

Management's Discussion & Analysis

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FINANCIAL HIGHLIGHTS
Overview

This 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. (the "Company") for the year ended December 31, 2001. The discussion and analysis relates principally 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.

This Annual Report contains forward-looking statements of the Company. These statements are subject to random factors and risk factors, several of which are independent of the Company's will and can have an impact on the Company's operations, performance and results. Factors include legislative and regulatory changes, changes in competition, changes in technology, financial market conditions and the economic climate in Canada. Readers are therefore cautioned not to place undue reliance on these forward-looking statements.

Table 1 – Highlights of Financial Results

For the years ended December 31 (000's)	2001	2000	1999	1998	1997
RESULTS OF OPERATIONS					
Net income	\$ 14,860	10,452	8,081	6,067	3,018
Basic earnings per share	\$ 0.99	0.71	0.55	0.46	0.27
Return on average shareholders' equity	23.8%	23.2%	21.8%	20.7%	13.2%
Return on average total assets	1.5%	1.3%	1.3%	1.3%	0.8%
Net investment margin (taxable equivalent basis)	3.5%	3.2%	3.2%	3.3%	3.4%
Non-interest income to net revenue	19.1%	17.9%	16.8%	17.2%	15.9%
Productivity ratio (non-interest expense as a % of net revenue)	40.7%	40.9%	41.5%	42.5%	46.5%
FINANCIAL CONDITION					
Securities	\$ 99,458	77,074	71,453	45,160	29,747
Loans	\$ 958,564	776,177	635,939	471,841	385,873
Deposits and borrowings	\$ 995,120	794,666	671,068	493,386	399,497
Credit quality					
Provision for loan losses as a % of total loans	0.25%	0.16%	0.09%	0.21%	0.86%
Net impaired loans as a % of total loans	0.52%	0.39%	0.21%	0.26%	0.25%
Allowances for loan losses as a % of gross impaired loans	109.0%	137.0%	210.1%	208.5%	197.6%

Income Statement Highlights for 2001

Earnings for the Company continued to reflect strong growth during the 2001 fiscal year, with net income increasing to \$14.9 million (\$0.99 per share) in 2001 from \$10.5 million (\$0.71 per share) in 2000, an increase of 42.2%. The return on average shareholders' equity was 23.8% for the 2001 fiscal period, up from a return of 23.2% in 2000. This growth resulted from a number of factors.

- The loan portfolio increased by 23.5% to \$959 million in 2001 from \$776 million in 2000 (compared to a 22.1% increase in 2000). This increase was net of the \$58 million securitized under the Mortgage-Backed Securities program which, if added, would have resulted in an additional increase in the portfolio of 5.4% (\$12 million was securitized in 2000 for an additional increase of 1.9%). There was also a corresponding increase of 25.2% in deposits and borrowings during the 2001 fiscal year (18.4% in 2000), from \$795 million in 2000 to \$995 million in 2001. The overall spread between the mortgage and deposit portfolios increased to 3.2% in 2001 from 3.1% in 2000.
- 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 \$25 million range (\$19 million in 2000). During the year, the Bank of Canada prime lending rate averaged 4.5%, down from the 5.7% averaged in 2000. The higher average holdings resulted in an increase in other interest income of \$1 million in 2001 over 2000.
- The Company continued to invest surplus funds into securities consisting of investments in government guaranteed bonds, common shares and preferred shares with P1 and P2 ratings. The average balance on these portfolios increased by 18.3% from \$75 million in 2000 to \$88 million in 2001. Dividend income increased by approximately \$2 million, or 55.4%, over 2000.
- The Company continued to securitize mortgages in 2001. A total of \$58 million in residential mortgages were securitized and sold for gains totalling \$3 million in 2001. This program was implemented in the last quarter of 2000 and therefore one securitization was completed for a gain of \$0.5 million in 2000.
- The provision for credit losses increased by \$1.2 million to \$2.4 million (\$1.3 million in 2000) an increase of 92.0%. Of this increase in the provision, the Company allocated \$1.4 million to the general provision.
- Operating expenses increased by 37.5% during the year (26.2% in 2000). Since the majority of expenses are volume related, the Company's efficiency is best measured by its productivity ratio. Productivity ratio is defined as operating expenses as a percentage of its net revenue. The Company's productivity ratio improved to 40.7% in 2001, compared to 40.9% in 2000.

Balance Sheet Highlights for 2001

- During 2001, assets increased by \$244.1 million, or 27.4% over 2000 (\$153.9 million in 2000). This was primarily due to the growth in the loan portfolio of \$182.4 million (\$140.2 million in 2000).
- Securities (consisting of stocks and bonds) increased by \$22.4 million during the year (\$5.6 million in 2000).
- In 2000 the Company was approved for membership as a Charter General Member in the VISA Canada Association and subsequently launched a VISA card program designed to assist consumers to establish or re-establish their credit worthiness. This VISA operation continued in the development stage until the end of the year and the accumulation of direct costs net of revenues for 2001 of \$2.7 million are included in the deferred development costs. The program was fully operational at the beginning of 2002.
- Deposits and borrowings increased by \$200.5 million, or 25.2%, in 2001 (\$123.6 million in 2000).
- Other liabilities increased \$15.9 million, or 49.3%, over 2000. This was largely due to an increase of \$10.0 million in accrued interest payable, \$4.4 million in future income taxes and \$1.2 million in combined trade payables and income taxes payable.
- Capital stock and contributed surplus increased by \$12.4 million, as a result of the share issuance in September 2001 for \$12.5 million (net of issuance costs).
- An increase in retained earnings of \$13.3 million (\$9.3 million in 2000) 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.

Table 2 – Net Investment Income

For the years ended December 31 (000's)	2001			2000		
	Average Balance	Income/Expense	Average Rate	Average Balance	Income/Expense	Average Rate
Assets						
Cash and cash resources	\$ 36,622	1,243	5.07%	\$ 20,659	1,065	4.70%
Securities	88,266	6,563	6.99%	74,588	4,129	5.50%
Loans	867,371	76,181	8.78%	706,526	60,193	8.50%
Taxable equivalent adjustment	–	3,227	–	–	2,273	–
Total earning assets	992,259	87,214	8.85%	801,773	67,660	8.50%
Other assets	21,890	–	–	8,257	–	–
Total Assets	\$ 1,014,149	87,214	8.65%	\$ 810,030	67,660	8.40%
Liabilities and Shareholders' Equity						
Senior and subordinated secured term loan	\$ 13,250	1,146	8.56%	\$ 11,250	778	8.10%
Deposits and borrowings	894,893	50,147	5.60%	749,025	40,582	5.40%
Total interest bearing liabilities	908,143	51,293	5.65%	760,275	41,360	5.50%
Other liabilities	43,654	–	–	4,778	–	–
Shareholders' equity	62,352	–	–	44,977	–	–
Total Liabilities and Shareholders' Equity	\$ 1,014,149	51,293	5.06%	\$ 810,030	41,360	5.20%
Net investment income (taxable equivalent basis)		\$ 35,921			\$ 26,300	
Net investment margin (net investment income divided by average total assets)		3.54%			3.24%	

As indicated in the preceding table, the net investment income, on a taxable equivalent basis, increased by \$9.6 million in 2001 over 2000 (\$5.5 million in 2000).

This improvement in the net investment margin is attributable to the 25.2% growth in average assets and an increase in the interest margins related to the continuous improvement in the Company's loan and deposit portfolio mix. This spread increased from 3.1% in 2000 to 3.2% in 2001.

Despite the decline in the Bank of Canada prime lending rate from 6.0% at the end of 2000 to 2.5% at the end of December 2001, the spread on new funds advanced maintained a better than 3.5% average during 2001. The average net interest return was 3.2% in 2001 (loans 8.8%, deposits 5.6%), compared to 3.1% in 2000 (loans 8.5%, deposits 5.4%). This interest spread, combined with the 23.5% increase in the loan portfolio, resulted in an overall improvement to net loan interest income over deposits and borrowings of \$6.4 million (\$4.5 million in 2000). At year-end, the interest rate on mortgages was 8.6% (8.9% in 2000), with personal and credit card loans contributing 18.7%, while the rate for deposits was 5.2% (5.8% 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 \$5.2 million (\$3.5 million in 2000) and the average short-term investment balance was \$24.8 million (\$15.5 million in 2000), resulting in an increase in short-term investment income by \$0.2 million at year-end.

The average holdings of bonds increased during the year from \$21.6 million to \$24.1 million. During the year, \$16 million of bond holdings were sold resulting in a gain of \$0.6 million. The gain and the increased average holdings contributed an additional \$0.8 million to the bond income.

The stock portfolio continued to increase during the year. The average holdings of common shares decreased from \$2.6 million to \$2.3 million and the average holdings of preferred shares increased from \$48.5 million to \$65.4 million. The average return, on a taxable equivalent basis, increased from 10.1% in 2000 to 11.4% in 2001. The increase in average holdings plus the improvement in the average rate of return resulted in an increase to the investment income of \$2.6 million year over year.

