

Management's Discussion & Analysis

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FINANCIAL HIGHLIGHTS**OVERVIEW**

This section of the Annual Report provides a detailed discussion and analysis of the financial condition and results of operations of Home Capital Group Inc. (the "Company") for the years ended December 31, 2000 and 1999. The discussion and analysis relates primarily to the Company's subsidiary, Home Trust Company ("Home Trust"), which provides residential first mortgage lending and deposit taking services. It also provides a review of the Company's risk management policies relating to the credit, liquidity, and interest rate and capital risks that are applicable to the Company's balance sheet.

FOR THE YEARS ENDED DECEMBER 31 (000'S)	2000	1999	1998	1997	1996
RESULTS OF OPERATIONS					
Net earnings	\$ 10,452	8,081	6,067	3,018	1,187
Basic earnings per share	\$ 0.71	0.55	0.46	0.27	0.11
Return on average shareholders' equity	23.24%	21.82%	20.70%	13.24%	5.94%
Net investment margin (taxable equivalent basis)	3.20%	3.20%	3.30%	3.40%	3.60%
Fee income and gains on sale of investments to net revenue	17.85%	16.75%	17.16%	15.90%	11.82%
Productivity ratio (non-interest expense as a % of net revenue)	40.90%	41.51%	42.46%	46.48%	43.39%
FINANCIAL CONDITION					
Investments	\$ 873,654	731,603	534,102	429,385	341,606
Deposits and other borrowings	\$ 813,182	684,869	493,386	399,497	318,838
Credit quality					
Provision for loan losses as a % of total loans	0.16%	0.09%	0.21%	0.86%	1.84%
Net impaired loans as a % of total loans	0.39%	0.21%	0.26%	0.25%	0.35%
Allowances for loan losses as a % of gross impaired loans	136.97%	210.08%	208.51%	197.60%	160.21%

INCOME STATEMENT HIGHLIGHTS FOR 2000

Earnings for the Company continued to reflect strong growth during the 2000 fiscal year, with net income increasing to \$10,451,634 (\$0.71 per share) in 2000 from \$8,081,108 (\$0.55 per share) in 1999, an increase of 29.3%. The return on average shareholders' equity continued to exceed the average for deposit taking financial institutions, with a return of 23.2% for the 2000 fiscal period, up from a return of 21.8% in 1999. This strong growth resulted from a number of accomplishments and factors.

- The mortgage portfolio increased by 21% to \$773 million in 2000 from \$640 million in 1999 (36% in increase in 1999). There was also a corresponding increase of 19% in deposits and borrowings during the 2000 fiscal year (36% in 1999), from \$685 million in 1999 to \$813 million in 2000. The overall spread between the mortgage and deposit portfolios increased to 3.10% in 2000 from 3.00% in 1999. The spread in 1999 had decreased due to the purchase of seasoned mortgage portfolios in the fourth quarter of 1999. The results for 2000 reflect a return to the normal expected spread percentage.

- The Company is required for liquidity purposes to maintain a certain amount of its assets in short-term investments, namely cash, treasury bills, bankers' acceptances and government bonds. During the year, the Company maintained an average holding of liquid assets (excluding bonds) in the \$19 million range (\$26 million in 1999). During the year, the Bank of Canada prime lending rate averaged 7.27% up from the 6.43% averaged in 1999. As a result, the average return increased from 4.67% in 1999 to 5.61% in 2000. The lower average holdings resulted in a decline in other income of \$0.14 million in 2000 over 1999.
- A gain of \$0.453 million was earned in 2000 on the sale of Mortgage-Backed Securities. This gain was realized in the fourth quarter of 2000 and was the first such issue by the Company.
- The provision for mortgage losses increased by \$0.675 million to \$1.275 million (\$0.600 million in 1999) an increase of 112.5%. Of this increase in the provision, the Company allocated \$1.165 million to the general provision, which reflects the level of conservatism employed.
- Operating expenses increased by 26.2% during the year (19.3% in 1999). Since the majority of expenses are volume related, a company's efficiency is best measured by its productivity ratio. Productivity ratio is defined as operating expenses as a percentage of its net income. The Company's productivity ratio improved to 40.9% in 2000 compared to 41.5% in 1999.

BALANCE SHEET HIGHLIGHTS FOR 2000

- Assets increased by \$143.8 million, or 19.5% over 1999 (\$199.3 million in 1999, or 37.0% over 1998). This was primarily the growth in the mortgage portfolio of \$133.1 million (\$168.2 million in 1999). The growth in 2000 was primarily internally generated. In 1999, the growth was generated equally through internal growth and by the purchase of mortgage portfolios.
- Investments (consisting of stocks and bonds) increased by \$6.3 million during the year.
- The Company was approved for membership as a General Member in the VISA Canada Association and subsequently launched a VISA card program designed to assist consumers in establishing or re-establishing a positive credit history. This VISA operation is still in the development stages and the accumulation of direct costs are included in the deferred development costs. The program is anticipated to be fully operational by mid-year.
- Deposits and borrowings increased by \$128.3 million during the year, or 18.7% (\$191.5 million in 1999, or 38.8% over 1998).
- During the last quarter of fiscal 2000, a two-year subordinated secured note was undertaken to add \$5.0 million to the regulatory capital base of the subsidiary Home Trust. A principal payment of \$0.5 million was made on the existing senior term loan during the year.
- Dividends payable were \$0.3 million at the end of fiscal 2000, an increase from the \$0.2 million outstanding at the end of 1999 as the dividend rate was increased in the second quarter of 2000 from \$0.015 to \$0.02 per share.
- Capital stock and contributed surplus decreased by \$0.3 million, as a result of the excess of the repurchase of stock through a normal course issuer bid over the conversion of options (\$0.4 million in 1999).
- An increase in retained earnings of \$9.3 million (\$7.2 million in 1999) from current year earnings, net of dividends paid, helped to fund the increase in assets during the year.

EARNINGS REVIEW**NET INVESTMENT INCOME**

An analysis of net investment income, as a percentage of average total assets and total liabilities, is presented in the following table. Net investment income is the difference between income earned on investments and the interest paid on deposits to fund those assets. The dividend income has been converted to a tax equivalent basis for comparison purposes.

FOR THE YEARS ENDED DECEMBER 31 (000'S)	2000			1999		
	AVERAGE BALANCE	INCOME/ EXPENSE	AVERAGE RATE	AVERAGE BALANCE	INCOME/ EXPENSE	AVERAGE RATE
ASSETS						
Cash and short-term investments	\$ 20,659	1,065	4.7%	\$ 18,632	1,216	4.7%
Investments	74,588	4,129	5.5%	58,306	3,452	5.7%
Mortgages	706,526	60,193	8.5%	555,914	44,529	8.0%
Taxable equivalent adjustment		2,273	—		1,796	—
Total earning assets	801,773	67,660	8.5%	632,852	50,993	7.9%
Other assets	8,257	—	—	5,653	—	—
TOTAL ASSETS	\$ 810,030	67,660	8.4%	\$ 638,505	50,993	7.9%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Bank and senior term loan	\$ 11,250	785	8.1%	\$ 9,250	815	8.7%
Deposits and borrowings	749,025	40,575	5.4%	589,127	29,419	5.0%
Total interest bearing liabilities	760,275	41,360	5.5%	598,377	30,234	5.1%
Other liabilities	4,778	—	—	3,092	—	—
Shareholders' equity	44,977	—	—	37,036	—	—
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 810,030	41,360	5.2%	\$ 638,505	30,234	4.7%
NET INVESTMENT INCOME (taxable equivalent basis)		\$ 26,300			\$ 20,759	
NET INVESTMENT MARGIN (net investment income divided by average total assets)			3.2%			3.2%
NET INVESTMENT SPREAD (average rate of return on earning assets less average rate paid on interest bearing liabilities)			2.9%			2.8%

As indicated in the preceding table, the net investment income, on a taxable equivalent basis, increased by \$5,541,000 in 2000 over 1999 (\$4,056,000 in 1999 over 1998). The following factors substantially account for this increase.

The Bank of Canada prime lending rate started the year at 6.50%, increased by 25 basis points in each of February and March, and 50 basis points in May, to end the year at 7.50%. The effect on the average net interest return between mortgages and deposits resulted in an increase in spread in 2000 over 1999. The average net interest return was 3.10% in 2000 (mortgages 8.5%, deposits 5.4%), compared to 3.00% in 1999 (mortgages 8.0%, deposits 5.0%). This interest spread, combined with the 21% increase in the mortgage portfolio, resulted in an overall improvement to net mortgage interest income over deposits and borrowings of \$4,508,000 (\$2,719,000 in 1999). At year-end, the interest rate for mortgages was 8.91% (8.35% in 1999), while the rate for deposits was 5.81% (5.35% in 1999). The spread at year-end between mortgages and deposits increased from 3.00% in 1999 to 3.10% in 2000.

As part of the Company's liquidity policy requirements, a minimum of 20% of the next 100-day maturities must be invested in a liquid type investment. The Company both maintains a bank balance and invests excess cash in short-term investments and bonds to fulfill the liquidity policy requirement. As the Company continues to grow, the amount required to be in the form of liquid investments will also increase.

During the year, the average bank balance was \$3.5 million (\$2.9 million in 1999) and the average short-term investment balance was \$15.5 million (\$23.2 million in 1999), resulting in a decrease in the short-term investment income by \$151,000 at year-end. The increase in the Bank of Canada prime lending rate resulted in the average interest rate return increasing from 4.67% in 1999 to 5.61% in 2000.

