497**	**29,153**
Total allowance	**$ 18,056**	**$ 9,357**	**$ 6,637**	**$ 34,050**
Total provision	**$ 460**	**$ 4,824**	**$ 4,127**	**$ 9,411**

For the year ended				2009
(000s)	Residential Mortgages	Non-residential Mortgages	Personal and Credit Card Loans	Total
Specific allowances				
Balance at the beginning of the year	$ 2,379	$ –	$ 547	$ 2,926
Provisions for credit losses	6,650	135	2,125	8,910
Write-offs	(8,822)	–	(1,913)	(10,735)
Recoveries	1,276	–	202	1,478
	1,483	135	961	2,579
General allowance				
Balance at the beginning of the year	16,897	4,580	3,700	25,177
Provisions for credit losses	3,051	(182)	(253)	2,616
	19,948	4,398	3,447	27,793
Total allowance	$ 21,431	$ 4,533	$ 4,408	$ 30,372
Total provision	$ 9,701	$ (47)	$ 1,872	$ 11,526

(f) Loan Maturities

					2010	2009
(000s)	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Book Value**	Total Book Value
Residential mortgages	**$ 1,741,706**	**$ 2,001,641**	**$ 559,606**	**$ 267,177**	**$ 4,570,130**	$ 4,417,197
Non-residential mortgages	**263,217**	**384,083**	**150,740**	**40,213**	**838,253**	708,425
Personal and credit card loans	**344,076**	**5,705**	**87,442**	**16,116**	**453,339**	342,918
	2,348,999	**2,391,429**	**797,788**	**323,506**	**5,861,722**	5,468,540
General allowance for credit losses	**–**	**–**	**–**	**–**	**(29,153)**	(27,793)
	$ 2,348,999	**$ 2,391,429**	**$ 797,788**	**$ 323,506**	**$ 5,832,569**	$ 5,440,747

(g) Sale of Loan Portfolio

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

NOTE 5 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 entities 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 $5.17 billion (2009 – $2.60 billion) of mortgages in securitization transactions. As at December 31, 2010, the retained interest in the securitization receivable recorded on the consolidated balance sheet for securitization transactions totalled $343.4 million (2009 – $229.4 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 $41.6 million (2009 – $30.4 million) included in other liabilities.

Included in the above is participation in the Canada Mortgage Bond (CMB) program. Total mortgage receivables of $3.18 billion (2009 – $1.96 billion) were sold through the CMB program. The net gain on sale was $36.7 million for the year (2009 – $62.1 million). As at December 31, 2010, the securitization receivable includes $243.7 million (2009 – $187.5 million) for the CMB retained interest. A servicing liability of $35.8 million (2009 – $28.5 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, 2010 totalled $125.6 million (2009 – $92.9 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 (CMHC), 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)		**2010**		2009
Net gain on sales of mortgages	**$**	**98,684**	$	80,113
Hedging cost		**(7,151)**		(62)
Amortization of servicing liability		**7,229**		3,705
Other securitization income (net of expenses)		**8,962**		8,641
	$	**107,724**	$	92,397

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:

	2010	2009
Prepayment rate	**14.4%**	7.1%
Discount rate	**1.9%**	2.7%
Excess spread	**1.6%**	1.9%
Weighted-average life in years	**4.2**	5.0

There are no assumptions for expected credit losses as these mortgages are all insured.

The following table shows the impact on the fair value of the retained interest (level 3 financial instruments: see Note 17 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)		**2010**		2009
Carrying amount of retained interest	**$**	**343,402**	$	229,418
Weighted-average life in years		**4.6**		4.7
Prepayment rate		**15.3%**		7.7%
Impact on fair value of 10% adverse change		**(4,401)**		(3,401)
Impact on fair value of 20% adverse change		**(8,639)**		(5,781)
Residual cash flows discount rate		**2.0%**		2.7%
Impact on fair value of 10% adverse change		**(1,467)**		(2,487)
Impact on fair value of 20% adverse change		**(2,922)**		(3,845)

There are no assumptions for expected credit losses as these mortgages are all insured.