Non-Interest Income

Fees and other income increased from \$4.5 million in 2000 to \$4.7 million in 2001, an increase of 4.8% (26.0% in 2000). The majority of the fees that are generated are based on new mortgage activity. Total mortgages advanced during 2001 were \$472 million, up from \$365 million in 2000, an increase of 29.3%. The increase in the average term of the mortgages, from 2.4 years in 2000 to 2.9 years in 2001, has the effect of extending the recognition into income of the fees generated on new mortgage activity. Other fees are generated from the administration of the mortgage portfolio.

Securitization revenue on Mortgage-Backed Securities stood at \$3.0 million in 2001, up from the \$0.5 million recognized in 2000 as recorded under accounting principles described in Note 1f) of the Company's 2001 Consolidated Financial Statements. This was due to the sale of four pools totalling \$57.7 million of insured residential mortgages as compared to one pool of \$12.4 million in 2000. This is a low-risk (insured by the Canada Mortgage and Housing Corporation) stream of income for the Company, but securitization contributes directly to strengthening the Company's capital ratios.

Provision for Credit Losses

The provision for credit losses was \$2.4 million in 2001, or 0.3% of the average loan portfolio, as compared to \$1.3 million, or 0.2%, in 2000.

This increase in the provision for credit losses was due to a 23.5% growth in the loan portfolio and an internal commitment of the Company to move towards more conservative reserves. This is illustrated by the increase in the general allowance from 86.2 basis points at the end of 2000 to 91.2 basis points at December 2001.

Table 3 – Provision for Credit Losses

For the years ended December 31 (000's)	2001	2000
Personal loans and credit cards	\$ 1,105	\$ –
Residential mortgages	1,458	1,349
Other mortgages	(115)	(74)
Total provision for credit losses	\$ 2,448	\$ 1,275
As a % of average loans	0.28%	0.18%

Non-Interest Expenses

Operating expenses increased from \$12.0 million in 2000 to \$16.5 million in 2001, an increase of \$4.5 million, or 37.5%. This compares to an increase in operating expenses of \$2.5 million, or 26.2%, from 1999 to 2000. The major components of the increase in operating expenses in 2001 are salaries and benefits, commissions on deposit certificates, finders fees paid on mortgage referrals and computer services. During the year, the overall staff was increased from 91 to 131 people. Additions were made in administrative positions to accommodate the Company's growth, including an internal information technology department created to support the new computer system, growth in the VISA operations and new staff for the personal loan operation. Other factors contributing to the increase in the operating expense include increased premise rental requirements, additional fees on new mortgages and increased commissions paid for additional deposits. The increase in computer services and depreciation was due to the in-house system the Company purchased this year. Prior to conversion, the Company tested the new system thoroughly and, therefore, maintained the old system until the third quarter of this year. The additional equipment purchased for this system resulted in the increase in the depreciation expense. Table 4 illustrates the changes in non-interest expenses from 1999 through 2001.

Even with the increase in operating expenditures, the Company was able to maintain an efficiency ratio below 41% in 2001. The increase of \$12.0 million in operating expenses was offset by the \$21.1 million increase in the Company's total revenue. The efficiency ratio at year-end 2001 was 40.7% as compared to 40.9% in 2000.

Table 4 – Non-interest Expenses

For the years ended December 31 (000's)	2001	2000	1999	Growth 2001/2000
Salaries and employee benefits	\$ 7,535	\$ 5,093	\$ 4,125	47.9%
Premises and equipment				
Rent – premises	762	730	591	4.5%
Equipment rental and repairs	221	143	20	54.6%
	983	873	611	12.7%
General and Administrative				
Advertising and business development	274	241	120	13.8%
Computer services	1,180	658	348	79.5%
Consulting and other professional services	747	849	693	(12.0%)
Fees and commissions	2,216	1,628	1,289	36.1%
Stationary and publications	486	401	306	21.1%
Taxes and insurance	993	916	901	8.4%
Communications and travel expenses	399	348	292	14.6%
Depreciation and amortization	815	367	303	121.9%
Other	825	588	494	40.3%
	7,935	5,996	4,746	32.3%
Total non-interest expenses	\$ 16,453	\$ 11,962	\$ 9,482	37.5%
As a % of average assets	1.6%	1.5%	1.5%	
As a % of net revenue (efficiency ratio)	40.7%	40.9%	41.5%	

Income Taxes

The provision for income taxes for the fiscal year 2001 amounted to \$6.7 million, which has been adjusted for tax exempt income (dividend income) by \$1.9 million. This amount also includes a rate reduction of \$0.4 million related to the impact of the Federal and Provincial corporate income tax rate reductions on future income tax assets.

Income taxes for the fiscal year 2000 amounted to \$5.6 million, which has been adjusted for tax exempt income by \$1.3 million.

The income tax provision for 2001 amounted to \$6.7 million compared to \$5.6 million in 2000, representing an effective tax rate of 31.0% in 2001 compared to 34.7% in 2000, as described in Note 14 of the Consolidated Financial Statements.

BALANCE SHEET REVIEW

The Company posted assets of \$1.1 billion on December 31, 2001 compared with \$892.1 million on December 31, 2000. This increase of \$244.1 million, or 27.4%, is essentially attributable to the growth in the core mortgage business. This does not take into effect the securitization of the Mortgage-Backed Securities of \$57.7 million during the year. Total loans before securitization increased by \$227.7 million, or 28.9%, as compared to \$152.6 million, or 24.0%, in 2000.

Table 5 presents additional information on changes in balance sheet assets.

Table 5 – Balance Sheet Assets

As at December 31 (000's)	2001	2000	1999	Growth 2001/2000
Cash resources and securities	\$ 149,459	\$ 100,319	\$ 91,617	49.0%
Personal loans	3,359	–	–	100.0%
Credit cards	11,864	339	–	3,399.7%
Residential mortgage loans	909,393	719,557	564,034	26.4%
Other mortgage loans	39,465	60,430	74,888	(34.7%)
General allowance	(5,517)	(4,149)	(2,983)	33.0%
Total loans	958,564	776,177	635,939	23.5%
Other assets	28,197	15,582	10,580	81.0%
Balance sheet assets	\$ 1,136,220	\$ 892,078	\$ 738,136	27.4%
Cash resources and securities				
As a % of balance sheet assets	13.2%	11.2%	12.4%	
Loans as a % of balance sheets assets	84.4%	87.0%	86.2%	

Cash Resources and Securities

Total cash resources and securities amounted to \$149.5 million at December 31, 2001, an increase of \$49.1 million (49.0%) over 2000, and represented 13.2% of the Company's total assets at December 31, 2001, as compared to 11.2% at December 31, 2000.

Cash resources increased from \$23.2 million to \$50.0 million at December 31, 2001. These instruments, together with government bonds, are included as part of the Company's liquid assets. The securities portfolio, which is made up of bonds (provincial and federal government and corporate) and common and preferred stocks, increased from \$77.1 million to \$99.5 million.

Bonds are purchased to form part of the Company's liquid assets, while securities 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 define the size and type of securities in which the Company is able to invest.

The average holdings of bonds increased during the year, from \$21.6 million in 2000 to \$24.1 million in 2001, and at year-end bond holdings stood at \$18.9 million, compared to \$22.2 million in 2000. Bond holdings are made up of federal and provincial government bonds of \$17.2 million (\$20.5 million in 2000) and corporate bonds of \$1.7 million for both 2001 and 2000 year-ends. 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. During the year \$16.0 million of longer-term maturities were sold and \$0.6 million was recognized into income.

At December 31, 2001, the preferred stock portfolio consisted of 88.7% of P1 and P2 rated stocks (89.1% in 2000). 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 92.2% of the preferred share holdings at year-end, compared to 90.5% in 2000.

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. During the year, the Bank of Canada prime lending rate fell from 6.0% at the beginning of the year to a low of 2.5% at year-end. This had the effect of improving the market value on the fixed rate preferred stocks and mutual fund portfolios from a nominal deficiency at December 31, 2000 to a surplus of \$0.6 million at December 31, 2001. The floating rate preferred stock portfolio moved from a deficiency of \$0.1 million on \$3.5 million at December 31, 2000 to a deficiency of \$1.4 million on \$10.8 million at December 31, 2001.

The securities portfolio grew by \$22.4 million during 2001; however, the market value deficiency remained relatively the same year over year. For further information refer to Note 3 in the Consolidated Financial Statements.

Loan Portfolio

The Company's loan portfolio consists of personal and credit card loans and residential and other mortgages. At year-end, the loan portfolio stood at \$958.6 million, up from \$776.2 million at year-end 2000, an increase of 23.5%.

