Home Capital Group Inc.

CANADA'S ONE-STOP MORTGAGE LENDER

ANNUAL REPORT 2013

The Right Strategy Record Results

Business Profile

Home Capital Group Inc., together with its operating subsidiary Home Trust Company, has developed a track record of success as Canada's leading alternative lender. Building on the demonstrated strength of its core residential mortgage lending business, the Company also offers complementary lending services, as well as highly competitive deposit investment products.

MISSION STATEMENT

Home Capital's mission is to deliver superior shareholder value by focusing on well-defined niches in the Canadian lending and deposit-taking market place that generate above average returns, have acceptable residual risk profiles and are not adequately served by traditional financial institutions, while protecting the depositors and operating within regulatory guidelines and the Company's risk appetite.

Home Trust Branches

MORTGAGE LENDING

Home Trust is one of Canada's leading mortgage lenders, focusing on homeowners who typically do not meet all the lending criteria of traditional financial institutions. By offering a range of mortgage products, Home Trust is uniquely positioned to provide financial solutions to meet the needs of thousands of Canadians. With a proprietary lending approach, comprehensive borrower profiling and flexible alternative options, Home Trust is a one-stop shop for borrowers and mortgage brokers. Home Trust is also a provider of commercial first mortgages to high-quality borrowers in selected markets across Canada.

CONSUMER LENDING

Home Trust's Equityline *Visa* program brings the advantages to cardholders of accessing the equity they have built in their homes together with the features and convenience of a Gold *Visa* card. The Company also offers deposit-secured credit cards for individuals who wish to build or re-establish a positive credit history. Home Trust's Retail Credit Services provides installment financing for customers making purchases from established businesses. PSiGate, a wholly owned subsidiary, offers electronic card-based payment services to merchants who conduct business primarily on the Internet.

DEPOSIT INVESTMENTS

Home Trust provides a broad range of deposit investment services through its extensive deposit broker network. In addition, Home Trust recently launched its direct-to-consumer brand, Oaken Financial, which offers a competitive suite of deposit products, including a daily interest savings account, to provide customers with a secure alternative to manage their savings independently. With efficient, personal service and competitive rates, Home Trust offers a number of solutions to meet the long-term and short-term needs of investors looking to diversify their portfolios.

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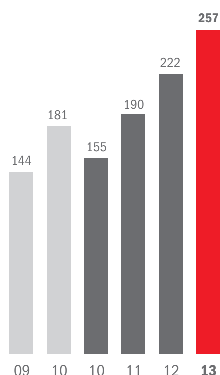
Financial Highlights

Summary of Data for 10 Year Review

For the years ended December 31 (000s, except per share amounts)		2013	2012	2011	2010 IFRS	2010 GAAP
Total assets	$	**20,075,850**	18,800,079	17,696,471	15,518,818	7,712,239
Total assets under administration	$	**21,997,781**	19,681,750	17,696,471	15,518,818	15,878,772
Total loans	$	**18,019,901**	17,159,913	16,089,648	14,091,755	5,861,722
Total loans under administration	$	**19,941,832**	18,041,584	16,089,648	14,091,755	14,028,255
Securitized residential mortgages on-balance sheet	$	**5,210,021**	6,706,160	8,243,350	8,116,636	–
Deposits	$	**12,765,954**	10,136,599	7,922,124	6,595,979	6,522,850
Shareholders' equity	$	**1,177,697**	968,213	774,785	628,585	742,280
Revenue	$	**949,547**	887,685	790,274	687,249	533,937
Net income	$	**256,542**	221,983	190,080	154,752	180,944
Book value of common shares	$	**33.90**	27.96	22.38	18.14	21.42
Earnings per share – basic	$	**7.40**	6.40	5.48	4.46	5.21
Earnings per share – fully diluted	$	**7.32**	6.38	5.46	4.45	5.20

In 2011, Home Capital Group Inc. implemented International Financial Reporting Standards (IFRS) with a transition date of January 1, 2010. Figures for 2010 have been restated on an IFRS basis. Figures for 2009 and prior years are on a former Canadian Generally Accepted Accounting Principles (GAAP) basis.

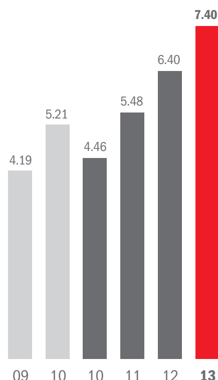
Net Income
($ millions)



15.6%

Home Capital reported a 15.6% increase in net income over the $222.0 million attained in 2012, reaching $256.5 million for the year ended 2013.

Earnings per Share
(basic in dollars)



15.6%

Basic earnings per share rose to $7.40 for the year ended December 31, 2013, a 15.6% increase over the $6.40 reported for 2012.

Return on Equity
(percentage)

23.9%

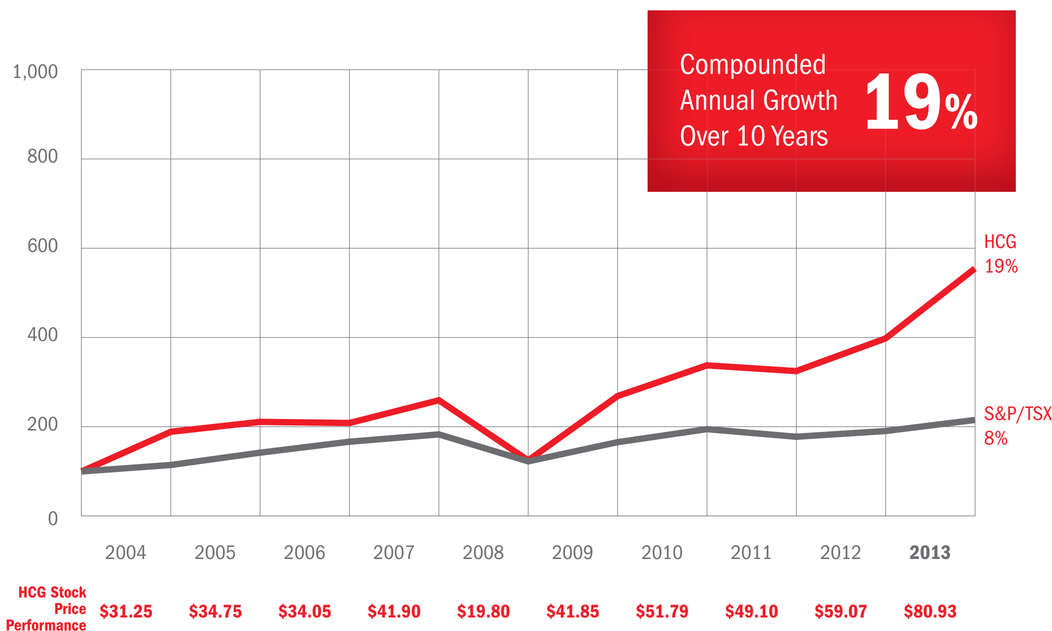
Home Capital surpassed 20% return on equity for the 16th consecutive year, reaching 23.9% at December 31, 2013.

Former Canadian GAAP Basis　IFRS Basis　IFRS Basis

2009	2008	2007	2006	2005	2004
7,360,874	5,809,713	4,975,093	3,902,316	3,284,829	2,568,513
11,508,585	8,423,971	6,434,548	5,009,878	4,085,013	3,069,253
5,468,540	4,531,568	4,045,571	3,328,858	2,813,459	2,257,740
9,616,251	7,145,826	4,505,026	4,436,420	3,613,643	2,758,480
–	–	–	–	–	–
6,409,822	5,102,781	4,413,984	3,443,640	2,901,515	2,269,157
590,288	432,753	348,040	276,866	218,885	162,207
489,179	454,695	368,881	282,549	234,704	181,839
144,493	108,687	90,241	67,815	60,861	44,551
17.00	12.57	10.08	8.10	6.44	4.80
4.19	3.15	2.62	1.99	1.80	1.33
4.15	3.13	2.59	1.95	1.72	1.27

Ten-year Cumulative Total Return on $100 Investment

Comparison between S&P/TSX Composite Index (S&P/TSX) and Home Capital Group Inc. (HCG)
December 31, 2003–December 31, 2013



Closing Price as of December 31
Share prices have been restated to reflect two-for-one stock split on January 29, 2004.

23.9%

Return on equity was 23.9%, exceeding 20% for the 16th consecutive year

$256.5 million

Net income for 2013 was $256.5 million, an increase of 15.6% over 2012

$19.94 billion

Total loans under administration grew by 10.5% over 2012 to reach $19.94 billion at the end of 2013

$7.32

Diluted earnings per share were $7.32 for the year, an increase of 14.7% over 2012

Report to Shareholders

In 2013 we celebrated another year of record performance and another year in which we met or exceeded all of our annual financial and operating objectives. Looking ahead, with a strong and stable Canadian economy and real estate market, and continuing solid demand for our products, we are confident 2014 will be yet another record year as we enhance our position as Canada's leading alternative financial institution.

Another Year of Record Performances

Our results in 2013 are yet another example of how our value-enhancing strategies are effective through all phases of the economic cycle. Since the Company's founding over a quarter of a century ago, our focus has been on generating steady and sustainable growth in earnings while at the same time maintaining a stable risk profile with a strong financial position and industry-leading capital ratios.

3 Well-Defined Strategic Priorities

As a result of this proven business model, once again in 2013 we generated a year with record earnings, strong growth across all of our business lines, and an exceptional return on equity. We met or exceeded all of our annual financial goals and objectives for the year:

> **Net income rose 15.6% for the year;**

> **Diluted earnings per share were up 14.7%;**

> **Total loans under administration increased 10.5%; and**

> **Our 23.9% return on shareholders' equity once again beat our 20% goal, the 16th consecutive year that our annual return on equity has exceeded 20%.**

Overall, total loans under administration rose to over $19.94 billion, up 10.5% from $18.04 billion in 2012. Strong demand for all our mortgage lending products resulted in total mortgage originations increasing by 15.2% for the year from $6.01 billion to $6.92 billion. Supported by a stable Canadian economy and real estate market, originations in our traditional mortgage products, which continue to be of exceptional credit quality, rose a significant 6.3% to $4.77 billion in 2013 as we continue to experience growing demand for this segment of our business. In 2012, we refocused our attention on these higher-margin, more profitable non-securitized loans, and our efforts produced solid results in 2013. We continue to experience strong demand for these traditional product offerings, and as we have increased this segment of our business we have also improved the credit profile with average credit scores up from last year and lower loan-to-value ratios. We look for this segment of our business to continue to grow and generate increased profitability in the years ahead.

1

STRATEGIC PRIORITY

Building and Maintaining Canada's Leading Alternative Financial Institution

Serving an established and growing market niche

2

STRATEGIC PRIORITY

Maintaining a Strong, Conservative Financial Position

Generating strong shareholder returns through good times and bad

Our *Accelerator*, or insured residential mortgage originations, also increased in 2013, up a very strong 25.7% to $1.01 billion from 2012. This segment of our business remains one of our key products and helps to fulfill our mandate to provide a true full-service, one-stop shop for the Canadian mortgage business. We look for the securitized segment of our mortgage originations to continue growing.

Rounding out our product offerings, our consumer retail credit portfolio, which includes durable household goods such as water heaters and large-ticket home improvement items, also rose by 25% in 2013 to $340.0 million, the result of our success at building and expanding relationships with our business partners. Looking ahead, our intention is to continue increasing this aspect of our business as it offers attractive returns with an excellent risk profile.

In 2013, as in prior years, we enhanced the quality and strength of our capital base while reducing our risk profile. While a key goal at Home Capital is to expand our businesses, it is critical that we also ensure we are well positioned to prosper through both good times and bad. To this end, capital ratios under the new Basel III guidelines remained robust at year-end, with solid Common Equity Tier 1 and Total capital ratios of 16.8% and 19.7%, respectively, well above our minimum annual targets. The credit quality of our loan portfolio also remained strong with non-performing loans representing only 0.35% of the total portfolio as at December 31, 2013, well within our expected and acceptable range. Provisions for credit losses at 0.09% of gross loans represent a nominal percentage of our net interest margin, leaving a significant spread for overhead and profit.

With our consistent growth and positive outlook on the future, we were pleased to announce, after the end of the second quarter, an 8% increase in our common share dividends to $1.12 on an annual basis. On February 12, 2014, a further $0.04 increase in our quarterly common share dividends was announced, raising our annualized dividend to $1.28 per share, a further reflection of our commitment to enhancing shareholder value. These increases represent total dividend growth of 23% year over year.

In addition, on February 12, 2014 we declared a stock dividend of one common share for every issued and outstanding share, resulting in an effective two-for-one stock split of our common shares. With this initiative, we expect to provide greater liquidity for our shareholders, increase and broaden the Company's shareholder base, and improve accessibility to Home Capital common shares.

3

STRATEGIC PRIORITY

Building on Our Operational Excellence

Investing to ensure our growth is managed and prudent

We implemented a similar stock dividend in January 2004, when our common shares were trading at a price of $33.90, resulting in an after-split price of $16.95. Over the ten years since that stock dividend was declared, the total value of our shares has increased by more than four and a half times. Over this same ten-year period, our common share dividends have been increased nineteen times, resulting in an 967% overall increase in cash dividends paid to shareholders. Our average annual return on equity over the same period was in excess of 25%. These significant increases in shareholder returns and shareholder value have been achieved in spite of the financial crisis that occurred in 2007 and 2008, again a clear indication of how our strategies and our adherence to our operating priorities are creating real and tangible benefits for shareholders through all phases of the economic cycle.

Strategies That Succeed

Our first strategic priority is to build and maintain our presence as Canada's leading alternative financial institution. By serving those segments of the financial services market that we believe are underserved, we have built an established and growing market niche, and we continue to offer a full line of products that meet the needs of borrowers and brokers while targeting our high-value alternative mortgage segment.

To further enhance our presence and diversify our product offerings, in December 2013 we launched a new direct-to-consumer brand, Oaken Financial, offering consumer deposit products that include GICs and the new Oaken Savings Account. With Oaken, we offer our customers a secure and competitive way to independently manage their savings with some of the highest deposit rates available in Canada.

Our second strategic priority is to maintain a strong and conservative financial position, as reported by our balance sheet, so that we can continue to generate enviable returns for our shareholders through good times and bad. Our conservative capital ratios, strong liquidity position and prudent risk profile all position Home Capital to prosper going forward.

Our third strategic priority is to enhance operational excellence by continuing to invest in industry-leading corporate governance, risk management and customer service processes and systems. At Home Capital, we recognize that quality and value require that effective and efficient processes and controls be in place ahead of growth in our businesses. The Company has continued to invest in oversight functions staffed by experienced professionals which has resulted in an enhanced risk culture. Implementation of advanced technology solutions to monitor and detect activities associated with financial crime, a risk-sensitive capital allocation approach, and forward-looking analysis of our strategic opportunities create value for shareholders and increase protection of depositors. We will continue to invest in these important oversight and control functions, and will carefully manage the continued growth we see in the years ahead.

A Positive Outlook

Looking ahead, we are confident that our growth will continue. The Canadian economy and real estate market remain strong, supported by continuing low interest rates, stable and improving employment, and increasing immigration. With our proprietary and proven approach to underwriting, we are in a stronger position than ever before to serve our niche market – homeowners who we know are good, reliable and stable customers.

With this positive outlook, we have established the following objectives for 2014:

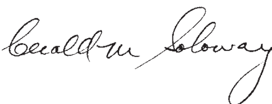
- **13% to 18% growth in total net earnings;**
- **13% to 18% growth in diluted earnings per share;**
- **15% to 20% growth in total loans under administration; and**
- **20% return on shareholders' equity.**

The Board of Directors would like to acknowledge Leslie Thompson, who will not be standing for re-election at this year's Annual Meeting of Shareholders. We thank her for her contribution and wish her all the best for the future.

The Board and management welcome Ms. Jacqueline Beaurivage who will stand as a nominee for election to the Board at the upcoming Annual Meeting of Shareholders. Ms. Beaurivage brings over 30 years of experience as a senior executive in various leadership roles at large Canadian chartered banks, and most recently with Ontario Teachers' Pension Plan, and is well versed in strategic planning, corporate governance, risk management and banking. We are confident that her significant expertise and depth of knowledge will be assets to the Board and the Company.

In closing, we thank everyone at Home Capital for their contribution to our record performance in 2013. By adhering to our core competencies, and focusing on our well-defined strategic priorities, we are growing our business and delivering superior returns to our shareholders. With your help, we expect this progress to continue for years to come.

Dr. Kevin P.D. Smith
Chairman of the Board

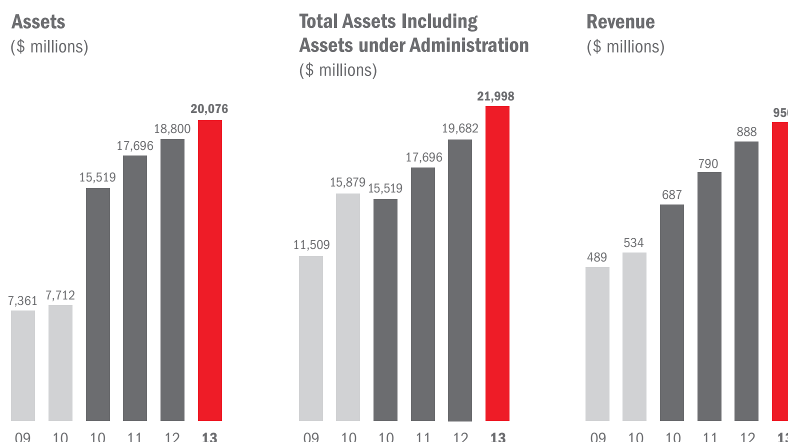


Gerald M. Soloway
Chief Executive Officer

Proven Results

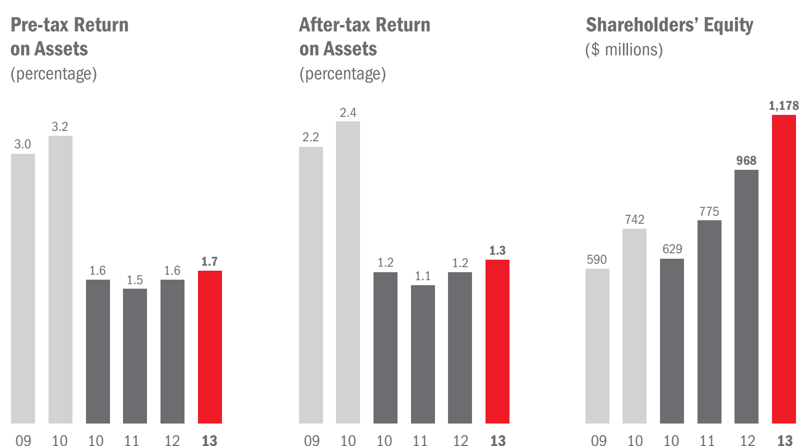
GROWTH

Home Capital sustained its strength in key financial measurements. The Company's core business activities generated strong results, contributing to asset growth of 6.8% and an increase in total revenue of 7.0%.



