

Management's Discussion and Analysis

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Caution Regarding Forward-Looking Statements

This report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of Home Capital Group Inc. These statements are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements, principally related to global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change.

Management's Discussion and Analysis

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, 2002. The discussion and analysis relates principally to the Company's subsidiary, Home Trust Company ("Home Trust"), which provides residential first mortgage lending, consumer 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.

The Company recorded solid overall financial results for 2002. Double-digit asset and loan growth was achieved. Credit quality remained strong and loan losses of 0.1% were well below the Canadian bank average at 1.1%. The productivity ratio at 44.8% remains better than the industry average at 67.0%. Return on shareholders' equity continued at over 20%, again exceeding the Canadian bank average of 11.1%. The Company continues to operate with high levels of capital as shown by the tier 1 capital ratio at 11.7%, also exceeding the Canadian bank average of 9.1%.

Table 1 – Key Performance Indicators

For the years ended December 31 (000's)	2002	2001	2000	1999	1998
FINANCIAL PERFORMANCE MEASURES					
Net income	\$ 20,595	14,860	10,452	8,081	6,067
Basic earnings per share	\$ 1.25	0.99	0.71	0.55	0.46
Return on average shareholders' equity	24.3%	23.8%	23.2%	21.8%	20.7%
Return on average total assets	1.6%	1.5%	1.3%	1.3%	1.3%
Net investment margin (taxable equivalent basis)	3.9%	3.5%	3.2%	3.2%	3.3%
Non-interest income to net revenue	19.9%	19.1%	17.9%	16.8%	17.2%
Productivity ratio (non-interest expense as a % of net revenue)	44.8%	40.7%	40.9%	41.5%	42.5%
FINANCIAL CONDITION MEASURES					
Total assets	\$ 1,394,289	1,136,220	892,078	738,136	538,876
Cash and securities-to-total assets	13.3%	13.2%	11.3%	12.4%	11.6%
Tier 1 capital ratio	11.7%	10.9%	9.5%	9.1%	10.3%
Total capital ratio	14.5%	14.3%	12.6%	11.6%	13.8%
Credit quality					
Provision for loan losses as a % of total loans	0.30%	0.25%	0.16%	0.09%	0.21%
Net impaired loans as a % of total loans	0.35%	0.52%	0.39%	0.21%	0.26%
Allowances for loan losses as a % of gross impaired loans	174.9%	109.0%	137.0%	210.1%	208.5%

Income Statement Highlights for 2002

- Earnings for the Company continued to reflect strong growth during the 2002 fiscal year, with net income increasing to \$20.6 million (\$1.25 per share) in 2002 from \$14.9 million (\$0.99 per share) in 2001, an

increase of 38.6%. The return on average shareholders' equity was 24.3% for the 2002 fiscal period, up from a return of 23.8% in 2001.

- The loan portfolio increased by 22.2% to \$1.17 billion in 2002 from \$958.6 million in 2001 (compared to 23.5% increase in 2001). This increase was net of the \$94.9 million securitized under the Mortgage-Backed Securities program which, if added, would have resulted in an additional increase in the portfolio of 9.9% (\$57.7 million securitized in 2001 for an additional increase of 5.4%). There was also a corresponding increase of 22.1% in deposits and borrowings during the 2002 fiscal year (25.2% in 2001), from \$995.1 million in 2001 to \$1.22 billion in 2002. The overall spread between the loan and deposit portfolios increased to 3.7% in 2002 from 3.2% in 2001.
- 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 \$31 million range (\$25 million range in 2001). As illustrated in Table 2, the average rate earned on cash and short-term investments declined from 5.1% in 2001 to 2.5% in 2002. These reduced rates resulted in other interest income declining by \$0.8 million over 2001, even though larger average balances were held in the short-term investments during the year.
- The Company continued to invest surplus funds into securities consisting predominantly of investments in preferred shares with P1 and P2 ratings, government guaranteed bonds and common shares. The average balance on these portfolios increased by 29.8% from \$88.3 million in 2001 to \$114.6 million in 2002. Dividend income increased by approximately \$3.1 million or 69.4% over 2001.
- The Company continued to securitize mortgages in 2002. A total of \$94.9 million in residential mortgages were securitized and sold for gains totalling \$3.7 million in 2002 as compared to \$57.7 million and gains of \$3.0 million realized in 2001.
- The provision for loan losses increased by \$1.2 million to \$3.6 million (\$2.4 million in 2001) an increase of 46.6%. Of the total provision, the Company allocated \$2.0 million to the general provision (\$1.4 million in 2001).
- Operating expenses increased by 55.8% during the year (37.5% in 2001). Due to the increase in the Company's assets, additional staff and premises were required to ensure continued service and to support the Company's growth expectations. Productivity ratio is defined as operating expenses as a percentage of its net revenue. With the additional requirements for staff, premises and general expenses, the Company's productivity ratio increased to 44.8% in 2002, compared to 40.7% in 2001. If the personal and credit card lines of business were to be excluded from the measurement, the Company's productivity ratio would be 40.2% for the year ended 2002.
- The provision for income taxes amounted to \$7.4 million, representing an effective tax rate of 26.4% in 2002. The lower rate is the result of tax-exempt income (dividend income) and reduced future income tax rates announced and passed by the federal and provincial governments.

Balance Sheet Highlights for 2002

- During 2002, total assets increased by \$258.1 million, or 22.7% over 2001 (\$244.1 million in 2001). This was primarily due to the growth in the loan portfolio of \$212.5 million (\$182.4 million in 2001).
- Securities (consisting of stocks and bonds) increased by \$30.3 million during the year (\$22.4 million in 2001).
- Other assets increased \$9.7 million, or 34.4% over 2001 (\$12.6 million in 2001). This increase was largely due to the increase in Mortgage-Backed Securities receivable of \$5.1 million and \$4.5 million in prepaid assets and deferred items.
- Deposits and borrowings increased by \$220.1 million in 2002 or 22.1% (\$200.5 million in 2001).
- Other liabilities increased \$16.6 million or 31.4% over 2001 (\$15.9 million in 2001). This increase was largely due to the increase in accrued interest payable of \$10.6 million, \$1.6 million in future income taxes, \$2.1 million in combined trade payables and income taxes payable.
- An increase in retained earnings of \$18.8 million (\$13.3 million in 2001) from current year earnings, net of dividends paid, helped to fund the increase in assets during the year.

Management's Discussion and Analysis

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

	2002			2001		
For the years ended December 31 (000's)	Average Balance	Income/Expense	Average Rate	Average Balance	Income/Expense	Average Rate
Assets						
Cash and cash resources	\$ 52,768	1,327	2.52%	\$ 36,622	1,243	5.07%
Securities	114,609	8,787	5.24%	88,266	6,563	6.99%
Loans	1,064,833	91,077	8.55%	867,371	76,181	8.78%
Taxable equivalent adjustment**	–	3,177	–	–	3,227	–
Total earning assets	1,232,210	104,368	8.24%	992,259	87,214	8.85%
Other assets	33,044	–	–	21,890	–	–
Total assets	\$ 1,265,254	104,368	8.03%	\$ 1,014,149	87,214	8.65%
Liabilities and shareholders' equity						
Senior and subordinated secured term loan	\$ 14,000	1,200	8.57%	\$ 13,250	1,146	8.56%
Deposits and borrowings	1,105,150	54,129	4.90%	894,893	50,147	5.60%
Total interest bearing liabilities	1,119,150	55,329	4.94%	908,143	51,293	5.65%
Other liabilities	61,210	–	–	43,654	–	–
Shareholders' equity	84,894	–	–	62,352	–	–
Total liabilities and shareholders' equity	\$ 1,265,254	55,329	4.37%	\$ 1,014,149	51,293	5.06%
Net investment income (taxable equivalent basis)	\$ 49,039			\$ 35,921		
Net investment margin (net investment income divided by average total assets)			3.88%			3.54%

**Taxable equivalent adjustment did not include the adjustment that would be realized on the deemed dividend income for the sale of the Conoco Canada Resources Series 1 preferred shares.

As indicated in the preceding table, the net investment income, on a taxable equivalent basis, increased by \$13.1 million in 2002 over 2001 (\$9.6 million in 2001).

This improvement in the net investment margin is attributable to the 24.8% 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 3.2% in 2001 to 3.7% in 2002.

The Bank of Canada prime lending rate moved only slightly during the year, from 2.5% at the end of 2001 to 3.0% at the end of December 2002. The interest spread on new funds advanced maintained a better than 3.5% average during 2002. The average net interest return was 3.7% in 2002 (loans 8.6%, deposits 4.9%), compared to 3.2% in 2001 (loans 8.8%, deposits 5.6%). This spread, combined with the 22.2% increase in the loan portfolio, resulted in an overall improvement to net loan interest income over deposits and borrowings of \$10.9 million (\$6.4 million in 2001). At year-end, the weighted-average interest rate on mortgages was 8.0% (8.6% in 2001), with personal and credit card loans contributing 18.0% (18.7% in 2001), while the rate for deposits was 4.7% (5.2% in 2001).

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 \$5.9 million (\$5.2 million in 2001) and the average short-term investment balance was \$30.9 million (\$24.8 million in 2001), resulting in an increase in the short-term investment income by \$0.1 million at year-end (\$0.2 million in 2001). Although average balances increased year over year, the average yield on the investments decreased from 5.1% in 2001 to 2.5% in 2002; therefore, investment income increased only slightly.