The table below presents a reconciliation of the retained interest (level 3 financial instruments) for the years ended December 31, 2010 and 2009:

(000s)	**As at January 1, 2010**	**Total Loss Recorded in OCI**	**Additions**	**Net Cash Flows**	**Other**	**As at December 31, 2010**
Securitization receivable	**$ 229,418**	**$ (600)**	**$ 193,362**	**$ (103,036)**	**$ 24,258**	**$ 343,402**

(000s)	As at January 1, 2009	Total Gain Recorded in OCI	Additions	Net Cash Flows	Other	As at December 31, 2009
Securitization receivable	$ 139,870	$ 1,692	$ 156,996	$ (72,290)	$ 3,150	$ 229,418

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

(000s)	**2010**	2009
Net proceeds from new securitizations	**$ 5,091,160**	$ 2,550,007
Net cash flows received on retained interests	**103,036**	72,290

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

(000s)		**2010**
	Total Principal Amount	**Principal Amount of Loans 61 or More Days Past Due**
Total loans managed or securitized	**$ 14,028,255**	**$ 75,281**
Less mortgages securitized	**8,166,533**	**19,800**
Total loans reported on the consolidated balance sheet	**$ 5,861,722**	**$ 55,481**

(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 loans reported on the consolidated balance sheet	$ 5,468,540	$ 63,787

NOTE 6 CAPITAL ASSETS

			2010	2009
(000s)	**Cost**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer equipment	**$ 13,257**	**$ 11,002**	**$ 2,255**	$ 1,868
Software	**112**	**69**	**43**	44
Office furniture and equipment	**6,882**	**4,930**	**1,952**	2,276
Leasehold improvements	**3,366**	**2,722**	**644**	675
	$ 23,617	**$ 18,723**	**$ 4,894**	$ 4,863

Amortization in respect of the above-noted capital assets for the year amounted to $2.9 million (2009 – $2.6 million).

NOTE 7 OTHER ASSETS

(000s)		2010		2009
Accrued interest receivable	$	25,988	$	26,153
Income taxes receivable		9,451		–
Goodwill		15,752		15,752
Intangible assets		47,917		26,811
Other prepaid assets and deferred items		41,550		36,399
	$	140,658	$	105,115

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

NOTE 8 DEPOSITS

					2010	2009
(000s, except %)	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	Total	Total
Individuals	$ 50,359	$ 3,407,337	$ 2,388,347	$ 613,291	$ 6,459,334	$ 6,370,564
Businesses	–	26,872	18,181	18,463	63,516	39,258
	$ 50,359	$ 3,434,209	$ 2,406,528	$ 631,754	$ 6,522,850	$ 6,409,822
Effective yield	–	2.4%	3.3%	3.6%	2.8%	3.0%

NOTE 9 OTHER LIABILITIES

(000s)		2010		2009
Accrued interest payable	$	145,759	$	138,498
Dividends payable		6,236		5,901
Future income taxes (Note 12)		88,562		57,559
Securitization servicing liability (Note 5)		41,594		30,389
Payable to MBS and CMB holders (Note 5)		125,579		92,896
Other, including accounts payable and accrued liabilities		34,138		30,904
	$	441,868	$	356,147

Included in Other is a liability for employee future benefits in the amount of $133 thousand (2009 – $152 thousand).

NOTE 10 CAPITAL

(a) Authorized

An unlimited number of common shares with no par value.
An unlimited number of preferred shares, issuable in series, to be designated as senior preferred shares.
An unlimited number of preferred shares, issuable in series, to be designated as junior preferred shares.

(b) Issued and Outstanding

(000s)	2010 Number of Shares	2010 Book Value	2009 Number of Shares	2009 Book Value
Common shares				
Balance, beginning of year	**34,713**	**$ 45,396**	34,434	$ 39,094
Options exercised	**130**	**5,309**	445	6,498
Repurchase of shares	**(197)**	**(278)**	(166)	(196)
Balance, end of year	**34,646**	**$ 50,427**	34,713	$ 45,396

(c) Normal Course Issuer Bid

On August 30, 2010, the Company filed a Normal Course Issuer Bid which allowed it to purchase over a 12-month period, beginning September 1, 2010, up to 10% of the public float outstanding on August 30, 2010.

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.

During the year, 197,700 (2009 – 165,400) common shares were purchased for $8.5 million (2009 – $4.7 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 $0.3 million in 2010 (2009 – $0.2 million). The balance of the purchase price of $8.2 million (2009 – $4.5 million) was charged to retained earnings.