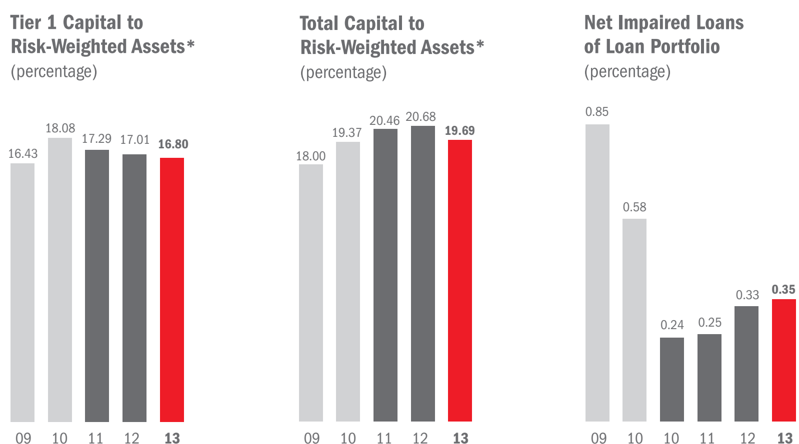
RETURNS

The Company recorded pre-tax return on assets of 1.7% and after-tax return on assets of 1.3%, while shareholders' equity increased to $1.18 billion, a 21.6% rise from the previous year.



RISK

Home Capital continued to surpass all applicable regulatory and related standards. The level of impaired loans is comparable to that of large, traditional financial institutions. Home Capital's robust risk management framework is a key component of the Company's philosophy.



Former Canadian GAAP Basis | IFRS Basis | IFRS Basis

* These figures are calculated under Basel III for 2013 and Basel II for 2012 and earlier.

Performance vs. Target

RETURN ON EQUITY (ROE)

Home Capital again exceeded 20% in return on equity, reaching 23.9% for the year ended December 31, 2013, representing the 16th consecutive year in which the Company surpassed 20% ROE.

TARGET:
20% return on equity

Return on equity at

23.9%

for the year ended December 31, 2013

EARNINGS

The Company reported net earnings of $256.5 million for the year ended December 31, 2013, representing a 15.6% increase over the $222.0 million achieved in 2012.

TARGET:
13% to 18% increase in total earnings

Increase in earnings of

15.6%

over 2012

EARNINGS PER SHARE

Diluted earnings per share rose to $7.32 at December 31, 2013, a 14.7% increase over $6.38 recorded for 2012.

TARGET:
13% to 18% increase in diluted earnings per share

Diluted earnings per share grew

14.7%

over 2012

TOTAL LOANS UNDER ADMINISTRATION

Total loans under administration grew to $19.94 billion by December 31, 2013, an increase of 10.5% over the $18.04 billion recorded on December 31, 2012.

TARGET:
10% to 15% increase in total loans under administration

Total loans increased

10.5%

over year-end 2012

Corporate Governance at Home Capital

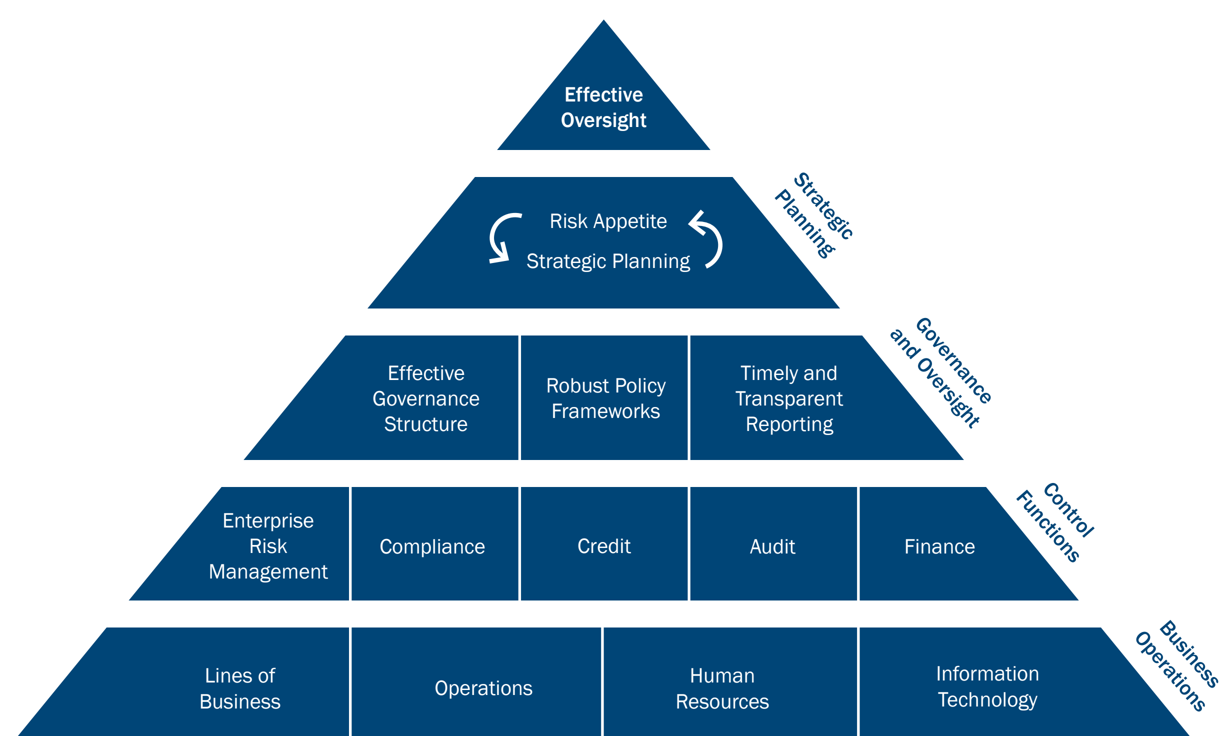
Home Capital recognizes the importance of strong and effective corporate governance. As a reporting issuer and publicly accountable entity, Home Capital has governance standards that are consistent with the corporate governance guidelines set out by the Toronto Stock Exchange and are compliant with applicable rules adopted by the Canadian Securities Administrators.

The Board of Directors of Home Capital is responsible for the stewardship of Home Capital and for supervising the management of the business affairs of the Company. This includes creating a culture of integrity throughout the Company. All employees, officers and directors are subject to Home Capital's Code of Business Conduct and Ethics, which requires the highest standards of ethical behaviour in all dealings on behalf of the Company.

The Board ensures that appropriate structures and procedures are in place so that it can independently and effectively oversee the Company's strategy, risk profile and operations. A straightforward, proven business model and comparatively simple products afford a thorough understanding of risk and opportunity. New product initiatives are subjected to a formal, rigorous evaluation process to ensure they are both well understood and consistent with the Company's risk appetite. Home Capital uses a Board-driven, strategic planning process that links strategic analysis and insight with financial forecasting, stress testing and capital adequacy. The Company aligns employee incentives with long-term value creation through a regulatory-compliant compensation process that includes the engagement of expert third-party compensation advice.

In addition to regularly scheduled meetings, the Board and its committees hold ad hoc meetings as the need arises and directors attend education sessions for emerging trends, industry developments and best practices. The Company continually looks for ways to improve its corporate governance policies and procedures, and the Governance, Nominating and Conduct Review Committee is responsible for reviewing Home Capital's corporate governance practices at least annually. Home Capital and its wholly owned subsidiary, Home Trust, also adopted the Office of the Superintendent of Financial Institutions' Corporate Governance Guideline.

The Board reviews and approves Home Capital's strategic and financial plans and risk appetite at least annually. The Board receives strategic updates throughout the year from each of the principal business groups and receives regular risk updates from the Enterprise Risk Management and Compliance departments.



Highlights of Home Capital's corporate governance framework include:

- The Board and its committees function under charters that specify their roles, accountabilities and responsibilities.
- Nine of ten directors are independent, the Chairs and all members of each of the Board committees are independent, and the roles of CEO and Chairman of the Board are separate.
- The Board is responsible for adopting and approving the Company's risk appetite and strategic and financial plans annually.
- The Board reviews and approves all critical risk policies, delegations of authority, and Company-wide limits.
- The Board holds in-camera meetings of the independent directors at every Board meeting, and meets independently with the Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Senior Vice President of Internal Audit, Chief Compliance Officer and Chief Anti-Money Laundering Officer, and external auditors no less than quarterly.
- Home Capital provides an orientation program for new directors and conducts ongoing education sessions.
- The Company maintains a minimum share ownership requirement for directors, the Chief Executive Officer and other named executive officers to ensure alignment with the interests of all shareholders.
- The Board has adopted a Shareholder Rights Plan to preserve the fair treatment of all shareholders in the event of a take-over bid.
- The Chair of the Governance, Nominating and Conduct Review Committee conducts an annual Board evaluation to assess the effectiveness of the Board and its committees, as well as the effectiveness of each director through self-evaluation and one-on-one meetings with the Chairman of the Board.

The Board of Directors is assisted in its oversight of the business by four committees of the Board and by independent oversight functions within the business that report directly to the Board and its committees.

Audit Committee

The Audit Committee assists the Board in its oversight role with respect to:

- the quality and integrity of financial reporting to shareholders;
- the external auditor's performance, qualifications and independence;
- complaints with respect to accounting, internal accounting control or auditing matters; and
- the effectiveness of the Company's internal controls, including the effectiveness and independence of the Company's finance, internal audit and compliance functions.

The Chief Financial Officer, Chief Compliance Officer and Chief Anti-Money Laundering Officer, and the Senior Vice President of Internal Audit each report to the Audit Committee independently and meet in camera at least quarterly. The Committee meets with the external auditors at least quarterly.

Risk and Capital Committee

The Risk and Capital Committee assists the Board in its oversight role with respect to:

- reviewing and recommending Board approval of the Company's overall risk appetite framework, including risk limits;
- identifying, assessing and managing the Company's risk profile;
- reviewing and approving the Company's risk and capital policies;
- reviewing the effectiveness of the Company's risk and capital practices; and
- reviewing the Company's adherence to internal risk and capital policies and procedures through timely management reporting.

The Chief Risk Officer and the Chief Credit Officer each report to the Risk and Capital Committee independently and meet in camera at least quarterly.

Governance, Nominating and Conduct Review Committee

The Governance, Nominating and Conduct Review Committee assists the Board in its oversight role with respect to:

- identifying individuals qualified and suitable to become members of the Board of Directors and recommending nominees to the Board for each annual meeting of shareholders;
- the development of the Company's corporate governance policies, practices and processes;
- the effectiveness of the Board, its committees and the Chairs of those committees;
- evaluating the contributions of individual directors;

> reviewing conflicts of interest, confidential information, transactions involving related parties of the Company, and disclosure of information; and
> Director orientation, education and development policy and programs.

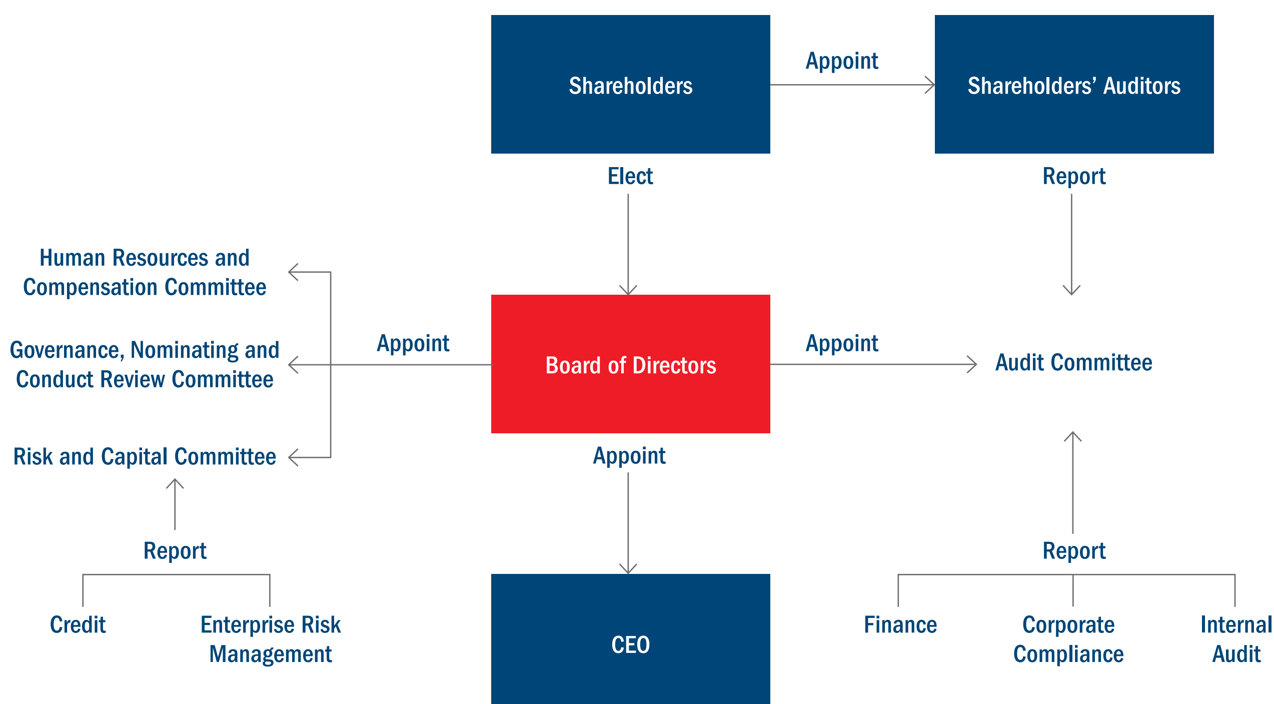
Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists the Board in its oversight role with respect to:

> the Company's human resources strategy, policies and programs;
> all matters relating to proper utilization of human resources within the Company, with special focus on management succession, development and compensation;
> management of compensation-related risk; and
> the compliance of Directors, officers and employees with the Company's Code of Conduct and Business Ethics Policy.

The Vice President, Human Resources meets in camera with the Human Resources and Compensation Committee at least quarterly.

BOARD OF DIRECTORS



Home Capital views robust corporate governance principles and practices not only as a critical matter of regulatory compliance, but also as a competitive advantage in its core market. For more information about corporate governance at Home Capital, please refer to Home Capital's Management Information Circular. The Circular contains detailed information about directors and management, as well as the Company's Statement of Corporate Governance Practices.

www.homecapital.com

The Company's website contains information about corporate governance at Home Capital, including the Statement of Corporate Governance Practices, Charters of the Board of Directors and Board Committees, Position Descriptions, Director Compensation and Independence Standards, Code of Business Conduct and Ethics Policy, Disclosure Policy, Whistleblower Policy and Shareholder Rights Plan.

Corporate Social Responsibility

1

A Commitment to Our *Communities*

Home Capital recognizes the importance of contributing to our communities through corporate commitment and employee fundraising efforts. We invest in communities through a variety of charitable donations and sponsorships, and are proud to partner with organizations whose focus aligns with our principles – financial literacy, an entrepreneurial culture, serving the underserved, and our belief in every Canadian's right to shelter. Most recently, we partnered with Junior Achievement of Canada, the largest youth business organization in Canada. In December 2013, volunteers participated in a Junior Achievement Economics for Success Program for Grade 8 students in Toronto, which helps prepare today's young people to succeed in an ever-changing global economy.

2

A Commitment to Our *Employees*

We strive to attract top talent and create a workplace where people feel engaged, inspired, challenged, proud and respected. To that end, we focus on all aspects of the employee experience, including rewards and recognition, communication, leadership, culture, professional and personal growth, accountability and performance, and corporate social responsibility. A recent Employee Engagement Survey revealed that our employees are motivated by the Company's senior leadership team and organizational vision, and value the strength of teamwork and opportunity for innovation. At Home Capital, we have an outstanding team that demonstrates integrity and commitment every day, with a focus on customer satisfaction and business success.

3

A Commitment to Our *Environment*

Home Capital is committed to implementing environmentally sustainable business practices that reduce our impact on the environment and encourage our employees to make green choices. The Company supports business practices that reduce energy consumption and participates in initiatives that benefit the environment in practical and meaningful ways. In 2013, a number of employees took part in an initiative with Nature Conservancy Canada, a non-profit organization that focuses on conservation and protection of natural areas that sustain Canada's plants and wildlife. Through this program, volunteers collected seeds for replanting at the Rice Lake Plains Natural Area in Ontario, contributing to habitat restoration in this part of the Oak Ridges Moraine.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the "Company" or "Home Capital") for the year ended December 31, 2013. The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. This MD&A should be read in conjunction with the audited consolidated financial statements and notes. Unless otherwise indicated, this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS or GAAP) and all amounts are presented in Canadian dollars. This MD&A is current as of February 12, 2014. A glossary of Non-GAAP measures and terms used in this MD&A and financial statements is presented in the last section of this report.

The Company's continuous disclosure materials, including interim filings, annual Management's Discussion and Analysis and audited consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders and Proxy Circular are available on the Company's website at www.homecapital.com, and on the Canadian Securities Administrators' website at www.sedar.com.

Caution Regarding Forward-looking Statements

From time to time Home Capital makes written and verbal forward-looking statements. These are included in the Annual Report, periodic reports to shareholders, regulatory filings, press releases, Company presentations and other Company communications. Forward-looking statements are made in connection with business objectives and targets, Company strategies, operations, anticipated financial results and the outlook for the Company, its industry, and the Canadian economy. These statements regarding expected future performance are "financial outlooks" within the meaning of National Instrument 51-102. Please see the risk factors, which are set forth in detail in the Risk Management and Other Risks sections of this report, as well as its other publicly filed information, which are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, for the material factors that could cause the Company's actual results to differ materially from these statements. These risk factors are material risk factors a reader should consider, and include credit risk, funding and liquidity risk, structural interest rate risk, operational risk, investment risk, strategic and business risk, reputational risk and regulatory and legal risk along with additional risk factors that may affect future results. Forward-looking statements can be found in the Report to the Shareholders and the Outlook sections in the Annual Report. Forward-looking statements are typically identified by words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "forecast," "may," and "could" or other similar expressions.

By their very nature, these statements require the Company to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The preceding list is not exhaustive of possible factors.

These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf, except as required by securities laws.

Assumptions about the performance of the Canadian economy in 2014 and its effect on Home Capital's business are material factors the Company considers when setting its objectives and outlook. In determining expectations for economic growth, both broadly and in the financial services sector, the Company primarily considers historical and forecasted economic data provided by the Canadian government and its agencies. In setting and reviewing its target, objectives and outlook for 2014, management's expectations assume:

- The Canadian economy will continue to produce modest growth in 2014 with stable to modestly improving employment conditions in most regions, and inflation will generally be within the Bank of Canada's target of 1% to 3%, leading to stable credit losses and strong demand for the Company's lending products.
- The Canadian economy will continue to be influenced by the economic conditions in the United States and global markets; as such, the Company is prepared for the variability to plan that may result.
- The Bank of Canada continues to indicate that increases to its target overnight interest rate are not imminent and, as such, the Company is assuming the rate will remain at its current rate into 2014, with the potential for modest increases later in 2014. This is expected to continue to support relatively low mortgage interest rates for the foreseeable future.
- The housing market will likely remain stable with balanced supply and demand conditions in most regions supported by continued low interest rates, stable to improving employment, and immigration. There will be modest declines in housing starts and resale activity with stable prices throughout most of Canada. This supports stable credit losses and strong demand for the Company's lending products.
- Consumer debt levels will remain serviceable by Canadian households.
- The Company will have access to the mortgage and deposit markets through broker networks.