The average holdings of bonds increased during the year from \$24.1 million to \$30.9 million. During the year \$43.2 million of bond holdings were sold, resulting in a gain of \$0.2 million, compared to bond gains of \$0.6 million realized in 2001. The average yield on the bond investments decreased during the year from 7.4% in 2001 to 6.3% in 2002. Therefore, the reduced average yield and reduced gains realized resulted in a decline in the bond income of \$0.9 million.

The stock portfolio continued to increase during the year. The average holdings of common shares increased from \$2.3 million to \$4.0 million, and the average holdings of preferred shares increased from \$65.4 million to \$91.2 million. The average return, on a taxable equivalent basis, remained the same for both years at 11.4%. However, during the year the Company sold Conoco preferred shares and received a deemed dividend in the amount of \$2.6 million, which was not taken into account in the calculation of the yield on the stock portfolio. Average holdings increased and, although the yields on the portfolios decreased, the investment income on a taxable equivalent basis increased by \$2.2 million year over year.

Non-Interest Income

Fees and other income increased from \$4.7 million in 2001 to \$9.3 million in 2002, an increase of 96.2% (4.8% in 2001). In 2002, fees generated by \$26.7 million of credit cards and personal loan assets amounted to \$3.3 million. The remaining fees generated are based on new mortgage activity. Total mortgages advanced during 2002 were \$647.4 million from \$471.8 million in 2001, an increase of 37.2%. The average terms of the mortgages were 2.9 years in 2001 and 2.8 years in 2002. Other fees are generated from the administration of the mortgage portfolio.

Securitization revenue on Mortgage-Backed Securities stood at \$4.4 million in 2002, up from the \$3.0 million recognized in 2001 as recorded under accounting principles described in Note 1g) of the Company's 2002 Consolidated Financial Statements. This was due to the sale of six pools totalling \$94.9 million of insured residential mortgages as compared to four pools totalling \$57.7 million in 2001. This is a low-risk (insured by Canada Mortgage and Housing Corporation) stream of income for the Company. The Company intends to continue offering this product line. Securitization contributes directly to strengthening the Company's capital ratios.

Provision for Credit Losses

The provision for credit losses was \$3.6 million in 2002 or 0.3% of the average loan portfolio, as compared to \$2.4 million or 0.3% in 2001.

This increase in the provision for credit losses was due to the following factors: 22.2% growth in the loan portfolio and the internal commitment of the Company to move towards increasingly conservative reserves. This is illustrated by the increase in the general allowance from 91.2 basis points at the end of 2001 to 100.1 basis points at December 2002.

Table 3 – Provision for Credit Losses

For the years ended December 31 (000's)	2002	2001	2000
Personal loans and credit cards	\$ 1,990	\$ 1,105	\$ –
Residential mortgages	1,593	1,458	1,349
Other mortgages	5	(115)	(74)
Total provision for credit losses	\$ 3,588	\$ 2,448	\$ 1,275
As a % of average loans	0.34%	0.28%	0.18%

Management's Discussion and Analysis

Non-Interest Expenses

Operating expenses increased from \$16.5 million in 2001 to \$25.6 million in 2002, an increase of \$9.1 million, or 55.8%. This compares to an increase in operating expenses of \$4.5 million or 37.5% from 2000 to 2001. In 2001, the VISA operation was capitalized into the deferred development asset and the personal loan operation was just in the beginning stages. Non-interest expenses related to these operations were \$5.4 million, which amounts to 59.3% of the total \$9.1 million increase. The major components of the increase in operating expenses in 2002 are salaries and benefits, commissions on deposit certificates, finders fees paid on mortgage referrals and consulting services. During the year, the overall staff was increased from 131 to 164 people. Additions were made in loan administration to accommodate the Company's growth, along with increased staffing for the VISA and personal loan operations. Some individuals were hired on a consulting basis for short-term assignments where required. As well, a new office was opened in Halifax, Nova Scotia. Other factors contributing to the increase in the operating expense include increased premises rental requirements, fees on new mortgages, outsourcing some of the VISA operations and increased commissions paid for additional deposits. The increase in the depreciation and amortization expense was largely due to the amortization of development costs from the VISA operation. Table 4 illustrates the changes in non-interest expenses from 2000 through 2002.

Even with the increase in operating expenditures, the Company was able to maintain the productivity ratio at 44.8% in 2002, still well below the 67.0% average of the Canadian banks. The increase of \$9.1 million in operating expenses was offset by the \$20.8 million increase in the Company's total revenue. The productivity ratio for 2002 ended at 44.8% as compared to 40.7% in 2001. If the personal and credit card lines of business were to be excluded from the measurement, the Company's productivity ratio would be 40.2% for 2002.

Table 4 – Non-Interest Expenses

For the years ended December 31 (000's)	2002	2001	2000	Growth 2002/2001	Growth 2001/2000
Salaries and employee benefits	\$ 10,310	\$ 7,535	\$ 5,093	36.8%	47.9%
Premises and equipment					
Rent – premises	1,032	762	730	35.3%	4.5%
Equipment rental and repairs	285	221	143	29.3%	54.6%
	1,317	983	873	34.0%	12.7%
General and administrative					
Advertising and business development	389	274	241	42.2%	13.8%
Computer services	618	1,180	658	(47.7%)	79.5%
Consulting and other professional services	1,252	747	849	67.6%	(12.0%)
Outsourcing	3,123	62	57	4,974.0%	8.8%
Fees and commissions	3,771	2,216	1,628	70.2%	36.1%
Stationary and publications	595	486	401	22.5%	21.1%
Capital taxes and insurance	1,043	993	916	5.0%	8.4%
Communications and travel expenses	551	399	348	37.9%	14.6%
Depreciation and amortization	1,547	815	367	89.8%	121.9%
Other	1,124	763	531	47.3%	43.7%
	14,013	7,935	5,996	76.6%	32.3%
Total non-interest expenses	\$ 25,640	\$ 16,453	\$ 11,962	55.8%	37.5%
As a % of average assets	2.0%	1.6%	1.5%		
As a % of total revenue (productivity ratio)	44.8%	40.7%	40.9%		

Income Taxes

The provision for income taxes for the fiscal year 2002 amounted to \$7.4 million, which has been adjusted for tax-exempt income (dividend income) by \$2.9 million. This amount also includes a rate reduction of \$0.3 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 2001 amounted to \$6.7 million, which has been adjusted for tax-exempt income by \$1.9 million.

The provision for income taxes for 2002 represents an effective tax rate of 26.4% in 2002 compared to 31.0% in 2001 as described in Note 14 of the Consolidated Financial Statements.

BALANCE SHEET REVIEW

Balance Sheet Assets

The Company posted assets of \$1.39 billion on December 31, 2002, compared with \$1.14 billion on December 31, 2001. This increase of \$258.1 million or 22.7% compared with last year 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 \$94.9 million during the year. Total loans before securitization increased by \$249.7 million or 24.6% as compared to \$227.7 million or 28.9% in 2001.

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

Table 5 – Balance Sheet Assets

As at December 31 (000's)	2002	2001	2000	Growth 2002/2001	Growth 2001/2000
Cash resources and securities	\$ 185,295	\$ 149,459	\$ 100,319	24.0%	49.0%
Personal loans	8,901	3,359	–	165.0%	100.0%
Credit cards	16,351	11,864	339	37.8%	3,399.7%
Residential mortgage loans	1,116,648	909,393	719,557	22.8%	26.4%
Other mortgage loans	36,758	39,465	60,430	(6.9%)	(34.7%)
General allowance	(7,556)	(5,517)	(4,149)	37.0%	33.0%
Total loans	1,171,102	958,564	776,177	22.2%	23.5%
Other assets	37,892	28,197	15,582	34.4%	81.0%
Balance sheet assets	\$ 1,394,289	\$ 1,136,220	\$ 892,078	22.7%	27.4%
Cash resources and securities as a % of balance sheet assets	13.3%	13.2%	11.2%		
Loans as a % of balance sheets assets	84.0%	84.4%	87.0%		

Cash Resources and Securities

Total cash resources and securities amounted to \$185.3 million at December 31, 2002, an increase of \$35.8 million (24.0%) over 2001, and represent 13.3% of the Company's total assets at December 31, 2002, as compared to 13.2% at December 31, 2001.

Cash resources increased from \$50.0 million to \$55.5 million at December 31, 2002. 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 \$99.5 million to \$129.8 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 \$24.1 million in 2001 to \$30.9 million in 2002, and at year-end, bond holdings stood at \$19.9 million, compared to \$18.9 million in 2001. Bond holdings

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are made up of federal and provincial government bonds of \$18.7 million (\$17.2 million in 2001) and corporate bonds of \$1.2 million (\$1.7 million in 2001). Gains or losses when selling bonds are dependent on prevailing interest rates at the time of sale. Bonds 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, \$42.0 million of longer-term maturity bonds were sold and \$0.2 million was recognized into income.

At December 31, 2002, the preferred stock portfolio consisted of 85.8% of P1 and P2 rated stocks (88.7% in 2001). 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) accounted for 91.5% of the preferred share holdings at year-end, compared to 92.2% in 2001.