The average holdings of bonds increased during the year from \$21.0 million to \$21.6 million. Bonds are tied to the Bank of Canada prime lending rate; the average interest rate return increased from 5.51% in 1999 to 5.70% in 2000. The small increase in average holdings during the year and the increase in average interest rate return resulted in an increase of \$9,000 in investment income to \$1,231,000 for 2000. However, in 1999 the income included gain on sale of bonds of \$20,000; no gains were recognized in 2000.

The common and preferred stock portfolio continued to increase during the year. The average holdings of common shares increased from \$2.4 million to \$2.6 million, and the average holdings of preferred shares increased from \$37.7 million to \$48.5 million. The average return, on a taxable equivalent basis increased from 10.05% in 1999 to 10.12% in 2000. The increase in average holdings plus the improvement in the average rate of return resulted in an increase to the investment income of \$1,146,000 year over year.

Average total assets increased substantially from \$638.5 million in 1999 to \$810.0 million in 2000. This increase in assets, and maintaining the interest rate spread between assets and liabilities, resulted in an overall improvement of net investment income from \$20.8 million in 1999 to \$26.3 million in 2000. Average shareholders' equity increased by \$7.9 million during the year (\$7.7 million in 1999). This had a positive effect on net investment income since there is no interest cost incurred on shareholders' equity.

FEES AND OTHER INCOME

Fees and other income increased from \$3,594,000 in 1999 to \$4,518,000 in 2000, an increase of 26% (30% in 1999). The majority of the fees that are generated are based on new mortgage activity. Total mortgages advanced during 2000, net of mortgages purchased, increased to \$365 million in 2000 from \$278 million in 1999, an increase of 31%. Other fees are generated from the administration of the mortgage portfolio.

GAIN ON SALE OF MORTGAGE-BACKED SECURITIES

During 2000, the Company issued its first Mortgage-Backed Security, a \$12.4 million principal pooling of residential mortgages, which generated a gain of \$453,000 in the year. This is a low-risk (insured by the Canada Mortgage and Housing Corporation), new stream of income for benefit of future years.

OPERATING EXPENSES

Operating expenses increased from \$9,482,000 in 1999 to \$11,962,000 in 2000, an increase of \$2,480,000, or 26.2%. This compares to an increase in operating expenses of \$1,508,000 or 18.9% from 1998 to 1999. The major components of the increase in operating expenses in 2000 are salaries and benefits, commissions on deposit certificates, other professional fees, capital tax, premises, computer services and finders fees.

Salaries and benefits increased by \$878,000 or 21.3% to \$5,003,000 in 2000 (\$4,125,000 in 1999). This expense represents 41.8% of total operating expenses (43.5% in 1999). During the year, the overall staff was increased from 67 to 91 people. The main additions were made to accommodate the Company's growth and new services added in credit card services, Mortgage-Backed Securities and Registered Retirement Income Funds.

Commissions paid to deposit brokers increased by \$238,000 during the year or 20.3% (\$1,414,000 in 2000; \$1,175,000 in 1999). This expense is strictly volume driven. The Company accepts deposits directly from the public at its office locations in Toronto, Hamilton, St. Catharines, Calgary and Vancouver. The company-generated funds accounted for 42.8%, or \$246 million, of the total deposits received (41.5%, or \$275 million in 1999). The remainder is raised through a deposit broker network and brokerage houses. This accounted for 57.2%, or \$329 million, of the total deposits received (58.5%, or \$389 million in 1999). A commission is paid on deposits received and the amount of the commission is based on the term of the deposit. The amount paid is amortized over the term of the deposit.

Other professional fees paid during the year increased from \$223,000 in 1999 to \$360,000 in 2000, an increase of \$137,000. This increase resulted from contract employees engaged to assist in the introduction of new products including the Mortgage-Backed Securities and credit card programs.

Capital tax is a tax that is based on the level of capital in a company. Shareholders' equity in Home Trust increased by \$8.7 million from net income during the year. As a result, the overall capital tax base increased during the year and the related expense grew from \$369,000 to \$457,000 an increase of \$88,000.

The Company expanded offices in Calgary and Vancouver in late 1999 and additional space and the renovation of current space was required in 2000. The costs of premises accordingly increased by \$261,000 (42.7%) to \$872,000 in 2000 over the 1999 expense level.

Computer services expense increased by \$310,000, or 91%, to \$650,000 in 2000 from \$340,000 in 1999. The increase is a result of upgrades to the systems required to accommodate the new products and the rapid growth of the Company. This expense is expected to be significantly reduced by mid-2001 with the addition of a new in-house computer system.

Finders fees increased in 2000 by \$104,000 (230%), which was due to the increase in the Company's range of offerings of new mortgage products.

Increases in other operating expenses are mainly volume driven and were partially offset by savings in deposit insurance.

BALANCE SHEET REVIEW

The Company's growth momentum continued during fiscal 2000. Total assets increased by \$144 million to \$882 million at December 31, 2000, an increase of 19.5% over 1999. For 1999, assets increased by \$199 million, or 37.0%, over 1998.

INVESTMENTS

AS AT DECEMBER 31 (000'S)	2000	1999	1998	1997	1996	% INCREASE (DECREASE)	
						2000 VS 1999	1999 VS 1998
Cash and short-term investments	\$ 21,154	20,164	17,101	13,765	1,172	4.9	17.9
Investments	77,724	71,453	45,160	29,747	28,650	8.8	58.2
Mortgage-Backed Securities Receivable	1,372	—	—	—	—	100.0	—
Credit Card Receivable	339	—	—	—	—	100.0	—
Gross mortgage loans							
Residential	758,458	613,938	460,263	373,964	293,672	23.5	33.4
Commercial	4,470	7,426	6,140	5,480	7,786	(39.8)	20.9
Other non-residential	14,598	22,036	8,541	9,365	12,804	(33.8)	158.0
	777,526	643,400	474,944	388,809	314,262	20.8	35.5
Provision for mortgage losses	4,461	3,414	3,103	2,936	2,478	30.7	10.0
	773,065	639,986	471,841	385,873	311,784	20.8	35.6
Total	\$ 873,654	731,603	534,102	429,385	341,606	19.2	37.0

Total investments amounted to \$873.7 million at December 31, 2000 an increase of \$142.1 million (19.4%) over 1999. This increase largely relates to the gross increase in the mortgage portfolio of \$134.1 million (\$168.5 million in 1999), which represents 89.0% of total investments (87.9% in 1999). The Company continues to consider residential first mortgages as its core business.

Cash and cash equivalents increased from \$20.2 million to \$21.2 million at December 31, 2000. These instruments, together with government bonds, are included as part of the Company's liquid assets.

Investments represent 8.9% of the Company's total assets at December 31, 2000, as compared to 9.8% one year ago. These investments are made up of bonds (provincial and federal government, and corporate), and common and preferred stocks. The Company maintained its investment strategy to take advantage of higher yields, and total investments increased from \$71.5 million in 1999 to \$77.7 million in 2000.

INVESTMENTS / SECURITIES

FOR THE YEARS ENDED DECEMBER 31 (000'S)	AS AT DECEMBER 31, 2000			AS AT DECEMBER 31, 1999		
	CARRYING VALUE	MARKET VALUE	EXCESS (DEFICIENCY) MARKET OVER CARRYING VALUE	CARRYING VALUE	MARKET VALUE	EXCESS (DEFICIENCY) MARKET OVER CARRYING VALUE
Government and Corporate bonds	\$ 22,375	22,046	(329)	\$ 23,922	22,815	(1,107)
Stocks						
Preferred						
Retractable	26,575	26,631	56	23,064	22,272	(792)
Non-retractable	3,028	2,917	(111)	2,756	2,586	(170)
Floating rate straights	3,523	3,469	(54)	3,527	3,376	(151)
Mutual funds	2,765	2,513	(252)	2,754	2,405	(349)
Convertible	16,573	16,852	279	12,417	12,204	(213)
	52,464	52,382	(82)	44,518	42,843	(1,675)
Common	2,885	2,532	(353)	3,013	2,025	(988)
Total stock portfolio	55,349	54,914	(435)	47,531	44,868	(2,663)
Total	\$ 77,724	76,960	(764)	\$ 71,453	67,683	(3,770)

Bonds are purchased to form part of the Company's liquidity assets, while corporate stocks are essentially the investment of the Company's shareholders' equity. The Investment Committee of the Board of Directors reviews and approves investment policies and transactions on a quarterly basis. The policies limit the size and type of investments in which the Company is able to invest.

The average holdings of bonds increased during the year, from \$21.0 million in 1999 to \$21.6 million in 2000 and at year-end, bond holdings stood at \$22.4 million, compared to \$23.9 million in 1999. Bond holdings are made up of federal and provincial government bonds of \$20.7 million (\$22.2 million in 1999) and corporate bonds of \$1.7 million (\$1.7 million in 1999). Gains or losses when selling bonds are dependent on prevailing interest rates at the time of sale. They can be held to maturity and redeemed at face value, or they can be sold at any time, resulting in a gain or loss depending on the interest rate conditions at the time of redemption. It is the Company's intention to keep the bonds for liquidity purposes until maturity.

At December 31, 2000, the preferred stock portfolio consists of 89.1% of P1 and P2 rated stocks (88.3% in 1999). Preferred shares that are either retractable, convertible, exchangeable or have dividend rates that are fixed to a floating or resettable rate (in other words, the interest rate is not fixed) account for 90.5% of the preferred share holdings at year-end, compared to 90.1% in 1999.

At December 31, 2000 the preferred shares had a market value deficiency of \$82,000, as compared to a market deficiency of \$1,675,000 in 1999.