Management's Discussion and Analysis

BUSINESS PROFILE

Home Capital is a holding company that operates primarily through its principal, federally regulated subsidiary, Home Trust, which offers insured and uninsured deposits, residential and non-residential commercial mortgage lending and consumer lending. The Company's subsidiary Payment Services Interactive Gateway Inc. (PSiGate) provides payment card services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba.

Business Portfolios

The Company's management views the business as a single business with separately identified lending portfolios, deposits and other activities, as described below.

Mortgage Lending

This portfolio comprises single-family residential lending, residential commercial lending, including multi-unit residential properties, as well as non-residential commercial lending. The single-family residential portfolio includes the Company's traditional or "Classic" mortgage loans and "Accelerator" mortgages. The Company's traditional mortgage portfolio consists of mortgages with loan to value ratios of 80% or less, serving selected segments of the Canadian financial services marketplace that are not the focus of the major financial institutions. These mortgages are funded by the Company's deposit products. Accelerator mortgages are insured, with loan to value ratios generally exceeding 80% at the time of origination, and are generally funded through Canada Mortgage and Housing Corporation (CMHC) sponsored mortgage-backed security (MBS) and Canada Mortgage Bond (CMB) securitization programs.

Residential commercial lending comprises insured and uninsured multi-unit residential mortgage loans and other residential commercial loans that are secured by residential property. Non-residential commercial lending includes store and apartment mortgages and commercial mortgages. Insured multi-unit residential mortgages are generally funded by the CMHC-sponsored securitization programs and other loans are funded by deposits.

Consumer and Credit Card Lending

This portfolio includes credit card lending and other consumer retail lending for durable household goods, such as water heaters and larger-ticket home improvement items. Consumer loans are supported by holdbacks or guarantees from the distributors of such items and/or collateral charges on real property. The Company's Equityline *Visa* product, secured by residential property, represents almost all of the credit card portfolio. The Company also offers cash-secured *Visa* products and preferred unsecured *Visa* cards to current mortgage customers with good credit history. Consumer and credit card loans are funded by deposits.

Deposits

The Company's uninsured assets are largely funded by its deposit activities. Deposits are generally taken for fixed terms, varying from 90 days to five years and carry fixed rates of interest over the full term of the deposit. The Company also offers high interest savings accounts. The Company is a member of the Canada Deposit Insurance Corporation (CDIC) and its retail deposit products are eligible for CDIC coverage, up to the applicable limits.

Other Activities

In addition to its lending portfolios, the Company manages a treasury portfolio to support liquidity requirements and invest excess capital. The Company's operations also include PSiGate, the Company's subsidiary involved in payment processing.

As management views its business as a single segment with a variety of product and service activities, the financial statements and the MD&A are prepared on that basis.

VISION, MISSION, OBJECTIVES AND VALUES

It is the vision of the Company to be recognized as the leading alternative lender in the Canadian financial market place.

The Company's mission is to deliver superior shareholder value by focusing on well-defined niches in the Canadian lending and deposit-taking market place that generate above-average returns, have acceptable residual risk profiles and are not adequately served by traditional financial institutions, while protecting the depositors and operating within regulatory guidelines and the Company's risk appetite.

The Company's progress toward its objectives will be measured by:

> A return on common equity of at least 20%

> Capital aligned with the risk profile of the business and the needs of the Company's depositor base

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

> Respect, trust and integrity

> The highest level of customer service to our clients and business partners

> A nimble, entrepreneurial culture with our enthusiasm, teamwork and desire for continuous improvement

> Community and environmental improvement through fundraising, community involvement and sustainable environmental initiatives

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

The Company seeks to achieve a return on common equity of at least 20%, and has exceeded this benchmark in each of the past 16 years. Management also seeks to align its capital with the risk profile of the business through an understanding of the nature and level of risks being taken and how these risks attract regulatory and risk-based capital. The Company consistently maintains high levels of regulatory capital as compared to other financial institutions.

Risk-taking Philosophy

The Company's core strategy focuses on serving segments of the Canadian financial services market that traditionally have not been adequately served by larger financial institutions. The Company's strategy provides the opportunity for higher returns but carries an inherently different risk profile than one serving the broader market and requires an integrated risk management strategy. The Company recognizes this risk and proactively seeks to reduce overall risk exposure to an acceptable level through:

> Active Board and senior management oversight, monitoring and timely revision of corporate strategies, risk appetite and risk mitigation activities;

> Promotion of a sound risk management culture and awareness throughout the entire organization;

> Adoption of a conservative financial risk profile, comprising prudent levels of liquidity, capital levels in excess of regulatory and risk-based minimums, and reserves that account for all incurred losses;

> Extensive, customized risk evaluation practices and controls at the transactional level executed by experienced personnel and supported by effective and efficient processes and technology;

> Proactive, independent and timely monitoring and assessment of all risk exposures, regardless of the source, by the business units, with enterprise risk management, credit, corporate compliance and finance functions acting as second lines of defence and the internal audit function acting as the third line of defence; and

> Ongoing efforts to diversify funding sources.

The Company's acceptable business and risk-taking activities can be substantially characterized by the following:

> The Company conducts business with individuals, other businesses and borrowers that are well understood, including, but not limited to, confirmation of identity, credit profile, employment and willingness and ability to repay debts;

> New products and initiatives are subject to a new initiative review process and undertaken only after complete risk identification and control infrastructure has been established. All acquisitions will be subject to a due diligence process that ensures alignment with the Company's risk appetite;

> For any material lending, the Company requires strong collateral against the loan, specifically where legal and equity rights can be held against the collateral asset. Unsecured credit exposures must fit within the Company's risk appetite framework and have appropriate risk management processes in place to mitigate the associated risk;

> The Company conducts business in geographies that are well known and understood, particularly when lending against properties;

> The Company employs various risk mitigation techniques and actions to reduce inherent business risks to acceptable residual levels, including trusted asset appraisals and valuations, limited loan to value lending, and risk-based pricing;

> The Company will not pursue profits through trading activities and will limit the use of derivatives to hedging purposes only; and

> The Company will manage interest rate gaps within its risk appetite.

2013 PERFORMANCE AND 2014 STRATEGIES AND TARGETS

2013 Performance

The table below summarizes the Company's 2013 targets and performance.

Table 1: 2013 Targets and Performance

			For the year ended December 31, 2013	
	2013 Targets	Actual Results	Amount	Increase over 2012
Growth in net income	13%–18%	15.6%	$ 256,542	$ 34,559
Growth in diluted earnings per share	13%–18%	14.7%	7.32	0.94
Growth in total loans under administration[1]	10%–15%	10.5%	19,941,832	1,900,248
Return on shareholders' equity	20.0%	23.9%		
Efficiency ratio (TEB)[2]	28.0%–34.0%	28.7%		
Provision as a percentage of gross loans	0.10%–0.18%	0.09%		

1 Includes loans held for sale.

2 See definition of TEB under Non-GAAP Measures in this report.

The Company applies IFRS, which are the GAAP for Canadian publicly accountable enterprises.

Non-GAAP measures are discussed in the Non-GAAP Measures and Glossary section located at the end of this MD&A.

The Company was successful in meeting or exceeding all of its performance targets in 2013.

2013 Strategies and Achievements

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

Strategic Priority	2013 Strategies and Achievements
Focused Marketplace Growth	Build and maintain Canada's leading alternative financial institution > Sustained focus on underserved niches and market-leading position > Continued to offer "one-stop" convenience to borrowers and brokers, while focusing on the high-value alternative mortgage segment > Maintained industry-leading service levels to clients and mortgage brokers
Prudent Balance Sheet Management	Improve the financial strength of the Company so that it is capable of absorbing market events and position the Company for strong shareholder returns > Maintained a strong capital position, with Common Equity Tier 1 capital ratio of 16.80% at the end of 2013 and the increase in total capital of Home Trust, through retained earnings of $216 million > Maintained the prudent credit risk profile of the loan portfolio, with improving credit scores and continued low loan to value > Maintained and managed strong liquidity positions, ending the year with more than $1.4 billion in liquid assets > Maintained a flexible supply of funding through the deposit broker network; continued to utilize funding through securitization markets and high interest savings; initiated an institutional deposit note program, raising $300 million on the initial offering; and launched a direct-to-consumer brand, Oaken Financial
Operational and Governance Excellence	Invest in robust corporate governance, risk management and efficient customer-focused processes and systems > Continued to achieve industry-leading returns on shareholders' equity > Further enhanced risk measurement, monitoring and reporting capabilities > Maintained a low level of credit losses through strong underwriting, active portfolio monitoring and collections activities > Maintained leading cost efficiencies through tight cost controls > Strengthened the capabilities of the risk management, compliance and internal audit functions with additional experienced staff and more robust processes

2014 Strategic Priorities

Strategic priorities for 2014 will continue to include the three priorities previously noted, along with strategies that comprise increased presence in the insured prime single-family mortgage market, launching of an e-banking platform for direct-to-consumer deposit business and continued enhancements to the information technology infrastructure.

2014 Performance Targets

The following table summarizes the Company's 2014 performance targets.

Table 2: Performance Targets for 2014

	2014 Targets	Amount
Growth in net income	13%–18%	$289.9 million–$302.7 million
Growth in diluted earnings per share	13%–18%	$8.27 per share–$8.64 per share
Growth in total loans under administration	15%–20%	$22.93 billion–$23.93 billion
Return on shareholders' equity	20.0%	
Efficiency ratio (TEB)[1]	28.0%–32.0%	
Provision as a percentage of gross uninsured loans	0.15%–0.25%	

[1] Refer to the definition of TEB under the Non-GAAP Measures section of this report.

The Company's loan growth target is based on loans under administration, which includes off-balance sheet loans, reflecting the increased use of off-balance sheet transactions.

Key assumptions underlying the Company's targets are related to interest rates, unemployment levels, inflation, economic growth, and consumer debt levels. These assumptions are set out in the Caution Regarding Forward-Looking Statements in this report. Developments within the general Canadian economy and the real estate market have been, and are expected to be, consistent with these assumptions.

2014 Overall Outlook

Supported by the stable Canadian economy and healthy real estate market in 2013, the Company continued to grow its traditional mortgage loan portfolio and market share, taking advantage of the attractive returns available in the alternative mortgage space. This business, which is the Company's historical core business, provides superior returns on the allocated capital. The continued expansion of the traditional business was accompanied by commensurate strengthening of governance, risk management and control processes through further investment in tools, technology and people. The Company maintained very low loss ratios, even with a continued shift to the traditional portfolio which carries inherently higher credit risk than the insured Accelerator products. The Company expects continued growth of the traditional mortgage loan portfolio and will continue to strengthen risk management and control processes to manage the business within its risk appetite.

In the third quarter of 2013, the Company received a favourable ruling from the Office of the Superintendent of Financial Institutions Canada (OSFI) with respect to the Company's initiative to structure its Accelerator lending and securitization activity in a manner that allows off-balance sheet treatment of securitized loans and effectively expands the Company's capacity and appetite for prime insured single-family mortgage lending. In this connection, the Company will increase its efforts and focus on Accelerator lending and anticipates renewed growth of this portfolio, which will be included in assets under administration and will reinforce the Company's "one–stop" and "flexible lending solutions" strategies. The Company will also continue to increase its presence in suitable urban and suburban markets across Canada. Additional focus will be placed on growth of the Company's high-margin non-residential and consumer lending portfolios within the Company's risk tolerance.

The Company expects supply and demand in the real estate market to remain balanced in 2014, with moderating conditions in most markets when compared to the activity levels of recent years. The tightening of mortgage underwriting requirements and changes in mortgage insurance qualification that have occurred over the past few years can be expected to continue to dampen the level of new and resale residential transaction activity in 2014, reducing the risk of a major disruption of the real estate market. The Company believes that slowing housing activity will lead to healthier real estate markets overall that are supported by continued low interest rates, stable to improving employment and stable net immigration. Should interest rates increase modestly over the next year, there will be no disruption to the Company's business plans. The Company expects continued strong demand for its traditional mortgage and other retail products, reflecting the balanced real estate markets and an increasing market share.

The Company will continue to maintain relatively high levels of liquidity and low overall leverage, as measured by the assets to capital multiple (ACM), to provide safety and soundness for depositors. The Company expects that the rate of growth in the Company's non-securitized loan portfolio in 2014 will be relatively consistent with the growth rate experienced in 2013.

The Company expects that loans under administration will grow in the range of 15% to 20% in 2014. The relative growth of the traditional mortgage portfolio will moderate compared to 2013 as the Company achieves the balance in the portfolios to support sustained growth in earnings and returns on equity. The Company will expand offerings of insured mortgages through the Accelerator insured mortgage program, supporting the "one–stop" and "flexible lending solutions" lender strategies.

The traditional mortgage business is expected to maintain strong net interest margin and net interest income levels, while net interest margins on securitized assets continue to decline as older securitization programs reach maturity. The securitized portfolio carried on-balance sheet will decline as older portfolios mature and are replaced by portfolios that qualify for off-balance sheet accounting treatment. Consequently, the contribution to net interest income from these portfolios will become less significant and the Company will record more gains as securitized portfolios are sold. The Company will also record increased revenue from the servicing of such portfolios. The Company will increase its marketing and sales activities related to the development of more diversified sources of deposits, including its Oaken Financial business which will include an e-banking platform for direct-to-consumer business and additional costs will be incurred in connection to this. Increases in net interest income and gains on sales of securitized portfolios will tend to mitigate these increases in costs, and the Company expects that its efficiency ratio for 2014 will be in the target range of 28% to 32%.

FINANCIAL HIGHLIGHTS

Table 3: Key Performance Indicators

For the years ended December 31 (000s, except % and per share amounts)	**2013 IFRS**	2012 IFRS	2011 IFRS	2010 IFRS	2009 Cdn GAAP[1]
FINANCIAL PERFORMANCE MEASURES					
Total revenue	**$ 949,547**	$ 887,685	$ 790,274	$ 687,249	$ 489,179
Net income	**256,542**	221,983	190,080	154,752	144,493
Earnings per Share – Basic	**7.40**	6.40	5.48	4.46	4.19
Earnings per Share – Diluted	**7.32**	6.38	5.46	4.45	4.15
Dividends per share	**1.08**	0.90	0.76	0.66	0.58
Return on shareholders' equity	**23.9%**	25.5%	27.1%	27.3%	28.2%
Return on average total assets	**1.3%**	1.2%	1.1%	1.2%	2.2%
Net interest margin (TEB)[2]	**2.17%**	2.09%	2.06%	2.07%	2.80%
Net interest margin non-securitized assets (TEB)[2]	**3.01%**	3.10%	3.04%	2.82%	–
Net interest margin securitized assets	**0.73%**	0.93%	1.24%	1.23%	–
Efficiency ratio (non-interest expense as a % of net revenue)	**28.9%**	28.1%	28.5%	30.0%	27.2%
Efficiency ratio (TEB) (non-interest expense as a % of net revenue)[2]	**28.7%**	27.7%	27.9%	29.3%	26.5%
FINANCIAL CONDITION MEASURES					
Total assets	**$20,075,850**	$18,800,079	$17,696,471	$15,518,818	$ 7,360,874
Total assets under administration[3]	**21,997,781**	19,681,750	17,696,471	15,518,818	11,508,585
Cash and securities-to-total assets	**5.7%**	3.8%	5.2%	7.6%	20.6%
Total loans[4, 5]	**$18,019,901**	$17,159,913	$16,089,648	$14,091,755	$ 5,468,540
Securitized loans on-balance sheet[5]	**5,210,021**	6,706,160	8,243,350	8,116,636	–
Total loans under administration[4,5,6]	**19,941,832**	18,041,584	16,089,648	14,091,755	9,616,251
Common Equity Tier 1 capital ratio[7]	**16.80%**	N/A	N/A	N/A	N/A
Tier 1 capital ratio[7]	**16.80%**	17.01%	17.29%	18.08%	16.43%
Total capital ratio[7]	**19.69%**	20.68%	20.46%	19.37%	18.00%
Assets to regulatory capital multiple[7,8]	**13.19**	13.39	14.44	10.50	12.70
Credit quality					
Provision for credit losses as a % of gross loans	**0.09%**	0.09%	0.05%	0.07%	0.21%
Net non-performing loans as a % of gross loans	**0.35%**	0.33%	0.25%	0.24%	0.85%
Allowance as a % of gross non-performing loans	**52.4%**	57.0%	74.9%	88.1%	62.1%

1 Figures prior to 2010 represent previous Canadian GAAP balances and have not been restated to IFRS. Prior to 2010, all securitizations were off-balance sheet.

2 See definition of Taxable Equivalent Basis (TEB) under Non-GAAP Measures in this report.

3 Total assets under administration include total on-balance sheet assets and off-balance sheet loans.

4 Total loans include loans held for sale.

5 In 2013, the Company classified Home Trust mortgages used as CMB replacement assets as securitized mortgages. Previously, these were classified as pledged securities. Prior periods have been restated to reflect the current classification.

6 Loans under administration include total loans and off-balance sheet loans.

7 These figures relate to the Company's operating subsidiary, Home Trust Company. The figures prior to 2011 have not been restated to IFRS. For 2013, figures are calculated under Basel III, and for 2012 and earlier, under Basel II.

8 Commencing in Q3 2013, the Company excluded from its assets, for the purpose of calculating the assets to regulatory capital multiple, mortgages that are off-balance sheet as a result of sales of residual interests in light of regulatory communications confirming this treatment. The comparative multiple for 2012 has been restated to reflect this treatment. The Company did not enter into these transactions prior to 2012.

Management's Discussion and Analysis

The Company reported another year of increased net income at $256.5 million or $7.32 diluted earnings per share for 2013. Return on shareholders' equity was solid at 23.9% for the year. Subsequent to the end of the year, the Board approved a stock dividend of one common share per each outstanding common share effecting a two-for-one split. The efficiency ratio, on a taxable equivalent basis (TEB), remained favourable at 28.7%. Loan originations in the traditional portfolio increased year over year, while Accelerator (insured) mortgage originations increased later in 2013 and ancillary products continued to generate positive returns. The Company's total customer accounts, including all loan and deposit accounts, reached 711,346 at the end of 2013 compared to 587,356 last year. The Company maintained its prudent credit profile in the loan portfolio and its strong capital base. The Company's key financial highlights for 2013 are summarized below.