In a period of rising interest rates, preferred shares will typically decrease in market value, and the reverse is true in a period of declining interest rates. During the year, the Bank of Canada prime lending rate increased only slightly, from 2.5% at the beginning of the year to 3.0% at year-end. This had the effect of maintaining a positive market value on the fixed rate preferred stocks and mutual fund portfolios of \$0.2 million at December 31, 2002, as compared to a surplus of \$0.6 million at December 31, 2001. The floating rate preferred stock portfolio moved from a deficiency of \$1.4 million on \$10.8 million at December 31, 2001 to a deficiency of \$2.0 million on \$12.9 million at December 31, 2002.

The securities portfolio grew by \$30.3 million during 2002; however, the market value deficiency increased to \$2.0 million from \$0.8 million at December 31, 2001. The Company is closely monitoring the portfolio and does not believe at this time the impairment is permanent. 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 \$1.17 billion, up from \$958.6 million at year-end 2001, an increase of 22.2%.

On December 31, 2002, the personal loan portfolio totalled \$8.9 million or 0.8% of the total loan portfolio and the credit card portfolio totalled \$16.4 million or 1.4% of the total loan portfolio. At December 31, 2002 there were 5,977 loan accounts as compared to 1,849 accounts at the end of December 2001. The personal loan portfolio was a new business venture for the Company in 2001. This venture was introduced in April of 2001 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, 2001, receivables stood at \$11.9 million with 21,395 cards issued. At year-end December 31, 2002 receivables amounted to \$16.4 million with 22,265 cards issued. However, the mix of this portfolio has changed due to the cessation in issuance of unsecured credit cards, and the launch of a new secured product, Equity Plus VISA. At year-end, secured loans amounted to 60.2% of the credit card balances as compared to 28.4% at the end of December 2001.

The Company's core business is residential mortgage loans, representing 94.7% of the total loan portfolio, while other mortgage loans represented 3.1% of the total loan portfolio.

All mortgages are secured by real property and other types of collateral, where appropriate. The growth in the mortgage portfolio is due to the continued lending within its existing service area (all of central and southern Ontario and western Canada). In addition, continued low interest rates make house purchases attractive. New housing starts in Canada increased from 163,300 at the end of 2001 to 200,700 at the end of 2002, an increase of 22.9%. 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 2002, residential mortgage loans totalled \$1.12 billion (96.8% of the total mortgage loan portfolio), as compared to \$909.4 million in 2001 (95.8%). The remaining 3.2% in 2002 (4.2% in 2001) was made up of commercial and non-residential properties, the most significant being stores with combined apartments, which represent 2.6% of the total mortgage loan portfolio (2.7% in 2001). The mortgages on commercial and non-residential properties decreased by \$2.7 million to \$36.8 million in 2002 (\$21.0 million decrease in 2001).

The security priority of the mortgage loan portfolio remained relatively unchanged, with 99.8% of the portfolio being first mortgages in 2002, compared to 99.9% in 2001.

Canada Mortgage and Housing Corporation (“CMHC”) mortgages amounted to \$34.1 million in 2002 (\$37.8 million in 2001), which represented 3.0% of the total mortgage loan portfolio in 2002 and 4.0% in 2001. 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 principal market is Ontario, and it also lends in Alberta and British Columbia. In the fourth quarter of 2002, the Company opened a branch in Halifax, Nova Scotia, which will provide access to the Nova Scotia and New Brunswick markets. The mortgage loan portfolio in the western provinces accounted for 9.0% of the 2002 volume, up slightly from 8.8% in 2001. Lending in the eastern provinces commenced late in the year. It is projected that provinces other than Ontario will account for 20% – 25% of the new business in 2003. It is anticipated that the internal rate of growth in the mortgage portfolio experienced in Ontario over the past few years will continue through 2003.

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. Any credit card loan that has a payment that is contractually 180 days in arrears is written off. 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 improvement in the economy in Canada, the residential nature of the loan portfolio and the Company’s strong focus on risk management have contributed to a slight decrease in impaired loans in 2002 over 2001.

Impaired loans are summarized as follows:

Table 6 – Impaired Loans

As at December 31 (000's)	2002		2001		2000	
	Gross	Net	Gross	Net	Gross	Net
Personal loans	\$ 44	\$ –	\$ 10	\$ –	\$ –	\$ –
Credit card loans	326	–	246	–	–	–
Residential mortgage loans	4,168	4,155	5,297	5,017	3,257	2,945
Other mortgage loans	–	–	–	–	–	–
Impaired loans	\$ 4,538	\$ 4,155	\$ 5,553	\$ 5,017	\$ 3,257	\$ 2,945
Net impaired loans as a % of gross loans		0.35%		0.52%		0.39%
Total allowance for loan arrears		\$ 7,939		\$ 6,054		\$ 4,461
Total allowance as a % of gross impaired loans		174.9%		109.0%		137.0%

Gross impaired loans totalled \$4.5 million at December 31, 2002, for a decrease of \$1.0 million from December 31, 2001. The specific and general allowance increased \$1.9 million from December 31, 2001 to \$7.9 million at December 31, 2002.

The purpose of the general allowance is to provide for potential future losses on currently performing loans. This allowance increased from \$5.5 million at December 31, 2001 to \$7.6 million at December 31, 2002. The increase in the general allowance year over year represented 36.9%, which is greater than the growth in the loan portfolio of 22.2% as well as the total assets increase of 22.7%. This illustrates the Company’s prudent and positive approach to unforeseen credit risk. The general allowance stood at 100.1 basis points of the total risk-weighted assets (91.2 basis points in 2001). Further details can be found in Note 4 to the Consolidated Financial Statements.

Management's Discussion and Analysis

Net impaired loans as a percentage of the total loan portfolio have decreased from 0.52% at December 31, 2001 to 0.35% at December 31, 2002. Mortgage loan impairment in the province of British Columbia was 4.2% in the current year in comparison to the 37.1% of the total impaired mortgage loans experienced in 2001. The Company experienced a net recovery in the mortgage loan portfolio in the current year of \$66,650.

Total losses realized on loans for the year amounted to \$1.7 million, which were mostly related to the unsecured credit card portfolio. During the year, the Company discontinued the issuance of this portion of the credit card operation and introduced the Equity Plus VISA, a credit card secured by home equity. This is illustrated by the increase of secured credit cards to 60.2% of the total credit card portfolio as compared to 28.4% at the end of 2001.

Other Assets

Other assets increased by 34.4% from \$28.2 million at December 31, 2001 to \$37.9 million at December 31, 2002. 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 \$9.7 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 adding \$5.1 million. (For further information see Note 5 of the Consolidated Financial Statements.)
- Capital assets increased \$1.0 million, which was the result of the purchase of equipment for additional staffing, less depreciation recorded during the year. (For further information see Note 6 of the Consolidated Financial Statements.)
- The deferred development costs related to the VISA operation decreased \$0.6 million, which is the amortization that was recorded in 2002. (Refer to Note 7 of the Consolidated Financial Statements.)
- Accrued interest receivable contributed \$0.7 million, due to the growth in the securities and loan portfolio.
- Income taxes receivable decreased \$1.0 million, deferred agent commission increased by \$0.9 million and other prepaid and deferred items increased by \$4.5 million, of which the largest contributor was finders fees which increased by \$2.3 million (\$4.7 million in 2002 versus \$2.4 million in 2001), all resulting from the growth in the Company's loan assets and deposit liabilities.

Deposits and Borrowings

Deposits and other borrowings increased by \$220.1 million (or 22.1%) in 2002, compared to an increase of \$200.5 million (or 25.2%) in 2001. VISA card security deposits grew by \$3.6 million, from \$6.1 million in 2001 to \$9.7 million in 2002. The remaining \$216.5 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

For the years ended December 31 (000's)	2002	2001	2000	% Increase 2002 vs. 2001	% Increase 2001 vs. 2000
Payable on demand					
Savings	\$ 366	\$ 46	\$ 28	695.7	(64.3)
Real estate tax accounts	11,841	10,347	8,051	14.4	28.5
	12,207	10,393	8,079	17.5	28.6
Payable on a fixed date					
Short-term certificates and savings	67,217	57,909	57,296	16.1	1.1
VISA card security deposits	9,720	6,101	1,023	59.3	496.4
Debenture investment certificates	989,066	791,184	619,549	25.0	27.7
Registered retirement savings plans	106,038	112,070	108,108	(5.4)	3.7
Registered retirement income funds	30,931	17,463	611	77.1	2,758.1
	1,202,972	984,727	786,587	22.2	25.2
Total	\$ 1,215,179	\$ 995,120	\$ 794,666	22.1	25.2

The increase in deposits and borrowings (\$220.1 million) funded the net increase in the loan portfolio (\$212.5 million) and partially contributed to the total asset increase of \$258.1 million. The net change in shareholders' equity (\$19.4 million), together with the increase in other liabilities (\$16.6 million) and a \$2.0 million net increase in term loans, funded the difference.

Shareholders' Equity

Capital stock and contributed surplus increased only slightly by \$0.6 million, the result of \$1.5 million received on the exercise of options less \$0.9 million on the purchase of stock through the normal course issuer bid. This amount, combined with an increase in retained earnings of \$18.8 million (\$13.3 million in 2001) from the current year's net income (\$20.6 million), net of dividends paid and declared (\$1.8 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 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

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 assets to be maintained, a daily monitoring of the liquidity position by senior management and quarterly reporting to the Audit and Risk Management Committee and the Board of Directors. Also, the Company has a set minimum requirement for liquid assets using two assumptions, the first being the "going concern" scenario and the second a specific company disruption. This requires the Company to make assumptions regarding the probable behaviour of the timing of cash flows for each type of asset and liability. These assumptions are made 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 year-end these amounted to 182% (171% for 2001) under the going concern and 245% (241% for 2001) 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, 2002, liquid assets amounted to \$67 million in Canadian dollars, compared to \$59 million at December 31, 2001.