In a period of rising interest rates, preferred shares will decrease in market value, and the reverse is true in a period of falling interest rates. It is widely speculated that there will be decreases in the U.S. prime rate to offset increases made during 2000 to control inflationary pressure. It is expected that the Bank of Canada prime rate will follow adjustments in U.S. prime rates. However, the bustling fourth quarter of the Canadian economy has resulted in an improved market value in the investment portfolio. At year-end, mutual funds had a market value deficit of \$252,000 (\$349,000 deficit in 1999).

In 1999, the common stock portfolio accounted for 4.2% of total investments, declining to 3.7% in 2000. The Company's investments in common shares are normally tied into the preferred stock portfolio. The common stock portfolio had a market value deficit of \$353,000 at the fiscal year ended December 31, 2000 an improvement over the \$988,000 deficit at the end of 1999.

MORTGAGE PORTFOLIO

All mortgages are secured by real property, together with chattel mortgages and other types of collateral where appropriate. The increase in the size of the mortgage portfolio is due to the Company's expansion of its service area (all of central and southern Ontario and western Canada), and the continued overall buoyancy of the real estate market. The Company's strategy continues to be that of the alternative lender to major financial institutions in the residential first mortgage market.

At year-end 2000, residential mortgages totalled \$758 million (97.5% of the total mortgage portfolio), as compared to \$614 million (95.4% in 1999). The remaining 2.5% in 2000 (4.6% in 1999) was made up of commercial and other non-residential properties, the most significant being industrial properties. The mortgages on commercial and other non-residential properties decreased by \$10.4 million to \$19.1 million in 2000 (\$14.8 million increase in 1999). During 1999, the Company purchased \$84 million of mortgage portfolios compared to only \$3 million in 2000. The mortgages purchased were well-seasoned and the due diligence performed assured that they met the investment criteria of the Company. The purchased mortgages included some commercial components which accounts for the 1999 increase in non-residential mortgages.

The security priority of the mortgage portfolio remained strong with 99.8% of the portfolio being first mortgages in both 1999 and 2000.

Canada Mortgage and Housing Corporation (“CMHC”) mortgages amounted to \$11.3 million in 2000 (\$10.1 million in 1999), which represented 1.5% of the total mortgage portfolio in 2000 and 1.6% in 1999. This area of lending remains intensely competitive. The Company will continue to lend in this area when deemed prudent; however, it is anticipated that there will be limited growth in this area.

The Company’s strategic alliance with the Canadian Imperial Bank of Commerce generated 5% of the total mortgage advances during the year (6% in 1999). In early 2000, the Company entered into an agreement with Scotiabank and the Bank of Montreal for a pilot project in Ontario as their preferred alternative provider of residential first mortgages. These agreements generated 1% each of total mortgage advances during the year. It is expected that these alliances will account for approximately 10% of new business in 2001. Although these alliances supplement the Company’s core business, the major source of business has been, and will continue to be, the mortgage broker network. The Company continued to expand operations in Alberta and British Columbia in 2000. The western provinces accounted for 12.5% of the 2000 volume. The Company began accepting deposits in Calgary and Vancouver in 2000. The Company is also registered to do business in Saskatchewan, Manitoba, Prince Edward Island, Newfoundland, New Brunswick and Nova Scotia. It is estimated that the provinces other than Ontario will account for 18.2% of the new business in 2001. It is anticipated that the internal rate of growth in the mortgage portfolio experienced in Ontario over the past few years will continue through 2001.

MORTGAGE RESERVES AND ARREARS MANAGEMENT

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. The Company continues to apply prudent and responsive policies to the management of impaired loans. At the core of these policies are the early identification of problem loans, the sale of properties in possession as quickly as possible and the provision of adequate reserves against potential loan losses that are known and general reserves for those that are unknown.

Impaired mortgages are summarized as follows:

FOR THE YEARS ENDED DECEMBER 31 (000'S)	2000	1999	1998	1997	1996
Impaired mortgages	\$ 3,257	1,625	1,488	1,486	1,547
Specific mortgage reserve	235	292	245	531	455
Net impaired mortgages	\$ 3,022	1,333	1,243	955	1,092
Gross mortgage portfolio	\$ 777,526	643,400	474,944	388,809	314,262
Net impaired mortgages as a % of the gross mortgage portfolio	0.39%	0.21%	0.26%	0.25%	0.35%

Net impaired loans as a percentage of the total mortgage portfolio have increased from 0.21% at December 31, 1999 to 0.39% at December 31, 2000. These ratios compare favourably with other large deposit-taking financial institutions. The Company’s loss risk profile has been reduced by the geographical expansion and an average loan-to-value ratio on the portfolio of 63.7%.

LOANS IN ARREARS

Early identification of delinquent accounts, coupled with prompt collection activities, is essential to minimizing the level of arrears and ensuring that these accounts are brought current. The Company considers a loan to be delinquent when either the principal or the interest is greater than 15 days in arrears. At that time, the collection department initiates procedures to collect payments. If acceptable repayment arrangements cannot be achieved prior to month-end, the Company's solicitor is instructed to initiate power of sale proceedings. At this point, the mortgage is referred to the Senior Manager, Mortgage Services and is monitored by a group, which includes senior management. The Company also has established policies and procedures for the collection of shortfalls, and the Senior Manager, Mortgage Services also monitors this. Along with the above review, the Board of Directors also reviews the loan arrears on a quarterly basis.

Total principal outstanding over 90 days was \$3.26 million as at December 31, 2000 compared to \$1.51 million one year earlier. As a percentage of the total mortgage portfolio, this has increased from 0.23% at December 31, 1999 to 0.42% at December 31, 2000. The entire principal amount in arrears over 90 days was covered by the total allowance for losses.

Loans in arrears are summarized below:

FOR THE YEARS ENDED DECEMBER 31 (000'S)	2000	1999	1998	1997	1996
90 to 180 days	\$ 1,863	1,245	1,151	1,171	395
181 to 270 days	1,024	107	150	130	—
271 + days	370	154	187	—	—
	\$ 3,257	1,506	1,488	1,301	395
Gross mortgage portfolio	\$ 777,526	643,400	474,944	388,809	314,262
Allowance for loan arrears	\$ 4,461	3,414	3,103	2,936	2,478
Arrears as a % of gross mortgage portfolio	0.42%	0.23%	0.31%	0.33%	0.13%
Allowance as a % of loan arrears > 90 days	136.97%	226.69%	208.53%	225.67%	627.34%

ALLOWANCE FOR MORTGAGES LOSSES

The Company is committed to maintaining prudent levels of reserves against foreseeable and unforeseeable future mortgage losses. The Company maintains reserves against specific mortgages, general reserves against vendor take back mortgages and general reserves against the remaining mortgage portfolio.

The continuity of the mortgage loss provision is as follows:

(000'S)	ALLOWANCE FOR MORTGAGE LOSSES AS AT 12/31/99	NET PROVISIONS DURING THE YEAR	NET WRITE-OFFS DURING THE YEAR	ALLOWANCE FOR MORTGAGE LOSSES AS AT 12/31/00
Specific reserve	\$ 420	120	228	312
General reserve – high ratio vendor take back mortgages	10	(10)	—	—
General reserve	2,984	1,165	—	4,149
Total	\$ 3,414	1,275	228	4,461

SPECIFIC RESERVE

This is an identifiable reserve based on management's detailed review of the mortgage portfolio. The reserve is based on current market values of mortgaged properties, among other factors.

GENERAL RESERVE – HIGH RATIO VENDOR TAKE BACK MORTGAGES

High ratio vendor take back mortgages (“VTB”) were used prior to December 31, 1992, as a financing tool on power of sale property sales. It continues to be the Company’s strategy to reduce the amount of mortgages of this type. The high ratio VTB balance was \$100,000 at December 31, 1999, and this was paid out during 2000. This has resulted in the elimination of the general provision at December 31, 2000 from a reserve of \$10,000 at December 31, 1999.

GENERAL RESERVE

The purpose of this reserve is to provide for potential future losses on currently performing mortgages. This reserve increased from \$2,984,000 at December 31, 1999 to \$4,149,000 at December 31, 2000. This reserve is 86 basis points of the total risk-weighted assets (74 basis points in 1999). The Company is committed to meeting and maintaining a 100 basis point general reserve by the end of 2002. Further details can be found in Note 5 to the Consolidated Financial Statements.

SUBORDINATED TERM LOAN

On November 10, 2000, the Company entered into an agreement with Surrey Metro Savings Credit Union (“Surrey Metro”) whereby Surrey Metro provided a subordinated secured note of \$5.0 million for a period of two years. Interest is payable on this loan at 9.5% per annum and the loan, together with all accrued and unpaid interest, is due and payable in full on October 16, 2002. The proceeds from the loan from Surrey Metro were utilized to increase the regulatory capital base of Home Trust to accommodate business growth in 2001.