On December 31, 2001 the personal loan portfolio totalled \$3.4 million, or 0.4%, of the total loan portfolio and the credit card portfolio totalled \$11.9 million, or 1.2%, of the total loan portfolio. The personal loan portfolio is a new business venture for the Company in 2001. This venture was introduced in April of this year to provide installment financing for customers purchasing products from established merchants. The credit card operation was launched in the last quarter of 2000 and at December 31, 2000, receivables stood at \$0.3 million with 2,060 cards issued. At year-end December 31, 2001, receivables amounted to \$11.9 million with 21,395 cards issued.

The Company's core business is residential mortgage loans, which represented 94.3% of the total loan portfolio, while other mortgage loans represented 4.1% of the total loan 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 low interest rates making housing purchases attractive. New housing starts in Canada increased from 152,900 at the end of 2000 to 163,300 at the end of 2001, an increase of 6.8%. The Company's primary strategy continues to be that of the alternative lender to major financial institutions in the residential first mortgage market.

At year-end 2001, residential mortgage loans totalled \$909.4 million (95.8% of the total mortgage loan portfolio), as compared to \$719.6 million (92.3% in 2000). The remaining 4.2% in 2001 (7.7% in 2000) was made up of commercial and non-residential properties, the most significant being stores combined with apartments, which represented 2.7% of the total mortgage loan portfolio (3.6% in 2000). The mortgages on commercial and non-residential properties decreased by \$21.0 million to \$39.5 million in 2001 (\$14.4 million decrease in 2000).

The security priority of the mortgage loan portfolio remained relatively unchanged, with 99.9% of the portfolio being first mortgages in 2001, a slight improvement over the 99.8% in 2000.

Canada Mortgage and Housing Corporation ("CMHC") mortgages amounted to \$37.8 million in 2001 (\$11.3 million in 2000), which represented 4.0% of the total mortgage loan portfolio in 2001 and 1.5% in 2000. This area of lending remains intensely competitive, however, due to the success of the Mortgage-Backed Securitization program, the Company will continue to lend in this area.

The Company's market includes Ontario, Alberta and British Columbia. The mortgage loan portfolio in the western provinces accounted for 8.8% of the 2001 volume down from 12.5% in 2000. It is estimated that provinces other than Ontario will account for 15–20% of the new business in 2002. It is anticipated that the internal rate of growth in the mortgage portfolio experienced in Ontario over the past few years will continue through 2002.

Impaired Loans

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, in possession (for the mortgage loan portfolio) 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.

The economic slowdown in Canada has contributed to a slight increase in impaired loans in 2001 over 2000. Some regions have been harder hit by the economic slowdown and have a higher delinquency rate than the Company average.

Impaired loans are summarized as follows:

Table 6 – Impaired Loans

As at December 31 (000's)	2001		2000		1999	
	Gross	Net	Gross	Net	Gross	Net
Personal loans	\$ 10	\$ –	\$ –	\$ –	\$ –	\$ –
Credit card loans	246	–	–	–	–	–
Residential mortgage loans	5,297	5,017	3,257	2,945	1,625	1,193
Other mortgage loans	–	–	–	–	–	–
Impaired loans	\$ 5,553	\$ 5,017	\$ 3,257	\$ 2,945	\$ 1,625	\$ 1,193
General allowance		5,517		4,149		2,983
		\$ (500)		\$ (1,204)		\$ (1,790)
Net impaired loans as a % of gross loans		0.52%		0.39%		0.21%
Total allowance for loan arrears		\$ 6,054		\$ 4,461		\$ 3,414
Total allowance as a % of gross impaired loans		109.0%		137.0%		210.1%

Gross impaired loans totalled \$5.6 million at December 31, 2001, for an increase of \$2.3 million from December 31, 2000. The specific and general allowance increased \$1.6 million from December 31, 2000 to \$6.1 million at December 31, 2001.

The purpose of the general allowance is to provide for potential future losses on currently performing loans. This allowance increased from \$4.1 million at December 31, 2000 to \$5.5 million at December 31, 2001. The increase in the general allowance year-over-year represented 33.0%, which is greater than the increase in the loan portfolio of 23.5% and the total assets increase of 27.4%. This illustrates the Company's prudent approach to the increase in the impaired loans this year. The general allowance stood at 91.2 basis points of the total risk-weighted assets (86.2 basis points in 2000). Further details can be found in Note 4 to the Consolidated Financial Statements.

Net impaired loans as a percentage of the total mortgage portfolio have increased from 0.39% at December 31, 2000 to 0.52% at December 31, 2001. Mortgage loans in the province of British Columbia ("BC") continue to contribute to the increase in the net impaired loans, with BC impaired loans amounting to 37.1% of

the total impaired mortgage loans. The collection/foreclosure process in this province extends the resolution period to approximately twelve months, resulting in expanding arrears levels. To date, the Company has not incurred any losses in BC.

Other Assets

Other assets have increased 81.0% from \$15.6 million at December 31, 2000 to \$28.2 million at December 31, 2001. These assets consist of the Mortgage-Backed Securities receivable, capital assets, deferred development costs, accrued interest receivable, income taxes receivable, goodwill and deferred and prepaid assets. The items that contributed to the \$12.6 million increase in other assets consist of the following:

- The Mortgage-Backed Securities receivable, which consists of the net present value of the future cash flows of the securities issued, added \$3.9 million. For further information, see Note 5 of the Consolidated Financial Statements.
- Capital assets increased \$1.1 million which was the result of the purchase of equipment for the new in-house computer system and office equipment for the additional premises required to accommodate the Company growth. For further information, see Note 6 of the Consolidated Financial Statements.
- The VISA operation netted \$2.7 million in development costs for the year, which will be amortized over the next four years effective January 2002. For further information, refer to Note 7 of the Consolidated Financial Statements.
- Accrued interest receivable contributed \$1.0 million due to the growth in the securities and loan portfolio.
- Income taxes receivable added \$1.0 million, deferred agent commission increased by \$1.5 million and other prepaid and deferred items increased by \$1.5 million, all the result of the growth in the Company's loan assets and deposit liabilities.

Deposits and Borrowings

Deposits and other borrowings increased by \$200.5 million, or 25.2%, in 2001, compared to an increase of \$123.6 million, or 18.4%, in 2000. Home Trust became a Federal Trust Company on March 15, 2000 and began taking registered retirement income funds in late 2000. This has increased by \$16.9 million from \$0.6 million in 2000 to \$17.5 million in 2001. The introduction of the secured VISA credit cards in late 2000 grew the VISA card security deposits by \$5.1 million, from \$1.0 million in 2000 to \$6.1 million in 2001. The remaining \$178.5 million increase was mostly due to the increase in debenture investment certificates. These increases are illustrated in Table 7 below.

Table 7 – Deposits and Borrowings

As at December 31 (000's)	2001	2000	1999	% Increase 2001 vs. 2000	% Increase 2000 vs. 1999
Payable on Demand					
Savings	\$ 46	\$ 28	\$ 80	64.3	(65.0)
Real estate tax accounts	10,347	8,051	5,468	28.5	47.2
	10,393	8,079	5,548	28.6	45.6
Payable on a Fixed Date					
Short-term certificates and savings	57,909	57,296	50,036	1.1	14.5
VISA card security deposits	6,101	1,023	–	496.4	100.0
Debenture investment certificates	791,184	619,549	518,572	27.7	19.5
Registered retirement savings plans	112,070	108,108	96,912	3.7	11.6
Registered retirement income funds	17,463	611	–	2,758.1	100.0
	984,727	786,587	665,520	25.2	18.2
Total	\$ 995,120	\$ 794,666	\$ 671,068	25.2	18.4

The increase in deposits and borrowings (\$200.5 million) funded the net increase in the loan portfolio (\$182.4 million) and partially contributed to the total asset increase of \$244.1 million. The net change in shareholders' equity (\$25.7 million) and the increase in other liabilities (\$18.4 million) less the \$0.5 million repayment on the senior term loan funded the difference.

Shareholders' Equity

Capital stock and contributed surplus increased by \$12.4 million, primarily from the funds received of \$12.5 million (net of issuance costs) from the 1.4 million share issuance in September 2001. The remaining \$0.1 million difference is the excess of the repurchase of stock through a normal course issuer bid over the conversion of options (\$0.3 million in 2000). This combined with an increase in retained earnings of \$13.3 million (\$9.3 million in 2000) from the current year's net income (\$14.9 million), net of dividends paid and declared (\$1.6 million), contributed funds to increase the asset base during the year.

BUSINESS AND FINANCIAL PRACTICES

Home Trust is regulated under the Trust and Loan Companies Act (Canada) and is a member of Canada Deposit Insurance Corporation ("CDIC"). Since 1995, Home Trust has completed the self-assessment review and reporting program associated with the CDIC Standards of Sound Business and Financial Practices. These standards are to ensure that institutions are managed in a sound and prudent manner and refer to such subjects as liquidity management, capital management, credit risk management and internal control. The Board of Directors of Home Trust reviews compliance with these standards on a regular basis.