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, 2002. 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 3.4% (3.5% in 2001), after the adjustments as noted above. The cumulative dollar gap, including off-balance sheet items, at the end of 12 months was \$149.3 million of liabilities exceeding assets, compared to a small surplus

Management's Discussion and Analysis

of \$2.1 million in 2001. Within the one to three year term this deficiency is corrected to within approximately \$13.7 million, the same as 2001. The Company's objective is to closely match interest-sensitive assets and liabilities. The cumulative gap in the three-plus year range is basically offset by shareholders' equity.

Table 8 – Interest Rate Sensitivity

As at December 31, 2002 (000's)	Floating Rate		0 to 3 Months		3 to 6 Months		6 to 12 Months	
	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate
Assets								
Cash resources	\$ 18,067	1.2%	37,468	2.6%	–	–	–	–
Securities	15,611	4.5%	13,601	3.5%	13,267	5.9%	8,691	5.6%
Loans	–	–	61,956	10.8%	58,164	8.9%	164,723	8.8%
Other assets	–	–	–	–	–	–	–	–
	\$ 33,678	2.7%	113,025	7.2%	71,431	8.4%	173,414	8.7%
Liabilities								
Senior term loan and subordinated secured loans	\$ 10,000	7.5%	5,000	9.5%	–	–	–	–
Deposits payable on demand	–	–	12,207	–	–	–	–	–
Deposits payable on a fixed date	–	–	71,113	4.0%	142,132	4.0%	206,704	4.2%
Other liabilities	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	–	–
	\$ 10,000	0.9%	88,320	3.4%	142,132	4.0%	206,704	4.2%
Gap before off-balance sheet items	23,678	–	24,705	–	(70,701)	–	(33,290)	–
Off-balance sheet items	–	–	(87,900)	7.4%	(5,215)	7.7%	(549)	7.8%
Gap after off-balance sheet items	\$ 23,678	–	(63,195)	–	(75,916)	–	(33,839)	–
Cumulative gap	\$ 23,678	–	(39,517)	–	(115,433)	–	(149,272)	–

As at December 31, 2002 (000's)	1 to 3 Years		3 Years +		Non-interest Sensitive		Total	
	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate	Carrying Value	Effective Interest Rate
Assets								
Cash resources	\$ –	–	–	–	–	–	\$ 55,535	2.1%
Securities	20,939	6.1%	57,651	5.4%	–	–	129,760	5.3%
Loans	529,442	7.9%	360,217	8.0%	(3,400)	–	1,171,102	8.3%
Other assets	–	–	–	–	37,892	–	37,892	0.0%
	\$ 550,381	7.8%	417,868	7.6%	34,492	–	\$ 1,394,289	7.6%
Liabilities								
Senior term loan and subordinated secured loans	\$ –	–	–	–	–	–	\$ 15,000	8.2%
Deposits payable on demand	–	–	–	–	–	–	12,207	0.0%
Deposits payable on a fixed date	438,055	5.1%	344,969	5.1%	–	–	1,202,973	4.7%
Other liabilities	–	–	–	–	69,523	–	69,523	0.0%
Shareholders' equity	–	–	–	–	94,586	–	94,586	0.0%
	\$ 438,055	5.1%	344,969	6.0%	164,109	–	\$ 1,394,289	4.2%
Gap before off-balance sheet items	112,326	–	72,899	–	(129,617)	–	–	3.4%
Off-balance sheet items	23,257	7.6%	70,407	7.3%	–	–	–	–
Gap after off-balance sheet items	\$ 135,583	–	143,306	–	(129,617)	–	–	–
Cumulative gap	\$ (13,689)	–	129,617	–	–	–	–	–

In addition to this 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 would have on shareholders' equity. At December 31, 2002, an immediate and sustained 100 basis point increase in rates would decrease the economic value of shareholders' equity by \$1.2 million (\$1.0 million at December 31, 2001).

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, 2002, this stood at 85.8% of the total portfolio (88.7% in 2001). 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, 2002, these types of investments accounted for 91.5% of the portfolio (92.2% in 2001). 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 3.3% of total investments (1.6% in 2001). The final criterion is that concentration in any individual company cannot be more than 15% of the securities portfolio or \$1 million, whichever is greater, unless approved by the Investment Committee. At year-end, the maximum holding of any one company was 8.5% (7.4% in 2001).

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 94.7% at December 31, 2002, compared to 94.3% at December 31, 2001. 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 3.1% of the total loan portfolio at December 31, 2002 (4.1% in 2001), and management continues to monitor these properties on a regular basis. It is the Company's intention to continue to concentrate its core business of lending on residential properties.

Personal loans and credit cards represented 2.2% of the total loan portfolio at December 31, 2002 (1.6% in 2001), and \$9.9 million or 60.2% of the credit cards are secured by either deposits held by the Company or equity in property (\$3.4 million or 28.4% in 2001). The Company discontinued offering an unsecured credit card product and intends to continue to offer credit cards secured by deposits and residential equity.

Management's Discussion and Analysis

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 and Risk Management 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 Home Trust's permitted asset-to-capital multiple. This is defined as the ratio of regulatory capital to the total assets of Home Trust. Home Trust's maximum borrowing ratio is currently authorized at 17.5 times its capital and reserves. The chart below shows the capital borrowing ratio.

Table 9 – Asset-to-Capital Ratio
(Based on the subsidiary Home Trust Company)

As at December 31 (000's)	2002	2001	2000	1999	1998
Total assets	\$ 1,393,699	1,133,730	886,600	735,129	535,163
Regulatory total capital	\$ 109,632	86,387	60,533	46,839	39,594
Asset-to-capital multiple	12.71	13.12	14.65	15.69	13.52

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 in tier 2 capital. The inclusion of this allowance amounts to \$6.5 million in the tier 2 capital (\$5.3 million in 2001), which has the effect of improving the capital ratio to 12.71 from 13.46 without the general allowance. The lower ratio means more capital is available.

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.

Home Trust's total BIS ratio increased to 14.52% in 2002 from 14.28% in 2001. The tier 1 capital ratio increased from 10.93% in 2001 to 11.66% in 2002. This was attributable to the income generated for the year of \$19.9 million and an injection of \$2.0 million for the purchase of shares of Home Trust by the Company. The major increase in the risk-weighted assets ("RWA") was due to the increase in owner-occupied residences rated at a 50% risk. The tier 2 capital increased by \$1.2 million due to the increase in the general allowance from \$5.3 million in 2001 to \$6.5 million at the end of 2002. The inclusion of the general allowance increased the total capital ratio from 13.77% to the 14.52% reported in 2002. 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 only on the subsidiary Home Trust Company)

As at December 31 (000's)

Capital	2002	2001
Tier 1		
Shareholders' equity	\$ 88,083	\$ 66,138
Tier 2		
Eligible portion of subordinated notes issued by the Company	15,000	15,000
General allowance (limited to 0.875% of RWA)	6,549	5,249
Total	\$ 109,632	\$ 86,387

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 federal and provincial governments (including CMHC-insured mortgages)	\$ 84,055	0%	\$ –	\$ 87,425	0%	\$ –
Claims on banks and municipal governments	22,747	20%	4,549	13,271	20%	2,654
Conventional mortgages on owner-occupied residences	1,072,849	50%	536,425	861,122	50%	430,561
Other assets	207,498	100%	207,498	166,663	100%	166,663
General allowance (limited to 0.875% of RWA)	6,549	100%	6,549	5,249	100%	5,249
Total assets	\$ 1,393,698		\$ 755,021	\$ 1,133,730		\$ 605,127
Loan commitments	98,991	0%	–	38,592	0%	–
Foreign exchange contract	164	100%	164	–	100%	–
Total	\$ 1,492,853		\$ 755,185	\$ 1,172,322		\$ 605,127

Risk-Based Capital Ratio (BIS Ratio)	2002	2001
Tier 1 capital	11.66%	10.93%
Tier 2 capital	2.86%	3.35%
Total	14.52%	14.28%

Internal Control

The Company maintains a governance and control framework so 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 and Risk Management 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 Risk Management and Corporate Governance and Nominating Committees.

Management's Discussion and Analysis

OUTLOOK

Current Economic Outlook

In the latter months of 2002 and into early 2003 the Canadian economy continued on a slow upward track following the September 11, 2001 terrorist attacks. The unemployment rate ended the year at 7.5%, a slight increase over the 7.2% experienced at December 31, 2001. The unemployment rate is projected to remain relatively similar to the rates experienced in 2002 and 2001 at around 7.4%. Interest rates are expected to increase during 2003 due to the anticipation of price and wage inflation. The Bank of Canada will increase rates, however, not at levels that will affect the affordability of housing across Canada. These rates will remain at levels that will ensure the Canadian housing market can continue to expand in the regions of the country targeted by the Company, specifically in Ontario, central Alberta, southwestern British Columbia and the Atlantic provinces.