DEPOSITS AND BORROWINGS

Deposits and other borrowings increased by \$128.3 million (or 18.7%) in 2000, compared to an increase of \$191.5 million (or 38.8%) in 1999 as follows:

AS AT DECEMBER 31 (000'S)	2000	1999	1998	1997	1996	% INCREASE	
						2000 VS 1999	1999 VS 1998
DEMAND							
Short-term certificates and savings	\$ 58,149	50,726	47,799	35,196	32,203	14.6	6.1
VISA card security deposits	1,025	–	–	–	–	100.0	–
	59,174	50,726	47,799	35,196	32,203	16.7	6.1
TERM							
Debenture investment certificates	636,036	530,736	365,251	287,475	220,559	19.8	45.3
Registered retirement savings plans	117,357	103,407	80,335	76,826	66,076	13.5	28.7
Registered retirement income funds	615	–	–	–	–	100.0	–
	754,008	634,143	445,586	364,301	286,635	18.9	42.3
TOTAL	\$ 813,182	684,869	493,385	399,497	318,838	18.7	38.8

The increase in deposits and borrowings partially funded the net increase in the mortgage portfolio (\$133.1 million), the increase of cash and cash equivalents (\$1.0 million), the increase in investments (\$6.3 million), the increase in new products (\$2.4 million) and the increase in the remaining assets (\$1.0 million). The net change in shareholders’ equity (\$9.1 million), the proceeds of the subordinated term loan less repayments on the senior term loan (\$4.5 million) and the increase in other liabilities (\$1.9 million) funded the difference.

FUTURE INCOME TAXES

Due to a reduction in the market deficiency in the stock portfolio over the deficiency at the end of fiscal 1999, the future taxes payable decreased by \$0.8 million in fiscal 2000.

SHAREHOLDERS' EQUITY

Capital stock and contributed surplus decreased by \$0.3 million (\$0.4 million in 1999), as a net result of the repurchase of stock through a normal course issuer bid over the conversion of options. This, combined with an increase in retained earnings of \$9.3 million (\$7.2 million in 1999) from the current year's net income, net of dividends paid, contributed funds to increase the asset base during the year.

STANDARDS OF SOUND BUSINESS AND FINANCIAL PRACTICES

Home Trust is regulated under The Trust and Loan Companies Act (Canada). Beginning in 1995, Home Trust completed the self-assessment review and reporting program associated with the Canada Deposit Insurance Corporation ("CDIC") Standards of Sound Business and Financial Practices, and performs it on an ongoing basis. These standards are to ensure that institutions are managed in a sound and prudent manner. These standards cover liquidity management, securities portfolio management, credit risk management and internal control. The Board of Directors of Home Trust reviews all areas on a quarterly basis.

LIQUIDITY RISK

Liquidity management ensures the ability of the Company to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its commitments (both on-and-off balance sheet) as they fall due.

The Company's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times, the composition of the type of liquid asset to be maintained, a daily monitoring of the liquidity position by senior management and quarterly reporting to the audit committee and the Board of Directors. Also, the Company has a set minimum requirement for liquid assets using two assumptions, the first being the "going concern" scenario and the second a specific company disruption. This requires the Company to make assumptions regarding the probable behaviour of the timing of cash flows for each type of asset and liability. These assumptions are on a conservative basis assigning later dates to cash inflows and earlier dates to cash outflows. The Company has set a policy limit of 120% under both scenarios and at the year-end these amounted to 144% under the "going concern" and 195% under specific company disruption.

The Company holds sufficient liquid assets in the form of cash bank deposits, treasury bills, bankers' acceptance and government bonds and debentures. On December 31, 2000 liquid assets amounted to \$42 million compared to \$41 million as at December 31, 1999.

INTEREST RATE RISK

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company actively manages rate risk by employing a number of techniques. These include the matching of asset and liability terms and modeling techniques that measure changes in the portfolios and the impact interest rate changes will have on the Company's earning capacity. The table following illustrates the interest rate sensitivity position as at December 31, 2000. However, this table represents only a position in time, and the gap represents the difference between assets and liabilities in each maturity category. 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 off-balance sheet hedging positions.

As illustrated by the schedule, the effective net interest rate spread between assets and liabilities is 3.07% (2.94% in 1999), after the adjustments as previously noted. The cumulative dollar gap, including off-balance sheet items, at the end of twelve months (more liabilities maturing than assets) is \$65.8 million (\$10.4 million in 1999). The cumulative gap between cash, investments and mortgages less the senior loan, demand deposits and term deposits account for \$41.5 million in 2000 (\$3.9 million in 1999). This cumulative gap is largely due to the demand deposits with short-term maturities. These deposits roll year over year. The off-balance sheet items gap, which is mortgage commitments less their related mortgage terms, accounted for \$24.3 million in 2000 (\$6.5 million in 1999). The cumulative gap in the three-plus year range is basically offset by shareholders' equity.

INTEREST RATE SENSITIVITY

INTEREST RATE SENSITIVITY AS AT DECEMBER 31, 2000 ('000'S)	FLOATING RATE		0 TO 3 MONTHS		3 TO 6 MONTHS		6 TO 12 MONTHS	
	CARRYING VALUE	EFFECTIVE INTEREST RATE	CARRYING VALUE	EFFECTIVE INTEREST RATE	CARRYING VALUE	EFFECTIVE INTEREST RATE	CARRYING VALUE	EFFECTIVE INTEREST RATE
ASSETS								
Cash and short-term investments	\$ 6,172	4.27%	6,005	5.47%	2,007	5.57%	6,960	5.54%
Investments	6,255	4.84%	5,748	5.63%	625	5.39%	3,495	7.27%
Mortgages			53,703	8.68%	73,830	8.85%	157,167	9.09%
Other assets								
	\$ 12,427	4.56%	65,456	8.12%	76,462	8.74%	167,622	8.90%
LIABILITIES								
Senior term loan	\$						500	8.56%
Demand deposits	27	0.86%	26,210	5.44%	8,843	5.55%	23,265	5.65%
Term deposits and other borrowings			47,888	5.54%	89,869	5.73%	166,824	5.72%
Other liabilities								
Shareholders' equity								
	\$ 27	0.86%	74,098	5.51%	98,712	5.71%	190,589	5.72%
Gap before off-balance sheet items	12,400		(8,642)		(22,250)		(22,967)	
Off-balance sheet items	—		(31,716)	9.67%	(475)	9.25%	7,875	10.05%
GAP AFTER OFF-BALANCE SHEET ITEMS	\$ 12,400		(40,358)		(22,725)		(15,092)	
CUMULATIVE GAP	\$ 12,400		(27,958)		(50,683)		(65,775)	

INTEREST RATE SENSITIVITY	1 TO 3 YEARS		3 YEARS +		NON-INTEREST SENSITIVE	TOTAL	
	CARRYING VALUE	EFFECTIVE INTEREST RATE	CARRYING VALUE	EFFECTIVE INTEREST RATE	CARRYING VALUE	CARRYING VALUE	EFFECTIVE INTEREST RATE
AS AT DECEMBER 31, 2000 (000'S)							
ASSETS							
Cash and short-term investments \$					10	\$ 21,154	5.15%
Investments	23,703	5.51%	37,247	5.56%	651	77,724	5.52%
Mortgages	291,821	8.95%	192,469	8.78%	4,075	773,065	8.86%
Other assets					9,982	9,982	0.00%
	\$ 315,524	8.69%	229,716	8.26%	14,718	\$ 881,925	8.38%
LIABILITIES							
Senior term loan	\$ 13,000	8.56%				\$ 13,500	8.56%
Demand deposits					829	59,174	5.46%
Term deposits and other borrowings	258,643	5.85%	165,044	6.02%	25,740	754,008	5.62%
Other liabilities					5,742	5,742	0.00%
Shareholders' equity					49,501	49,501	0.00%
	\$ 271,643	5.98%	165,044	6.02%	81,812	\$ 881,925	5.31%
Gap before off-balance sheet items	43,881		64,672		(67,094)		3.07%
Off-balance sheet items	17,588	9.74%	6,728	8.98%	—		
GAP AFTER OFF-BALANCE SHEET ITEMS	\$ 61,469		71,400		(67,094)		
CUMULATIVE GAP	\$ (4,306)		67,094		—		

In addition to the above matching of assets and liabilities, the Company also employs an interest rate risk sensitivity model that measures the relationship between changes in interest rates and the present value of equity. Standards have been established whereby each major asset or liability decision must be assessed to determine standards compliance.

The interest rate sensitivity model includes assessing the impact of a 100 basis point (1%) change in interest rates and the effect this has on shareholders' equity. At December 31, 2000, an immediate and sustained 100 basis point increase in rates would decrease the economic value of shareholders' equity by \$2.4 million (\$1.6 million at December 31, 1999). The same 100 basis point increase would decrease income after tax by \$1.3 million at December 31, 2000 (\$0.9 million at December 31, 1999).

REAL ESTATE APPRAISALS

A properly qualified independent third-party appraiser appraises all properties. These appraisals are reviewed by both the underwriter and credit manager for completion, content and accuracy. In addition, either in-house personnel or a person designated by the company inspects each property.

SECURITIES PORTFOLIO MANAGEMENT

It is the practice of management to manage the securities portfolio and exposure to position risk.

The Investment Committee meets on a quarterly basis to review the status of the portfolio, review transactions during the past quarter, ensure compliance under The Trust and Loan Companies Act (Canada) and determine compliance with the Company's Investment Strategy and Policy.

The Company has set out four criteria that must be met in the Investment Policy. The first criterion is that at least 80% of the total dollar value of the portfolio must be invested in P1 and P2 preferred stock and cash. As at December 31, 2000, this stood at 89.1% of the total portfolio (88.3% in 1999). The second criterion is that at least 60% of the total dollar amount of the portfolio must be shares that are either retractable, exchangeable or have a dividend rate that is fixed to a floating rate or is resettable. In other words, the interest rate is not permanently fixed. As at December 31, 2000, these types of investments accounted for 90.5% of the portfolio (90.1% in 1999). The third criterion is that the common share portfolio will not be more than 10% of the total portfolio. At year-end, common shares accounted for 4.2% of total investments (4.1% in 1999). The final criterion is that concentration in any individual company cannot be more than 15% or \$1 million, whichever is greater, unless approved by the Investment Committee. At year-end, the maximum holding of any one company was 5.9% (6.2% in 1999).