Liquidity Risk

The objective of liquidity management and funding management is 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 is the "going concern" scenario and the second is 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 171% under the going concern and 241% 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, 2001, liquid assets amounted to \$59 million in Canadian dollars compared to \$42 million at December 31, 2000.

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 following table illustrates the interest rate sensitivity position as at December 31, 2001. 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 3.5% (3.1% in 2000) after the adjustments as noted above. The cumulative dollar gap, including off-balance sheet items,

Management's Discussion & Analysis

at the end of twelve months was small at only \$2.1 million compared to an excess liabilities over assets deficiency of \$65.8 million in 2000. This illustrates the Company's goal to better improve the matching of interest sensitive assets and liabilities. The off-balance sheet items gap, which is mortgage commitments less their related mortgage terms, accounted for \$31.8 million in 2002 (\$24.3 million in 2001 as reported last year). The cumulative gap in the three-plus year range is basically offset by shareholders' equity.

Table 8 – Interest Rate Sensitivity

	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
As at December 31, 2001 (000's)								
Assets								
Cash resources	\$ 17,070	2.8%	32,931	2.0%	–	–	–	–
Securities	13,542	4.6%	5,765	3.7%	2,787	6.0%	12,712	4.8%
Loans	–	–	56,858	10.8%	71,809	9.2%	179,878	9.2%
Other assets	–	–	–	–	–	–	–	–
	\$ 30,612	3.6%	95,554	7.3%	74,596	9.1%	192,590	8.9%
Liabilities								
Senior term loans and subordinated secured loan	\$ –	–	–	–	–	–	13,000	8.6%
Deposits payable on demand	–	–	10,393	–	–	–	–	–
Deposits payable on a fixed date	–	–	86,266	4.8%	95,391	4.7%	154,433	4.1%
Other liabilities	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	–	–
	\$ –	0.9%	96,659	4.3%	95,391	4.7%	167,433	4.5%
Gap before off-balance sheet items	30,612	–	(1,105)	–	(20,795)	–	25,157	–
Off-balance sheet items	–	–	(37,243)	7.8%	(1,202)	7.5%	6,653	8.6%
Gap after off-balance sheet items	\$ 30,612	–	(38,348)	–	(21,997)	–	31,810	–
Cumulative gap	\$ 30,612	–	(7,736)	–	(29,733)	–	2,077	–

	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, 2001 (000's)								
Assets								
Cash resources	\$ –	–	–	–	–	\$ 50,001	2.3%	
Securities	31,633	5.4%	33,019	5.7%	–	99,458	5.2%	
Loans	312,624	8.7%	337,895	8.4%	(500)	958,564	8.8%	
Other assets	–	–	–	–	28,197	28,197	0.0%	
	\$ 344,257	8.4%	370,914	8.1%	27,697	\$ 1,136,220	8.0%	
Liabilities								
Senior term loans and subordinated secured loan	\$ –	–	–	–	–	\$ 13,000	8.6%	
Deposits payable on demand	–	–	–	–	–	10,393	0.0%	
Deposits payable on a fixed date	372,541	5.3%	276,096	5.5%	–	984,727	5.1%	
Other liabilities	–	–	–	–	52,897	52,897	0.0%	
Shareholders' equity	–	–	–	–	75,203	75,203	0.0%	
	\$ 372,541	5.3%	276,096	6.0%	128,100	\$ 1,136,220	4.5%	
Gap before off-balance sheet items	(28,284)	–	94,818	–	(100,403)	–	3.5%	
Off-balance sheet items	11,994	7.5%	19,798	7.6%	–	–	–	
Gap after off-balance sheet items	\$ (16,290)	–	114,616	–	(100,403)	–	–	
Cumulative gap	\$ (14,213)	–	100,403	–	–	–	–	

In addition to the 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, 2001, an immediate and sustained 100 basis point increase in rates would decrease the economic value of shareholders' equity by \$1.0 million (\$2.4 million at December 31, 2000).

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, 2001, this stood at 88.7% of the total portfolio (89.1% in 2000). 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, 2001, these types of investments accounted for 92.2% of the portfolio (90.5% in 2000). 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 1.6% of total investments (4.2% in 2000). 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 7.4% (5.9% in 2000).

Credit Risk Management

Credit risk management is the management of the credit risk associated with the total loan 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 loan. In addition, all mortgages that are over \$500,000 must be approved by the Chairman of the Audit Committee. The Audit Committee and the Board of Directors review quarterly the policies as established by the Company and the compliance with credit risk requirements.

Residential mortgage loans represent the largest component of the total loan portfolio, comprising 94.3% at December 31, 2001, compared to 92.2% at December 31, 2000. These loans are secured primarily by single family dwellings, which are owner occupied. Under the lending criteria, all mortgage loans are considered individually under a rating process and the level of risk is determined.

Properly qualified, independent third-party appraisers appraise 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 to confirm value and marketability.

The Company's industrial, commercial and other non-residential property types represented 4.1% of the total loan portfolio at December 31, 2001 (7.7% in 2000), 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.

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Personal loans and credit cards represented 1.6% of the total loan portfolio at December 31, 2001 (0.04% in 2000), and \$3.4 million, or 28.4%, of the credit cards are secured by deposits held by the Company. The Company intends to continue in these product lines according to stringent credit and lending policies.

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. The objective of the policy is to ensure that the regulatory capital requirements are met while providing a sufficient return to investors. 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

As Home Trust is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited by the permitted assets 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 and reserves. The chart below shows the capital borrowing ratio.

Table 9 – Assets to Capital Multiple
(Based on the subsidiary Home Trust Company)

As at December 31 (000's)	2001	2000	1999	1998	1997
Total assets	\$ 1,133,730	886,660	735,129	535,163	430,455
Regulatory total capital	\$ 86,387	60,533	46,839	39,594	28,666
Assets to capital multiple	13.12	14.65	15.69	13.52	15.02

On November 23, 2001, Home Trust was given approval to include its general allowance in the calculation of regulatory capital to the equivalent of 0.875% of risk-weighted assets (RWA) in tier 2 capital. This inclusion of the allowance amounts to over \$5.0 million in the tier 2 capital, which has the effect of improving the capital ratio to 13.12 from 13.91 without the general allowance.

Risk-Based Capital Ratio (BIS Ratio)

Capital adequacy for 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 consists primarily of shareholders' equity and non-cumulative preferred shares. Tier 2 consists primarily of subordinated debentures, cumulative preferred shares and the general allowance.

The Company's total BIS ratio increased to 14.28% in 2001 from 12.58% in 2000. The tier 1 capital increased from 9.46% in 2000 to 10.93% in 2001. This was attributable to the income generated for the year of \$13.6 million and the injection of \$7.0 million for the purchase of shares of Home Trust by the Company. 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 inclusion of the \$5.3 million of the general allowance. The inclusion of the general allowance improved the total capital from 13.53% to the 14.28% reported. Both ratios are well in excess of the levels defined by OSFI: 10% for total capital and 7% for tier 1 capital.

Table 10 – Risk-Based Capital Ratio (BIS Ratio)
(Based on the subsidiary Home Trust Company)

As at December 31 (000's)									
Capital				2001	2000				
Tier 1									
Shareholders' equity				\$ 66,138	\$ 45,533				
Tier 2									
Eligible portion of subordinated notes issued by the Company				15,000	15,000				
General allowance (limited to 0.875% of RWA)				5,249	–				
Total				\$ 86,387	\$ 60,533				
Risk-Weighted Assets ("RWA")				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)				\$ 87,425	0%	\$ –	\$ 45,962	0%	\$ –
Claims on banks and municipal governments				13,271	20%	2,654	6,930	20%	1,386
Conventional mortgages on owner-occupied residences				861,122	50%	430,561	708,075	50%	354,038
Other assets				166,663	100%	166,663	125,693	100%	125,693
General allowance (limited to 0.875% of RWA)				5,249	100%	5,249	–	100%	–
Total assets				\$ 1,133,730		\$ 605,127	\$ 886,660		\$ 481,117
Total off-balance sheet financial instruments				38,592	0%	–	32,191	0%	–
Total				\$ 1,172,322		\$ 605,127	\$ 918,851		\$ 481,117
Risk-Based Capital Ratio (BIS Ratio)				2001	2000				
Tier 1 capital				10.93%	9.46%				
Tier 2 capital				3.35%	3.12%				
Total				14.28%	12.58%				

Internal Control

The Company maintains a governance and control framework to ensure that its operations are efficient and effective, the financial reporting is reliable and the Company complies with all applicable laws and regulations. To this end, written policies and procedures relating to the Company's business activities are in place and are reviewed no less than annually by the Board of Directors. In addition, external auditors and government regulators review the internal controls.