The housing market and related residential mortgage market in Ontario have remained strong into 2003, which 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 diversified industry and low unemployment rates. Home Trust expects strong mortgage demand in Alberta in 2003.

In British Columbia the housing market remains relatively stable and the Company expects to have more opportunity to expand there in 2003.

Lending in the Atlantic provinces was expanded with the opening of a new branch beginning in the fourth quarter of 2002.

The Company is experiencing positive early growth in all lending areas in 2003 and expects this trend to continue.

Future Outlook

The Company's balance sheet was further strengthened during 2002 as a result of internal expansion through the achievement of record growth in assets and profitability.

During 2002, the Company completed the sale of six pools of Mortgage-Backed Securities, which have provided additional revenue and profit beyond the core mortgage business. Future sales will be pursued in 2003 and beyond to further the growth objectives of the Company.

The Company began offering the Equity Plus VISA, a credit card secured by equity in residential property. This product has been positively accepted in the marketplace, as shown by the approximately \$4.0 million in receivables at December 31, 2002. The Company anticipates that the VISA operation will make a positive contribution to earnings in 2003.

The retail services division (personal loans) is designed to provide financing for individuals purchasing products from a number of established business. The division provided a positive impact to the Company earnings in 2002 with anticipated continued profitable growth in 2003.

Growth

It is the Company's goal to achieve 20% growth in combined total assets and securitized mortgages for 2003. This will be achieved through growth primarily in Ontario, with western and eastern Canada contributing a smaller portion. The Company is confident of achieving this goal.

The Company's term of its mortgages is being maintained with an average maturity remaining just below the three-year mark at 2.8 years in 2002 (2.9 years in 2001). 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 2003 and beyond.

Return

It is the Company's goal to maintain a return on equity of 20% per annum. Return on equity for fiscal 2002 was 24.3%, compared to 23.8% in 2001.

Risk

The BIS ratio improved during the year to 14.52% from 14.28% in 2001. This ratio was improved with the injection of capital stock into Home Trust and increased profit in 2002. The Company's core business, which is single-family residential first mortgage loans, carries a lower risk weighting. At December 31, 2002, first mortgages represented 99.8% (99.9% in 2001) of the portfolio, and residential mortgage loans increased to 94.7% from 94.3% in 2001.

The Company, based on growth initiatives undertaken to date, is confident of the continued growth of its asset base and earnings.

Consolidated Financial Statements

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
and Risk Management 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, 2002 and 2001 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, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) Ernst & Young LLP

Toronto, Canada,
February 7, 2003

Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheet

As at December 31	2002	2001
ASSETS		
Cash Resources		
Deposits with Regulated Financial Institutions	\$ 24,580,055	\$ 18,069,542
Treasury Bills Guaranteed by Canada	30,954,941	31,931,213
	55,534,996	50,000,755
Securities (Note 3)		
Issued or Guaranteed by Canada	12,559,449	4,134,120
Issued or Guaranteed by Province	6,197,648	13,119,156
Other Securities	111,002,945	82,205,217
	129,760,042	99,458,493
Loans (Note 4)		
Personal and Credit Card Loans	25,251,930	15,223,404
Residential Mortgages	1,116,647,294	909,393,315
Other Mortgages	36,758,286	39,465,142
General Allowance for Credit Losses	(7,555,880)	(5,517,376)
	1,171,101,630	958,564,485
Other		
Mortgage-Backed Securities Receivable (Note 5)	10,375,022	5,269,385
Capital Assets (Note 6)	2,194,806	2,168,172
Deferred Development Costs (Note 7)	2,767,067	3,363,715
Other Assets (Note 8)	22,555,007	17,395,215
	37,891,902	28,196,487
	\$ 1,394,288,570	\$ 1,136,220,220
LIABILITIES		
Senior Term Loans	\$ –	\$ 8,000,000
Term Loan (Note 9)	10,000,000	–
Subordinated Secured Loan (Note 10)	5,000,000	5,000,000
Deposits and Borrowings (Note 11)		
Payable on Demand	12,207,188	10,393,269
Payable on a Fixed Date	1,202,971,991	984,727,405
	1,230,179,179	1,008,120,674
Other		
Cheques and Other Items in Transit	5,825,939	4,658,419
Other Liabilities (Note 12)	63,697,117	48,238,602
	69,523,056	52,897,021
	1,299,702,235	1,061,017,695
SHAREHOLDERS' EQUITY		
Capital Stock (Note 13)	31,930,215	31,296,523
Contributed Surplus	–	–
Retained Earnings	62,656,120	43,906,002
	94,586,335	75,202,525
	\$ 1,394,288,570	\$ 1,136,220,220

See accompanying notes to the Consolidated Financial Statements.

On behalf of the Board:

(signed) Gerald M. Soloway

Gerald M. Soloway
Director

(signed) Harvey F. Kolodny

Harvey F. Kolodny
Director

Consolidated Statement of Income

For the year ended December 31	2002	2001
Income		
Interest from Loans	\$ 91,076,601	\$ 76,180,653
Dividends from Securities	7,630,864	4,504,690
Other Interest	2,483,169	3,301,376
	101,190,634	83,986,719
Interest Expense		
Interest on Deposits and Borrowings	54,133,211	50,146,596
Interest on Senior and Secured Loans	1,195,522	1,146,515
	55,328,733	51,293,111
Net Interest Income	45,861,901	32,693,608
Provision for Credit Losses (Note 4)	3,588,000	2,447,735
	42,273,901	30,245,873
Non-interest Income		
Fees and Other Income	9,286,335	4,733,165
Securitization Gains on Mortgage-Backed Securities (Note 5)	4,389,222	3,002,113
(Loss) Gain on Sale of Securities	(2,309,770)	5,821
	11,365,787	7,741,099
	53,639,688	37,986,972
Non-interest Expenses		
Salaries and Staff Benefits	10,310,219	7,535,183
Premises	1,317,454	983,233
General and Administration	14,013,055	7,934,683
	25,640,728	16,453,099
INCOME BEFORE INCOME TAXES	27,998,960	21,533,873
Income Taxes (Note 14)		
Current	5,781,804	2,295,949
Future	1,622,299	4,378,355
	7,404,103	6,674,304
NET INCOME FOR THE YEAR	\$ 20,594,857	\$ 14,859,569
AVERAGE NUMBER OF CLASS A AND CLASS B SHARES OUTSTANDING		
Basic	16,510,353	15,047,077
Fully Diluted (Note 13)	17,311,953	16,327,371
NET INCOME PER CLASS A AND CLASS B SHARE		
Basic (Note 13)	\$ 1.25	\$ 0.99
Fully Diluted (Note 13)	\$ 1.19	\$ 0.91
DIVIDENDS PER CLASS A AND CLASS B SHARE		
Dividend	\$ 0.12	\$ 0.10

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31	2002	2001
Capital Stock		
Convertible Class A Shares		
Balance at the Beginning of the Year	\$ 1,390,000	\$ 1,390,000
Conversion to Class B Subordinated Voting Shares	(813,705)	–
Balance at the End of the Year	\$ 576,295	\$ 1,390,000
Class B Subordinated Voting Shares		
Balance at the Beginning of the Year	29,906,523	17,239,583
Conversion from Convertible Class A Shares	813,705	–
Proceeds of Shares Issued	–	12,513,942
Proceeds of Options Exercised	1,505,177	455,298
Redemption of Shares	(871,485)	(302,300)
Balance at the End of the Year	31,353,920	29,906,523
Total Capital Stock	\$ 31,930,215	\$ 31,296,523
Contributed Surplus		
Balance at the Beginning of the Year	\$ –	\$ 266,825
Redemption of Shares	–	(266,825)
Balance at the End of the Year	\$ –	\$ –
Retained Earnings		
Balance at the Beginning of the Year	\$ 43,906,002	\$ 30,604,958
Dividends Paid During the Year	(1,341,972)	(1,075,325)
Dividends Declared During the Year	(502,767)	(483,200)
Net Income for the Year	20,594,857	14,859,569
Balance at the End of the Year	\$ 62,656,120	\$ 43,906,002