Income Statement Highlights for 2013

- Net income of $256.5 million in 2013 increased by $34.6 million or 15.6% from net income of $222.0 million in 2012, reflecting higher loan balances in the traditional mortgage portfolio, improved net interest margin, continued low credit provisions and a consistently low efficiency ratio. Adjusted net income, as defined in Table 4, was $257.7 million in 2013, representing an increase of 14.8% over 2012.
- Diluted earnings per share increased to $7.32, up $0.94 or 14.7% from the diluted earnings per share of $6.38 earned in 2012.
- Return on average shareholders' equity of 23.9% for 2013 exceeded 20% for the sixteenth consecutive year.
- Net interest income increased to $422.0 million, up $40.5 million or 10.6% over the $381.5 million earned in 2012, reflecting higher average loan balances of $18.22 billion compared to $17.39 billion in 2012 and improved net interest margin (TEB) of 2.17% compared to 2.09% in 2012.
- Gains on the sale of residual interests were $5.4 million compared to $4.8 million last year. In Q3 2013, the Company received a favourable regulatory ruling confirming that the underlying mortgages in these residual interest transactions can be excluded from the calculation of the Company's ACM. This provides the Company with significant flexibility with respect to growth of the portfolio of insured prime residential mortgages, which are now being actively originated and renewed by the Company. The Company began to increase insured Accelerator originations later in 2013 and expects that gains on sales of residual interests will increase in 2014.
- Gains on securitization of multi-unit residential mortgages were $5.7 million compared to $3.3 million last year.
- Fees and other income increased $17.4 million or 39.6% as more accounts were affected by fees in 2013, combined with an increase in the number of accounts under administration.
- Net realized and unrealized loss on derivatives of $1.4 million in 2013 compared to a net gain of $3.8 million in 2012. The loss in 2013 included charges of $8.0 million related to the maturity of certain derivative positions that were restructured at the time of adoption of IFRS, compared to a charge of $3.5 million in 2012.
- Provisions for credit losses were $15.9 million for the year, a marginal increase over the $14.7 million recorded last year. This represents 0.09% of gross loans, consistent with 2012 despite the increased weighting of uninsured lending. Net write-offs were $15.5 million for 2013, representing 0.09% of gross loans compared to $12.4 million and 0.07% of gross loans in 2012. The increase in net write-offs over 2012 resulted from a net principal loss of $3.0 million associated with the settlement of the disputed loans to commercial condominium corporations discussed last year. In the absence of this unusual write-off, the net write-offs as a percentage of gross loans would have been consistent with 2012 at 0.07%.
- Non-interest expenses, which include salaries, premises and other operating expenses, were $143.7 million in 2013, up 17.1% over the $122.7 million recorded in 2012 and in line with business growth and strategic investments. The Company continues to invest in people, business development, infrastructure and technology to support future asset and revenue growth. The Company's efficiency ratio (TEB) remains low at 28.7% compared to 27.7% in 2012, an indication of a high level of operating efficiency.

Balance Sheet Highlights for 2013

- The Company's total on-balance sheet assets surpassed $20 billion, reaching $20.08 billion, an increase of 6.8% compared to $18.80 billion at the end of 2012. Total assets under administration, which includes $1.92 billion of mortgages accounted for off-balance sheet, reached $22.00 billion, an increase of 11.8% over 2012. Loans under administration increased to $19.94 billion, an increase of 10.5% over $18.04 billion last year.
- The Company sold residual interests in securitization transactions of $519.3 million which, combined with amortization of MBS liabilities and maturity of CMB liabilities, reduced both the securitized mortgage loans and securitization liabilities. As discussed above, the underlying mortgages associated with the sold residual interests are removed from the balance sheet and excluded from assets used in the calculation of the Company's ACM based on the favourable regulatory ruling received during the year.
- Mortgage originations were $6.92 billion in 2013 compared to the $6.01 billion originated in 2012. The Company's originations reflect continued focus on the traditional mortgage portfolio, which accounted for 69.0% of originations and a significant portion of the overall increase in originations. Insured multi-unit residential mortgage originations of $693.5 million increased by $437.2 million from 2012 as the Company ramped up its origination and securitization activity late in the year.
- While the Company increased the traditional portfolio, it maintained credit quality. Net non-performing loans as a percentage of the gross loan portfolio ended the year at 0.35%, up slightly from 0.33% one year ago. At the end of 2013, 97.6% of the loan portfolio was current, consistent with the end of 2012.
- Liquid assets at December 31, 2013 were $1.49 billion, compared to $771.8 million at December 31, 2012. Part of the increase was due to proceeds received from the issuance of a $300 million institutional deposit note late in 2013. These funds will be deployed in the first half of 2014. The Company maintains a prudent level of liquidity, given the current level of operations and the Company's obligations.
- Home Trust's capital levels were strong throughout 2013, as indicated by the Common Equity Tier 1 ratio of 16.80% and the Tier 1 and Total capital ratios of 16.80% and 19.69%, respectively, at December 31, 2013. Home Trust's ACM ended 2013 at 13.19 compared to 13.39 at the end of 2012.
- Deposits reached $12.77 billion, up from $10.14 billion at December 31, 2012. The increase in deposit liabilities has funded the increase in the non-securitized portfolio and liquidity. The Company initiated new deposit diversification strategies in late 2012 and 2013, including the new Oaken brand and related direct-to-consumer products, a high interest savings account and an institutional deposit note program. These programs reflect $634.8 million of the total deposits at the end of 2013.
- Securitization liabilities were $5.77 billion at the end of 2013, down from $7.34 billion last year. While originations increased in the Accelerator portfolio, which is typically funded by way of securitization, amortization of MBS liabilities and maturities of CMB combined with loans removed from the balance sheet on the sale of residual securitization interests exceeded the Accelerator originations, resulting in the overall decline in the securitization liabilities.

FINANCIAL PERFORMANCE REVIEW

Table 4: Income Statement Highlights

(000s, except % and per share amounts)		2013		2012	Change
Total net interest income	**$**	**421,979**	$	381,472	10.6%
Provision for credit losses		**15,868**		14,720	7.8%
		406,111		366,752	10.7%
Non-interest income		**75,059**		55,902	34.3%
Non-interest expenses		**143,738**		122,735	17.1%
Income before income taxes		**337,432**		299,919	12.5%
Income taxes		**80,890**		77,936	3.8%
Net income	**$**	**256,542**	$	221,983	15.6%
Basic earnings per share	**$**	**7.40**	$	6.40	15.6%
Diluted earnings per share	**$**	**7.32**	$	6.38	14.7%
Reconciliation of Net Income to Adjusted Net Income					
Net income per above	**$**	**256,542**	$	221,983	15.6%
Adjustment for derivative restructuring – IFRS conversion (net of tax)		**5,873**		2,602	125.7%
Adjustment for disputed loans to condominium corporations (net of tax)		**1,508**		–	–
Adjustment for investment tax credit benefits (net of tax)		**(6,190)**		–	–
Adjusted Net Income[1]	**$**	**257,733**	$	224,585	14.8%
Adjusted basic earnings per share[1]	**$**	**7.43**	$	6.47	14.8%
Adjusted diluted earnings per share[1]	**$**	**7.36**	$	6.45	14.1%

[1] Adjusted net income and adjusted earnings per share are defined in the Non-GAAP Measures section of this MD&A.

Net Interest Income and Margin

Presented in Tables 5 and 6 are analyses of average rates, net interest income and net interest margin. Net interest income is the difference between interest and dividends earned on loans and investments and the interest paid on deposits and borrowings to fund those assets. The net interest margin is net interest income divided by the Company's average total assets. Dividend income has been converted to TEB (refer to the Non-GAAP Measures and Glossary section of this report for a definition of TEB) for comparison purposes.

Table 5: Net Interest Margin

	2013	2012
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.98%**	3.05%
Net interest margin non-securitized interest-earning assets (TEB)	**3.01%**	3.10%
Net interest margin securitized assets	**0.73%**	0.93%
Total net interest margin (non-TEB)	**2.15%**	2.07%
Total net interest margin (TEB)	**2.17%**	2.09%
Spread of non-securitized loans over deposits only	**3.14%**	3.13%

Total net interest margin (TEB), including the securitized portfolio, was 2.17% for 2013 compared to 2.09% in 2012, reflecting a greater proportion of higher-yielding, non-securitized assets in the on-balance sheet portfolio as the Company continued its focus on traditional products relative to insured mortgages. As such, over the period the portfolio weighting of securitized mortgages and assigned assets, which earn a lower net interest margin, decreased to 28.6% at December 31, 2013 from 38.8% at December 31, 2012. Despite relatively stable interest spreads of non-securitized loans over deposits, net interest margin on non-securitized assets (TEB) declined to 3.01% from 3.10% on a higher proportion of liquid assets held during the year and declining rates on the liquidity portfolio. Net interest margin on securitized assets declined as expected on the structured maturity of high-yielding mortgage pools.

Table 6: Net Interest Income by Product and Average Rate

	2013			2012		
(000s, except %)	**Average Balance[1]**	**Income/ Expense**	**Average Rate[1]**	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets						
Cash resources and securities	**$ 1,149,994**	**$ 19,448**	**1.69%**	$ 807,022	$ 18,190	2.25%
Traditional single-family residential mortgages	**9,116,538**	**482,491**	**5.29%**	6,961,740	381,971	5.49%
Accelerator single-family residential mortgages	**446,636**	**15,044**	**3.37%**	540,610	17,440	3.23%
Residential commercial mortgages[2]	**263,447**	**12,954**	**4.92%**	202,027	11,000	5.44%
Non-residential commercial mortgages	**975,217**	**62,681**	**6.43%**	985,089	61,229	6.22%
Credit card loans	**307,310**	**28,966**	**9.43%**	361,808	34,722	9.60%
Other consumer retail loans	**308,155**	**27,111**	**8.80%**	206,978	19,360	9.35%
Total non-securitized loans	**11,417,303**	**629,247**	**5.51%**	9,258,252	525,722	5.68%
Taxable equivalent adjustment	**–**	**4,016**	**–**	–	5,031	–
Total on non-securitized interest-earning assets	**12,567,297**	**652,711**	**5.19%**	10,065,274	548,943	5.45%
Securitized single-family residential mortgages	**4,559,463**	**144,702**	**3.17%**	5,651,599	200,679	3.55%
Securitized multi-unit residential mortgages	**1,780,245**	**73,712**	**4.14%**	1,985,035	80,757	4.07%
Assets pledged as collateral for securitization	**467,481**	**7,379**	**1.58%**	497,312	6,435	1.29%
Total securitized residential mortgages	**6,807,189**	**225,793**	**3.32%**	8,133,946	287,871	3.54%
Other assets	**257,386**	**–**	**–**	260,470	–	–
Total Assets	**$19,631,872**	**$ 878,504**	**4.47%**	$18,459,690	$ 836,814	4.53%
Liabilities and Shareholders' Equity						
Deposits	**$11,327,983**	**$ 268,233**	**2.37%**	$ 9,004,518	$ 230,006	2.55%
Senior debt	**149,899**	**6,612**	**4.41%**	153,285	6,831	4.46%
Securitization liabilities	**6,849,261**	**177,664**	**2.59%**	8,170,337	213,474	2.61%
Other liabilities and shareholders' equity	**1,304,729**	**–**	**–**	1,131,550	–	–
Total Liabilities and Shareholders' Equity	**$19,631,872**	**$ 452,509**	**2.30%**	$18,459,690	$ 450,311	2.44%
Net Interest Income (TEB)		**$ 425,995**			$ 386,503	
Tax Equivalent Adjustment		**(4,016)**			(5,031)	
Net Interest Income per Financial Statements		**$ 421,979**			$ 381,472	

[1] The average is calculated with reference to opening and closing monthly asset and liability balances.

[2] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

Net interest income increased 10.6% over 2012, reflecting an increase of $1.17 billion or 6.3% in average asset balances and an increase in total net interest margin (TEB) of 8 basis points year over year.

The average yield on non-securitized loans declined to 5.51% from 5.68% in 2012 as mortgage rates declined, but this was offset by a decline in average deposit rates to 2.37% from 2.55% in 2012. The declines in average rates primarily reflect lower average Government of Canada bond yields in 2013, upon which deposit and traditional mortgage rates are set. Strong demand for the Company's loans products helped maintain the average spread of the deposit-funded loans portfolio at 3.14%, up from 3.13% last year. The impact of lower average rates on cash and securities was larger this year, given the increased proportion of these assets in the portfolio.

The average rate for residential commercial mortgage loans declined, reflecting the maturity of higher-yielding loans and originations and renewals at current lower rates.

The net interest margin on securitized assets also declined year over year, reflecting the maturity of higher yielding MBS and CMB pools and the use of lower-yielding assets as replacement assets in the CMB program. The average assets in this portfolio declined by $1.33 billion in 2013, reflecting the sale of residual interests and maturities. As such, this portfolio has had a reduced impact on the total Company net interest margin and the relative impact can be expected to continue to decline through 2014.

2014 Outlook for Net Interest Income

The Company expects net interest income on the non-securitized portfolio to grow relative to loan portfolio growth in 2014. The Company will continue to carefully employ its growth strategy for the traditional mortgage portfolio, which should continue to favourably influence net interest income in 2014. Tempering this influence on net interest income will be lower net interest margin on insured securitized mortgages, which have lower interest margins. As the Company sells residual interests, net interest income from this portfolio is replaced with gains on sale.

The Company expects the net interest margin on non-securitized assets to remain relatively stable at 2013 levels but is prepared for modest declines and slight variations quarter over quarter. The Company's strategy is to manage the average spread between deposits and traditional mortgages at approximately 3.0%.

The Company anticipates continued declines in the net interest margin on the securitized portfolio in 2014 as higher-yielding mortgage pools mature. This will have relatively less of an impact on total Company net interest margin as the on-balance sheet portfolio is expected to decline. The Company is prepared for moderate volatility in the net interest margin trend depending on the replacement assets available and the level of interest rates.

Overall net interest margin is expected to remain stable as the relative proportion of non-securitized assets continues to increase.

The Company continually reviews pricing, funding costs and product structures to maximize spread returns, including diversification and growth of the consumer lending segment. The Company will continue to balance prudent liquidity with investment return options to optimize the risk/return relationship while considering economic and credit conditions. Increased levels of liquidity tend to reduce net interest spread of the overall asset portfolio.

Non-interest Income

Table 7: Non-interest Income

(000s, except %)	**2013**	2012	Change
Fees and other income	**$ 61,252**	$ 43,863	39.6%
Securitization income	**12,648**	8,306	52.3%
Net realized and unrealized gains (losses) on securities	**2,589**	(55)	4,807.3%
Net realized and unrealized (loss) gain on derivatives	**(1,430)**	3,788	(137.8%)
	$ 75,059	$ 55,902	34.3%

Table 8: Securitization Income

(000s, except %)	**2013**	2012	Change
Gain on sale of			
Insured multi-unit residential mortgages	**$ 5,687**	$ 3,300	72.3%
Residual interests in securitized single-family residential mortgages	**5,354**	4,845	10.5%
Total gain on sale	**11,041**	8,145	35.6%
Net hedging impact	**109**	44	147.7%
Servicing income	**1,498**	117	1,180.3%
Total securitization income	**$ 12,648**	$ 8,306	52.3%

Fees and other income, which include mortgage and *Visa* account administration fees, net of direct servicing expenses, generally increase as the size of the loan portfolio increases and, in 2013, also included an increase related to fee adjustments. Fee income is also influenced by the overall mix of the portfolio and has grown at a slightly faster pace than the overall loan portfolio growth due to the focus on the Company's traditional mortgage portfolio.

Securitization income increases reflect the increased activity in the multi-unit residential mortgage securitizations through the MBS program. Gains on sales of retained interests were relatively flat year over year as the Company awaited a regulatory ruling on the asset to capital treatment of the underlying assets. In both of these programs, mortgages have been removed from the calculation of the Company's ACM. In the case of single-family residential mortgage sales, the Company will service the loans and record related fee revenue over the remaining term of the underlying mortgages. In the case of multi-unit residential mortgages, the Company outsources the servicing activity and no further servicing revenue or fees will be recorded. Servicing income increases as the size of the single-family residential mortgage portfolio under administration increases.

The Company recognized a net gain of $2.8 million on the sale of certain available for sale securities in 2013, compared to gains of $1.8 million in 2012. The Company takes advantage of improvements in securities markets and will rebalance the investment portfolio as market conditions warrant. The Company also recognized $0.2 million in impairments through profit and loss on certain available for sale equity securities in 2013 compared to $1.8 million in 2012.

Net realized and unrealized gains on derivatives include several components:

> On an ongoing basis, the Company calculates and records the financial amount of ineffectiveness in its hedging programs that are designated for hedge accounting. The 2013 amount included $6.4 million in unrealized hedge ineffectiveness gains associated with its accounting program. This compares to $7.0 million in unrealized gains in 2012. Ineffectiveness can vary from gains to losses, depending on the underlying conditions.

> Additionally, there was $8.0 million ($5.9 million, after tax) in charges against income related to the maturity of certain derivative positions that were restructured at the time of adoption of IFRS, compared to $3.5 million ($2.6 million, after tax) in 2012. These amounts are charged to income as the related CMB liabilities mature. The amounts involved in future periods will generally be less significant and are not expected to exceed the charge recognized in 2013.

> Derivative positions outside hedge accounting relationships were marked to market for realized and unrealized gains of $0.2 million compared to $0.3 million in 2012. These positions are also subject to gains and losses depending on underlying economic conditions.

Please see the Derivative Financial Instruments note in the consolidated financial statements included in this report and the Derivatives and Hedging section of this MD&A for further information.

2014 Outlook for Non-interest Income

The Company anticipates that fees and other income will increase over 2013 levels in line with loan portfolio growth.

The Company expects to continue to securitize and sell off-balance sheet insured multi-unit residential mortgages on an ongoing basis and expects that these transactions will continue to add to profitability at levels relatively consistent with 2013. The Company also anticipates selling an increased volume of residual interests in insured, single-family residential mortgages in 2014, leading to higher gains on sale. Higher gains on sale will be offset partly by lower net interest income but, on a combined basis, will exceed 2013 as the Company increases originations of insured mortgages.

Through 2014, the Company will continue to record smaller charges to income through derivative gains and losses related to the implementation of IFRS, as discussed above. Charges of approximately $1.4 million will be recorded in the first quarter and $1.1 million in the second quarter of 2014. The amounts in future periods will not be significant.

The Company will continue to hedge its interest rate risk associated with the loan commitments and fixed-rate assets and liabilities through the use of bond forward contracts and interest rate swaps. The Company expects to continue to apply hedge accounting to most of such instruments, thus reducing earnings volatility from derivatives gains and losses. The impact of hedge accounting ineffectiveness and fair value changes on derivatives held outside of hedge accounting relationships can be expected to continue to create some moderate volatility quarter over quarter.

Provision and Allowance for Credit Losses

Table 9: Provision for Credit Losses

(000s, except %)	As at December 31, 2013 Net Non-performing Loans		For the year ended December 31, 2013 Provision[1]		Net Write-offs	
	Amount	% of Gross Loans	Amount	% of Gross Loans	Amount	% of Gross Loans
Single-family residential mortgages	$ 51,636	0.48%	$ 11,766	0.11%	$ 11,165	0.10%
Residential commercial mortgages	1,836[2]	0.93%	2,783	1.41%	3,199	1.62%
Non-residential commercial mortgages	7,189[3]	0.72%	274	0.03%	230	0.02%
Credit card loans	2,584	0.88%	679	0.23%	589	0.20%
Other consumer retail loans	–	–	366	0.11%	345	0.10%
Securitized single-family residential mortgages	–	–	–	–	–	–
Securitized multi-unit residential mortgages	–	–	–	–	–	–
Total	$ 63,245	0.35%	$ 15,868	0.09%	$ 15,528	0.09%

(000s, except %)	As at December 31, 2012 Net Non-performing Loans		For the year ended December 31, 2012 Provision[1]		Net Write-offs	
	Amount	% of Gross Loans	Amount	% of Gross Loans	Amount	% of Gross Loans
Single-family residential mortgages	$ 47,788	0.55%	$ 12,581	0.14%	$ 10,148	0.12%
Residential commercial mortgages	4,527	2.93%	340	0.22%	–	–
Non-residential commercial mortgages	501	0.05%	241	0.02%	319	0.03%
Credit card loans	3,505	1.07%	1,291	0.39%	1,572	0.48%
Other consumer retail loans	–	–	267	0.10%	342	0.13%
Securitized single-family residential mortgages	–	–	–	–	–	–
Securitized multi-unit residential mortgages	–	–	–	–	–	–
Total	$ 56,321	0.33%	$ 14,720	0.09%	$ 12,381	0.07%

[1] Provisions include both individual and collective provisions.