The Company has an internal auditor accountable directly to the Chairman of the Audit Committee who examines and reports on the effectiveness of internal controls and related matters. The internal auditor's role complements the external audit functions and, to this end, the internal auditor communicates throughout the year with both the external auditors and government regulators.

The Company has established a compliance function responsible for business and employee conduct and legislative compliance that reports to the Company's Audit and Compliance Committees.

OUTLOOK

Current Economic Outlook

In the latter months of 2001 and into early 2002 the Canadian economy reclaimed some of the ground ceded following the September terrorist attacks. Job losses increased in December and several indicators, such as the help wanted index, pointed to more job losses to come. The unemployment rate has begun to rise since the fourth quarter of 2001 and is projected to increase from 7.2% at the end of 2001 to 8.2% during 2002. The Canadian housing market continues to expand in the regions of the country targeted by the Company in Ontario, central Alberta and southwestern British Columbia. Inflation continues to be under control with the exception of the recent increase in energy prices.

The Bank of Canada and the United States Federal Reserve have recently lowered borrowing rates (in early 2002) and they appear to be at or near the end of their easing cycle. Some are predicting a strong recovery and interest rates at the short end of the yield curve are expected to remain low until the summer months of 2002. These continued low rates have been reflected in low mortgage rates, which improve the affordability of housing across Canada.

The housing market and related residential mortgage market in Ontario have remained strong into 2002 in spite of the sluggish economy. This is a result of the above-average economic growth rates experienced over the past few years and affordable mortgage carrying costs.

The Alberta economy and housing market continues to expand as the province benefits from increased energy prices and demands and low unemployment rates. Home Trust expects strong mortgage demand in Alberta in 2002.

In British Columbia the housing market bottomed out in 2001 and the market began to show some signs of life in 2002. Home Trust is experiencing some growth in this market in early 2002 and expects this trend to continue.

Future Outlook

The Company's balance sheet was further strengthened during 2001 with the addition of new equity raised through the share issuance in September 2001 and as a result of internal expansion through the achievement of record growth in assets, revenues and profits.

During 2001, the Company completed the sale of four pools of Mortgage-Backed Securities, which have provided additional revenue and profit beyond the core mortgage business. Future sales will be pursued in 2002 and beyond to further the growth objectives of the Company. During the latest fiscal year, the Company provided a VISA program with both secured and unsecured VISA cards targeted to consumers who desire to establish or re-establish their credit worthiness. However, through ongoing testing and behaviour analysis in the marketplace, Home Trust is now only focusing on the secured product.

During the year, the Company added a new dimension to enhance revenue and profit for the future. The Retail Credit Services division is designed to provide financing for individuals purchasing products from a number of established businesses. The division provided a positive impact on the Company's earnings in its first nine months of operations.

Growth

It is the Company's goal to achieve double-digit growth in assets in 2002. This will be achieved through growth primarily in Ontario and western Canada. The overall economic outlook in early 2002 reflects a slowing of GDP growth and consumer spending; however, due to the continued low interest rates, the Company continues to grow its core mortgage business in both Ontario and western Canada.

The Company continues to expand the term of its mortgages, resulting in the average maturity of mortgages moving from 2.4 to 2.9 years. Whenever possible, the preference is to place mortgages for longer terms. The Company will continue to match assets and liabilities to ensure that interest rate fluctuations will have little impact on future earnings.

The operations of VISA card services, Mortgage-Backed Securities and Retail Credit Services are expected to create more opportunities for increased revenue and profit for 2002 and beyond.

Return

It is the Company's goal to maintain a return on equity at 20% per annum. Return on equity for fiscal 2001 was 23.8% compared to 23.2% in 2000. The Company's productivity ratio in 2001 improved to 40.7% from 40.9% in 2000, and it is the Company's intention to remain below the 45% level.

Risk

The BIS ratio improved during the year to 14.28% from 12.58% in 2000. This ratio was improved with the injection of capital stock into Home Trust, approval for the inclusion of 0.875% of the general allowance and increased profit in 2001. The Company's core business, which is single family residential first mortgage loans, carries a lower risk weighting. At December 31, 2001, first mortgages represented 99.9% (99.8% in 2000) of the portfolio, and residential mortgage loans increased to 94.3% from 92.2% in 2000.

Even though the Canadian economy has experienced some slowing, the housing markets across the country continue to grow. The Company, based on growth initiatives undertaken to date, is confident of the continued growth of its asset base and earnings.

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. Ernst & Young LLP conducts an independent examination of the consolidated financial statements of the Corporation and reports 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

To the Shareholders of Home Capital Group Inc.

We have audited the consolidated balance sheets of Home Capital Group Inc. as at December 31, 2001 and 2000 and the consolidated statements of shareholders' equity, income 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, 2001 and 2000 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, 2002

Consolidated Balance Sheet

As at December 31	2001	2000
ASSETS		
Cash Resources		
Deposits with Regulated Financial Institutions	\$ 18,069,542	\$ 9,272,915
Treasury Bills Guaranteed by Canada	31,931,213	13,971,728
	50,000,755	23,244,643
Securities (Note 3)		
Issued or Guaranteed by Canada	4,134,120	7,189,760
Issued or Guaranteed by Province	13,119,156	13,350,855
Other Securities	82,205,217	56,532,968
	99,458,493	77,073,583
Loans (Note 4)		
Personal and Credit Card Loans	15,223,404	339,210
Residential Mortgages	909,393,315	719,557,027
Other Mortgages	39,465,142	60,429,645
General Allowance for Credit Losses	(5,517,376)	(4,149,131)
	958,564,485	776,176,751
Other		
Mortgage-Backed Securities Receivable (Note 5)	5,269,385	1,372,127
Capital Assets (Note 6)	2,168,172	1,047,279
Deferred Development Costs (Note 7)	3,363,715	711,176
Other (Note 8)	17,395,215	12,452,019
	28,196,487	15,582,601
	\$ 1,136,220,220	\$ 892,077,578
LIABILITIES		
Senior Term Loans (Note 9)	\$ 8,000,000	\$ 8,500,000
Subordinated Secured Loan (Note 10)	5,000,000	5,000,000
Deposits and Borrowings (Note 11)		
Payable on Demand	10,393,269	8,078,801
Payable on a Fixed Date	984,727,405	786,587,283
	1,008,120,674	808,166,084
Other		
Cheques and Other Items in Transit	4,658,419	2,101,339
Other Liabilities (Note 12)	48,238,602	32,308,789
	52,897,021	34,410,128
	1,061,017,695	842,576,212
SHAREHOLDERS' EQUITY		
Capital Stock (Note 13)	31,296,523	18,629,583
Contributed Surplus	–	266,825
Retained Earnings	43,906,002	30,604,958
	75,202,525	49,501,366
	\$ 1,136,220,220	\$ 892,077,578

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

(signed) Gerald M. Soloway

(signed) Harvey F. Kolodny

Gerald M. Soloway

Harvey F. Kolodny

Director

Director

Consolidated Statement of Changes in Shareholders' Equity

For the years ended December 31	2001	2000
Capital Stock		
Class A Convertible Shares		
Balance at the End of the Year	\$ 1,390,000	\$ 1,390,000
Class B Subordinated Voting Shares		
Balance at the Beginning of the Year	17,239,583	17,201,224
Proceeds of Shares Issued	12,513,942	–
Proceeds of Options Exercised	455,298	222,000
Redemption of Shares	(302,300)	(183,641)
Balance at the End of the Year	29,906,523	17,239,583
Total Capital Stock	\$ 31,296,523	\$ 18,629,583
Contributed Surplus		
Balance at the Beginning of the Year	\$ 266,825	\$ 600,749
Redemption of Shares	(266,825)	(333,924)
Balance at the End of the Year	\$ –	\$ 266,825
Retained Earnings		
Balance at the Beginning of the Year	\$ 30,604,958	\$ 21,260,884
Dividends Paid During the Year	(1,075,325)	(811,472)
Dividends Declared During the Year	(483,200)	(296,088)
Net Income for the Year	14,859,569	10,451,634
Balance at the End of the Year	\$ 43,906,002	\$ 30,604,958

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Income

For the years ended December 31	2001	2000
INCOME		
Interest Income		
Interest from Loans	\$ 76,180,653	\$ 60,192,995
Dividends from Securities	4,504,690	2,898,549
Other Interest	3,301,376	2,295,398
	83,986,719	65,386,942
Interest Expense		
Interest on Deposits and Borrowings	50,146,596	40,581,904
Interest on Senior and Secured Loans	1,146,515	778,069
	51,293,111	41,359,973
Net Interest Income	32,693,608	24,026,969
Provision for Credit Losses <i>(Note 4)</i>	2,447,735	1,275,000
	30,245,873	22,751,969
Non-Interest Income		
Fees and Other Income	4,733,165	4,517,614
Securitization Gains on Mortgage-Backed Securities <i>(Note 5)</i>	3,002,113	452,585
Gain on Sale of Securities	5,821	249,253
	7,741,099	5,219,452
	37,986,972	27,971,421
Non-Interest Expenses		
Salaries and Staff Benefits	7,535,183	5,093,430
Premises	983,233	872,475
General and Administration	7,934,683	5,995,791
	16,453,099	11,961,696
INCOME BEFORE INCOME TAXES	21,533,873	16,009,725
Income Taxes <i>(Note 14)</i>		
Current	2,295,949	6,361,911
Future	4,378,355	(803,820)
	6,674,304	5,558,091
NET INCOME FOR THE YEAR	\$ 14,859,569	\$ 10,451,634
AVERAGE NUMBER OF CLASS A AND CLASS B SHARES OUTSTANDING		
Basic	15,047,077	14,769,422
Fully Diluted <i>(Note 13)</i>	16,327,371	15,469,395
NET INCOME PER CLASS A AND CLASS B SHARE		
Basic <i>(Note 13)</i>	\$ 0.99	\$ 0.71
Fully Diluted <i>(Note 13)</i>	\$ 0.91	\$ 0.66
DIVIDENDS PER CLASS A AND CLASS B SHARE		
Dividend	\$ 0.10	\$ 0.08

See accompanying notes to the consolidated financial statements.