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended December 31	2002	2001
OPERATING ACTIVITIES		
Net Income for the Year	\$ 20,594,857	\$ 14,859,569
Add (Deduct) Items not Affecting Cash:		
Future Income Taxes	1,622,299	4,378,355
Amortization of Capital Assets	950,595	722,084
Amortization of Securities	24,680	(532,330)
Amortization of Deferred Financing Costs and Goodwill	122,812	215,272
Amortization of Deferred Development Costs	596,648	–
Provision for Credit Losses	3,588,000	2,447,735
Change in Accrued Interest Receivable	(715,088)	(1,026,621)
Change in Accrued Interest Payable	10,572,062	10,016,245
Loss (Gain) on Sale of Securities	2,309,770	(5,821)
Gain on Sale of Mortgage-Backed Securities	(4,389,222)	(3,002,113)
Change in Mortgage-Backed Securities Receivable	2,230,705	1,000,341
Change in Other Assets	(4,358,677)	(5,718,948)
Change in Cheques and Other Items in Transit	1,167,520	2,557,080
Change in Other Liabilities	3,244,585	2,935,204
Cash Provided by Operating Activities	37,561,546	28,846,052
FINANCING ACTIVITIES		
Repayment of Senior Term Loans	(8,000,000)	(500,000)
Issuance of Term Loan	10,000,000	–
Deferred Financing Costs	(208,837)	–
Net Increase in Deposits and Borrowings	220,058,505	200,454,590
Issuance of Capital Stock	1,505,177	12,969,240
Normal Course Issuer Bid	(871,485)	(569,125)
Dividends Paid	(1,825,172)	(1,371,413)
Cash Provided by Financing Activities	220,658,188	210,983,292
INVESTING ACTIVITIES		
Activity in Securities		
Purchases	(92,102,746)	(50,730,239)
Proceeds on Sales	44,733,312	23,202,572
Proceeds on Maturities	14,733,435	5,680,907
Activity in Mortgages		
Net Increase	(298,722,531)	(226,721,355)
Proceeds from Securitization of Mortgage-Backed Securities	91,903,930	55,820,593
Net Increase in Personal and Credit Card Loans	(12,253,664)	(15,830,194)
Net Increase in Deferred Development Costs	–	(2,652,539)
Purchases of Capital Assets	(977,229)	(1,842,977)
Cash Used in Investing Activities	(252,685,493)	(213,073,232)
Net Increase in Cash and Cash Equivalents	5,534,241	26,756,112
Cash and Cash Equivalents at the Beginning of the Year	50,000,755	23,244,643
Cash and Cash Equivalents at the End of the Year	\$ 55,534,996	\$ 50,000,755
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	\$ 44,756,671	\$ 41,276,866
Amount of Income Taxes Paid During the Year	\$ 5,926,745	\$ 5,947,692

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

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. (the "Company") are as follows:

a) Principles of Consolidation

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

b) Cash Resources

For the purposes of the consolidated 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) Cheques and Other Items in Transit

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

d) 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 shares are stated at cost except for retractable and convertible preferred shares 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.

e) Loans

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

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

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 90 days. Any credit card that has a payment that is contractually 180 days in arrears is written off.

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.

f) Allowance for Credit Losses

An allowance for credit losses is maintained at an amount which in management's opinion is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items. 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 provisions, except those related to credit card loans, are determined on an item-by-item

Notes to the Consolidated Financial Statements

basis and reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be reasonably estimated, impairment is measured with respect to the fair market value of the underlying security. The allowance is the difference between the loan's carrying value and its estimated realizable amount. For credit card loans, specific provisions are determined using a formula method taking into account recent loss experience.

General provisions are established to absorb probable credit losses on the aggregate exposures in each of the Company's business lines, for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon statistical analysis of past performance, level of allowance already in place and management's judgement.

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

g) 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 the sale of similar assets. Gain or loss on sale, net of issuance costs, is recognized at the time of the securitization.

The Company classifies its retained interests in securitization as receivables. These retained interests are recorded at an allocated carrying amount, which is their fair value at the time of sale.

h) 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.

i) 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 completed the development stage of its VISA operations. These costs are being amortized over a period of four years starting January 1, 2002 on a basis that will follow the maturing nature of the business.

j) Translation of Foreign Currencies

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

k) Financial Instruments

On May 16, 2002, Home Trust entered into a foreign exchange swap agreement to manage its exposure of foreign exchange fluctuations. Foreign exchange swaps are normally designated as hedges (reducing exchange risk) and any gains or losses are recognized on the same basis as, and netted against, the income related to the hedged item.

l) Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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" in the consolidated balance sheet.

m) Employee Future Benefits

The Company accrues its obligations under employee benefit plans, which include post-retirement plans (health costs) only available to executives of the Company. The Company has adopted the following policy: the cost of these post-retirement benefits earned by the affected employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected health care costs.

The Company has recognized a liability on the consolidated balance sheet in the amount of \$91,500 for the employee future benefits.

n) Stock-based Compensation Plans

The Company has two stock-based compensation plans which are described in Notes 13 and 15. The Company does not recognize an expense when stock options are issued to the employees or directors. Any consideration paid by employees or directors on exercise of stock options is credited to capital stock on the consolidated balance sheet.

Under the employee share purchase plan as described in Note 15, Home Trust's contribution is expensed when paid.

2. CHANGES IN ACCOUNTING POLICIES

Amortization of Goodwill

On January 1, 2002, the Company adopted a new accounting standard related to the discontinuation of amortization of goodwill and other intangible assets. The Canadian Institute of Chartered Accountants has approved a new accounting standard that introduces an annual assessment of the recognition of goodwill and indefinite life intangible asset impairment, if any.

Goodwill must be tested annually for impairment to ensure that its fair value is greater than or equal to book value. Any excess of book value over fair value must be charged to income in the period in which impairment is determined.

For comparative purposes the net impact of the change if the amortization of goodwill was recorded would be a small decrease in net income of \$92,957 for the year ended December 31, 2002. It is management's belief that there is no impairment of goodwill.

Stock-Based Compensation

In November 2001, the Canadian Institute of Chartered Accountants issued Handbook Section 3870, "*Stock-Based Compensation and Other Stock-Based Payments*." This new Section is effective for fiscal years beginning on or after January 1, 2002 and applies to awards granted to other than employees and for certain, but not all awards granted to employees.

The Company provides compensation to employees and directors in the form of stock options. The Company has not recognized any expense for stock options as the strike price thereon is set at the market price on the issue date of the awards. When options are exercised, the proceeds received by the Company are recorded as common share capital.

All options granted on or after January 1, 2002 will be accounted for using the fair value method. The fair value of the future grants, determined from an option pricing model, will be recognized over the applicable vesting period. The Company will disclose the effect if the fair value of the stock options granted during this year were recorded as compensation expense. The note will disclose the impact on pro-forma net income and on the pro-forma earnings per share for basic and fully-diluted.

Notes to the Consolidated Financial Statements

3. SECURITIES

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

					2002	2001
	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	\$ 999,246	\$ –	\$ 6,567,593	\$ 4,992,610	\$ 12,559,449	\$ 4,134,120
A Province	5,697,846	499,802	–	–	6,197,648	13,119,156
Other Debt Securities	–	–	991,107	200,000	1,191,107	1,689,054
Equity Securities						
Common	6,307,772	–	–	–	6,307,772	1,693,914
Fixed Rate Preferred	25,788,324	20,438,829	19,641,740	22,024,266	87,893,159	65,280,123
Floating Rate Preferred	7,035,480	2,566,167	3,255,000	–	12,856,647	10,787,866
Mutual Funds	2,754,260	–	–	–	2,754,260	2,754,260
	\$ 48,582,928	\$ 23,504,798	\$ 30,455,440	\$ 27,216,876	\$ 129,760,042	\$ 99,458,493

Fixed rate preferred include \$5.0 million of a Canadian security payable in United States currency and has been translated to \$8.4 million at December 31, 2002 in Canadian currency. Refer to Note 18 for forward exchange contract to hedge this security.

An analysis of securities fair value and weighted-average yields is as follows:

	2002			
	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted- Average Yield
Securities Issued or Guaranteed by:				
Canada	\$ 12,559,449	\$ 222,683	\$ 12,782,132	4.5%
A Province	6,197,648	103,477	6,301,125	5.4%
Other Debt Securities	1,191,107	(122,107)	1,069,000	5.3%
Equity Securities				
Common	6,307,772	(410,110)	5,897,662	1.5%
Fixed Rate Preferred	87,893,159	278,579	88,171,738	5.7%
Floating Rate Preferred	12,856,647	(2,005,872)	10,850,775	4.5%
Mutual Funds	2,754,260	(89,932)	2,664,328	4.6%
	\$ 129,760,042	\$ (2,023,282)	\$ 127,736,760	

	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	

4. LOANS

a) Loan maturities:

					2002	2001
	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	\$ 22,750,337	\$ 1,797,693	\$ 702,148	\$ 1,752	\$ 25,251,930	\$ 15,223,404
Residential Mortgages	254,980,262	511,926,603	336,278,421	13,462,008	1,116,647,294	909,393,315
Other Mortgages	11,266,542	15,719,393	9,772,351	–	36,758,286	39,465,142
	288,997,141	529,443,689	346,752,920	13,463,760	1,178,657,510	964,081,861
General Allowance					(7,555,880)	(5,517,376)
Total	\$ 288,997,141	\$ 529,443,689	\$ 346,752,920	\$ 13,463,760	\$ 1,171,101,630	\$ 958,564,485

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

	2002			2001		
	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Personal and Credit Card Loans	\$ 369,920	\$ 369,920	\$ –	\$ 256,155	\$ 256,155	\$ –
Residential Mortgages	4,168,213	13,000	4,155,213	5,296,924	280,000	5,016,924
Other Mortgages	–	–	–	–	–	–
	4,538,133	382,920	4,155,213	5,553,079	536,155	5,016,924

c) Allowance for credit losses during the year:

	2002			2001		
	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance at Beginning of Year	\$ 536,155	\$ 5,517,376	\$ 6,053,531	\$ 312,134	\$ 4,149,131	\$ 4,461,265
Provisions for Credit Losses	1,549,496	2,038,504	3,588,000	1,079,490	1,368,245	2,447,735
Write-offs	(1,898,625)	–	(1,898,625)	(888,877)	–	(888,877)
Recoveries	195,894	–	195,894	33,408	–	33,408
Balance at End of Year	\$ 382,920	\$ 7,555,880	\$ 7,938,800	\$ 536,155	\$ 5,517,376	\$ 6,053,531