[2] The non-performing residential commercial amount comprises one loan.

[3] The non-performing non-residential commercial amount includes $6.4 million related to one loan.

The provision for credit losses is charged to the statement of income by an amount that brings the individual and collective allowances for credit losses to the level determined by management to be adequate to cover incurred losses and identified credit events in the portfolio, including losses that are not yet individually identifiable. Factors which influence the provisions for credit losses include the formation of new non-performing loans, the level of individual write-offs and management's assessment of the level of collective and individual allowances required based on available data, including the collateral supporting specific non-performing loans. In addition, management considers current and historical credit performance of the portfolio, external economic factors, the composition of the portfolio, and the overall growth in the loans portfolio.

Provisions as a percentage of gross loans of 0.09% for 2013 are consistent with 2012 and are better than the target range of 0.10% to 0.18%. Provisions as a percentage of gross uninsured loans were 0.14% (2012 – 0.15%). Net write-offs were up $3.1 million and represented 0.09% of gross loans compared to 0.07% in 2012. This increase reflects a net principal loss of $3.0 million associated with the settlement of the disputed loans to commercial condominium corporations discussed last year. In the absence of this disputed loans write-off, the net write-offs as a percentage of gross loans would have been consistent with 2012 at 0.07%.

Net non-performing loans as a percentage of gross loans increased to 0.35% at the end of 2013 from 0.33% at the end of 2012. The increase reflects a larger proportion of uninsured mortgages in the portfolio compared to prior years and the inclusion of one commercial loan for $6.4 million on which the Company expects no losses. Net non-performing loans as a percentage of gross uninsured mortgages was 0.55% compared to 0.58% at 2012. The levels of non-performing loans are within the Company's expectations and, considering the increase in the proportion of traditional mortgages in the loans portfolio, have remained quite low. The increase in non-performing loans from 2012 did not translate into higher write-offs, other than the write-offs associated with the disputed loans.

The level of individual allowances at the end of 2013 decreased by $1.2 million over 2012, while gross non-performing loans increased by $5.9 million to $64.9 million from $59.0 million. As discussed above, the non-performing loans include one commercial loan for $6.4 million on which no losses are expected. The amount set aside for individual allowances can be influenced by specific local real estate markets and the amount of time to sell when required.

The collective allowance balance at December 31, 2013 increased $1.5 million over December 31, 2012, reflecting the increase in the traditional mortgage portfolio and representing close to two times the current year write-offs. The Company remains satisfied with the credit performance in the loans portfolio. Please see the Credit Risk section of this MD&A for further discussion.

2014 Outlook for Provision and Allowance for Credit Losses

The Company's provision for credit losses in 2014 will be influenced by the strength of the Canadian economy and the resulting impact on employment and housing markets. There remains uncertainty related to the growth prospects for certain sectors of the economy, reflecting continued uncertainty in international markets; however, the Company continues to expect housing markets in most of the country to remain balanced in 2014. The Company also expects that Canadian consumers will continue to service and manage debt levels. While the Company is cautiously optimistic that credit losses will remain stable, it is prepared for moderate volatility in this trend.

The Company's 2014 objective for the provision for credit losses is 0.15% to 0.25% of gross uninsured loans. The previous target for 2013 was 0.10% to 0.18% of gross loans. The Company believes provisions as a percentage of gross uninsured loans better reflect the credit performance of uninsured loans. Individual allowances will continue to be determined and reviewed monthly on an account-by-account basis. The collective allowance for credit losses reflects an ongoing assessment of the strength of the portfolio at any given time, and will continue to be reviewed at least on a quarterly basis.

Non-interest Expenses

Table 10: Non-interest Expenses

(000s, except % and number of employees)	2013	2012	Change
Salaries and employee benefits	**$ 70,954**	$ 58,956	20.4%
Premises and equipment			
Rent – premises	**6,994**	5,961	17.3%
Equipment rental and repairs	**2,907**	2,872	1.2%
	9,901	8,833	12.1%
Other operating expenses			
Consulting and professional services	**12,740**	12,717	0.2%
Outsourced services	**10,004**	9,591	4.3%
Computer services	**5,179**	5,202	(0.4%)
Advertising and business development	**8,857**	6,637	33.4%
General and administration	**14,735**	10,965	34.4%
Amortization and depreciation	**11,368**	9,834	15.6%
	62,883	54,946	14.4%
Total non-interest expenses	**$ 143,738**	$ 122,735	17.1%
Average total assets under administration	**$20,839,766**	$18,689,111	
As a % of assets under administration	**0.69%**	0.66%	
Efficiency ratio calculation			
Net interest income	**$ 421,979**	$ 381,472	10.6%
Other income	**75,059**	55,902	34.3%
Total revenue, net of interest expense	**497,038**	437,374	13.6%
TEB adjustment	**4,016**	5,031	
Total revenue TEB, net of interest expense	**$ 501,054**	$ 442,405	13.3%
As a % of total revenue, net of interest expense	**28.9%**	28.1%	
As a % of total revenue TEB, net of interest expense	**28.7%**	27.7%	
Target efficiency ratio TEB	**28.0%–34.0%**	28.0%–34.0%	
Number of active employees	**692**	611	13.3%

In 2013, the Company continued to operate at a low efficiency ratio that was at the low end of the 2013 target range, reflecting continued low costs compared to revenues, net of interest expense. Non-interest expense as a percentage of average total assets under administration increased marginally year over year. The Company continues to manage expenses in a disciplined and measured manner and aligns its expense management strategy with its growth targets and strategic objectives. Enhancing the Company's operational effectiveness and efficiency, combined with cost management, remains a strategic priority for the Company and this focus is expected to contribute to a continued low and relatively stable efficiency ratio.

Salaries and employee benefits increased over last year due to a combination of the increase in active employees and an increase in average salaries. Active employees have increased to support business growth and the enhancement of risk management, governance and compliance functions. Included in the increase in active employees are former consultants and contractors who have joined the Company as permanent employees, resulting in the level of consulting and professional services remaining consistent with last year despite the business growth. Higher average salaries reflect merit increases combined with some realignment in staffing structures and the enhancement of the functions mentioned above.

Premises expense increased due to the expansion of the Toronto head office. Advertising and business development expenses have increased to support business growth and include increases in volume bonuses paid to the Company's mortgage broker channel. General and administrative expenses have increased with business growth and also include an increase in the deposit insurance premium paid to CDIC. There was a one-time premium rebate in 2012 for an early system implementation. The increased amortization and depreciation expenses resulted primarily from the amortization of the Company's software development costs, which have increased as the development of certain projects was completed during the year. The Company continues to invest in developing enhanced technology to support the Company's strategic initiatives and control enhancements.

2014 Outlook for Non-interest Expenses

The Company expects continued low efficiency ratios within a target range of 28.0% to 32.0% in 2014.

Investment in technology is expected to continue in 2014 along with some increase in headcount in business functions and continued strengthening of governance, risk and control functions in line with business growth.

The Company will increase its marketing and sales activities related to the development of more diversified sources of deposits, including its Oaken Financial business which will include an e-banking platform for direct-to-consumer business and additional costs will be incurred in connection to this.

Taxes

Table 11: Income Taxes

(000s, except %)	2013	2012	Change
Current	$ 82,128	$ 82,176	(0.1%)
Deferred	(1,238)	(4,240)	70.8%
Total income taxes	$ 80,890	$ 77,936	3.8%
Effective income tax rate	23.97%	25.99%	

The provision for income taxes for the year ended December 31, 2013 amounted to $80.9 million, resulting in an effective tax rate of 23.97% ($77.9 million and 25.99% in 2012). The effective tax rate of the Company is lower than the statutory rate primarily due to the benefits recorded in the accounts attributed to Scientific Research and Experimental Development (SR&ED) credits recognized throughout the year. The Company has claimed $8.4 million in SR&ED credits for the years 2009 to 2012.

The Company has capital losses of $2.8 million ($2.8 million in 2012), which are available to reduce capital gains in future years and have no expiry date. The Company has not recognized the tax benefit of these capital losses.

Note 16 to the consolidated financial statements included in this report provides more information about the Company's current income taxes, deferred income taxes and provisions for income taxes.

2014 Outlook for Taxes

The Company expects that the effective income tax rate in 2014 will increase to within the range of 25.7% to 26.2%, excluding the impact of any SR&ED credits that may be realized. The Company is currently assessing the likelihood of future credits. In the event that claims are submitted, the effective tax rate will decrease accordingly. Management believes that its current unrecognized credits may result in an after-tax adjustment to its current income tax expense in the range of $0.9 million to $1.4 million. The expected effective tax rate is lower than statutory rates due to the impact of various permanent differences.

Comprehensive Income

Table 12: Comprehensive Income

(000s, except %)	2013	2012	Change
Net income	$ 256,542	$ 221,983	15.6%
Net unrealized (losses) gains on securities and retained interests available for sale, net of reclassifications to net income and taxes	(16,255)	4,573	(455.5%)
Net unrealized gains on cash flow hedges, net of reclassifications to net income and taxes	1,521	873	74.2%
Total other comprehensive (loss) income	(14,734)	5,446	(370.5%)
Comprehensive income	$ 241,808	$ 227,429	6.3%

Comprehensive income is the aggregate of net income and other comprehensive income (OCI). OCI includes changes in unrealized gains or losses on available for sale securities and retained interests, transfers of previously unrealized net gains and losses to net income, once they have been realized, plus the impact of cash flow hedges and transfers to income of unrealized losses on investments considered impaired.

OCI included pre-tax net unrealized losses on available for sale securities and retained interests before reclassifications to net income and taxes of $19.5 million, compared to net unrealized gains of $6.5 million in 2012. The unrealized losses in 2013 principally reflect changes in the fair value of rate-reset preferred shares in the available for sale securities category. In the Company's judgement, the decline in fair value is due primarily to changes in interest rates and is expected to be recovered when the dividend rates on the underlying shares are reset.

Included in the transfer to net income for the year was $0.2 million in impairment losses on available for sale securities, compared to $1.8 million in 2012.

FINANCIAL POSITION REVIEW

Table 13: Balance Sheet Highlights

(000s, except %)	2013	2012	Change
Cash resources and available for sale securities	$ 1,152,741	$ 716,207	61.0%
Total loans	18,019,901	17,159,913	5.0%
Collective allowance for credit losses	(31,500)	(30,000)	5.0%
	17,988,401	17,129,913	5.0%
Other assets	934,708	953,959	(2.0%)
Total assets	$20,075,850	$18,800,079	6.8%
Deposits	$12,765,954	$10,136,599	25.9%
Senior debt	147,343	150,684	(2.2%)
Securitization liabilities	5,773,064	7,335,895	(21.3%)
Other liabilities	211,792	208,688	1.5%
Total liabilities	18,898,153	17,831,866	6.0%
Shareholders' equity	1,177,697	968,213	21.6%
Total liabilities and shareholders' equity	$20,075,850	$18,800,079	6.8%
Loans as a % of total assets	89.6%	91.1%	

Loans Under Administration

Figure 1: Portfolio Composition by Product Type

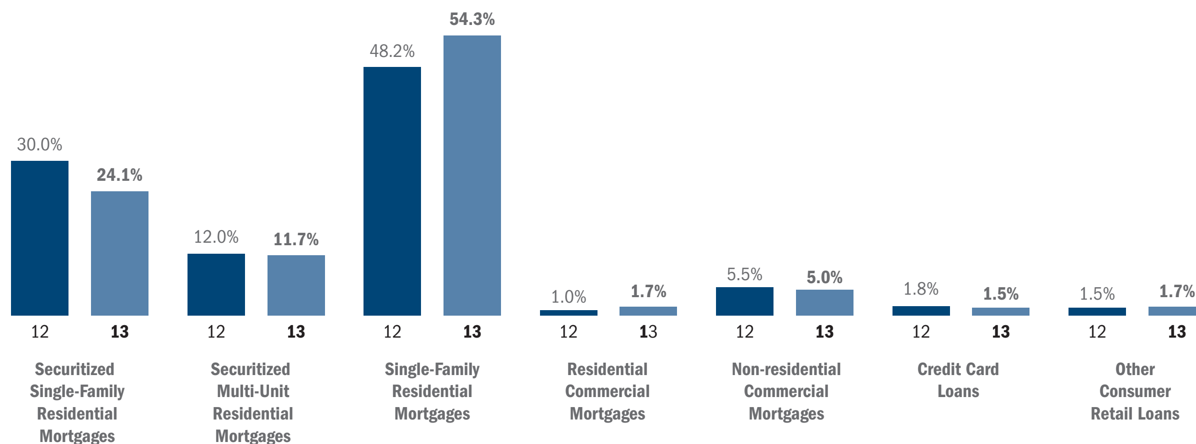


Figure 2: Insured versus Uninsured Mortgages Under Administration

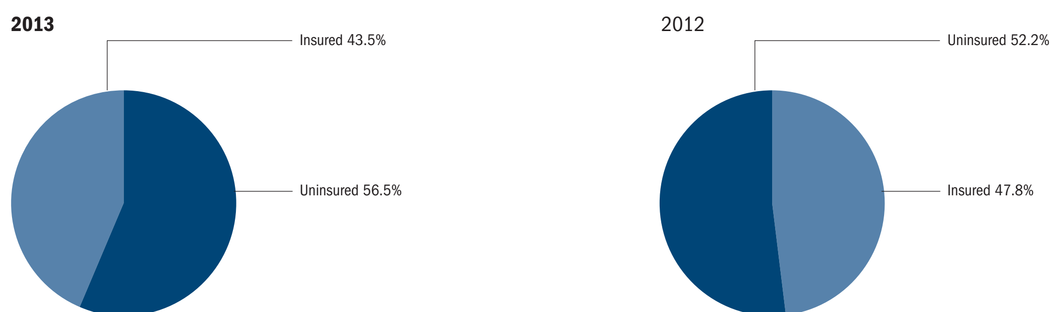


Figure 3: Loans under Administration Composition by Province

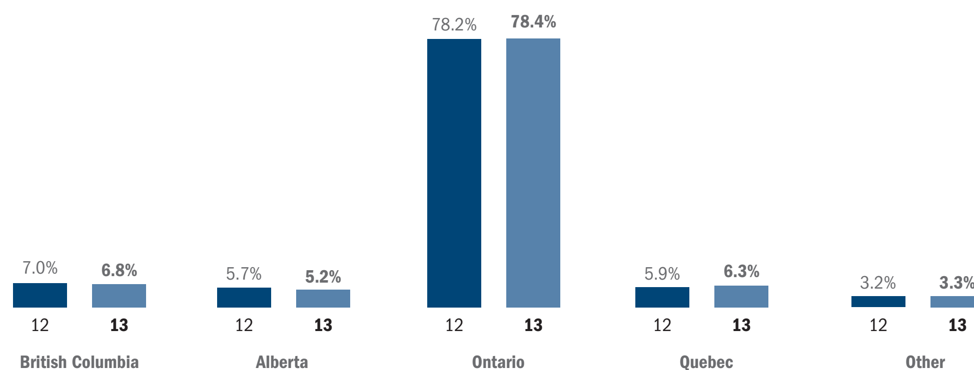


Table 14: Loans Portfolio

(000s, except % and number of loans)	**2013**	2012	Change
Securitized single-family residential mortgages	**$ 3,720,097**	$ 4,763,757	(21.9%)
Securitized multi-unit residential mortgages	**1,489,924**	1,942,403	(23.3%)
Single-family residential mortgages	**10,847,367**	8,689,446	24.8%
Residential commercial mortgages	**196,880**	154,477	27.4%
Non-residential commercial mortgages	**994,210**	988,416	0.6%
Credit card loans	**293,485**	327,516	(10.4%)
Other consumer retail loans	**339,963**	271,977	25.0%
Total loan portfolio	**17,881,926**	17,137,992	4.3%
Loans held for sale	**137,975**	21,921	529.4%
Total on-balance sheet loans	**18,019,901**	17,159,913	5.0%
Off-balance sheet loans			
Single-family residential mortgages	**1,088,066**	650,508	67.3%
Multi-unit residential mortgages	**833,865**	231,163	260.7%
Total off-balance sheet loans	**1,921,931**	881,671	118.0%
Total loans under administration	**$19,941,832**	$18,041,584	10.5%
Number of loans outstanding			
Mortgages	**59,031**	55,686	6.0%
Credit card loans	**28,892**	26,840	7.6%
Other consumer retail loans	**266,515**	207,867	28.2%
Total number of loans outstanding	**354,438**	290,393	22.1%

The total on-balance sheet loans portfolio amounted to $18.02 billion at the end of 2013, up $0.86 billion or 5.0% over the $17.16 billion at the end of 2012. The off-balance sheet insured mortgages under administration were $1.92 billion at the end of 2013, up $1.04 billion or 118.0% over the $0.88 billion at the end of 2012. Much of the on-balance sheet loans portfolio growth was in the traditional mortgage portfolio, which is consistent with the Company's strategy to increase focus on this more profitable residential portfolio for on-balance sheet lending. Growth in the off-balance sheet mortgage portfolio reflects an increase of $602.7 million in insured multi-unit residential mortgages and $437.6 million in insured single-family mortgages.

As illustrated in Figure 1, the Company's single-family residential lending represents the most significant component of the Company's loans portfolio, at 54.3% of the total loans under administration, an increase from 48.2% in 2012, reflecting an increase in the traditional mortgage portfolio. Securitized mortgages continued to be a significant component of the Company's loan portfolio in 2013 at 35.8%, although the proportion declined from 42.0% in 2012. The Company expects the securitized proportion to increase in 2014 as Accelerator originations increase.

The on-balance sheet securitized mortgage portfolio declined by $1.50 billion in 2013, reflecting net maturities in the securitized portfolio and the sale of residual interests related to $519.3 million in securitized single-family mortgages. Total securitized mortgages, including the off-balance sheet portfolio, also decreased $455.9 million in 2013 as maturities exceeded new originations in the insured single-family mortgages. All new multi-unit residential securitizations in 2013 were off-balance sheet. The favourable regulatory ruling on the sale of residual interests in Q3 2013 reduced the previous capital constraints that were associated with carrying insured, securitized single-family mortgages on-balance sheet. Consequently, the Company has recently increased its activity in insured lending and expects growth in this portfolio in 2014, with a significant volume carried off-balance sheet. Total insured, securitized multi-unit residential mortgages were up $150.2 million on increased originations.

The single-family residential mortgage portfolio increased by $2.16 billion or 24.8% to $10.85 billion from $8.69 billion at the end of 2012, supported by the Company's strategy to increase its focus on the traditional mortgage portfolio, which has been the Company's core business. Credit losses experienced in 2013 on the traditional portfolio are consistent with the Company's historical experience and are well supported by the profitability of this portfolio. The Company focused the portfolio's growth in its traditional target markets and employed additional caution in certain geographic areas where the housing markets and employment levels were relatively weaker.

The non-residential commercial mortgage portfolio increased $5.8 million to $994.2 million from $988.4 million at the end of 2012. The Company continues to carefully increase the loan balances in this segment while maintaining its relative proportion of the total on-balance sheet loan portfolio at about 6%. The Company will continue to manage this portfolio in a conservative manner and grow the portfolio when assets of appropriate quality within the Company's risk appetite are available. Included in the non-residential commercial category are store and apartment structures, office buildings, residential and non-residential construction, retail stores, hotels and industrial properties.