Consolidated Statement Of Cash Flows

For the years ended December 31	2001	2000
OPERATING ACTIVITIES		
Net Income for the Year	\$ 14,859,569	\$ 10,451,634
Add (Deduct) Items Not Affecting Cash:		
Future Income Taxes	4,378,355	(803,820)
Amortization of Capital Assets	722,084	274,364
Amortization of Securities	(532,330)	89,323
Amortization of Goodwill and Deferred Financing Costs	215,272	151,607
Provision for Credit Losses	2,447,735	1,275,000
Change in Accrued Interest Receivable	(1,026,621)	(1,341,766)
Change in Accrued Interest Payable	10,016,245	7,317,119
Gain on Sale of Securities	(5,821)	(249,253)
Gain on Sale of Mortgage-Backed Securities	(3,002,113)	(452,585)
Change in Mortgage-Backed Securities Receivable	1,000,341	(338,884)
Change in Other Assets	(5,718,948)	(1,186,369)
Change in Cheques and Other Items in Transit	2,557,080	2,101,339
Change in Other Liabilities	2,935,204	3,186,049
Cash Provided by Operating Activities	28,846,052	20,473,758
FINANCING ACTIVITIES		
Repayments of Senior Term Loans	(500,000)	(500,000)
Receipt of Subordinated Secured Loan	–	5,000,000
Net Increase in Deposits and Borrowings	200,454,590	123,598,253
Deferred Financing Costs	–	(133,116)
Issuance of Capital Stock	12,969,240	222,000
Normal Course Issuer Bid	(569,125)	(517,565)
Dividends Paid	(1,371,413)	(1,032,777)
Cash Provided by Financing Activities	210,983,292	126,636,795
INVESTING ACTIVITIES		
Activity in Securities		
Purchases	(50,730,239)	(14,711,162)
Proceeds on Sales	23,202,572	3,845,941
Proceeds on Maturities	5,680,907	4,854,315
Activity in Mortgages		
Purchases	–	(3,392,803)
Net Increase	(226,721,355)	(144,735,296)
Proceeds from Securitization of Mortgage-Backed Securities	55,820,593	11,841,751
Net Increase in Personal and Credit Card Loans	(15,830,194)	(339,210)
Net Increase in Deferred Development Costs	(2,652,539)	(711,176)
Purchases of Capital Assets	(1,842,977)	(682,248)
Cash Used in Investing Activities	(213,073,232)	(144,029,888)
Net Increase in Cash and Cash Equivalents	26,756,112	3,080,665
Cash and Cash Equivalents at the Beginning of the Year	23,244,643	20,163,978
Cash and Cash Equivalents at the End of the Year	\$ 50,000,755	\$ 23,244,643
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	\$ 41,276,866	\$ 34,042,853
Amount of Income Taxes Paid During the Year	5,947,692	5,250,957

See accompanying notes to the consolidated financial statements.

Note 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these consolidated financial statements management is required 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. Actual results could differ from those estimates.

The significant accounting policies followed by Home Capital Group Inc. are as follows:

a) Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of Home Capital Group Inc. (the "Company") and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as the corporations whose operations are controlled by the Company and are corporations in which the Company owns 50% of the voting shares. The subsidiaries included in the consolidated financial statements are Home Trust Company ("Home Trust"), Home Capital Investment Management Incorporated, 964864 & 964865 Ontario Limited and 757902 & 757903 Ontario Inc.

b) Cash Resources

For the purposes of the statement of cash flows, cash and cash resources comprise balances with less than 90 days 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 amortized cost. Interest income is recognized on an accrual basis.

c) Securities

Securities are purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive and are included in the securities account. Bonds and debentures are stated at amortized cost. Common and preferred stocks are stated at cost except for retractable

and convertible preferred stocks which are stated at amortized cost. If the value of securities held in the securities account has an impairment that is other than temporary, the carrying value is appropriately reduced, to the lower of cost or market. The full amount of gains and losses on disposal of securities and any adjustments to record an impairment in value that is other than temporary are included in gains or losses on securities.

d) Loans

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

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.

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.

Impaired 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.

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

Loan commitment fees and origination fees are deferred and amortized to "Fees and Other Income" over the term of the loan.

e) Allowance for Credit Losses

An allowance for credit 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 each of which is reviewed on a regular basis. The allowance is increased by these provisions, which are charged to income, and reduced by write-offs, net of recoveries. The allowance is deducted from the loans on the consolidated balance sheet.

Specific allowances 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, groups of credits and statistical analysis of past performances.

**f) Transfer of Receivables
(Mortgage-Backed Securities Receivable)**

When Home Trust sells receivables in the securitization of residential mortgage loans, it retains interest-only strips and servicing rights which are retained interests in the securitized receivables. Gain or loss on the sale of the receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the assets sold and the retained interest based on their relative fair value at the date of transfer. The fair market values are determined using either financial models, quoted market prices or sales of similar assets. Gain or loss on sale, net of issuance costs, is recognized at the time of the securitization.

g) Capital Assets

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

Office Furniture and Equipment	20%
Computer Equipment	30%
Signs	20%

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

h) Deferred Development Costs

On May 24, 2000, Home Trust became authorized to offer VISA cards and accordingly, became engaged in

the business of developing a VISA card. Since inception, the efforts of Home Trust have been devoted to the development of a VISA card operation. As at December 31, 2001 Home Trust has completed the development stage of its VISA operations. These costs will be amortized over a period of four years starting January 1, 2002 on a basis that will follow the maturing nature of the business.

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) 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 amount 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 years in which those temporary differences are expected to be recovered or settled.

Future tax liabilities are included in "Other Liabilities."

k) Other Assets

Deferred agent commissions are commissions paid on deposits with a fixed maturity date which are deferred and amortized over the terms of the deposit to which they relate.

l) Comparative Figures

Certain comparative figures were reclassified to conform to the presentation adopted for the current year.

Note 2

CHANGES IN ACCOUNTING POLICIES

Transfers of Receivables

In March 2001, the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 12 (AcG 12), *Transfers of Receivables*, which replaces EIC 9, *Transfers of Receivables* and EIC 54, *Transfers of Receivables: Definition of Recourse*, for transfers occurring after the effective date.

AcG 12 is based on a financial-components approach that focuses on control. Under this approach, following a transfer of financial assets, an entity ceases to recognize assets only when control has been surrendered. AcG 12 is effective for all transfers of receivables on or after July 1, 2001 (subject to certain grandfathering provisions).

Home Trust adopted the requirements of AcG 12 for the transfers of receivables that occurred after July 1, 2001, prospectively.

Earnings Per Share

CICA has approved a new accounting standard for computing and disclosing net income per share which the Company has adopted. The most significant change is that when calculating the fully diluted net income per share under the new standard, the Company assumes that proceeds received from the exercise of stock options are used to repurchase outstanding shares; whereas under the old standard, the assumption was that proceeds of possible stock options exercised were invested to earn revenues.

The Company has restated the fully diluted earnings per share for the previous year which had the effect of reducing the prior year by \$0.02 to \$0.66 per share.