5. MORTGAGE-BACKED SECURITIES

During the year, Home Trust securitized residential mortgage loans and in all the securitizations Home Trust retained servicing responsibilities and subordinated interests. Home Trust does not receive an explicit servicing fee for its servicing responsibilities. The subordinated interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to Home Trust's other assets for failure of debtors to pay when due. During the year, Home Trust sold \$94.9 million (2001 – \$57.7 million) of mortgages receivable in securitization transactions. Home Trust's gross gain on the sale for the securitization transactions

Notes to the Consolidated Financial Statements

was \$3.7 million (2001 – \$3.0 million). Home Trust recognized a net pre-tax gain of \$4.4 million (2001 – \$3.0 million). In these transactions Home Trust retained servicing responsibilities and retained interest. The Company does not receive an explicit servicing fee for servicing responsibilities. Their value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization trusts recorded on the consolidated balance sheet for securitization transactions is \$9.7 million (2001 – \$5.6 million). The Company has a servicing liability of \$0.2 million (2001 – \$0.5 million) included on the consolidated balance sheet. Mortgage payments which have been collected and are payable to the National Housing Act (“NHA”) trusts as at December 31, 2002 are \$2.7 million (2001 – \$1.6 million). As at December 31, 2002, there was no impairment to Home Trust’s retained interest in the NHA trusts. There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

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

	2002	2001
Pre-payment Rate	7.00%	7.00%
Discount Rate	4.78%	5.13%
Weighted Average Life in Years	3.5	4.2

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

	2002	2001
Carrying Amount of Retained Interest	\$ 9,456,096	\$ 5,102,528
Weighted Average Life in Years	3.5	4.2
Pre-payment Rate	7.00%	7.00%
Impact on Fair Value of 10% Adverse Change	\$ (18,000)	\$ (2,000)
Impact on Fair Value of 20% Adverse Change	\$ (25,700)	\$ (6,300)
Residual Cash Flows Discount Rate	4.78%	5.13%
Impact on Fair Value of 10% Adverse Change	\$ (14,000)	\$ (59,000)
Impact on Fair Value of 20% Adverse Change	\$ (56,000)	\$ (112,000)
Expected Credit Losses	N/A*	N/A*

*Not applicable as these mortgages are all government guaranteed.

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

	2002	2001
Net Proceeds From New Securitizations	\$ 90,852,564	\$ 55,820,593
Cash Flows Received on Retained Interests	\$ 2,955,670	\$ 871,755

The table below summarizes quantitative information about Home Trust’s securitized assets:

	Total Principal Amount	Principal Amount of Mortgages 61 or More Days Past Due
December 31, 2002		
Total Loans Managed or Securitized	\$ 1,319,298,196	\$ 5,669,907
Less Mortgages Securitized	140,640,686	104,458
Total Gross Loans Reported on the Consolidated Balance Sheet	\$ 1,178,657,510	\$ 5,565,449
December 31, 2001		
Total Loans Managed or Securitized	\$ 1,029,708,491	\$ 6,310,224
Less Mortgages Securitized	65,626,630	377,464
Total Gross Loans Reported on the Consolidated Balance Sheet	\$ 964,081,861	\$ 5,932,760

6. CAPITAL ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Equipment	\$ 2,953,570	\$ 2,069,607	\$ 883,963	\$ 1,137,776
Office Furniture and Equipment	2,261,074	1,290,637	970,437	808,769
Signs	28,422	24,968	3,454	2,506
Leasehold Improvements	658,266	321,314	336,952	219,121
	\$ 5,901,332	\$ 3,706,526	\$ 2,194,806	\$ 2,168,172

Amortization in respect of the above noted capital assets for the year amounted to \$950,595 (2001 – \$722,084).

7. DEFERRED DEVELOPMENT COSTS

In May 2000, Home Trust was approved to offer VISA cards in Canada. Home Trust entered into agreements to process the credit cards, statements and collections. As at December 31, 2001, the VISA project was completed and effective January 1, 2002 the Company began amortizing the deferred costs to the consolidated statement of income.

Costs incurred for VISA project under development	2002	2001
Balance at the Beginning of the Year	\$ 3,363,715	\$ 711,176
Additions	–	6,915,269
Accumulated Amortization	(596,648)	–
Revenues	–	(4,262,730)
Balance at the End of the Year	\$ 2,767,067	\$ 3,363,715

8. OTHER ASSETS

	2002	2001
Accrued Interest Receivable	\$ 7,681,338	\$ 6,966,250
Income Taxes Recoverable	–	1,024,840
Goodwill, Net of Accumulated Amortization (Note 2)	2,323,914	2,323,914
Deferred Agent Commissions	5,162,462	4,236,300
Other Prepaid Assets and Deferred Items	7,387,293	2,843,911
	\$ 22,555,007	\$ 17,395,215

9. TERM LOAN

On June 18, 2002, the Company entered into an agreement with Canadian Western Bank (“Canadian Western”) whereby Canadian Western provided a term loan of \$10,000,000 for a period of five years. The proceeds of this term loan were received on July 10, 2002 and used to repay the \$8,000,000 senior term loan with Penfund Capital (No. 1) Limited (“Penfund”) and the remaining \$2,000,000 was used to purchase 1,000,000 common shares in the subsidiary, Home Trust.

The terms of the loan are as follows:

- i) the outstanding principal shall be repaid in yearly installments of \$1,000,000 commencing on July 10, 2003 for a period of four years. The balance of the loan, together with all accrued and unpaid interest, is due and payable in full on July 10, 2007;
- ii) interest is payable per annum equal to the bank’s prime lending rate plus 3%;
- iii) as collateral for the term loan, the Company has provided a demand 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 by Home Trust.

Notes to the Consolidated Financial Statements

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 two 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 in subordinated notes issued by Home Trust in connection with the proceeds of the subordinated secured loan.

As of December 12, 2002, the Company began negotiations with Canadian Western to repay the \$5,000,000 subordinated secured loan owed to Surrey Metro. This loan was repaid in full on January 23, 2003; details of the new financing are reported under "Subsequent Event" (Note 19).

11. DEPOSITS AND BORROWINGS

	Payable on a Fixed Date				2002	2001
	Payable on Demand	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Total	Total
Individuals	\$ 12,207,188	\$ 412,993,350	\$ 432,681,012	\$ 341,845,705	\$1,199,727,255	\$ 967,081,264
Businesses	–	6,956,237	5,372,581	3,123,106	15,451,924	28,039,410
	\$ 12,207,188	\$ 419,949,587	\$ 438,053,593	\$ 344,968,811	\$1,215,179,179	\$ 995,120,674

All deposits are held in Canadian funds for 2002 and 2001.

12. OTHER LIABILITIES

	2002	2001
Accrued Interest Payable	\$ 47,205,898	\$ 36,584,959
Income Taxes Payable	437,624	–
Dividends Payable	502,767	483,200
Deferred Commitment Fees	2,309,699	1,254,904
Future Income Taxes (Note 14)	6,884,520	5,262,222
Other, Including Accounts Payable and Accrued Liabilities	6,356,609	4,653,317
	\$ 63,697,117	\$ 48,238,602

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	2002	Number of Shares	2001
Convertible Class 'A' shares				
Balance at Beginning of Year	3,025,000	\$ 1,390,000	3,025,000	\$ 1,390,000
Conversion to Class 'B' Subordinated Voting Shares	(1,770,833)	(813,705)	–	–
Balance at End of Year	1,254,167	\$ 576,295	3,025,000	\$ 1,390,000
Class 'B' Subordinated Voting Shares				
Balance at Beginning of Year	13,322,610	29,906,523	11,779,395	17,239,583
Conversion From Convertible Class 'A' Shares	1,770,833	813,705	–	–
Options Exercised	476,285	1,505,177	215,215	455,298
Shares Issued	–	–	1,400,000	12,513,942
Normal Course Issuer Bid	(65,000)	(871,485)	(72,000)	(302,300)
Balance at End of Year	15,504,728	\$ 31,353,920	13,322,610	\$ 29,906,523
Total Capital Stock		\$ 31,930,215		\$ 31,296,523

On January 25, 2002, a share conversion took place that reduced the issued balance of the convertible Class 'A' shares. The holders of the Company's convertible Class 'A' shares converted 1,770,833 of this class 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 it 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 29, 2002 for a further twelve-month period. This renewal allows the Company to purchase up to 5% (or 773,945 shares) of the outstanding Class 'B' subordinated voting shares outstanding on October 31, 2002 over this twelve-month period.

During the year, 65,000 shares were purchased (2001 – 72,000). 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 \$871,485 (2001 – \$302,300); and (ii) there was no excess to apply against contributed surplus as this was fully utilized in 2001 (2001 – \$266,825).