CREDIT RISK MANAGEMENT

Credit risk management is the management of the credit risk associated with the total mortgage portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour the financial or contractual obligations to the Company. Senior management and the Audit Committee of the Board of Directors undertake extensive reviews of credit policies and lending practices. The Company's policy is that credit is approved by different levels of senior management based on the amount of the mortgage. In addition, all mortgages that are over \$500,000 must be approved by the Chairman of the Audit Committee. Under the CDIC Standards of Sound Business and Financial Practices, the Audit Committee and the Board of Directors review quarterly the policies as established by the Company and the compliance of the credit risk.

Residential mortgages represent the largest component of the total mortgage portfolio, comprising 97.5% at December 31, 2000, compared to 95.4% at December 31, 1999. These loans are secured primarily by single family dwellings, which are owner occupied. Under the lending criteria, all mortgages are considered individually under a rating process and the level of risk is determined.

The Company's industrial, commercial and other property types represented 2.5% of the total mortgage portfolio at December 31, 2000 (4.6% in 1999), and management continues to monitor these properties on a regular basis. It is the Company's intention to continue to concentrate its core business on residential properties.

CAPITAL MANAGEMENT

Capital is a key factor in assessing the safety and soundness of a financial institution. Capital assists in promoting confidence among depositors, creditors, regulators and shareholders. The Company maintains a capital management policy to govern the quantity and quality of capital held by Home Trust, the regulated entity. The objective of the policy is to ensure that the regulatory capital requirements are met while providing a sufficient return to investors. This policy is designed to comply with the Standards of Sound Business and Financial Practices as established by CDIC. The policy is reviewed and approved quarterly by the Audit Committee and the Board of Directors.

Two capital standards are addressed in the Company policy: asset to capital multiple and the risk-based capital ratio (BIS ratio). Both ratios are reported quarterly to the Board of Directors.

ASSET TO CAPITAL RATIO

Home Trust is regulated under The Trust and Loan Companies Act (Canada). Home Trust's ability to accept deposits is limited by the Company's permitted asset to capital multiple. This is defined as the ratio of regulatory capital to the total assets of Home Trust. Home Trust's maximum borrowing ratio is currently authorized at 17.5 times its capital. The chart below shows the capital borrowing ratio:

(BASED ONLY ON THE SUBSIDIARY HOME TRUST COMPANY) AS AT DECEMBER 31 (000'S)	2000	1999	1998	1997	1996
Total Assets	\$ 886,660	735,129	535,163	430,455	343,513
Regulatory total capital	\$ 60,533	46,839	39,594	28,666	23,571
Assets to capital multiple	14.65	15.69	13.52	15.02	14.57

Home Trust is adequately capitalized to provide for projected double-digit growth in the year 2001.

RISK-BASED CAPITAL RATIO (BIS RATIO)

Capital adequacy for the Canadian banks and trust companies is governed by the requirements of the Office of the Superintendent of Financial Institutions Canada ("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, which consists primarily of shareholders' equity and non-cumulative preferred shares, and Tier 2, which consists primarily of subordinated debentures and cumulative preferred shares.

The Company's total BIS ratio increased to 12.58% from 11.57% in 1999. The Tier 1 capital increased from 9.10% in 1999 to 9.46% in 2000. This was attributable to the fact that the capital generated increased at 23.6% versus an 18.9% increase in the risk-weighted assets. The major increase in the risk-weighted assets was due to the increase in owner-occupied residences rated at a 50% risk. The Tier 2 capital increased from the injection of the \$5.0 million from the Surrey Metro loan. Both ratios are well in excess of the levels defined by OSFI as "well-capitalized", 10% for Total Capital and 7% for Tier 1 capital.

(BASED ONLY ON THE SUBSIDIARY HOME TRUST COMPANY)		
AS AT DECEMBER 31 (000'S)		
CAPITAL	2000	1999
Tier 1		
Shareholders' equity	\$ 45,533	\$ 36,839
Tier 2		
Eligible portion of subordinated notes issued by the Company	15,000	10,000
Total	\$ 60,533	\$ 46,839

RISK-WEIGHTED ASSETS	BALANCE SHEET AMOUNT	RISK WEIGHTED	RISK WEIGHTED AMOUNT	BALANCE SHEET AMOUNT	RISK WEIGHTED	RISK WEIGHTED AMOUNT
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC-insured mortgages)	\$ 45,962	0%	\$ –	\$ 44,752	0%	\$ –
Claims on banks and municipal governments	6,930	20%	1,386	7,639	20%	1,528
Conventional mortgages on owner-occupied residences	708,075	50%	354,038	559,203	50%	279,602
Other assets	125,693	100%	125,693	123,535	100%	123,535
Total assets	\$ 886,660		\$ 481,117	\$ 735,129		\$ 404,665
Total off-balance sheet financial instruments	44,613	0%	–	–	0%	–
Total	\$ 931,273		\$ 481,117	\$ 735,129		\$ 404,665

RISK-BASED CAPITAL RATIO (BIS RATIO)	2000	1999
Tier 1 capital	9.46%	9.10%
Tier 2 capital	3.12%	2.47%
Total	12.58%	11.57%

INTERNAL CONTROL

The Company's objective is to provide reasonable assurance that operations are efficient and effective, that the financial reporting is reliable and that the Company complies with all applicable laws and regulations. To this end, written policies and procedures relating to our business activities are in place, and these are reviewed annually by the Board. In addition, external auditors, government regulators and a third-party consultant review the internal controls. The Company has an internal auditor to ensure that the Company's growth is managed in a prudent manner. The internal auditor is held accountable directly to the Chairman of the Audit Committee. The internal auditor's role also complements the external audit functions, and, to this end, communication is carried on throughout the year with both the external auditors and the government regulators.

OUTLOOK**CURRENT ECONOMIC OUTLOOK**

In the latter months of 2000, the Canadian economy began to pull back from a prolonged period of strong growth, in response to the downturn in the United States' economy. GDP growth and consumer spending have continued to weaken into the early months of 2001 and the timing of the recovery is uncertain at this time. Recently the unemployment rate has flattened out after declining through most of 2000. Inflation continues to be under control with the exception being the recent increase in energy costs.

The Bank of Canada and the United States Federal Reserve have recently lowered borrowing rates (in early 2001) and it is expected that further rate reductions will be announced in the coming months to aid in the economic recovery. These reductions have been recently reflected in the lowering of mortgage rates, which will improve the affordability of housing across Canada.

The housing market and resultant residential mortgage market in Ontario have remained strong into 2001 in spite of the sluggish economy. This is a result of the above average growth rates experienced over the past few years and affordable mortgage carrying costs.

The Alberta economy has improved as the province benefits from soaring energy costs and low unemployment rates. Home Trust expects to double business in Alberta in 2001 over that of 2000.

In British Columbia the housing market bottomed out in 1999 and in 2000 the market again showed signs of life. Home Trust is experiencing strong growth in this market in early 2001 and expects that its business will double in 2001 over the fiscal 2000 levels.

FUTURE OUTLOOK

The Company's balance sheet was further strengthened during 2000. With Home Trust Company (previously Home Savings & Loan Corporation), the conversion into a federal trust company, combined with the continued growth outside of Ontario, positions the Company as a financial institution that provides a national alternative for residential first mortgages. Internal expansion has resulted in record growth in assets, revenue and profit during the year.

During the year, the Company added new dimensions to enhance revenue and profit for the future. The Company completed its first sale of Mortgage-Backed Securities. Additional opportunities for future sales will be pursued in 2001 and beyond to further the growth objectives of the Company. Also during the year the Company joined the VISA Canada Association, becoming the eleventh General Member financial institution authorized to issue VISA payment cards. Subsequently the Company launched a VISA card program serving consumers that desire to establish or re-establish a positive credit history. This new program provides a socially responsible, low-risk revenue generating service for the benefit of the Company in 2001 and beyond.

The Company continues to term out its mortgages, resulting in the average maturity of mortgages moving from 2.3 years average maturity to 2.4 years. Whenever possible, the preference is to place mortgages for longer terms. The Company continues to match assets and liabilities to ensure that interest rate fluctuations will have little impact on future earnings. The strategy of the Company has not changed. High growth and high return, while maintaining low risk, will continue to be the focus. This can be achieved through the following strategies.

GROWTH

It is the Company's goal to achieve double-digit growth in assets in 2001. This will be achieved through internal growth primarily in Ontario and western Canada. The overall economic outlook in early 2001 reflects a slowing of GDP growth and consumer spending, however, the Company continues to grow its core mortgage business in both Ontario and western Canada. We have expanded our offices and strategic alliances and will seek further growth opportunities and alliances where practical.

With the expansion of the Alberta and British Columbia offices, including the addition of deposit-taking services and underwriting and support staff, the Company has become a more significant participant in the western Canadian market. It is anticipated that Alberta and British Columbia will contribute approximately 18% of the total mortgage volume during the upcoming year.

The addition of VISA card services and the introduction of the Mortgage-Backed Securities operations create new opportunities for increased revenue and profit for 2001 and beyond.

RETURN

It is the Company's goal to maintain a return on equity exceeding 20% per annum. Return on equity for fiscal 2000 was 23.2% compared to 21.8% in 1999. This return can be sustained by maintaining the interest spread between assets and liabilities, achieving the projected growth in assets, keeping impaired loans at reasonable levels and controlling expenses. The Company's productivity ratio in 2000 improved to 40.9% from 41.5% in 1999 and it is the Company's intention to maintain or improve upon this level in 2001 and beyond.