Residential commercial mortgages primarily include uninsured multi-unit residential mortgages. The Company manages this portfolio conservatively.

The credit card loan portfolio declined by $34.0 million to $293.5 million from $327.5 million at the end of 2012. New originations in this portfolio began to decline in 2012 when new underwriting guidelines were contemplated and the outstanding balances continued to decline through 2013. Recently, the origination volumes have increased with additional marketing focus by the Company.

The Company's retail credit portfolio continues to be an integral part of the loans portfolio generating above average returns for the Company. The portfolio increased by 25.0% to $340.0 million from $272.0 million at the end of 2012. Water heater loans, a financing product introduced into the Company's portfolio in 2010, are the largest component of the retail lending portfolio, amounting to $209.1 million or 61.5% of the retail loans outstanding at the end of 2013.

The Company's lending activities remained concentrated in the Ontario market in 2013 but included expansion into new Ontario markets through the mortgage broker channel as well as cautious expansion into other provinces. The increase in the total loan proportion in Ontario reflected strong mortgage origination volumes in 2013 that grew 10.3% year over year. At the same time new origination growth in other provinces increased by 46.5% to $1.18 billion in 2013 from $0.81 billion last year and was 17.1% of total originations compared to 13.4% last year. Please see Table 15 below. The Company continues to employ strategies to increase its geographic diversification while remaining responsive to local economic conditions.

Table 15: Mortgage Production by Type and Province

(000s, except %)	**2013**	**% of Total**	2012	% of Total	Change
Single-family residential mortgages					
Traditional	**$ 4,770,773**	**69.0%**	$ 4,487,473	74.7%	6.3%
Accelerator	**1,011,650**	**14.6%**	804,692	13.4%	25.7%
Residential commercial mortgages					
Multi-unit uninsured residential mortgages	**129,738**	**1.9%**	30,605	0.5%	323.9%
Multi-unit insured residential mortgages	**693,461**	**10.0%**	256,274	4.3%	170.6%
Other[1]	**31,479**	**0.5%**	68,906	1.1%	(54.3%)
Non-residential commercial mortgages					
Stores and apartments	**99,951**	**1.4%**	118,689	2.0%	(15.8%)
Commercial	**180,131**	**2.6%**	238,728	4.0%	(24.5%)
Total mortgage advances	**$ 6,917,183**	**100.0%**	$ 6,005,367	100.0%	15.2%

(000s, except %)	**2013**	**% of Total**	2012	% of Total	Change
British Columbia	**$ 395,879**	**5.7%**	$ 269,946	4.5%	46.7%
Alberta	**180,998**	**2.6%**	144,587	2.4%	25.2%
Ontario	**5,735,648**	**82.9%**	5,198,703	86.6%	10.3%
Quebec	**454,064**	**6.6%**	289,970	4.8%	56.6%
Other	**150,594**	**2.2%**	102,161	1.7%	47.4%
Total mortgage advances	**$ 6,917,183**	**100.0%**	$ 6,005,367	100.0%	15.2%

[1] Other residential commercial mortgages include mortgages such as builders' inventory.

New mortgage production continued its weighting to the Company's traditional single-family loans. Origination volumes reflect the continued solid and increased demand for the Company's traditional product in the marketplace and strong broker relationships. Consistent with 2012, the Company's strategic shift increased its focus on the traditional portfolio for most of 2013. The Company observed strong credit profiles and lower than average credit risk across the traditional portfolio in 2013, as evidenced by higher average beacon scores (credit scores) compared with 2012 combined with lower debt service ratios, as well as consistent average loan to value ratios on new originations.

In the latter part of 2013 the Company renewed focus on the Accelerator product, leading to a 25.7% increase year over year in new mortgage production and an increase in the relative proportion.

Insured multi-unit residential mortgages are up, reflecting increased availability of product with favourable off-balance sheet treatment, which reduces the cost of capital for this product class. The multi-unit residential mortgage market is relatively limited and the Company participates in appropriate transactions as they come available through various origination channels. As a result, origination volumes, sales and resultant securitization gains can vary quarter to quarter.

Non-residential and store and apartment originations, while a smaller proportion of overall mortgage production, remained an important complementary source of loan assets, with attractive returns in 2013.

Table 16: Credit Card and Other Consumer Retail Loan Production

(Amount in 000s, except %)	**2013**		2012		Change	
	Number of New Accounts	**Amount**[1]	Number of New Accounts	Amount[1]	Number of New Accounts	Amount[1]
Credit card loans						
Equityline *Visa* credit cards	**3,484**	**$ 80,088**	3,390	$ 86,934	2.8%	(7.9%)
Other credit cards	**3,915**	**4,130**	5,467	6,657	(28.4%)	(38.0%)
Other consumer retail loans						
Water heaters	**59,239**	**113,249**	116,297	164,669	(49.1%)	(31.2%)
Other retail lending	**5,177**	**27,315**	4,758	26,375	8.8%	3.6%

[1] For credit cards, the amount represents the authorized credit limits. For water heaters and other retail lending, the amount represents the advanced amount.

Credit cards and other consumer retail loans continue to be an important source of loan assets, with attractive returns. While representing 3.5% of the total on-balance sheet loan portfolio, these assets generate 6.6% of the interest income.

Other consumer retail loans continue to experience growth supported by strong volumes in water heater and HVAC loans. Loan production was down year over year as 2012 included the purchase of a portfolio. The Company has been successful in expanding relationships with business partners and diversifying its geographic footprint in this category of lending.

While credit card loan production was down year over year, production volumes began to increase in the latter half of 2013. The number of new accounts increased, while the average credit limits declined. The Company has observed higher credit card repayments in 2013 as consumers remain cautious and conservative with their debt levels. The Company continues to expect modest growth in this portfolio to return as it launches new marketing efforts to attract new customers.

2014 Outlook for Loan Portfolios

The Company expects that loans under administration will grow in the range of 15% to 20% in 2014. The relative growth of the traditional mortgage portfolio will moderate compared to 2013 as the Company achieves the balance in the portfolios to support sustained growth in earnings and returns on equity. The Company will expand offerings of insured mortgages through the Accelerator insured mortgage program, supporting the "one-stop" and "flexible lending solutions" lender strategies.

The Company sells mortgages only through CMHC-sponsored securitization programs. CMHC has recently announced limitations on those programs and the availability of insurance for certain types of mortgages and securitization. Based on the announcements made to date and the Company's plans for insured lending and securitization, these limits are not expected to curtail the Company's origination or sales activities and the Company expects that it will be active in mortgage securitization and sales in 2014. This was a significant portion of the Company's business during the period from 2008 to 2010 and the Company expects to return to this level over the next two years.

The Company will also continue to increase its geographic expansion, taking advantage of opportunities within its risk profile outside of Ontario.

Multi-unit residential mortgages are expected to continue to offer opportunities for securitization and off-balance sheet sales at about the same pace as 2013.

Non-residential mortgages are expected to grow at a pace consistent or modestly higher than 2013 to maintain a consistent proportion in the total portfolio, if appropriate assets with attractive returns within the Company's risk appetite are available in the market.

Growth of the consumer loan portfolio at the current rate is expected for 2014. The Equityline *Visa* credit card portfolio will continue to be the primary contributor to the credit card loan portfolio supported by the "one-stop" bundled mortgage program and other marketing efforts. The *Visa* portfolio is expected to grow at a pace consistent with the overall loan portfolio. The Company anticipates continued growth in the water heater line of business and growth rates in the consumer lending portfolio should be consistent or moderately higher when compared to 2013.

Deposits, Senior Debt and Securitization Liabilities

Table 17: Deposits, Senior Debt and Securitization Liabilities

(000s, except % and number of accounts)	**2013**	2012	Change
Deposits payable on demand			
High interest savings accounts	**$ 337,239**	$ 19,819	1,601.6%
Other deposits payable on demand	**92,030**	86,104	6.9%
	429,269	105,923	305.3%
Deposits payable on fixed dates			
Guaranteed investment certificates	**10,576,166**	8,399,655	25.9%
Short-term certificates and savings	**1,023,983**	1,259,739	(18.7%)
Registered Retirement Savings Plans	**216,317**	186,515	16.0%
Registered Retirement Income Funds	**145,862**	130,404	11.9%
Tax-free Savings Accounts	**77,981**	54,363	43.4%
Institutional deposit notes	**296,376**	–	–
	12,336,685	10,030,676	23.0%
Senior debt	**147,343**	150,684	(2.2%)
Securitization liabilities			
Mortgage-backed security liabilities	**660,964**	1,301,693	(49.2%)
Canada Mortgage Bond liabilities	**5,112,100**	6,034,202	(15.3%)
	5,773,064	7,335,895	(21.3%)
Total	**$18,686,361**	$17,623,178	6.0%
Total number of deposit accounts	**356,908**	296,963	20.2%

The Company's deposit portfolio increased primarily to provide funding for the non-securitized loan portfolio. The Company's deposit portfolio primarily comprises fixed-term deposits, which represent 96.6% of all deposits, thereby reducing the risk of untimely withdrawal of funds by retail clients. The Company continued to source deposits primarily through deposit brokers and investment dealers. Other deposits payable on demand include amounts collected for real estate tax accounts which are generally paid out in accordance with each municipality's payment frequency requirements. Please see Note 11 to the consolidated financial statements included in this report for a breakdown of the Company's deposit portfolio by remaining contractual term to maturity and yield.

In 2012 the Company launched a high interest savings account as part of its longer-term strategy to diversify its sources of funding and expand its deposit broker network. The balance of $337.2 million at the end of 2013 has risen significantly from the $19.8 million balance at the end of 2012 reflecting the success of the Company's efforts in developing this program. The Company initiated other programs and projects in late 2012, including new supporting information technology platforms that are aimed at further increasing its direct deposit channel. During Q4 2013, Home Trust launched a new direct-to-consumer brand, Oaken Financial, offering a line of consumer deposit products, including Guaranteed Investment Certificates (GICs) and a new Oaken Savings Account as part of its strategy to provide customers with a secure alternative to managing their savings independently and to continue to diversify funding sources. Additionally, further funding diversification was accomplished in Q4 2013 with the successful close of Home Trust's initial issue of institutional five-year deposit notes in the principal amount of $300 million. The Company expects that Home Trust will be a regular issuer of deposit notes, likely on a semi-annual basis. Strong investor demand was evident with an oversubscription in excess of 70%.

Securitization liabilities, including MBS and CMB liabilities, declined $1.56 billion from the end of 2012 due to the settlement of MBS liabilities and the maturity of CMB liabilities of $919.6 million in the year. CMB liabilities are bullet bonds and only decline when the underlying bonds mature. In addition, the Company sold residual interests in certain pools of single-family mortgages securitized through the National Housing Authority Mortgage-Backed Security (NHA MBS) program that resulted in the derecognition of mortgages and the associated securitization liability of $518.5 million. The Company also securitized and sold into the market $644.4 million of MBS in the year that did not qualify for off-balance sheet accounting and which increased the MBS liabilities.

2014 Outlook for Deposits and Securitization Liabilities

The Company will continue to source deposits from the public through investment dealers and deposit brokers and will place further emphasis on growing its direct-to-consumer business and the Oaken Financial brand. The Company will seek to strengthen its funding capability through agreements with additional deposit brokers, growth of its high-interest savings account, and by enhancing its direct channel sales and service capabilities. Following the launch of the Company's first ever wholesale institutional deposit note in the fourth quarter, the Company expects it will continue to access this market on a semi-annual basis.

The rate of growth of the deposit portfolio is expected to mirror the growth of the Company's non-securitized loan portfolio, while securitization will continue to support the current stock of insured mortgages. New originations and renewals of insured mortgages will continue to be funded by securitization. The Company will continue developing multiple sources of deposits to fund operations and liquidity reserves and this will remain a key objective for the Company.

Table 18: Liquidity Resources

(000s, except %)	2013	2012	Change
Cash and cash equivalents per balance sheet	$ 728,469	$ 301,863	141.3%
Available for sale securities per balance sheet	424,272	414,344	2.4%
Add: MBS included in residential mortgages	614,903	365,078	68.4%
	1,767,644	1,081,285	63.5%
Less: securities held for investments	(274,667)	(309,513)	(11.3%)
Liquid assets at carrying value	$ 1,492,977	$ 771,772	93.4%
Liquid assets at fair value	$ 1,495,191	$ 771,993	93.7%
Liquid assets at carrying value as a % of total assets	7.4%	4.1%	81.2%

Cash Resources and Securities

Combined cash resources and securities as at December 31, 2013 increased by $436.5 million compared to December 31, 2012 comprising mostly an increase in cash as the securities portfolio was relatively flat compared to last year. Liquidity was relatively higher at the end of December 2013 due to the receipt of funds in December from the institutional deposit note issuance of $300 million and securitization proceeds from participation in a CMB issuance. In addition to cash and securities, the Company maintains prudent liquidity by investing a portion of the liquid assets in Company-originated MBS. Although these securities are available for liquidity purposes, they are classified as residential mortgages on the balance sheet, as required by GAAP.

The securities portfolio consists of bonds, common and preferred shares and mutual funds. At December 31, 2013, the preferred share portfolio was $273.0 million or 64.3% of the Company's securities compared to $299.6 million or 72.3% in 2012. The Company divested most of its preferred shares of financial institutions in 2012 ahead of Basel III changes that require deductions of these investments from capital over a threshold. Investment-grade preferred shares represent 55.7% of the preferred share portfolio (56.3% in 2012). Bonds represent 35.3% of the securities portfolio compared to 25.3% in 2012. The entire bond portfolio of $149.6 million ($104.8 million in 2012) is investment grade. Common shares and mutual funds combined represent 0.4% of the securities compared to 2.4% in 2012.

The Company continues to invest in conservative assets while seeking appropriate returns. During the year, the Company took advantage of market opportunities and sold certain securities, realizing a net pre-tax gain of $2.8 million compared to $1.8 million during 2012. The Company recognized $0.2 million in impairment losses on securities in 2013 compared to $1.8 million in 2012.

Additional details related to the Company's securities portfolio can be found in Note 4 to the consolidated financial statements included in this report.

2014 Outlook for Cash Resources and Securities

The Company will continue to target a conservative level of liquid assets while maintaining financial flexibility. The securities portfolio should increase in line with growth in total assets. A significant proportion of excess funds arising through the Company's retail deposit channel and securitization activities will be deployed into short-term, highly liquid investments while management continues to invest the balance in securities that provide attractive returns.

Other Assets and Liabilities

Table 19: Other Assets and Liabilities

(000s, except %)	2013	2012	Change
Other assets			
Restricted cash	$ 122,836	$ 137,424	(10.6%)
Non-Home Trust MBS and treasury bills assigned as replacement assets	530,150	588,069	(9.8%)
Derivative assets	29,886	45,388	(34.2%)
Accrued interest receivable	62,961	61,481	2.4%
Prepaid CMB coupon	7,168	12,486	(42.6%)
Securitization receivable and retained interest	54,556	10,714	409.2%
Capital assets	10,875	6,578	65.3%
Income taxes recoverable	9,519	–	–
Other prepaid assets and deferred items	17,600	9,724	81.0%
Goodwill	15,752	15,752	–
Intangibles	73,405	66,343	10.6%
	$ 934,708	$ 953,959	(2.0%)
Other liabilities			
Derivative liabilities	$ 3,809	$ 2,386	59.6%
Accrued interest payable	127,075	113,451	12.0%
Income taxes payable	–	21,912	(100.0%)
Other liabilities	46,483	35,139	32.3%
Deferred tax liabilities	34,425	35,800	(3.8%)
	$ 211,792	$ 208,688	1.5%

The decline in other assets reflects a decline of $57.9 million in non-Home Trust MBS and treasury bills assigned as replacement assets in the CMB program, as $919.6 million of CMB liabilities matured during the year. Restricted cash and prepaid CMB coupon also declined with the CMB maturities. The decline in derivative assets also contributed to the overall decline in other assets. Derivative assets and liabilities are discussed in the Derivatives and Hedging section of this MD&A.

The decline in these other assets was partially offset by increases in securitization receivables and retained interest on securitization as the Company increased its sales of insured multi-unit residential mortgages and sold residual interests in insured residential mortgages. Other assets include income taxes recoverable of $9.5 million at the end of 2013 compared to income taxes payable of $21.9 million at the end of 2012. The income tax recoverable reflects SR&ED investment tax credits related to the development of the core banking system. Continued development of the core banking system along with other software development resulted in growth of intangible assets. Further information on the Company's securitization activity, intangible assets and income taxes can be found in Notes 6, 9 and 16 to the consolidated financial statements included in this report.

The increase in other liabilities resulted primarily from an increase in accrued deposit interest payable on higher deposit balances, an increase in the servicing liability related to the increased sales of insured multi-unit residential mortgages and an increase in accounts payable and accrued liabilities, which have increased in line with business growth. The increase in other liabilities was partially offset by the decrease in accrued interest payable on securitization liabilities, reflecting the lower balance of securitization liabilities at the end of 2013, combined with income taxes payable becoming a recoverable balance at the end of 2013.

2014 Outlook for Other Assets and Liabilities

Other assets and liabilities are expected to grow in line with growth in total loans and general business growth.

Shareholders' Equity

Table 20: Shareholders' Equity

(000s, except %)	2013	2012	Change
Shareholders' equity at the beginning of the year	$ 968,213	$ 774,785	25.0%
Net income	256,542	221,983	15.6%
Other comprehensive income (loss)	(14,734)	5,446	(370.5%)
Amounts related to stock-based compensation	8,160	7,439	9.7%
Repurchase of shares	(2,302)	(8,117)	(71.6%)
Dividends	(38,182)	(33,323)	14.6%
Shareholders' equity at the end of the year	$ 1,177,697	$ 968,213	21.6%

The increase in total shareholders' equity was primarily internally generated from net income during the year. Also contributing to the increase were amounts related to stock-based compensation. These increases were partially offset by the increase in accumulated other comprehensive loss, amounts related to the repurchase of the Company's common shares and dividends. The increase in accumulated other comprehensive loss reflects decreases in the fair value of available for sale securities. Details related to the repurchase of shares and stock-based compensation are provided in Notes 14 and 17 to the consolidated financial statements included in this report.

At December 31, 2013, the book value per common share was $33.90, compared to $27.96 at December 31, 2012.

Strong earnings contributed to continuing robust returns on shareholders' equity. Return on equity when combined with dividends of $1.08 per common share in fiscal 2013 ($0.90 per common share in 2012) confirms the Company's continued commitment to total shareholder return.

Contingencies and Contractual Obligations

In the normal course of its activities, the Company enters into various types of contractual agreements. The main obligations result from the acceptance of deposits from retail investors to finance lending activities. The Company ensures that sufficient cash resources are available to meet these contractual obligations when they become due.

In addition to the obligations related to deposits, securitization liabilities and senior debt previously discussed, the following table presents a summary of the Company's other contractual obligations as at December 31, 2013.

Table 21: Contractual Obligations

(000s)	2014	2015	2016	2017	2018	Thereafter	Total
Premises and equipment	$ 8,806	$ 7,287	$ 6,724	$ 6,581	$ 6,524	$ 21,770	$ 57,692

The Company had no material contingencies in 2013.