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:

	2002		2001	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at Beginning of Year	734,785	\$ 4.07	905,000	\$ 3.34
Issued	495,000	13.89	45,000	9.37
Exercised	(476,285)	3.16	(215,215)	2.12
Cancelled	(40,000)	6.23	–	–
Outstanding at End of Year	713,500	\$ 11.37	734,785	\$ 4.07
Exercisable at End of Year	243,500	\$ 6.59	514,785	\$ 3.50

Notes to the Consolidated Financial Statements

The Company's stock option plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective May 29, 2002 to conform the Plan to the TSX'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 1,468,334 representing approximately 8.9% of the aggregate number of Class 'A' shares and Class 'B' subordinated voting shares, which were issued and outstanding on April 19, 2002. The exercise price of the options shall be fixed by the Board of Directors (the "Board") at the time of issuance at the "market price" of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted average price at which the 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, 2002, 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	12,500	12,500	4.34	04/21/2004
	15,000	15,000	3.93	05/26/2004
	15,000	15,000	4.00	10/20/2004
	10,000	10,000	3.80	03/23/2005
	20,000	20,000	9.37	07/25/2006
	15,000	15,000	15.50	06/18/2007
	100,000	–	13.52 **	03/06/2007
	132,500	–	14.29 **	12/05/2009
	320,000	87,500		
Employees	12,500	12,500	4.34	04/21/2004
	105,500	105,500	5.75	10/20/2005
	13,000	13,000	6.05	12/04/2005
	25,000	25,000	9.37	07/25/2006
	172,500	–	13.52 **	03/06/2007
	65,000	–	14.29 **	12/05/2009
	393,500	156,000		
Total	713,500	243,500	6.59	

**The Company granted certain employees and directors the right to receive stock options of 272,500 and 197,500 if certain performance criteria was met. As at December 31, 2002 the performance criteria had not been met. As a result, the contingently issuable options have not been included in the computation of basic or diluted earnings per share.

Fair Value Compensation of Stock Options

We have determined the fair value of options granted using the Black-Scholes Options Pricing Model. The weighted average fair value of the options granted after January 1, 2002 was \$2.96 for the March 2002 issue and \$5.16 for the December 2002 issue. The following weighted average assumptions were used to determine the fair value of the options on the date of grant.

	March 2002	December 2002
Expected Dividend Yield	3.07%	3.07%
Expected Share Price Volatility	29.00%	30.04%
Risk-free Rate of Return	4.38%	4.25%
Expected Period Until Exercise	4.1 years	7.0 years

The following table illustrates the impact on our net income and on our earnings per share if we had recorded employee compensation expense in the current year based on the fair value of all outstanding stock options on their grant date:

	2002	
Pro-forma Net Income (in Thousands)	\$	20,411
Pro-forma Earnings Per Share - Basic	\$	1.24
Pro-forma Earnings Per Share - Diluted	\$	1.18

e) Net Income per Share

Net income per share is determined as net income for the year divided by the average number of convertible Class 'A' and Class 'B' subordinated shares outstanding.

14. INCOME TAXES

Components of income tax expense:

	2002		2001	
Current Income Taxes				
Federal	\$	3,924,020	\$	1,524,654
Provincial		1,857,784		771,295
		5,781,804		2,295,949
Future Income Taxes				
Federal		1,132,284		2,970,704
Provincial		490,015		1,407,651
		1,622,299		4,378,355
	\$	7,404,103	\$	6,674,304

Reconciliation of income taxes:

	2002		2001	
Income Before Income Taxes	\$	27,998,960	\$	21,533,873
Income Taxes at Statutory Combined Federal and Provincial Tax Rate	\$	10,813,199	\$	8,988,239
Increase (Decrease) From Statutory Income Tax Rate Resulting From:				
Tax-exempt Income		(2,946,908)		(1,880,119)
Non-deductible Expenses		23,834		21,313
Capital Losses (Gains)		(8,180)		75,261
Goodwill Amortization		-		38,800
Future Tax Rate Reductions		(327,138)		(425,090)
Other		(150,704)		(144,100)
	\$	7,404,103	\$	6,674,304

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 38.62% (2001 – 41.74%).

During 2001, 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 \$327,138 (2001 – \$425,090) to its 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:

	2002	2001
Future Income Tax Liabilities		
Deferred Charges	\$ 3,209,014	\$ 2,480,053
Market-to-Market Adjustments	680,984	404,436
Mortgage-Backed Securities	3,108,218	1,876,455
Development Costs	934,900	1,237,006
	7,933,116	5,997,950
Future Income Tax Assets		
Allowance for Credit Losses	268,226	483,054
Unearned Income	780,370	252,674
	1,048,596	735,728
Net Future Income Tax Liability	\$ 6,884,520	\$ 5,262,222

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's 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's contributions are fully vested immediately. Home Trust's contributions are expensed as paid and totalled \$137,889 for 2002 (\$115,500 in 2001).

16. LEASE COMMITMENTS

Contractual obligations in respect of operating leases as at December 31, 2002 are as follows:

2003	\$ 720,686
2004	672,984
2005	561,744
2006	323,103
2007	225,443
2008 and Thereafter	35,512
	\$ 2,539,472

	2002	2001
Rent Paid During the Year	\$ 1,031,779	\$ 762,365

17. LOAN COMMITMENTS

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to \$98,910,816 as at December 31, 2002 (2001 – \$38,592,244). The commitments remain open until November 2003 for 2002 and June 2002 for 2001. The average rate on mortgage commitments is 7.57% (2001 – 7.77%). Commitments to extend credit representing unutilized portions of authorizations to extend credit on the credit card loans amount to \$9,581,718 as at December 31, 2002 (2001 – \$4,900,650). The average rate on credit card authorization is 16.43%.

18. FINANCIAL INSTRUMENT

The table below provides an analysis of the Company's derivative portfolio and related credit exposure:

	2002				
	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk- Weighted Balance	Fair Market Value
Foreign Exchange Contract					
Forward Contract					
Due Within One Year ⁽¹⁾	\$ 8,284,000	\$ 245,000	\$ 328,000	\$ 164,000	\$ 8,529,000

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

⁽¹⁾ The Company has contracted to deliver United States dollars in exchange for Canadian dollars.

Note: the Company had no financial instruments in fiscal 2001.

19. SUBSEQUENT EVENT

On December 12, 2002, the Company entered into an agreement with Canadian Western whereby Canadian Western provided a subordinated secured loan of \$5,000,000 for a period of five years. The proceeds of this subordinated secured loan were received on January 23, 2003 and used to repay the \$5,000,000 subordinated secured loan with Surrey Metro.

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 July 10, 2007;
- ii) interest is payable per annum equal to the bank's prime lending rate plus 4%;
- 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 \$10,000,000 and security granted by the Company in favour of the "first security" to Canadian Western, a secondary pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of \$5,000,000 in subordinated notes issued to Home Trust.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments, both on- and off-balance sheet, 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.

Notes to the Consolidated Financial Statements

(\$ thousands)	2002			2001		
	Book Value	Fair Value	Fair Value Over/(Under) Book Value	Book Value	Fair Value	Fair Value Over/(Under) Book Value
Assets						
Cash Resources	\$ 55,535	\$ 55,535	\$ -	\$ 50,001	\$ 50,001	\$ -
Securities	129,760	127,737	(2,023)	99,458	98,620	(838)
Loans	1,171,102	1,229,149	58,047	958,564	1,001,041	42,477
Other	37,892	38,370	478	28,196	28,301	105
Liabilities						
Senior Term Loans	-	-	-	8,000	8,000	-
Term Loan	10,000	10,000	-	-	-	-
Subordinated Secured Loan	5,000	5,000	-	5,000	5,000	-
Deposits and Borrowings	1,215,179	1,238,694	23,515	995,121	1,058,079	62,958
Other	69,523	69,523	-	52,897	52,897	-
Off-balance Sheet Financial Instruments						
Credit Commitments	\$ 108,493	\$ 112,456	\$ 3,963	\$ 43,493	\$ 46,036	\$ 2,543
Financial Instrument	8,284	8,529	245	-	-	-

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 the term loan approximates its fair value
- book value of the 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
- financial instruments are assumed to be equal to the market value as provided in Note 18

21. EARNINGS BY BUSINESS SEGMENT

The following charts illustrate the earnings of the Company by business segment:

2002

	Mortgage Business	Consumer Lending Retail Services and Credit Cards	Other**	Total
Net Interest Income	\$ 33,295,180	\$ 3,653,045	\$ 8,913,676	\$ 45,861,901
Provisions for Credit Losses	(1,660,910)	(1,927,090)	–	(3,588,000)
Fees and Other Income	5,990,209	3,296,126	–	9,286,335
(Loss) Gain on Securities and Mortgage-Backed Securities	4,389,222	–	(2,309,770)	2,079,452
Non-Interest Expense	(15,812,751)	(5,442,591)	(4,385,386)	(25,640,728)
Net Income (Loss) Before Provision for Income Taxes	26,200,950	(420,510)	2,218,520	27,998,960
Provision for Income Taxes	6,709,712	(162,401)	856,792	7,404,103
Net Income (Loss)	19,491,238	(258,109)	1,361,728	20,594,857

2001

	Mortgage Business	Consumer Lending Retail Services and Credit Cards	Other**	Total
Net Interest Income	\$ 25,668,762	\$ 370,064	\$ 6,654,782	\$ 32,693,608
Provisions for Credit Losses	(936,400)	(1,511,335)	–	(2,447,735)
Fees and Other Income	4,728,117	5,048	–	4,733,165
(Loss) Gain on Securities and Mortgage-Backed Securities	3,002,113	–	5,821	3,007,934
Non-Interest Expense	(12,536,721)	(264,287)	(3,652,091)	(16,453,099)
Net Income (Loss) Before Provision for Income Taxes	19,925,871	(1,400,510)	3,008,512	21,533,873
Provision for income taxes	6,003,124	(584,573)	1,255,753	6,674,304
Net Income (Loss)	13,922,747	(815,937)	1,752,759	14,859,569

**Other – includes other investments and corporate activities.