RISK

The BIS ratio, which remains well above regulatory standards, improved during the year to 12.58% from 11.57% in 1999. This ratio was improved with the addition of the new \$5.0 million subordinated note and increased income in 2000. The Company's core business, which is single family residential first mortgages, carries a 50% risk weighting. At December 31, 2000, first mortgages represented 99.8% (99.8% in 1999) of the portfolio, and residential mortgages increased to 97.5% from 95.4% in 1999. In addition, net impaired loans have been maintained under 0.50% of the gross portfolio since 1996.

The Canadian economy has undergone significant growth during the past few years, including housing markets across the country. Although the economy has slowed appreciably in recent months, the Company, based on growth initiatives accomplished to date, is confident of the continued growth of its asset base and earnings. Based on projected earnings the Company expects to be able to fund anticipated growth in 2001.

Responsibility for Financial Reporting

The Board of Directors has the ultimate responsibility for the financial statements presented to the shareholders. Management is responsible for the preparation of the financial statements, and all other information contained in the annual report. This includes maintaining a system of internal control to provide reasonable assurance as to the reliability of financial information and to protect the assets controlled by the Corporation.

An audit committee of independent directors reviews the financial statements in detail with management and reports their findings to the Board prior to their approval of results. The Office of the Superintendent of Financial Institutions Canada conducts an annual examination of the financial condition and affairs of the Corporation's principal operating subsidiary, Home Trust Company, which includes a review of the Company's compliance with the terms of the Act under which it is incorporated. Shareholders' Auditors conduct an independent examination of the consolidated financial statements of the Corporation and report on the fairness of the statements.

(signed) William A. Dimma

(signed) Harvey F. Kolodny

WILLIAM A. DIMMA
Chairman of the Board

HARVEY F. KOLODNY
Director and Chairman of the Audit Committee

Auditors' Report

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To the Shareholders of Home Capital Group Inc.

We have audited the consolidated balance sheets of Home Capital Group Inc. as at December 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting policies.

(signed) Ernst & Young LLP

ERNST & YOUNG LLP
Chartered Accountants

Toronto, Canada
February 8, 2001

Consolidated Balance Sheets

AS AT DECEMBER 31	2000	1999
ASSETS		
Cash and Cash Equivalents	\$ 21,153,775	\$ 20,163,978
Income Taxes Receivable	–	547,896
Investments (Note 2)	77,724,027	71,453,019
Mortgage-Backed Securities Receivable (Note 3)	1,372,127	–
Credit Card Receivable (Note 4)	339,210	–
Mortgage Loans (Note 5)	773,064,867	639,986,336
Fixed Assets (Note 6)	1,047,279	639,395
Goodwill, net of accumulated amortization	2,416,871	2,509,828
Deferred Agent Commissions	2,732,267	2,280,230
Deferred Development Costs (Note 7)	711,176	–
Other	1,363,253	554,455
	\$ 881,924,852	\$ 738,135,137
LIABILITIES		
Senior Term Loans (Note 8)	\$ 8,500,000	\$ 9,000,000
Subordinated Secured Loan (Note 9)	5,000,000	–
Deposits and Borrowings (Note 10)	813,181,658	684,868,636
Accounts Payable and Accrued Liabilities	1,848,537	1,040,210
Dividends Payable	296,088	221,305
Income Taxes Payable	1,587,102	–
Deferred Commitment Fees	1,126,235	864,443
Future Income Taxes	883,866	1,687,686
	832,423,486	697,682,280
SHAREHOLDERS' EQUITY		
Capital Stock (Note 11)	18,629,583	18,591,224
Contributed Surplus (Note 11)	266,825	600,749
Retained Earnings	30,604,958	21,260,884
	49,501,366	40,452,857
	\$ 881,924,852	\$ 738,135,137

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(signed) Gerald M. Soloway

(signed) Harvey F. Kolodny

GERALD M. SOLOWAY
Director

HARVEY F. KOLODNY
Director

Consolidated Statements of Changes in Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31	2000	1999
CAPITAL STOCK		
Balance at the Beginning of the Year	\$ 18,591,224	\$ 18,649,815
Options Exercised (Note 11)	222,000	125,875
Normal Course Issuer Bid (Note 11)	(183,641)	(184,466)
Balance at the End of the Year	\$ 18,629,583	\$ 18,591,224
CONTRIBUTED SURPLUS		
Balance at the Beginning of the Year	\$ 600,749	\$ 902,524
Reduction in Contributed Surplus (Note 11)	(333,924)	(301,775)
Balance at the End of the Year	\$ 266,825	\$ 600,749
RETAINED EARNINGS		
Balance at the Beginning of the Year	\$ 21,260,884	\$ 14,067,661
Dividends Paid and Declared During the Year	(811,472)	(666,580)
Dividends Declared During the Year	(296,088)	(221,305)
Net Income for the Year	10,451,634	8,081,108
Balance at the End of the Year	\$ 30,604,958	\$ 21,260,884

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31	2000	1999
INCOME		
Interest from Mortgage Loans	\$ 60,192,995	\$ 44,528,838
Other Interest	2,295,398	2,437,848
Dividends	2,898,549	2,229,405
Fees and Other Income	4,517,614	3,593,819
Gain on Sale of Investments	249,253	231,088
Gain on Sale of Mortgage-Backed Securities	452,585	—
	\$ 70,606,394	\$ 53,020,998
EXPENSES		
Interest on Deposits and Borrowings	\$ 41,359,973	\$ 30,180,851
Salaries and Staff Benefits	5,002,930	4,124,573
Premises	872,475	611,264
General and Administration	6,086,291	4,746,054
	53,321,669	39,662,742
INCOME BEFORE LOSS PROVISION AND INCOME TAXES	17,284,725	13,358,256
Provision for Mortgage Losses (Note 5)	1,275,000	600,000
INCOME BEFORE INCOME TAXES	16,009,725	12,758,256
INCOME TAXES (Note 12)		
Current	6,361,911	3,163,344
Future	(803,820)	1,513,804
	5,558,091	4,677,148
NET INCOME FOR THE YEAR	\$ 10,451,634	\$ 8,081,108
NET INCOME PER CLASS A AND CLASS B SHARE		
FOR THE YEAR	\$ 0.71	\$ 0.55
FULLY DILUTED (Note 11)	\$ 0.68	\$ 0.52

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31	2000	1999
OPERATING ACTIVITIES		
Net Income for the Year	\$ 10,451,634	\$ 8,081,108
Add (Deduct) Items Not Affecting Cash:		
Future Income Taxes	(803,820)	1,513,804
Depreciation and Amortization	363,687	267,603
Amortization of Goodwill and Deferred Financing Costs	151,607	145,819
Provision for Mortgage Losses	1,275,000	600,000
Gain on Sale of Investments	(249,253)	(231,088)
Gain on Sale of Mortgage-Backed Securities	(452,585)	-
	10,736,270	10,377,246
Interest Receivable	(1,331,295)	(1,207,650)
Interest Payable	7,298,051	3,572,410
Deferred Agent Commissions	(452,037)	(1,157,566)
Other Assets and Accounts Receivable	(734,332)	(84,186)
Accounts Payable and Accrued Liabilities	808,327	(5,558)
Dividends Payable	74,783	221,305
Income Taxes Payable (Receivable)	2,134,998	(1,068,573)
Deferred Commitment Fees	261,792	234,885
Cash Provided by Operating Activities	18,796,557	10,882,313
FINANCING ACTIVITIES		
Repayment of Senior Term Loans	(500,000)	(500,000)
Receipt of Subordinated Term Loan	5,000,000	-
Net Increase in Deposits and Borrowings	121,014,971	187,910,396
Issuance of Common Stock	222,000	125,875
Normal Course Issuer Bid	(517,565)	(486,241)
Dividends Paid	(811,472)	(666,580)
Dividends Declared	(296,088)	(221,305)
Deferred Financing Costs	(133,116)	-
Cash Provided by Financing Activities	123,978,730	186,162,145
INVESTING ACTIVITIES		
Activity in Investment Securities		
Purchases of Investments	(14,711,162)	(37,647,423)
Proceeds of Sales of Investments	3,845,941	9,148,135
Proceeds of Maturities	4,854,315	2,582,096
Activity in Mortgages		
Purchased Mortgages	(3,392,803)	(84,039,693)
Net Increase in Mortgages	(142,152,014)	(83,700,596)
Proceeds from Securitization of Mortgage-Backed Securities	11,502,867	-
Net increase in Credit Card Receivables	(339,210)	-
Investment in Deferred Development Costs	(711,176)	-
Fixed Asset Purchases	(682,248)	(323,576)
Cash Used in Investing Activities	(141,785,490)	(193,981,057)
Net Increase in Cash and Cash Equivalents	989,797	3,063,401
Cash and Cash Equivalents at the Beginning of the Year	20,163,978	17,100,577
Cash and Cash Equivalents at the End of the Year	\$ 21,153,775	\$ 20,163,978
Supplementary Disclosure of Cash Flow Information		
Amount of interest paid during the year	\$ 34,042,853	\$ 26,610,194
Amount of income taxes paid during the year	5,250,957	4,632,107

See accompanying notes to the consolidated financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Home Capital Group Inc. (the "Company") include the accounts of the Company and its wholly-owned subsidiaries, Home Trust Company ("Home Trust"), Home Capital Investments Management Incorporated, 964864 & 964865 Ontario Limited and 757902 & 757903 Ontario Inc. All significant inter-company transactions have been eliminated.