(d) Stock Options

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

(000s, except exercise price and number of years)	2010 Number of Options	2010 Weighted-average Exercise Price	2009 Number of Options	2009 Weighted-average Exercise Price
Outstanding, beginning of year	**925**	**$ 31.32**	1,407	$ 25.08
Issued	**343**	**47.82**	168	30.12
Exercised	**(147)**	**34.17**	(445)	11.86
Cancelled	**(55)**	**34.66**	(205)	29.76
Outstanding, end of year	**1,066**	**$ 36.07**	925	$ 31.32
Exercisable at year-end	**421**	**$ 33.06**	458	$ 32.84
Weighted-average term to maturity in years		**5.9**		3.8

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, 2010, 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 is 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 must 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 is limited to 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 is determined in each case by the Board.

During the year, the Company approved an amendment to the employee stock option plan to provide stock appreciation rights which allow cash settlement of vested stock options, at the Company's discretion. During the year, 23,750 options were settled in cash for $0.3 million (2009 – $nil). The Company does not anticipate additional cash settlement except in isolated circumstances.

As at December 31, 2010, 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	75,000	$ 34.51[2]	02/14/2012
	20,000	15,000	41.29[2]	12/07/2014
	20,000	5,000	16.27[3]	12/08/2015
	25,000	–	47.92[4]	12/01/2017
	165,000	95,000		
Employees	85,000	85,000	27.89[1]	10/25/2011
	45,000	33,750	27.71[1]	12/01/2011
	50,000	37,500	34.51[2]	02/14/2012
	20,000	10,000	33.76[2]	03/07/2014
	165,000	123,750	41.29[2]	12/07/2014
	145,000	36,250	16.27[3]	12/08/2015
	25,000	–	17.06[4]	02/12/2016
	15,000	–	31.87[4]	05/05/2016
	10,000	–	40.70[4]	11/03/2016
	22,500	–	41.06[4]	12/02/2016
	10,000	–	44.63[5]	08/04/2017
	308,000	–	47.92[5]	12/01/2017
	900,500	326,250		
	1,065,500	421,250	$ 33.06	

1 In 2006, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2010, four levels of performance had been met for 85,000 options and three levels of performance had been met for 45,000 options. As a result, 100% and 75%, 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, 2010, three levels of performance had been met for 335,000 options and two levels of performance had been met for 20,000 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.

3 In 2008, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2010, 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, 2010, 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.

5 In 2010, the Company granted certain employees the right to receive stock options if certain performance criteria were met. As at December 31, 2010, 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 fair value of the options granted during the year ended December 31, 2010 was $16.61 for the December 2010 issue and $17.85 for the August 2010 issue. The weighted-average fair value of the options granted during the year ended December 31, 2009 was $14.55 for the December 2009 issue.

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

	December 2010	**August 2010**	December 2009	November 2009	May 2009	February 2009
Expected dividend yield	**1.39%**	**1.11%**	1.54%	1.40%	1.62%	2.51%
Expected share price volatility	**36.5%**	**36.9%**	38.0%	36.5%	36.1%	32.9%
Risk-free rate of return	**2.72%**	**2.58%**	2.72%	2.95%	2.26%	2.28%
Expected period until exercise in years	**6.0**	**7.0**	6.0	7.0	7.0	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 $1.2 million (2009 – $1.5 million) and net income decreased by the same amount with respect to options granted during the year.

The Company does 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 2010 and 2009 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 settle the DSUs until retirement or termination of directorship. The cash value of the DSUs is equivalent to the market value of common shares when settlement takes place. The value of the DSUs liability as at December 31, 2010, was $0.43 million (2009 – $0.27 million).

As of December 31, 2010, there were 9,670 DSUs available for grant under the plan. Of the DSUs issued, 9,670 DSUs remained outstanding at December 31, 2010.

(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 34,697 (2009 – 34,450).