The Company also has outstanding commitments for future advances on mortgages and unutilized and available credit on its credit card products. Refer to the Off-balance Sheet Arrangements section of this report and Note 18 to the consolidated financial statements for a description of those commitments.

Derivatives and Hedging

From time to time, the Company enters into derivative transactions primarily to hedge interest rate exposure resulting from outstanding loan commitments and requirements to replace assets in the CMB program, as well as interest rate risk on fixed-rate mortgages, debt and deposits, such as CMB liabilities and senior debt. Where appropriate, the Company will apply hedge accounting to minimize volatility in reported earnings from interest rate changes. All derivative contracts are over-the-counter contracts with highly rated Canadian financial institutions. Please see the Non-interest Income section of this MD&A and the Derivative Financial Instruments note to the consolidated financial statements included in this report for further information. Table 22 summarizes the impact of derivatives and hedge accounting on the Company's financial results.

Table 22: Derivatives Gains and Losses

(000s)	2013	2012
Cash flow hedging ineffectiveness	$ 13	$ -
Fair value hedging ineffectiveness	6,387	7,006
Swaps marked to market	160	318
Derivative restructuring: IFRS conversion	(7,990)	(3,536)
Net realized and unrealized (loss) gain on derivatives	$ (1,430)	$ 3,788

Cash Flow Hedging

The Company uses Government of Canada bond forwards and interest rate swaps to hedge the impact of movements in interest rates between the time that mortgage commitments are made and the time that those mortgages are funded and/or securitized. Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in the fair value of the pool of fixed-rate mortgages due to interest rate fluctuations between commitment and funding. The term of these hedges is generally 60 to 150 days. These hedge instruments are settled or unwound at the time of funding or securitization of the underlying mortgages. The Company applies cash flow hedge accounting to the Government of Canada bond forwards and certain interest rate swaps. The intent of hedge accounting is to recognize the effective matching of the gain or loss on the Government of Canada bond forwards and interest rate swaps with the recognition of the related interest expense on the resulting funding.

Fair Value Hedging

The Company is exposed to interest rate risk through fixed-rate financial assets and liabilities and its participation in the CMB program due to reinvestment risk between the amortizing fixed-rate MBS and the bullet maturity fixed-rate CMB. To hedge these risks, the Company enters into interest rate swaps and applies fair value hedge accounting. The intent of fair value hedge accounting is to have the fair value changes in the interest rate swap offset, within a reasonable range, the changes in the fair value of the fixed-rate borrowing resulting from changes in the interest rate environment. Any unmatched fair value change is recorded in income as hedge ineffectiveness through net realized and unrealized gain or loss on derivatives.

Economic Hedge of Loans Held for Securitization and Sale

The Company may enter into bond forwards to hedge interest rate risk on loans held for securitization and sale through NHA MBS securitization programs. The underlying loans are classified as held for trading for accounting purposes and held at fair value on the balance sheet. The loans are insured mortgages on multi-unit residential properties. The derivatives used to hedge these loans are not designated in hedge accounting relationships. The fair value changes of these derivatives are mostly offset by the fair value changes related to loans held for trading. The fair value changes reflect changes in interest rates. The net unrealized gain as at December 31, 2013 for fair value changes in both the outstanding derivatives and the loans held for trading was $109 thousand (2012 – $44 thousand) and is recorded in securitization income.

Other Interest Rate Swaps

The Company also has certain interest rate swaps that are not designated in hedge accounting relationships and, therefore, are adjusted to fair value without an offsetting hedged amount. These swaps are economic hedges of the Company's general interest rate risk.

Please see Note 19 of the consolidated financial statements for further information.

Off-balance Sheet Arrangements

The Company offers credit products to meet the financial needs of its customers and has outstanding commitments for future advances on mortgage loans that amounted to $754.6 million at December 31, 2013 ($571.8 million – December 31, 2012). Included within the outstanding commitments are unutilized non-residential loan advances of $157.2 million at December 31, 2013 ($46.0 million – December 31, 2012). Commitments for the loans remain open for various periods. As at December 31, 2013, unutilized credit card balances amounted to $80.8 million ($75.7 million – December 31, 2012). Outstanding commitments for future advances for the Equityline *Visa* portfolio were $5.8 million at December 31, 2013 ($4.8 million – December 31, 2012). These commitments are in the normal course of business and are considered through the Company's liquidity and capital management processes.

The Company has $1.92 billion (2012 – $0.88 billion) of loans under administration that are accounted for off-balance sheet (see Table 14).

Related Party Transactions

The Company has no related party transactions in the years ended December 31, 2013 and December 31, 2012, other than key management personnel, as disclosed in Note 23 of the consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

Table 23: Summary of Quarterly Results

(000s, except per share and %)	2013				2012			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Net interest income (TEB[1])	**$ 111,888**	**$ 107,536**	**$ 103,537**	**$ 103,034**	$ 101,151	$ 100,617	$ 95,109	$ 89,626
Less: TEB adjustment	**921**	**942**	**1,005**	**1,148**	1,243	1,126	1,255	1,407
Net interest income per financial statements	**110,967**	**106,594**	**102,532**	**101,886**	99,908	99,491	93,854	88,219
Non-interest income	**21,827**	**19,624**	**16,431**	**17,177**	14,537	13,449	12,426	15,490
Non-interest expense	**37,862**	**37,635**	**34,272**	**33,969**	31,620	32,065	29,882	29,168
Total revenues	**246,365**	**239,433**	**232,555**	**231,194**	227,649	226,603	218,751	214,682
Net income	**68,827**	**66,417**	**61,573**	**59,725**	58,965	57,254	53,230	52,534
Return on common shareholders' equity	**23.9%**	**24.3%**	**23.6%**	**24.0%**	25.0%	25.6%	25.1%	26.2%
Return on average total assets	**1.4%**	**1.3%**	**1.3%**	**1.3%**	1.2%	1.2%	1.2%	1.2%
Earnings per common share								
Basic	**$ 1.98**	**$ 1.91**	**$ 1.78**	**$ 1.72**	$ 1.70	$ 1.65	$ 1.54	$ 1.52
Diluted	**$ 1.97**	**$ 1.90**	**$ 1.77**	**$ 1.72**	$ 1.70	$ 1.65	$ 1.54	$ 1.52
Book value per common share	**$ 33.90**	**$ 32.27**	**$ 30.83**	**$ 29.53**	$ 27.96	$ 26.53	$ 25.05	$ 23.83
Efficiency ratio (TEB[1])	**28.3%**	**29.6%**	**28.6%**	**28.3%**	27.3%	28.1%	27.8%	27.7%
Efficiency ratio	**28.5%**	**29.8%**	**28.8%**	**28.5%**	27.6%	28.4%	28.1%	28.1%
Common Equity Tier 1 ratio[2]	**16.80%**	**16.72%**	**16.63%**	**16.57%**	N/A	N/A	N/A	N/A
Tier 1 capital ratio[2]	**16.80%**	**16.72%**	**16.63%**	**16.57%**	17.01%	16.97%	17.09%	17.49%
Total capital ratio[2]	**19.69%**	**19.72%**	**19.74%**	**19.82%**	20.68%	20.78%	21.09%	21.62%
Net non-performing loans as a % of gross loans	**0.35%**	**0.32%**	**0.31%**	**0.32%**	0.33%	0.28%	0.31%	0.28%
Annualized provision as a % of gross loans	**0.09%**	**0.06%**	**0.10%**	**0.11%**	0.09%	0.10%	0.05%	0.11%

[1] TEB – Taxable Equivalent Basis: see definition under Non-GAAP Measures in this report.

[2] These figures relate to the Company's operating subsidiary, Home Trust Company, and are calculated under Basel III for 2013 and Basel II for 2012.

The Company's key financial measures for each of the last eight quarters are summarized in the table above. These highlights illustrate the Company's profitability, return on equity, as well as efficiency measures and capital ratios. The quarterly results are modestly affected by seasonal factors, with first quarter mortgage advances typically impacted by winter weather conditions, while the second and third quarters have traditionally experienced higher levels of advances. First quarter credit statistics may experience a decline reflecting post-holiday arrears increases.

The Company continues to achieve positive financial results driven by strong net interest margins, continued low efficiency ratios and favourable non-interest income. Capital ratios over the last eight quarters reflect the Company's prudent capital management strategies and the proactive approach to maintaining a strong capital base.

FOURTH QUARTER 2013

The Company continued its strong performance in the fourth quarter of 2013. Key results for the fourth quarter of 2013 are as follows:

Income Statement Highlights

- Net income of $68.8 million was 16.7% higher than the $59.0 million net income recorded in the Q4 2012 and 3.6% over the $66.4 million in Q3 2013. Adjusted net income, as defined in the Non-GAAP Measures and Glossary section under Adjusted Net Income, was $68.2 million in Q4 2013, representing an increase of 10.8% over Q4 2012 and 5.6% over Q3 2013.
- Basic and diluted earnings per share for the fourth quarter were $1.98 and $1.97, respectively. These represent increases of 16.5% and 15.9% over the $1.70 basic and diluted earnings per share in Q4 2012 and an increase of 3.7% over both the $1.91 basic and $1.90 diluted earnings per share recorded in Q3 2013.
- Return on equity was 23.9% in the quarter compared to 25.0% in the comparable quarter of 2012 and 24.3% in Q3 2013.
- The Company recorded $3.5 million in gains on the sale of residual interests in Q4 2013 compared to $4.8 million in gains in Q4 2012 and $1.9 million in Q3 2013. In Q3 2013, the Company received a favourable regulatory ruling confirming that the underlying mortgages in these transactions can be excluded from the regulatory assets to capital multiple, allowing the Company to continue generating stable income from this source going forward. The Company also recorded gains on the securitization of multi-unit residential mortgages of $1.2 million in the quarter, compared to $0.9 million in Q4 2012 and $2.9 million in Q3 2013. The Company expects these transactions to provide ongoing income.
- Net interest income rose to $111.0 million in Q4 2013, up 11.1% over Q4 2012 and 4.1% over Q3 2013. These increases in net interest income reflect the higher average asset balance during the quarter of $20.19 billion compared to $19.01 billion for Q4 2012 and $19.89 billion for Q3 2013, combined with higher net interest margin (TEB) of 2.22% for the quarter compared to 2.13% for Q4 2012 and 2.16% for Q3 2013. Net interest income growth is lower than net income growth as the gain on sale of residual interest replaces net interest income on certain securitized assets.
- Net interest margin (TEB) remained strong at 2.22% in the quarter, up from 2.13% Q4 2012 and 2.16% in Q3 2013. Total net interest margin has been positively influenced by the mix of the loan portfolio between non-securitized and securitized mortgages and the net interest margin on each of these portfolios. Beginning in 2011 and continuing through 2013, the weighting of lower-yielding securitized mortgages in the total portfolio declined, generally leading to higher total net interest margins. The net interest margin on the non-securitized portfolio also generally remained strong over that period, with some fluctuations quarter to quarter with relatively stable interest rate spreads. Net interest margin for non-securitized assets in Q4 2013 was 2.94%, a decline from 2.99% in the third quarter, primarily reflecting a larger proportion of lower-yielding insured mortgages awaiting securitization as the Company began to increase originations of insured mortgages, while spreads of the traditional portfolio over deposit rates improved marginally in Q4 2013 compared to Q3 2013.
- Fees and other income of $15.4 million in Q4 2013 were up 40.9% from the $10.9 million recorded in Q4 2012 as more accounts were affected by fees in 2013 and there was an increase in the number of accounts under administration. Fees and other income were down marginally from the $15.5 million recorded in Q3 2013.
- Net derivative gains of $0.5 million were reported in Q4 2013 compared to net losses of $1.7 million in Q4 2012 and a marginal amount in Q3 2013. The change over Q4 2012 reflects a decrease in the charge related to the maturity of certain derivative positions that were restructured at the time of adoption of IFRS from $3.5 million in Q4 2012 to $1.2 million in Q4 2013.
- During the quarter, the Company sold certain available for sale securities realizing a gain of $190 thousand and recognized additional impairment losses of $42 thousand resulting in a net gain on securities of $148 thousand compared to net losses of $457 thousand in Q4 2012 and $668 thousand in Q3 2013.
- The credit performance of the loans portfolio remained strong in the quarter and for the year and was better than the Company's objectives. The annualized credit provision as a percentage of gross loans (PCL ratio) was 0.09% in the quarter and for the year, consistent with the comparable periods of 2012 and up from 0.06% in Q3 2013. The Company's objective was a PCL ratio of between 0.10% and 0.18% for 2013. Net non-performing loans ended 2013 at 0.35% of the total loans portfolio compared to 0.33% at the end of 2012 and 0.32% at the end Q3 2013, with the marginal increase primarily reflecting a specific commercial loan that fell into default, but no losses are expected. Excluding this commercial loan would result in net non-performing loans ending 2013 at 0.31% of the total loans portfolio. The ratio has remained stable despite the relatively higher proportion of uninsured mortgages in the total portfolio.
- The efficiency ratio declined to 28.5% in Q4 2013, as expenses were relatively flat quarter over quarter. The Company has been reducing consulting costs while increasing permanent employees, leading to increased efficiencies.

Financial Position Highlights

> Home Trust's Common Equity Tier 1 (CET 1) and Total capital ratios remained very strong at 16.80% and 19.69%, respectively, at December 31, 2013, and well above Company and regulatory minimum targets. Home Trust's ACM was 13.19 at December 31, 2013 compared to 13.39 at December 31, 2012 and 13.34 at September 30, 2013. ACM declined from one year ago as the Company completed sales of residual interests and removed underlying mortgage loans from the calculation of the ACM.

> Total loans increased by $860.0 million in 2013 to $18.02 billion, representing growth of 5.0% over the $17.16 billion at the end of 2012 and decreased by 0.4% or $64.5 million from the $18.08 billion at the end of Q3 2013. The decline from Q3 2013 reflects the sale of residual interest in $327.5 million in insured single-family mortgages. Total loans under administration (which includes all loans carried on the balance sheet plus off-balance sheet securitized loans) increased by $1.90 billion in 2013 to $19.94 billion, representing growth of 10.5% over the $18.04 billion at the end of 2012 and 2.1% or $411.2 million from the $19.53 billion at the end of Q3 2012. Loan growth over 2012 was within the Company's 2013 objective of 10% to 15%.

> The total value of mortgages originated in Q4 2013 was $1.91 billion, compared to $1.47 billion in Q4 2012 and $1.99 billion in Q3 2013. The year-over-year increase in originations reflects continued demand for the Company's traditional mortgage products, combined with increased originations for the Company's Accelerator product and insured multi-unit residential mortgages, most of which are securitized and sold in transactions that qualify for off-balance sheet accounting. The increase in Accelerator mortgage originations reflects the favourable regulatory ruling received in Q3 2013 that permits the removal of underlying mortgages in qualifying residual interest transactions from assets used in the ACM calculation. Compared to the third quarter, the decline in originations reflects normal and expected seasonal factors.

> The Company originated $1.23 billion of traditional mortgages in Q4 2013, compared to $1.16 billion in Q4 2012 and $1.31 billion in Q3 2013.

> Accelerator (insured) mortgage originations were $357.1 million in Q4 2013, compared to $174.2 million in Q4 2012 and $272.6 million in Q3 2013.

> Multi-unit residential originations were $239.9 million in the quarter, compared to $57.2 million in the same period of 2012 and $326.3 million last quarter. As indicated above, a significant portion of the multi-unit residential mortgage originations are insured and securitized through programs that qualify for off-balance sheet accounting. The Company sold $177.7 million through these programs in the fourth quarter and recognized $1.2 million in gains compared to $64.6 million of mortgages for $0.9 million in gains during Q4 2012 and $235.5 million of mortgages and $2.6 million in gains during Q3 2013.

> Commercial mortgage advances were $56.1 million in Q4 2013, compared to $52.4 million in the comparable period of 2012 and $49.3 million in Q3 2013. The Company continues to maintain a cautious approach to increases in this portfolio.

> Store and apartment advances were $24.5 million for the fourth quarter, compared to $24.8 million in the same period of 2012 and $24.3 million in the third quarter of 2013.

> The consumer retail portfolio, which includes durable household goods, such as water heaters and larger-ticket home improvement items, reached $340.0 million in Q4 2013, up 25.0% from $272.0 million one year ago and 3.7% from $328.0 million in Q3 2013.

> In Q4 2013, Home Trust launched a new direct-to-consumer brand, Oaken Financial, offering a line of consumer deposit products, including Guaranteed Investment Certificates (GICs) and a new Oaken Savings Account as part of its strategy to continue to diversify funding sources and provide customers with a secure alternative to managing their savings independently.

> Additionally, further funding diversification was accomplished in Q4 2013 with the successful close of Home Trust's initial issue of institutional five-year deposit notes in the principal amount of $300 million. The Company expects that Home Trust will be a regular issuer of institutional deposit notes, likely on a semi-annual basis. Strong investor demand was evident with an oversubscription in excess of 70%.