Note 3

SECURITIES

An analysis of securities at carrying value by type and maturity is as follows:

	2001					2000
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Securities Issued or Guaranteed by:						
Canada	\$ -	\$ 997,446	\$ 3,136,674	\$ -	\$ 4,134,120	\$ 7,189,760
A Province	-	12,619,434	499,722	-	13,119,156	13,350,855
Other Debt Securities	-	500,000	1,189,054	-	1,689,054	1,687,001
Equity Securities						
Common	1,693,914	-	-	-	1,693,914	2,885,024
Fixed Rate Preferred	19,070,415	18,015,761	13,416,494	14,777,453	65,280,123	45,705,866
Floating Rate Preferred	6,084,507	4,703,359	-	-	10,787,866	3,500,817
Mutual Funds	2,754,260	-	-	-	2,754,260	2,754,260
	\$29,603,096	\$36,836,000	\$18,241,944	\$14,777,453	\$ 99,458,493	\$77,073,583

Notes to the Consolidated Financial Statements

An analysis of securities fair value and yield is as follows:

2001				
	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-Average Yield
Securities Issued or Guaranteed by:				
Canada	\$ 4,134,120	\$ 39,760	\$ 4,173,880	4.9%
A Province	13,119,156	493,599	13,612,755	5.4%
Other Debt Securities	1,689,054	(403,554)	1,285,500	5.7%
Equity Securities				
Common	1,693,914	(169,284)	1,524,630	2.6%
Fixed Rate Preferred	65,280,123	676,912	65,957,035	5.3%
Floating Rate Preferred	10,787,866	(1,349,336)	9,438,530	4.6%
Mutual Funds	2,754,260	(126,520)	2,627,740	4.6%
	\$ 99,458,493	\$ (838,423)	\$ 98,620,070	

2000				
	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-Average Yield
Securities Issued or Guaranteed by:				
Canada	\$ 7,189,760	\$ (155,680)	\$ 7,034,080	5.1%
A Province	13,350,855	(46,775)	13,304,080	5.4%
Other Debt Securities	1,687,001	(127,501)	1,559,500	5.7%
Equity Securities				
Common	2,885,024	(353,144)	2,531,880	2.9%
Fixed Rate Preferred	45,705,866	224,224	45,930,090	6.0%
Floating Rate Preferred	3,500,817	(53,157)	3,447,660	5.0%
Mutual Funds	2,754,260	(251,500)	2,502,760	4.6%
	\$ 77,073,583	\$ (763,533)	\$ 76,310,050	

Note 4

LOANS

a) Loan maturities are as follows:

	2001				2000	
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Book Value	Book Value
Personal and Credit Card Loans	\$ 14,630,691	\$ 585,336	\$ 7,377	\$ –	\$ 15,223,404	\$ 339,210
Residential Mortgages	289,449,805	293,009,747	314,031,070	12,902,693	909,393,315	719,557,027
Other Mortgages	9,481,745	19,029,070	10,188,135	766,192	39,465,142	60,429,645
	313,562,241	312,624,153	324,226,582	13,668,885	964,081,861	780,325,882
General Allowance					(5,517,376)	(4,149,131)
Total	\$ 313,562,241	\$ 312,624,153	\$ 324,226,582	\$ 13,668,885	\$ 958,564,485	\$ 776,176,751

b) Impaired loans and the related allowance for credit losses are as follows:

	2001			2000		
	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Personal and Credit Card Loans	\$ 256,155	\$ 256,155	\$ –	\$ –	\$ –	\$ –
Residential Mortgages	5,296,924	280,000	5,016,924	3,257,497	312,134	2,945,363
Other Mortgages	–	–	–	–	–	–
	5,553,079	536,155	5,016,924	3,257,497	312,134	2,945,363
General Allowance		5,517,376	(5,517,376)		4,149,131	(4,149,131)
Total	\$ 5,553,079	\$ 6,053,531	\$ (500,452)	\$ 3,257,497	\$ 4,461,265	\$ (1,203,768)

c) Allowance for credit losses during the year:

	2001			2000		
	Specific Allowance	General Allowance For Credit Risk	Total	Specific Allowance	General Allowance For Credit Risk	Total
Balance at Beginning of Year	\$ 312,134	\$ 4,149,131	\$ 4,461,265	\$ 430,690	\$ 2,983,077	\$ 3,413,767
Provisions for the Year	1,079,490	1,368,245	2,447,735	108,946	1,166,054	1,275,000
Write-offs for the Year	(888,877)	–	(888,877)	(265,617)	–	(265,617)
Recoveries for the Year	33,408	–	33,408	38,115	–	38,115
Balance at End of Year	\$ 536,155	\$ 5,517,376	\$ 6,053,531	\$ 312,134	\$ 4,149,131	\$ 4,461,265

Note 5

MORTGAGE-BACKED SECURITIES

As explained in Note 2, Home Trust adopted the requirements of CICA AcG 12, “Transfers of Receivables” for securitization on or after July 1, 2001. The impact of this change in accounting policy is not significant. During the year, Home Trust securitized \$57.7 million of government guaranteed residential mortgage loans through the creation of Mortgage-Backed Securities and subsequently sold all of these. Home Trust received net cash proceeds of \$55.8 million and retained the rights to future excess interest on the residential mortgages valued at \$4.9 million. A pre-tax gain on sale, net of transaction costs, of \$3.0 million was recognized. The key assumptions used to value the sold and retained interest include a pre-payment rate of 7% and discount rates of 4.25% to 5.625%. There are no expected credit losses as the mortgages are government guaranteed.

Notes to the Consolidated Financial Statements

	2001	2000
Outstanding Principal Value of the Mortgage-Backed Securities	\$ 65,626,630	\$ 12,422,000
Carrying Amount of Retained Interest	\$ 5,102,528	\$ 1,033,000
Fair Value of Retained Interest	\$ 5,347,000	\$ 1,077,000
Weighted Average Life in Years	4	5
Pre-payment Rate	7.00%	7.00%
Impact on Fair Value of 10% Adverse Change	\$ (2,000)	\$ –
Impact on Fair Value of 20% Adverse Change	\$ (6,300)	\$ –
Residual Cash Flows Discount Rate	5.13%	5.75%
Impact on Fair Value of 10% Adverse Change	\$ (59,000)	\$ –
Impact on Fair Value of 20% Adverse Change	\$ (112,000)	\$ –
Expected Credit Losses	N/A*	N/A*

*Not applicable as these mortgages are all government guaranteed.

Note 6

CAPITAL ASSETS

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Equipment	\$ 2,550,422	\$ 1,412,646	\$ 1,137,776	\$ 527,094
Office Furniture and Equipment	1,901,717	1,092,948	808,769	458,110
Signs	26,812	24,306	2,506	3,132
Leasehold Improvements	445,152	226,031	219,121	58,943
	\$ 4,924,103	\$ 2,755,931	\$ 2,168,172	\$ 1,047,279

Amortization in respect of the above noted capital assets for the year amounted to \$ 722,084 (274,364 in 2000).

Note 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. Home Trust has entered into agreements to process the credit cards, statements and collections. As at December 31, 2001, the VISA project has completed its development stage and will be fully operational as of January 1, 2002.

Costs incurred for VISA project under development	2001	2000
Balance at the Beginning of the Year	\$ 711,176	\$ –
Additions	6,915,269	1,090,436
Reimbursement of Initial Costs	–	(373,700)
Revenues	(4,262,730)	(5,560)
Balance at the End of the Year	\$ 3,363,715	\$ 711,176

Note 8

OTHER ASSETS

	2001	2000
Accrued Interest Receivable	\$ 6,966,250	\$ 5,939,629
Income Taxes Recoverable	1,024,840	–
Goodwill, Net of Accumulated Amortization	2,323,914	2,416,871
Deferred Agent Commissions	4,236,300	2,732,267
Other Prepaid Assets and Deferred Items	2,843,911	1,363,252
	\$ 17,395,215	\$ 12,452,019

Note 9

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 loans, 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 an assignment of \$10,000,000 of the subordinated notes issued to Home Trust.

Note 10

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 loan of \$5,000,000 for a period of 2 years. The terms of the subordinated secured loan are as follows:

- i) the principal of the subordinated secured 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 loan, 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 \$5,000,000 subordinated notes issued to Home Trust in connection with the proceeds of the subordinated secured loan.

Note 11**DEPOSITS AND BORROWINGS**

	Payable on a Fixed Date				2001	2000
	Payable After Demand	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Total	Total
Individuals	\$ 10,393,269	\$ 321,368,975	\$ 364,201,205	\$ 271,117,815	\$ 967,081,264	\$ 766,358,837
Businesses	–	14,721,237	8,340,110	4,978,063	28,039,410	28,307,247
	\$ 10,393,269	\$ 336,090,212	\$ 372,541,315	\$ 276,095,878	\$ 995,120,674	\$ 794,666,084

All deposits are held in Canadian funds for 2001 and 2000.