Diluted income per common share is determined as net income for the year divided by the average number of common shares outstanding of 34,697 (2009 – 34,450) plus the stock options potentially exercisable, as determined under the treasury stock method, of 79 (2009 – 345) for a total of 34,776 (2009 – 34,795) 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 (Basel II) set by the Bank for International Settlements. Under Basel II, 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)	**2010**	2009
Regulatory capital		
Tier 1	**$ 682,978**	$ 530,256
Total	**731,676**	581,036
Regulatory ratios		
Tier 1	**18.1%**	16.4%
Total	**19.4%**	18.0%
Assets to capital multiple	**10.5**	12.7

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

NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME

The components comprising the accumulated other comprehensive income are:

(000s)		2010		2009
Unrealized gains on:				
Available for sale securities	$	**6,249**	$	10,695
Income tax expense		**(1,706)**		(2,733)
		4,543		7,962
Unrealized gains on:				
Securitization receivables		**19,172**		19,772
Income tax expense		**(4,986)**		(6,466)
		14,186		13,306
Accumulated other comprehensive income	$	**18,729**	$	21,268

NOTE 12 INCOME TAXES

(a) Components of the Provision for Income Taxes

(000s)		2010		2009
Current income taxes				
Federal	$	**20,564**	$	16,106
Provincial		**14,667**		11,719
		35,231		27,825
Future income taxes				
Federal		**15,201**		15,529
Provincial		**10,841**		11,112
		26,042		26,641
	$	**61,273**	$	54,466

(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 30.8% (2009 – 32.7%).

(000s)		2010		2009
Income before income taxes	$	**242,217**	$	198,959
Income taxes at statutory combined federal and provincial income tax rate	$	**74,719**	$	65,082
Increase (decrease) in income taxes resulting from:				
Tax-exempt income		**(5,473)**		(5,657)
Non-deductible expenses		**468**		1,792
Future tax rate changes		**(7,056)**		(9,762)
Other		**(1,385)**		3,011
	$	**61,273**	$	54,466

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

(c) Sources of Future Income Tax Assets and Liabilities

(000s)	2010	2009
Future income tax assets		
Allowance for credit losses	$ 7,781	$ 7,549
Deferred commitment fees and unearned income	4,393	3,213
	12,174	10,762
Future income tax liabilities		
Deferred agent commissions and other charges	21,204	18,761
Mortgage-backed securities receivable	79,532	49,560
	100,736	68,321
Net future income tax liability	$ 88,562	$ 57,559

NOTE 13 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 employees' 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 $0.6 million for 2010 (2009 – $0.5 million).

(b) Employee Retirement Savings Plan

During the year ended December 31, 2010, Home Trust contributed $0.6 million (2009 – $0.7 million) to the employee group registered retirement savings plan.

NOTE 14 COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments

Contractual minimum obligations in respect of premises and equipment leases at December 31, 2010 are as follows:

(000s)	
2011	$ 3,989
2012	3,064
2013	2,413
2014	2,120
2015	1,742
2016 and thereafter	–
	$ 13,328

(000s)	2010	2009
Rent paid	$ 4,696	$ 4,224

(b) Credit Commitments

Outstanding commitments for funding on mortgages amounted to $458.8 million as at December 31, 2010 (2009 – $553.4 million). Commitments for loans remain open for various dates through November 2011. The average rate on mortgage commitments is 4.65% (2009 – 3.82%).

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, 2010, these contractual commitments in aggregate were $416.4 million (2009 – $357.5 million) of which $76.5 million (2009 – $52.8 million) has not been drawn by customers. In addition, outstanding commitments for new Equityline *Visa* accounts were $5.1 million at December 31, 2010 (2009 – $2.9 million).

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

(c) Directors' and Officers' Indemnification

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

NOTE 15 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.

For example, the Company uses bond forward contracts to hedge the economic value exposure of movements in interest rates between the time that the mortgages are committed and the time the mortgages are securitized (these mortgages qualify for government insurance). The intent of the bond forward contract is to have fair value movements offset the fair value movements in the pool of mortgages over the period in which the fixed rate pool may be exposed to movements in interest rates, generally 60 to 150 days. During the year, the Company unwound $1.71 billion in bond forward contracts, realizing a loss of $7.2 million. This realized loss is included in the consolidated statements of income through securitization income. The table below includes bond forwards that remain outstanding at the end of the reporting period.

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

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

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

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

The swap transactions described above 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 tables summarize the Company's derivative holdings as at December 31, 2010 and 2009.