B) INVESTMENTS

Bonds and debentures are stated at amortized cost plus accrued interest. Common and preferred stocks are stated at cost except for retractable and convertible preferred stocks which are stated at amortized cost. Dividends are accrued when declared and included with the carrying value of the securities. Security gains or losses are reflected in net income as they are realized. When there is an other than temporary decline in value, a provision to cover estimated losses is recorded.

C) MORTGAGE-BACKED SECURITIES RECEIVABLE

Commencing in 2000, a portion of the Company's mortgage loan portfolio is securitized through the Mortgage-Backed Securities program sponsored by the Canada Mortgage and Housing Corporation (CMHC). Under this program, CMHC-insured mortgages originated by the Company are pooled, securitized and issued to investors as CMHC-insured Mortgage-Backed Securities (MBS). Interest is paid to the investors at the coupon rate stated on the securities. The MBS issued represent undivided ownership rights in the underlying mortgage pool. The Company continues to service the underlying mortgages.

When the MBS are sold, the estimated present value of the net interest rate spread (the difference between the weighted average mortgage rate and the MBS coupon rate, less a normal servicing fee) is added to the proceeds from the sale of the MBS in determining the gain or loss.

The present value of the net interest spread is recorded as a receivable and drawn down as mortgage payments are received. The effect of unscheduled principal repayments on the present value of the net interest rate spread is estimated when the MBS are sold. This estimate has been set at 7% of the principal balance and is updated as required.

The gain or loss on the sale of MBS is net of issuance costs. The gain is recognized when the cash is received by the Company.

D) CREDIT CARD RECEIVABLES

Credit card receivables are carried at cost which includes amounts advanced, interest, and other service charges less repayments, and allowance for losses on credit cards.

E) MORTGAGE LOANS

Mortgages are carried at cost which includes amounts advanced, accrued interest, taxes and other charges less repayments, unamortized prepayments of mortgage interest and allowance for losses on loans.

F) IMPAIRED MORTGAGE LOANS

Impaired mortgage loans are accounted for on a basis under which a discounted cash flow approach or the fair value of any security underlying the loan net of any costs of realization is used to measure losses with respect to such loans.

(i) Recognition of Impairment

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 has been in arrears for 90 days.

(ii) Measurement of Impairment

An allowance for loan losses is maintained at an amount considered adequate to absorb all known and probable loan losses. The allowance consists of accumulated specific and general provisions. It is generally increased by these provisions, which are charged to income, and reduced by write-offs, net of recoveries. The allowance is deducted from the mortgage loans on the consolidated balance sheets.

Specific allowances are calculated on a loan-by-loan basis. The carrying value of an impaired loan is reduced to its estimated realizable amount by discounting the expected future cash flows of the loan at its inherent rate of interest. Where the amount and timing of the future cash flows cannot be reasonably estimated, impairment is measured with respect to the value of the underlying security. The allowance is the difference between the loan's carrying value and its estimated realizable amount.

General allowances are established for probable losses on loans whose impairment cannot otherwise be measured. These allowances are based on conditions in the general economy, in certain geographic locations, industries or groups of credits.

(iii) Income Recognition

Interest 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 to zero.

G) FIXED ASSETS

Fixed assets, which are comprised of office equipment, computer equipment and signs are recorded at cost and depreciated over their estimated useful life on a declining balance basis at the following annual rates:

Furniture and fixtures	20%
Computer equipment	30%
Signs	20%

Leasehold improvements are amortized on a straight-line basis over an average three-and-a-half-year period, which is the remaining average term of the leases.

H) DEFERRED DEVELOPMENT COSTS

On May 24, 2000 Home Trust became authorized to offer VISA cards and accordingly, engaged in the business of developing a secured VISA card. Since the inception, the efforts of the Company have been devoted to the development of a VISA Card Operation.

To date, the Company has not earned significant revenues and is considered to be in the development stage.

I) GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is being amortized on a straight-line basis over 40 years.

On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have permanently impaired the fair value. The amount of goodwill impairment, if any, is measured based on projected undiscounted future operating cash flows.

J) DEFERRED COMMITMENT FEES

Mortgage commitment fees are deferred and amortized over the term of the mortgage. The amortization of the commitment fee ceases when a property is taken into possession. The unamortized commitment fee is recognized when the property is sold.

K) DEFERRED AGENT COMMISSIONS

Agent commissions on debenture investment certificates are deferred and amortized over the terms of the debenture investment certificates to which they relate.

L) INCOME TAXES

The Company recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes.

M) MARKET VALUE

Market value is determined by reference to quoted market prices or where not available, by discounting expected future cash flows at current rates.

2. INVESTMENTS

Investments consist of the following:

	2000		1999	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Government of Canada Bonds	\$ 20,662,050	\$ 20,460,000	\$ 22,216,119	\$ 21,202,000
Canadian Corporate Bonds	1,713,427	1,586,000	1,705,970	1,613,000
Common Stock	2,885,024	2,532,000	3,013,095	2,025,000
Preferred Stock				
Fixed Rate	46,175,946	46,400,000	38,237,125	37,062,000
Floating Rate	3,522,650	3,469,000	3,526,450	3,376,000
Mutual Funds	2,764,930	2,513,000	2,754,260	2,405,000
	\$ 77,724,027	\$ 76,960,000	\$ 71,453,019	\$ 67,683,000

Government of Canada bonds have maturities ranging from ten months to eight years and six months, Canadian corporate bonds have maturities ranging from one year and one month to seven years and six months and preferred stocks have retraction dates ranging from two months to eight years and seven months. On December 31, 2000, the Government of Canada bonds have a weighted average yield of 5.28% (December 31, 1999 of 5.25%), the Canadian corporate bonds have a weighted average yield of 5.74% (December 31, 1999 of 5.74%) and fixed rate preferred stocks have a weighted average yield of 5.84% (December 31, 1999 of 5.66%).

The market value of the preferred stock is not necessarily indicative of their value as those stocks are substantially matched against deposits and therefore can be held to the redemption or retraction date. Other bonds and stocks have not been written down because the market shortfall is considered to be temporary.

Short-term deposits which have maturities not exceeding 90 days are classified as cash equivalents.

3. MORTGAGE-BACKED SECURITIES

The principal balance of mortgages pooled and sold as Mortgage-Backed Securities during the year was \$12,422,000. This was the first issue by the Company. The book value approximates the fair value.

	2000
Outstanding principal value of the mortgage-backed securities sold	\$ 12,422,000
Present value of the net interest spread	\$ 1,033,000
Deferred costs of issue	339,127
Mortgage-backed securities receivable	\$ 1,372,127
Weighted average mortgage rate	8.56%
Average coupon rate paid to investors	5.75%
Maturity date of security	November 15, 2005

4. CREDIT CARD RECEIVABLES

Credit card receivables consist of balances owing including any accrued and unpaid interest. The cards outstanding consist of 82% secured credit cards and 18% unsecured. The security deposits relating to the secured cards are held separately under the Company's guaranteed funds. The book value approximates the fair value.

	2000
Total approved credit	\$ 1,327,750
Balance at December 31, 2000	\$ 339,210
Cumulative average accounts receivable balance	\$ 113,003
Interest rate	19.95%

At December 31, 2000, no unsecured accounts were in arrears over 90 days.

5. MORTGAGE LOANS

Mortgage loans are comprised of 99.8% first mortgages and 0.2% second mortgages (December 31, 1999 of 99.8% and 0.2%). These mortgages are primarily residential and 92.5% are located in central and southern Ontario, the remaining 7.5% in Alberta, British Columbia, Nova Scotia and New Brunswick (96.9% in Ontario and 3.1% in other provinces in 1999). Mortgages are normally extended for a term ranging from one to five years.

	2000	1999
Gross mortgage loans are comprised of the following:		
Residential Mortgages	\$ 758,458,393	\$ 613,938,335
Commercial Mortgages	4,470,254	7,425,962
Other Non-Residential Mortgages	14,597,485	22,035,806
	777,526,132	643,400,103
Allowance for Losses		
Balance at the Beginning of the Year	3,413,767	3,102,576
Provisions for the Current Year	1,275,000	600,000
Write-offs during the Current Year	(227,502)	(288,809)
Balance at the End of the Year	4,461,265	3,413,767
Net Mortgage Loans	\$ 773,064,867	\$ 639,986,336

On December 31, 2000, the Company's mortgage portfolio was comprised substantially of fixed rate mortgages with an average duration of 2.4 years (December 31, 1999 of 2.3 years) and a weighted average yield of 8.91% (December 31, 1999 of 8.35%). On December 31, 2000, the portfolio had an approximate fair value of \$789,392,000 (December 31, 1999 of \$644,855,000). Impaired loans as at December 31, 2000 amounted to \$3,257,500 (December 31, 1999 of \$1,624,780). The average balance of impaired loans during the year ended December 31, 2000 amounted to \$3,027,810 (December 31, 1999 of \$2,142,694).

6. FIXED ASSETS

Fixed assets consist of office equipment, computer equipment, signs and leasehold improvements:

	2000	1999
Cost	\$ 3,054,320	\$ 2,372,072
Accumulated Depreciation and Amortization	2,007,041	1,732,677
Net Book Value	\$ 1,047,279	\$ 639,395

7. DEFERRED DEVELOPMENT COSTS

Home Trust has commenced the development of the business of issuing secured and unsecured credit cards. In May 2000, Home Trust was approved to offer VISA cards in Canada. The Company has entered into agreements to process the credit cards, statements and collections. To date, the VISA project has not earned significant revenues and is considered to be in the development stage.