Note 12**OTHER LIABILITIES**

	2001	2000
Accrued Interest Payable	\$ 36,584,959	\$ 26,566,961
Income Taxes Payable	–	1,587,102
Dividends Payable	483,200	296,088
Deferred Commitment Fees	1,254,904	1,126,235
Future Income Taxes (Note 14)	5,262,222	883,866
Other, Including Accounts Payable and Accrued Liabilities	4,653,317	1,848,537
	\$ 48,238,602	\$ 32,308,789

Note 13**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.

b) Issued

	Number of Shares		Number of Shares	
	2001		2000	
Class 'A' Shares	3,025,000	\$ 1,390,000	3,025,000	\$ 1,390,000
Class 'B' Subordinated Voting Shares				
Balance at Beginning of Year	11,779,395	17,239,583	11,728,695	17,201,224
Options Exercised	215,215	455,298	176,000	222,000
Shares Issued	1,400,000	12,513,942	–	–
Normal Course Issuer Bid	(72,000)	(302,300)	(125,300)	(183,641)
Balance at End of Year	13,322,610	\$ 29,906,523	11,779,395	\$ 17,239,583
Total Stated Capital		\$ 31,296,523		\$ 18,629,583

On September 11, 2001, the Company completed an issue of 1,400,000 Class 'B' subordinated voting shares. Gross cash proceeds totalled \$13,440,000 reduced by \$926,058 charged to retained earnings for share issue costs.

Subsequent to the year-end, the Company announced on January 25, 2002 a share conversion that reduced the issued balance of the convertible Class 'A' shares. The holders of the Company's convertible Class 'A' shares have converted 1,500,000 of the Class 'A' shares into the same number of single-vote Class 'B' subordinated voting shares.

c) Normal Course Issuer Bid

On October 19, 1998, the Company filed a Normal Course Issuer Bid which allows them 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 31, 2001 for a further twelve-month period. This renewal allows the Company to purchase up to 5% of the outstanding Class 'B' subordinated voting shares outstanding as of October 31, 2001 over this twelve-month period.

During the year, 72,000 shares were purchased (125,300 in 2000). 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 \$302,300 (\$183,641 in 2000); and (ii) the excess was applied to contributed surplus, which amounted to \$266,825 (\$333,924 in 2000).

d) Stock Options

Options outstanding and granted to directors, executives and employees of the Company are for Class 'B' subordinated voting shares. The details and changes in the issued and outstanding options are as follows:

	2001		2000	
	Class 'B' Number of Options	Weighted Average Exercise Price	Class 'B' Number of Options	Weighted Average Exercise Price
Outstanding at Beginning of Year	905,000	\$ 3.34	861,000	\$ 2.30
Issued	45,000	9.37	260,000	5.26
Exercised	(215,215)	2.12	(176,000)	1.26
Cancelled	–	–	(40,000)	2.55
Outstanding at End of Year	734,785	\$ 4.07	905,000	\$ 3.34
Exercisable at End of Year	514,785	\$ 3.50	665,000	\$ 2.61

Notes to the Consolidated Financial Statements

The Company's stock plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective June 6, 2001 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 1,422,099 representing approximately 9.6% of the aggregate number of Class 'A' shares and Class 'B' subordinated voting shares, which were issued and outstanding as of June 6, 2001. 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, 2001, stock options outstanding to acquire Class 'B' subordinated voting shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price Per Share \$	Expiry Date
Options Granted To:				
Directors	175,785	175,785	2.55	10/22/02
	65,000	65,000	3.20	11/20/02
	12,500	12,500	4.34	4/21/04
	15,000	15,000	3.93	5/26/04
	15,000	15,000	4.00	10/20/04
	10,000	10,000	3.80	3/23/05
	20,000	20,000	9.37	7/25/06
	313,285	313,285		
Employees	150,000	150,000	2.55	10/22/02
	12,500	12,500	4.34	4/21/04
	44,000	4,000	3.80	3/23/05
	170,000	–	5.75	10/20/05
	20,000	10,000	6.05	12/4/05
	25,000	25,000	9.37	7/25/06
	421,500	201,500		
Total	734,785	514,785	3.50	

e) Net Income per Common Share

Net income per common share is determined as net income divided by the average number of common shares outstanding.

Note 14**INCOME TAXES**

Components of Income Tax Expense:

	2001	2000
Current Income Taxes		
Federal	\$ 1,524,654	\$ 4,215,217
Provincial	771,295	2,146,694
	<u>2,295,949</u>	<u>6,361,911</u>
Future Income Taxes		
Federal	2,970,704	(532,588)
Provincial	1,407,651	(271,232)
	<u>4,378,355</u>	<u>(803,820)</u>
	<u>\$ 6,674,304</u>	<u>\$ 5,558,091</u>

Reconciliation of Income Taxes:

	2001	2000
Income Before Income Taxes	\$ 21,533,873	\$ 16,009,725
Income Taxes at Statutory Combined Federal and Provincial Tax Rate	\$ 8,988,239	\$ 7,036,274
Increase (Decrease) from Statutory Rate Resulting From:		
Tax Exempt Income	(1,880,119)	(1,273,857)
Non-deductible Expenses	21,313	20,194
Capital Losses (Gains)	75,261	(47,328)
Goodwill Amortization	38,800	40,855
Future Tax Rate Reductions	(425,090)	-
Other	(144,100)	(218,047)
	<u>\$ 6,674,304</u>	<u>\$ 5,558,091</u>

The combined federal and provincial income tax rate varies each year according to changes in the statutory rates imposed by the federal and provincial governments. The effective rates of income tax in the consolidated statement of income are different from the combined federal and provincial income tax rate of 41.74% (43.95% in 2000). During 2001, the federal income tax rate decreases proposed in the October 18, 2000 federal government Economic Statement and Budget Update and the provincial income tax rate decreases proposed in several provincial budgets during the year were passed into law. As a result, the Company recognized a reduction of \$425,090 to income tax expense thereby decreasing the future tax liabilities in recognition of the fact that temporary differences will reverse when the tax rates are lower.

Notes to the Consolidated Financial Statements

Sources of future income tax balances:

	2001	2000
Future Income Tax Liabilities		
Deferred Charges	\$ 2,480,053	\$ 713,933
Market-to-Market Adjustments	404,436	94,423
Mortgage-Backed Securities	1,876,455	454,000
Development Costs	1,237,006	312,562
	5,997,950	1,574,918
Future Income Tax Assets		
Allowance for Credit Losses	483,054	494,980
Unearned Income	252,674	196,072
	735,728	691,052
Net Future Income Tax Liability	\$ 5,262,222	\$ 883,866

Note 15

EMPLOYEE SHARE PURCHASE PLAN

Effective January 1, 2001 qualifying employees of Home Trust have the option 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 Class 'B' subordinated voting shares. Home Trust matches 50% of the employee contribution amount. All contributions are used by the plan's trustee to purchase the Class 'B' subordinated voting shares during each pay period in the open market. Home Trust contributions are fully vested immediately. Home Trust's contribution is expensed as paid and totalled \$115,500 for 2001.

Note 16

LEASE COMMITMENTS

Contractual obligations in respect of operating leases as at December 31, 2001 are as follows:

2002	\$ 299,618
2003	196,235
2004	193,469
2005	183,887
2006	32,340
2007 and Subsequent Years	161,700
	\$ 1,067,249

	2001	2000
Rent Paid During the Year	\$ 762,365	\$ 729,655

Note 17

MORTGAGE COMMITMENTS

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to \$38,592,244 as at December 31, 2001 (December 31, 2000 of \$32,191,291). The commitments remain open until June 2002, and June 2001 for the prior year. The average rate on mortgage commitments is 7.77% (December 31, 2000 of 9.66%).

Note 18

FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the fair values of the Company's financial instruments both on and off balance sheet of which the valuation methods and assumptions 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. However, many of the Company's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. 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.

(\$ thousands)	2001			2000		
	Book Value	Fair Value	Fair Value Over/(Under) Book Value	Book Value	Fair Value	Fair Value Over/(Under) Book Value
Assets						
Cash Resources	\$ 50,001	\$ 50,001	\$ –	\$ 23,245	\$ 23,245	\$ –
Securities	99,458	98,620	(838)	77,074	76,071	(1,003)
Loans	958,564	1,001,041	42,477	776,177	797,322	21,145
Other	28,196	28,301	105	15,583	15,288	(295)
Liabilities						
Senior Term Loans	8,000	8,000	–	8,500	8,500	–
Subordinated Secured Loan	5,000	5,000	–	5,000	5,000	–
Deposits and Borrowings	995,121	1,058,079	62,958	794,666	820,740	26,074
Other	52,897	52,897	–	34,410	34,410	–
Off-Balance Sheet Financial Instruments						
Credit Commitments	38,592	41,135	2,543	32,191	32,914	723

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

- cash resources, other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature
- securities are assumed to be equal to their market values 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
- other assets have been adjusted for the fair value of the Mortgage-Backed Securities
- book value of senior term loans approximates its fair value
- book value of subordinated secured loan approximates its fair value
- fair value of deposits payable on demand approximates their carrying values, 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
- fair value of credit commitments is determined by discounting the expected future cash flows of the loan commitments at market rates for loans with similar terms and credit risks