2010

(000s)	**Notional Amount**	**Current Replacement Cost**	**Credit Equivalent Amount**	**Risk-weighted Balance**	**Net Fair Market Value**
Interest rate swaps[1]					
Maturing in 2011	**$ 138,590**	**$ 752**	**$ 752**	**$ 150**	**$ (905)**
Maturing in 2012	**233,645**	**3,497**	**3,720**	**744**	**42**
Maturing in 2013	**1,108,440**	**8,246**	**8,903**	**1,780**	**(1,078)**
Maturing in 2014	**1,418,441**	**6,155**	**7,363**	**1,473**	**(3,049)**
Maturing in 2015	**2,634,908**	**17,316**	**26,857**	**5,371**	**9,604**
Maturing in 2016	**259,421**	**3,159**	**7,050**	**1,410**	**3,104**
Maturing in 2018	**238,456**	**52**	**75**	**15**	**(3,258)**
Maturing in 2020	**500,678**	**2,613**	**3,888**	**778**	**(8,893)**
	$ 6,532,579	**$ 41,790**	**$ 58,608**	**$ 11,721**	**$ (4,433)**
Bonds[2]					
Maturing in 2015	**$ 36,300**	**$ 44**	**$ 104**	**$ 21**	**$ (48)**
Maturing in 2016	**75,000**	**–**	**–**	**–**	**(207)**
Maturing in 2020	**140,900**	**289**	**1,094**	**219**	**(474)**
	$ 252,200	**$ 333**	**$ 1,198**	**$ 240**	**$ (729)**

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 following terms are used in the above tables: "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" is calculated using OSFI factors and 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 "net fair market value" represents the net value of the contracts using current interest rates.

In the following table, CMB interest rate swaps with a fair value of $(19.8) million (2009 – $(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)	**2010**	2009
Fair value of CMB interest rate swaps (seller swaps – level 3 financial instrument: see Note 17 for additional details)	**$ (19,797)**	$ (10,307)
Parallel shift in discount rate		
Impact on fair value of 1% decrease	**(25,844)**	(24,374)
Impact on fair value of 1% increase	**24,823**	22,486
Prepayment rate		
Impact on fair value of 5% decrease	**(115)**	(1,157)
Impact on fair value of 5% increase	**453**	813

The table below presents a reconciliation of the CMB interest rate swaps for the years ended December 31, 2010 and 2009:

(000s)	**As at January 1, 2010**	**Total Gain or Loss Recorded in Income Statement Excluding Net Settlements**	**Additions**	**Net Settlements Recorded in Income Statement**	**As at December 31, 2010**
CMB interest rate swap (seller swap)	**$ (10,307)**	**$ (16,641)**	**$ –**	**$ 7,151**	**$ (19,797)**

(000s)	As at January 1, 2009	Total Gain or Loss Recorded in Income Statement Excluding Net Settlements	Additions	Net Settlements Recorded in Income Statement	As at December 31, 2009
CMB interest rate swap (seller 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 on derivatives.

NOTE 16 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 tables show the gap position at December 31, 2010 and 2009 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, 2010, 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 $9.3 million and $7.9 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 $9.3 million and $7.6 million, respectively.

2010

(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	$ 82,211	$ 690,986	$ –	$ 71,330	$ 2,297	$ –	$ –	$ 846,824
Weighted-average interest rate	1.0%	1.0%	–	1.2%	0.9%	–	–	1.0%
Securities	–	55,785	38,759	78,181	131,156	240,011	–	543,892
Weighted-average interest rate	–	2.5%	3.1%	3.2%	3.1%	4.8%	–	3.8%
Loans	–	1,021,027	381,285	1,301,657	2,181,716	913,556	33,328	5,832,569
Weighted-average interest rate	–	6.5%	6.5%	6.0%	5.8%	5.7%	–	6.0%
Other assets	–	–	–	–	–	–	488,954	488,954
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 82,211	$ 1,767,798	$ 420,044	$ 1,451,168	$ 2,315,169	$ 1,153,567	$ 522,282	$ 7,712,239
Weighted-average interest rate	1.0%	4.2%	6.2%	5.6%	5.6%	5.5%	–	4.9%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 6	$ –	$ –	$ –	$ –	$ –	$ 50,353	$ 50,359
Weighted-average interest rate	–	–	–	–	–	–	–	–
Deposits payable on a fixed date	–	462,018	928,636	2,031,418	2,406,527	631,754	12,138	6,472,491
Weighted-average interest rate	–	2.6%	2.4%	2.3%	3.3%	3.6%	–	2.9%
Other liabilities	–	–	–	–	–	–	447,109	447,109
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	742,280	742,280
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 6	$ 462,018	$ 928,636	$ 2,031,418	$ 2,406,527	$ 631,754	$ 1,251,880	$ 7,712,239
Weighted-average interest rate	–	2.6%	2.4%	2.3%	3.3%	3.6%	–	2.4%
	$ 82,205	$ 1,305,780	$ (508,592)	$ (580,250)	$ (91,358)	$ 521,813	$ (729,598)	$ –
Credit commitments and derivatives	–	(411,111)	7,216	9,192	179,836	214,867	–	–
Weighted-average interest rate	–	12.6%	9.4%	5.8%	5.2%	3.5%	–	–
Interest rate sensitivity gap	$ 82,205	$ 894,669	$ (501,376)	$ (571,058)	$ 88,478	$ 736,680	$ (729,598)	$ –
Cumulative gap	$ 82,205	$ 976,874	$ 475,498	$ (95,560)	$ (7,082)	$ 729,598	$ –	$ –