COSTS INCURRED FOR THE VISA PROJECT UNDER DEVELOPMENT		2000
Deferred development costs		
Balance at the beginning of the period		\$ —
Development costs incurred		1,090,436
Reimbursement of initial costs		(373,700)
Revenues – Income		(5,560)
Balance at the end of the period		\$ 711,176

8. SENIOR TERM LOANS

On October 16, 1997, the Company entered into an agreement with Penfund Capital (No. 1) Limited (“Penfund”), whereby Penfund provided a senior debenture of \$5,000,000 for a period of 5 years. On July 21, 1998, the Company received a further \$5,000,000. The terms of the second senior debenture are the same as the agreement entered into on October 16, 1997, and are as follows:

- i) the outstanding principal shall be repaid in yearly installments of \$500,000 commencing on October 16, 1998 for a period of three years. The balance of the loan, together with all accrued and unpaid interest, is due and payable in full on October 16, 2002;
- ii) interest is payable at 8% per annum; and
- iii) as collateral for the senior term loan, the Company has provided a promissory note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Home Trust, and the assignment of \$10 million of subordinated notes issued by Home Trust.

The fair market value of the senior term loans approximates its carrying value.

9. SUBORDINATED SECURED LOAN

On November 10, 2000, the Company entered into an agreement with Surrey Metro Savings Credit Union (“Surrey Metro”), whereby Surrey Metro provided a subordinated secured note of \$5,000,000 for a period of 2 years. The terms of the subordinated secured note are as follows:

- i) the principal of the loan, together with all accrued and unpaid interest is due and payable in full on October 16, 2002;
- ii) interest is payable at 9.50% per annum; and
- iii) as collateral for the subordinated secured note, the Company has provided a promissory note, a general security agreement, subject only to Permitted Encumbrances not exceeding \$8,500,000 and security granted by the Company in favour of Penfund, a secondary pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of the \$5.0 million subordinated notes issued by Home Trust in connection with investment of the proceeds of the loan.

The fair market value of the subordinated secured loan approximates its carrying value.

10. DEPOSITS AND BORROWINGS

Deposits and borrowings consist of certificates of deposit, 7.3% (December 31, 1999 of 7.4%), guaranteed investment certificates, 78.8% (December 31, 1999 of 77.5%), registered retirement savings plan certificate investments, 13.7% (December 31, 1999 of 15.1%), registered retirement income funds, 0.1%, VISA card security deposits, 0.1% and savings accounts.

Certificates of deposit are short-term instruments maturing within one year of the date of issue and bear an average interest rate of 5.48% (December 31, 1999 of 4.78%). The balance outstanding as at December 31, 2000 is \$58,121,432 (December 31, 1999 of \$50,645,849).

Guaranteed investment certificates are issued for terms from one to five years from the date of issue. These certificates bear an average interest rate of 5.83% (December 31, 1999 of 5.38%). The balance outstanding as at December 31, 2000 is \$636,035,675 (December 31, 1999 of \$530,735,415).

Registered retirement savings plan certificate investments are issued for terms from one to five years from the date of issue. These certificates bear an average interest rate of 5.79% (December 31, 1999 of 5.46%). The balance outstanding as at December 31, 2000 is \$117,357,103 (December 31, 1999 of \$103,407,253).

Registered retirement income funds certificate investments are issued for terms from one to five years from the date of issue. These certificates bear an average interest rate of 5.81% with a balance outstanding as at December 31, 2000 of \$615,054. These were new deposit instruments issued in the year.

VISA card security deposits are short-term instruments maturing within one year of the date of issue cashable after 30 days and when the credit card account is closed. These deposits bear an average interest rate of 5.0% with a balance outstanding as at December 31, 2000 of \$1,024,981. These were new deposit instruments issued in the year.

The fair value of all of the deposits and borrowings amounted to approximately \$839,257,000 as at December 31, 2000 (December 31, 1999 of \$691,824,000). The book value amounted to \$813,181,658 as at December 31, 2000 (December 31, 1999 of \$684,868,636).

11. CAPITAL STOCK

A) AUTHORIZED

An unlimited number of convertible Class 'A' shares.

An unlimited number of Class 'B' subordinated voting shares.

An unlimited number of Class 'C' non-voting shares.

An unlimited number of preferred shares, issuable in series, to be designated as senior preferred shares.

An unlimited number of preferred shares, issuable in series, to be designated as junior preferred shares.

The convertible Class 'A' shares have five votes each. These shares are convertible at any time into Class 'B' subordinated voting shares on the basis of one Class 'B' subordinated voting share for each convertible Class 'A' share. In all other respects, these Class 'A' shares rank pari-passu with Class 'B' subordinated voting shares.

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B) ISSUED

	NUMBER OF SHARES	2000	NUMBER OF SHARES	1999
Class 'A' shares	3,025,000	\$ 1,390,000	3,025,000	\$ 1,390,000
Outstanding, beginning of year				
Class 'B' subordinated voting shares	11,728,695	17,201,224	11,758,995	17,259,815
Options exercised	176,000	222,000	95,500	125,875
Normal course issuer bid	(125,300)	(183,641)	(125,800)	(184,466)
Outstanding, end of year	11,779,395	17,239,583	11,728,695	17,201,224
Total stated capital		\$ 18,629,583		\$ 18,591,224

C) NORMAL COURSE ISSUER BID

On October 19, 1998, the Company filed a Normal Course Issuer Bid which allows the Company to purchase over a twelve-month period up to the greater of (i) 5% of the issued and outstanding shares on October 19, 1998, or (ii) 10% of the public float outstanding on October 19, 1998. This was renewed on October 27, 1999 and October 27, 2000 for a further twelve-month period. This latest renewal allows the Company to purchase up to 5% of the outstanding Class 'B' subordinated voting shares outstanding as of October 30, 2000 over this twelve-month period.

During the year, 125,300 shares were purchased (125,800 in 1999). The cost of the shares was allocated as follows: (i) share capital was reduced by the average per share amount on the transaction date, which amounted to \$183,641 (\$184,466 in 1999); (ii) the excess was applied to contributed surplus, which amounted to \$333,924 (\$301,775 in 1999).

D) STOCK OPTIONS

Options outstanding and granted to directors, executives and employees of the Company are as follows:

	CLASS 'A'	CLASS 'B'
As at December 31, 1999	–	861,000
Issued	–	20,000
Exercised	–	(176,000)
Cancelled	–	(40,000)
As at December 31, 2000	–	665,000

The Company's stock plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective December 31, 1995 to conform the Plan to the TSE's Revised Policy on Listed Company Share Incentive Arrangements. Under the amended Plan, the maximum number of Class 'B' subordinated voting shares that may be issued under the Plan as amended is 1,151,450 representing approximately 10% of the aggregate number of Class 'A' shares and Class 'B' subordinated voting shares, respectively, which were issued and outstanding as of October 22, 1997. The exercise price of the options shall be fixed by the Board of Directors at the time of issuance at the "market price" of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted average price at which the Class 'B' shares of the Company have traded on the Toronto Stock Exchange during the two trading days immediately preceding the date on which the option is approved by the Board. The period of exercise of any option will not extend beyond a period of ten years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant will be determined in each case by the Board.

As at December 31, 2000, stock options outstanding to acquire Class 'B' subordinated voting shares were as follows:

OPTIONS GRANTED TO:	NUMBER OF SHARES	PER SHARE \$	EXPIRY DATE
Directors	40,000	0.75	7/25/01
	215,000	2.55	10/22/02
	65,000	3.20	11/20/02
	12,500	4.34	4/21/04
	15,000	3.93	5/26/04
	15,000	4.00	10/20/04
	10,000	3.80	3/23/05
	372,500		
Employees	25,000	0.75	7/25/01
	245,000	2.55	10/22/02
	10,000	4.15	5/11/03
	12,500	4.34	4/21/04
	292,500		
Total	665,000	2.61	

E) FULLY DILUTED EARNINGS PER SHARE

For the purpose of calculating fully diluted earnings per share, the following assumption has been made: if the stock options granted to directors, executives and employees of the Company had been exercised when granted and the proceeds were invested at an average rate of 5.38% per annum, this would have resulted in interest earned of \$102,032. The net amount of \$57,189 (\$102,032 net of \$44,843 income taxes) has been added back in the calculation of fully diluted earnings.

12. INCOME TAXES

	2000	1999
Income before income taxes	\$ 16,009,725	\$ 12,758,256
Income taxes at statutory combined federal and provincial tax rate	\$ 7,036,274	\$ 5,692,734
Increase (decrease) from statutory rate resulting from:		
Dividend income	(1,273,857)	(994,761)
Capital gains	(47,328)	(103,764)
Goodwill amortization	40,855	41,477
Meals and entertainment	20,194	21,949
Other	(218,047)	19,512
	\$ 5,558,091	\$ 4,677,147

Capital losses totaling \$3,667,700 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 retained earnings.

13. MORTGAGE COMMITMENTS

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to \$32,191,291 as at December 31, 2000 (December 31, 1999 of \$13,821,579). The commitments remain open until June, 2001 and February, 2000 for the prior year. The average rate on mortgage commitments was 9.66% (December 31, 1999 of 9.36%). The fair value of the commitments amounted to approximately \$32,914,000 as at December 31, 2000 (December 31, 1999 of \$13,912,000).

14. LEASE COMMITMENTS

Contractual obligations in respect of operating leases as at December 31, 2000 are as follows:

2001	\$ 303,026
2002	235,394
2003	175,185
2004	175,185
2005	157,326
2006 and subsequent years	375,558
	\$ 1,421,674

15. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2000 consolidated financial statements.