								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	–	1,508,935	341,894	684,587	1,888,625	965,746	50,960	5,440,747
Weighted-average interest rate	–	5.5%	7.5%	6.6%	6.2%	6.1%	–	6.0%
Other assets	–	–	–	–	–	–	339,396	339,396
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 68,941	$ 2,346,017	$ 475,507	$ 837,583	$ 2,076,689	$ 1,165,781	$ 390,356	$ 7,360,874
Weighted-average interest rate	0.3%	3.7%	5.8%	5.6%	5.8%	6.0%	–	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	$ 1,777,775	$ (157,323)	$ (1,294,731)	$ (163,525)	$ 379,691	$ (610,822)	$ –
Credit commitments and derivatives	–	(307,364)	70,977	29,137	207,266	(16)	–	–
Weighted-average interest rate	–	(0.9%)	6.6%	5.2%	3.6%	9.8%	–	–
Interest rate sensitivity gap	$ 68,935	$ 1,470,411	$ (86,346)	$ (1,265,594)	$ 43,741	$ 379,675	$ (610,822)	$ –
Cumulative gap	$ 68,935	$ 1,539,346	$ 1,453,000	$ 187,406	$ 231,147	$ 610,822	$ –	$ –

NOTE 17 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.

			2010			2009
(000s)	**Carrying Value**	**Fair Value**	**Fair Value over Carrying Value**	Carrying Value	Fair Value	Fair Value over Carrying Value
Assets						
Cash resources	**$ 846,824**	**$ 846,824**	**$ –**	$ 930,134	$ 930,134	$ –
Securities	**543,892**	**543,892**	**–**	650,597	650,597	–
Loans	**5,832,569**	**6,080,034**	**247,465**	5,440,747	5,775,417	334,670
Securitization receivable	**343,402**	**343,402**	**–**	229,418	229,418	–
Other	**145,552**	**145,552**	**–**	109,978	109,978	–
Liabilities						
Deposits and borrowings	**6,522,850**	**6,691,863**	**169,013**	6,409,822	6,613,327	203,505
Derivatives	**5,162**	**5,162**	**–**	8,220	8,220	–
Other	**441,947**	**441,947**	**–**	352,544	352,544	–
Off-balance sheet financial instruments						
Credit commitments	**$ 540,363**	**$ 466,054**	**$ (74,309)**	$ 609,224	$ 629,318	$ 20,094

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 3.
- 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.
- Securitization receivable is carried at fair value as described in Notes 1 and 5.
- Other assets are assumed to approximate their carrying values due to their short-term nature.
- 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 changes in fair value.
- Fair value of derivative financial instruments is calculated as described in Note 15.

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 interest rate swaps (seller swaps) used for hedging in the CMB program. Please see Notes 5 and 15 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.

				2010
(000s)	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Interest rate swaps (hedge swaps)	$ –	$ 17,381	$ –	$ 17,381
Financial instruments available for sale				
Securities issued or guaranteed by				
Canada	5,080	119,625	–	124,705
Corporations	96,652	–	–	96,652
Equity securities				
Common	7,362	–	–	7,362
Fixed rate preferred	309,331	–	–	309,331
Income trusts	4,727	–	–	4,727
Mutual funds	–	1,115	–	1,115
Securitization receivable	–	–	343,402	343,402
Total	$ 423,152	$ 138,121	$ 343,402	$ 904,675
Financial liabilities at fair value				
Interest rate swaps (seller swaps)	$ –	$ –	$ 19,797	$ 19,797
Interest rate swaps	–	2,017	–	2,017
Bond forward contracts	–	729	–	729
Total	$ –	$ 2,746	$ 19,797	$ 22,543

				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

The Company did not transfer any financial instrument from level 1 or level 2 to level 3 of the fair value hierarchy during 2010 or 2009.

NOTE 18 EARNINGS BY BUSINESS SEGMENT

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

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

2010

(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	**$ 130,691**	**$ 35,761**	**$ 27,410**	**$ 193,862**
Provision for credit losses	**(5,284)**	**(4,127)**	**–**	**(9,411)**
Fees and other income	**15,243**	**15,229**	**218**	**30,690**
Securitization income	**107,724**	**–**	**–**	**107,724**
Net gain on securities and others	**421**	**3,917**	**8,953**	**13,291**
Non-interest expenses	**(59,577)**	**(14,945)**	**(19,417)**	**(93,939)**
Income before income taxes	**189,218**	**35,835**	**17,164**	**242,217**
Income taxes	**(50,377)**	**(11,129)**	**233**	**(61,273)**
Net income	**$ 138,841**	**$ 24,706**	**$ 17,397**	**$ 180,944**
Goodwill	**$ 2,324**	**$ 13,428**	**$ –**	**$ 15,752**
Total assets	**$ 5,990,623**	**$ 514,872**	**$ 1,206,744**	**$ 7,712,239**

2009

(000s)	Mortgage Lending	Consumer Lending	Other	Total
Net interest income	$ 100,268	$ 36,738	$ 28,005	$ 165,011
Provision for credit losses	(9,653)	(1,873)	–	(11,526)
Fees and other income	18,145	11,043	138	29,326
Securitization income	92,397	–	–	92,397
Net gain on securities and others	255	–	2,097	2,352
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

NOTE 19 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 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 of the Risk Management Section of the MD&A. Significant exposures to credit, liquidity and interest rate risks are described in Notes 3, 4, 15 and 16.

NOTE 20 COMPARATIVE FIGURES

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

Corporate Directory

HOME CAPITAL GROUP INC.

Directors:

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

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

John M. E. Marsh[1,4]
Corporate Director
Port Colborne, Ontario

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

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

Gerald M. Soloway[2] (ex-officio)
Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario

Bonita Then[1,2]
President and
Chief Executive Officer
Specialty Foods Group
Toronto, Ontario

Leslie Thompson[1]
President
LESRISK, Debt and Risk
Management Inc.
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

Bonita Then
Vice Chair

Risk and Capital Committee
Norman F. Angus
Chair

Governance, Nominating and Conduct Review Committee
Hon. William G. Davis
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

Pino Decina
Senior Vice President, Residential Mortgage Lending

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

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

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

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

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 Wednesday, May 18, 2011 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

Corporate Directory

HOME TRUST COMPANY

Directors:

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

Norman F. Angus
John M. E. Marsh
Robert A. Mitchell
Brian R. Mosko
Martin Reid
Kevin P. D. Smith
Gerald M. Soloway
Bonita Then
Leslie Thompson

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

Pino Decina
Senior Vice President, Residential Mortgage Lending

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

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

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

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

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Corporate

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

Greg Parker
Treasurer

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

Donald Correia
Chief Credit Officer

Dinah Henderson, CGA
Vice President, Accounting

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

Shawn Lyons, C.A.
Vice President, Taxation

Sanjiv Purba
Chief Information Officer

Debbie Simon
Vice President, Human Resources

Samar Smith
Director, Internal Audit

Commercial Mortgage Lending

Shaun Gonsalves
Assistant Vice President

Residential Mortgage Lending

Armando Diseri
Vice President

Residential Mortgage Lending *(continued)*

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

Ron Cuadra
Vice President, National Sales

Jeffrey Barbour
Senior Credit Manager

Jean-Pierre Vico
Senior Manager

Brendon Callender
Frank Femia
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

***Visa* Operations**

Raymond St. Aubin
Director

Equityline *Visa*

Greg Schultz
Senior Manager

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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Angela Weidner
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Regional Manager, Mortgages

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Fax: 514-843-7620
1-866-620-7620

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

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, 2010,
there were 34,645,990
common shares outstanding

Shareholder Information:
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Senior Vice President,
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HOME CAPITAL GROUP INC.
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