FOURTH QUARTER FINANCIAL INFORMATION

Table 24: Fourth Quarter Review of Financial Performance

	For the three months ended			Change	
(000s, except per share amounts and %)	**December 31 2013**	September 30 2013	December 31 2012	December 31, 2013– September 30, 2013	December 31, 2013– December 31, 2012
Net Interest Income Non-securitized Assets					
Interest from loans	**$ 168,045**	$ 159,573	$ 144,310	5.3%	16.4%
Dividends from securities	**2,556**	2,621	3,502	(2.5%)	(27.0%)
Other interest	**2,663**	2,386	949	11.6%	180.6%
	173,264	164,580	148,761	5.3%	16.5%
Interest on deposits	**71,744**	67,911	61,873	5.6%	16.0%
Interest on senior debt	**1,793**	1,635	1,825	9.7%	(1.8%)
Net interest income non-securitized assets	**99,727**	95,034	85,063	4.9%	17.2%
Net Interest Income Securitized Loans and Assets					
Interest income from securitized loans and assets	**51,274**	55,229	64,351	(7.2%)	(20.3%)
Interest expense on securitization liabilities	**40,034**	43,669	49,506	(8.3%)	(19.1%)
Net interest income securitized loans and assets	**11,240**	11,560	14,845	(2.8%)	(24.3%)
Total Net Interest Income	**110,967**	106,594	99,908	4.1%	11.1%
Provision for credit losses	**4,004**	2,768	3,685	44.7%	8.7%
	106,963	103,826	96,223	3.0%	11.2%
Non-interest Income					
Fees and other income	**15,402**	15,472	10,928	(0.5%)	40.9%
Securitization income	**5,770**	4,864	5,761	18.6%	0.2%
Net realized and unrealized gains (losses) on securities	**148**	(668)	(457)	(122.2%)	(132.4%)
Net realized and unrealized gain (loss) on derivatives	**507**	(44)	(1,695)	(1,252.3%)	(129.9%)
	21,827	19,624	14,537	11.2%	50.1%
	128,790	123,450	110,760	4.3%	16.3%
Non-interest Expenses					
Salaries and benefits	**19,563**	17,768	14,991	10.1%	30.5%
Premises	**2,610**	2,407	2,562	8.4%	1.9%
Other operating expenses	**15,689**	17,460	14,067	(10.1%)	11.5%
	37,862	37,635	31,620	0.6%	19.7%
Income Before Income Taxes	**90,928**	85,815	79,140	6.0%	14.9%
Income taxes					
Current	**22,337**	20,258	22,649	10.3%	(1.4%)
Deferred	**(236)**	(860)	(2,474)	(72.6%)	(90.5%)
	22,101	19,398	20,175	13.9%	9.5%
NET INCOME	**$ 68,827**	$ 66,417	$ 58,965	3.6%	16.7%
NET INCOME PER COMMON SHARE					
Basic	**$ 1.98**	$ 1.91	$ 1.70	3.7%	16.5%
Diluted	**$ 1.97**	$ 1.90	$ 1.70	3.7%	15.9%
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING					
Basic	**34,745**	34,703	34,655	0.1%	0.3%
Diluted	**34,969**	34,953	34,779	–	0.5%
Total number of outstanding common shares	**34,744**	34,746	34,630	–	0.3%
Book value per common share	**$ 33.90**	$ 32.27	$ 27.96	5.1%	21.2%

Table 25: Fourth Quarter Review of Comprehensive Income

(000s, except %)	For the three months ended			Change	
	December 31 2013	September 30 2013	December 31 2012	December 31, 2013– September 30, 2013	December 31, 2013– December 31, 2012
NET INCOME	**$ 68,827**	$ 66,417	$ 58,965	3.6%	16.7%
OTHER COMPREHENSIVE (LOSS) INCOME					
Available for Sale Securities and Retained Interest					
Net unrealized (losses) gains	**(5,320)**	(10,638)	1,471	(50.0%)	(461.7%)
Net (gains) losses reclassified to net income	**(147)**	671	457	(121.9%)	(132.2%)
	(5,467)	(9,967)	1,928	(45.1%)	(383.6%)
Income tax (recovery) expense	**(1,449)**	(2,640)	509	(45.1%)	(384.7%)
	(4,018)	(7,327)	1,419	(45.2%)	(383.2%)
Cash Flow Hedges					
Net unrealized gains (losses) on cash flow hedges	**897**	(195)	–	(560.0%)	–
Net losses reclassified to net income	**247**	376	376	(34.3%)	(34.3%)
	1,144	181	376	532.0%	204.3%
Income tax expense	**303**	48	99	531.3%	206.1%
	841	133	277	532.3%	203.6%
Total other comprehensive (loss) income	**$ (3,177)**	$ (7,194)	$ 1,696	(55.8%)	(287.3%)
COMPREHENSIVE INCOME	**$ 65,650**	$ 59,223	$ 60,661	10.9%	8.2%

Table 26: Fourth Quarter Review of Financial Position

	As at		
(000s, except for %)	**December 31 2013**	September 30 2013	Change
ASSETS			
Cash and Cash Equivalents	**$ 728,469**	$ 774,591	(6.0%)
Available for Sale Securities	**424,272**	441,689	(3.9%)
Loans Held for Sale	**137,975**	77,655	77.7%
Loans			
Securitized mortgages	**5,210,021**	6,164,544	(15.5%)
Non-securitized mortgages and loans	**12,671,905**	11,842,183	7.0%
	17,881,926	18,006,727	(0.7%)
Collective allowance for credit losses	**(31,500)**	(30,900)	1.9%
	17,850,426	17,975,827	(0.7%)
Other			
Restricted assets	**652,986**	303,410	115.2%
Derivative assets	**29,886**	32,731	(8.7%)
Other assets	**162,679**	148,548	9.5%
Goodwill and intangible assets	**89,157**	86,346	3.3%
	934,708	571,035	63.7%
	$ 20,075,850	$ 19,840,797	1.2%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits			
Deposits payable on demand	**$ 429,269**	$ 281,348	52.6%
Deposits payable on a fixed date	**12,336,685**	11,655,299	5.8%
	12,765,954	11,936,647	6.9%
Senior Debt	**147,343**	149,822	(1.7%)
Securitization Liabilities			
Mortgage-backed security liabilities	**660,964**	913,103	(27.6%)
Canada Mortgage Bond liabilities	**5,112,100**	5,495,144	(7.0%)
	5,773,064	6,408,247	(9.9%)
Other			
Derivative liabilities	**3,809**	2,378	60.2%
Other liabilities	**173,558**	187,301	(7.3%)
Deferred tax liabilities	**34,425**	35,040	(1.8%)
	211,792	224,719	(5.8%)
	18,898,153	18,719,435	1.0%
Shareholders' Equity			
Capital stock	**70,233**	70,237	(0.0%)
Contributed surplus	**5,984**	5,412	10.6%
Retained earnings	**1,119,959**	1,061,015	5.6%
Accumulated other comprehensive loss	**(18,479)**	(15,302)	20.8%
	1,177,697	1,121,362	5.0%
	$ 20,075,850	$ 19,840,797	1.2%

Table 27: Fourth Quarter Net Interest Margin

	For the three months ended		
	December 31 2013	September 30 2013	December 31 2012
Net interest margin non-securitized interest-earning assets (non-TEB)	**2.92%**	2.96%	3.07%
Net interest margin non-securitized interest-earning assets (TEB)	**2.94%**	2.99%	3.11%
Net interest margin securitized assets	**0.74%**	0.69%	0.79%
Total net interest margin (non-TEB)	**2.20%**	2.14%	2.11%
Total net interest margin (TEB)	**2.22%**	2.16%	2.13%
Spread of non-securitized loans over deposits only	**3.11%**	3.16%	3.13%

Table 28: Fourth Quarter Net Interest Income by Product and Average Rate

	For the three months ended December 31, 2013			For the three months ended September 30, 2013		
(000s, except %)	**Average Balance[1]**	**Income/ Expense**	**Average Rate[1]**	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets						
Cash resources and securities	**$ 1,292,322**	**$ 5,219**	**1.62%**	$ 1,248,482	$ 5,007	1.60%
Traditional single-family residential mortgages	**9,819,720**	**128,659**	**5.24%**	9,331,924	122,329	5.24%
Accelerator single-family residential mortgages	**617,356**	**5,282**	**3.42%**	407,046	3,604	3.54%
Residential commercial mortgages[2]	**327,988**	**4,043**	**4.93%**	280,565	3,393	4.84%
Non-residential commercial mortgages	**987,049**	**15,749**	**6.38%**	965,285	15,932	6.60%
Credit card loans	**295,315**	**6,934**	**9.39%**	300,776	7,147	9.50%
Other consumer retail loans	**333,521**	**7,378**	**8.85%**	318,300	7,168	9.01%
Total non-securitized loans	**12,380,949**	**168,045**	**5.43%**	11,603,896	159,573	5.50%
Taxable equivalent adjustment	**–**	**921**	**–**	–	942	–
Total on non-securitized interest-earning assets	**13,673,271**	**174,185**	**5.10%**	12,852,378	165,522	5.15%
Securitized single-family residential mortgages	**4,151,111**	**33,112**	**3.19%**	4,605,786	35,943	3.12%
Securitized multi-unit residential mortgages	**1,639,678**	**16,429**	**4.01%**	1,795,004	17,715	3.95%
Assets pledged as collateral for securitization	**440,539**	**1,733**	**1.57%**	379,419	1,571	1.66%
Total securitized residential mortgages	**6,231,328**	**51,274**	**3.29%**	6,780,209	55,229	3.26%
Other assets	**282,816**	**–**	**–**	254,310	–	–
Total Assets	**$20,187,415**	**$ 225,459**	**4.47%**	$19,886,897	$ 220,751	4.44%
Liabilities and Shareholders' Equity						
Deposits	**$12,383,947**	**$ 71,744**	**2.32%**	$11,629,822	$ 67,911	2.34%
Senior debt	**148,725**	**1,793**	**4.82%**	149,025	1,635	4.39%
Securitization liabilities	**6,271,332**	**40,034**	**2.55%**	6,785,334	43,669	2.57%
Other liabilities and shareholders' equity	**1,383,411**	**–**	**–**	1,322,716	–	–
Total Liabilities and Shareholders' Equity	**$20,187,415**	**$ 113,571**	**2.25%**	$19,886,897	$ 113,215	2.28%
Net Interest Income (TEB)		**$ 111,888**			$ 107,536	
Tax Equivalent Adjustment		**(921)**			(942)	
Net Interest Income per Financial Statements		**$ 110,967**			$ 106,594	

Table 28: Fourth Quarter Net Interest Income by Product and Average Rate (continued)

	For the three months ended December 31, 2012		
(000s, except %)	Average Balance[1]	Income/ Expense	Average Rate[1]
Assets			
Cash resources and securities	$ 817,669	$ 4,451	2.18%
Traditional single-family residential mortgages	7,919,965	107,692	5.44%
Accelerator single-family residential mortgages	582,728	4,470	3.07%
Residential commercial mortgages[2]	205,425	2,790	5.43%
Non-residential commercial mortgages	981,483	15,789	6.43%
Credit card loans	334,778	7,998	9.56%
Other consumer retail loans	243,338	5,571	9.16%
Total non-securitized loans	10,267,717	144,310	5.62%
Taxable equivalent adjustment	–	1,243	–
Total on non-securitized interest-earning assets	11,085,386	150,004	5.41%
Securitized single-family residential mortgages	5,136,096	43,081	3.36%
Securitized multi-unit residential mortgages	1,949,071	19,704	4.04%
Assets pledged as collateral for securitization	541,946	1,566	1.16%
Total securitized residential mortgages	7,627,113	64,351	3.37%
Other assets	294,020	–	–
Total Assets	$19,006,519	$ 214,355	4.51%
Liabilities and Shareholders' Equity			
Deposits	9,944,774	61,873	2.49%
Senior debt	152,283	1,825	4.79%
Securitization liabilities	7,661,311	49,506	2.58%
Other liabilities and shareholders' equity	1,248,151	–	–
Total Liabilities and Shareholders' Equity	$19,006,519	$ 113,204	2.38%
Net Interest Income (TEB)		$ 101,151	
Tax Equivalent Adjustment		(1,243)	
Net Interest Income per Financial Statements		$ 99,908	

[1] The average is calculated with reference to opening and closing monthly asset and liability balances.

[2] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

Table 29: Fourth Quarter Mortgage Production

	For the three months ended		
(000s)	**December 31 2013**	September 30 2013	December 31 2012
Single-family residential mortgages			
Traditional	**$ 1,227,462**	$ 1,312,648	$ 1,159,387
Accelerator	**357,125**	272,576	174,214
Residential commercial mortgages			
Multi-unit uninsured residential mortgages	**62,276**	19,475	7,786
Multi-unit insured residential mortgages	**177,632**	306,863	49,459
Other[1]	**4,411**	9,000	4,650
Non-residential commercial mortgages			
Stores and apartments	**24,514**	24,347	24,835
Commercial	**56,134**	49,320	52,417
Total mortgage advances	**$ 1,909,554**	$ 1,994,229	$ 1,472,748

[1] Other residential commercial mortgages include mortgages such as builders' inventory.

Table 30: Fourth Quarter Provision for Credit Losses

(000s, except %)		As at December 31, 2013 Net Non-performing Loans			For the three months ended December 31, 2013 Provision[1]		Net Write-offs
		Amount	% of Gross Loans	Amount	Annualized % of Gross Loans	Amount	Annualized % of Gross Loans
Single-family residential mortgages	$	**51,636**	**0.48%** $	**3,560**	**0.13%** $	**3,135**	**0.12%**
Residential commercial mortgages		**1,836**[2]	**0.93%**	**49**	**0.10%**	**168**	**0.34%**
Non-residential commercial mortgages		**7,189**[3]	**0.72%**	**99**	**0.04%**	**79**	**0.03%**
Credit card loans		**2,584**	**0.88%**	**183**	**0.25%**	**293**	**0.40%**
Other consumer retail loans		**–**	**–**	**113**	**0.13%**	**94**	**0.11%**
Securitized single-family residential mortgages		**–**	**–**	**–**	**–**	**–**	**–**
Securitized multi-unit residential mortgages		**–**	**–**	**–**	**–**	**–**	**–**
Total	**$**	**63,245**	**0.35%** $	**4,004**	**0.09%** $	**3,769**	**0.08%**

(000s, except %)		As at September 30, 2013 Net Non-performing Loans			For the three months ended September 30, 2013 Provision[1]		Net Write-offs
		Amount	% of Gross Loans	Amount	Annualized % of Gross Loans	Amount	Annualized % of Gross Loans
Single-family residential mortgages	$	50,224	0.50% $	2,704	0.11% $	1,734	0.07%
Residential commercial mortgages		1,836[2]	0.71%	152	0.24%	–	–
Non-residential commercial mortgages		1,576	0.16%	(38)	(0.02%)	153	0.06%
Credit card loans		3,603	1.21%	(99)	(0.13%)	96	0.13%
Other consumer retail loans		–	–	49	0.06%	96	0.12%
Securitized single-family residential mortgages		–	–	–	–	–	–
Securitized multi-unit residential mortgages		–	–	–	–	–	–
Total	$	57,239	0.32% $	2,768	0.06% $	2,079	0.05%

(000s, except %)		As at December 31, 2012 Net Non-performing Loans			For the three months ended December 31, 2012 Provision[1]		Net Write-offs
		Amount	% of Gross Loans	Amount	Annualized % of Gross Loans	Amount	Annualized % of Gross Loans
Single-family residential mortgages	$	47,788	0.55% $	3,470	0.16% $	2,546	0.12%
Residential commercial mortgages		4,527	2.93%	48	0.12%	–	–
Non-residential commercial mortgages		501	0.05%	146	0.06%	146	0.06%
Credit card loans		3,505	1.07%	(5)	(0.01%)	512	0.63%
Other consumer retail loans		–	–	26	0.04%	90	0.13%
Securitized single-family residential mortgages		–	–	–	–	–	–
Securitized multi-unit residential mortgages		–	–	–	–	–	–
Total	$	56,321	0.33% $	3,685	0.09% $	3,294	0.08%

1 Provisions include both individual and collective provisions.

2 The non-performing residential commercial amount comprises one loan.

3 The non-performing non-residential commercial amount includes $6.4 million related to one loan.

Table 31: Fourth Quarter Allowance for Credit Losses

(000s)					For the three months ended December 31, 2013	
	Single-family Residential Mortgages	**Residential Commercial Mortgages**	**Non-residential Commercial Mortgages**	**Credit Card Loans**	**Other Consumer Retail Loans**	**Total**
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	**$ 1,441**	**$ –**	**$ –**	**$ 311**	**$ 219**	**$ 1,971**
Provision for credit losses	**2,895**	**168**	**79**	**183**	**111**	**3,436**
Write-offs	**(3,259)**	**(376)**	**(87)**	**(314)**	**(118)**	**(4,154)**
Recoveries	**124**	**208**	**8**	**21**	**24**	**385**
	1,201	**–**	**–**	**201**	**236**	**1,638**
Allowance on accrued interest receivable						
Balance at the beginning of the period	**813**	**25**	**24**	**–**	**10**	**872**
Provision for credit losses	**(54)**	**–**	**20**	**–**	**2**	**(32)**
	759	**25**	**44**	**–**	**12**	**840**
Total individual allowance	**1,960**	**25**	**44**	**201**	**248**	**2,478**
Collective allowance						
Balance at the beginning of the period	**17,313**	**446**	**9,300**	**3,541**	**300**	**30,900**
Provision for credit losses	**719**	**(119)**	**–**	**–**	**–**	**600**
	18,032	**327**	**9,300**	**3,541**	**300**	**31,500**
Total allowance	**$ 19,992**	**$ 352**	**$ 9,344**	**$ 3,742**	**$ 548**	**$ 33,978**
Total provision	**$ 3,560**	**$ 49**	**$ 99**	**$ 183**	**$ 113**	**$ 4,004**

(000s)					For the three months ended September 30, 2013	
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 929	$ –	$ 170	$ 506	$ 262	$ 1,867
Provision for credit losses	2,246	–	(17)	(99)	53	2,183
Write-offs	(2,123)	–	(154)	(106)	(111)	(2,494)
Recoveries	389	–	1	10	15	415
	1,441	–	–	311	219	1,971
Allowance on accrued interest receivable						
Balance at the beginning of the period	628	–	45	–	14	687
Provision for credit losses	185	25	(21)	–	(4)	185
	813	25	24	–	10	872
Total individual allowance	2,254	25	24	311	229	2,843
Collective allowance						
Balance at the beginning of the period	17,040	319	9,300	3,541	300	30,500
Provision for credit losses	273	127	–	–	–	400
	17,313	446	9,300	3,541	300	30,900
Total allowance	$ 19,567	$ 471	$ 9,324	$ 3,852	$ 529	$ 33,743
Total provision	$ 2,704	$ 152	$ (38)	$ (99)	$ 49	$ 2,768

Table 31: Fourth Quarter Allowance for Credit Losses

(000s)	For the three months ended December 31, 2012					
	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	$ 1,660	$ –	$ –	$ 628	$ 291	$ 2,579
Provision for credit losses	3,267	–	146	(5)	13	3,421
Write-offs	(2,699)	–	(149)	(685)	(109)	(3,642)
Recoveries	153	–	3	173	19	348
	2,381	–	–	111	214	2,706
Allowance on accrued interest receivable						
Balance at the beginning of the period	503	365	–	–	–	868
Provision for credit losses	(16)	67	–	–	13	64
	487	432	–	–	13	932
Total individual allowance	2,868	432	–	111	227	3,638
Collective allowance						
Balance at the beginning of the period	16,304	355	9,300	3,541	300	29,800
Provision for credit losses	219	(19)	–	–	–	200
	16,523	336	9,300	3,541	300	30,000
Total allowance	$ 19,391	$ 768	$ 9,300	$ 3,652	$ 527	$ 33,638
Total provision	$ 3,470	$ 48	$ 146	$ (5)	$ 26	$ 3,685

Table 32: Securitization Activity

(000s)	**December 31, 2013**			For the three months ended September 30, 2013		
	Single-family Residential MBS	**Multi-unit Residential MBS**	**Total MBS**	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	**$ 327,500**	**$ 177,700**	**$ 505,200**	$ 191,761	$ 235,483	$ 427,244
Gains on sale of mortgages or residual interest[1]	**3,460**	**1,189**	**4,649**	1,894	2,647	4,541
Retained interests recorded	**–**	**7,983**	**7,983**	–	11,146	11,146
Servicing liability recorded	**–**	**1,186**	**1,186**	–	1,809	1,809

(000s)	For the three months ended December 31, 2012		
	Single-family Residential MBS	Multi-unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 662,153	$ 64,634	$ 726,787
Gains on sale of mortgages or residual interest[1]	4,845	891	5,736
Retained interests recorded	–	2,447	2,447
Servicing liability recorded	–	487	487

[1] Gains on sale of mortgages are net of hedging impact.

CAPITAL MANAGEMENT

Capital is a key factor in the safety and soundness of a financial institution. A strong capital position assists the Company in promoting confidence among depositors, creditors, regulators and shareholders. The Company's Capital Management Policy governs the quantity and quality of capital held. The objective of the Capital Management Policy is to ensure that adequate capital is available to the Company to support its strategic and business objectives, absorb potential unexpected losses, meet minimum regulatory capital requirements as stipulated by the Office of the Superintendent of Financial Institutions Canada (OSFI), and enable the allocation of capital for maximum economic benefit. The Capital Management Committee reviews compliance with the policy at minimum on a monthly basis while the Risk and Capital Committee and the Board of Directors review compliance with the policy on a quarterly basis.

Two regulatory capital requirements are addressed in the Company's policy: the Assets to Regulatory Capital Multiple (ACM) and the risk-based capital ratios. The Capital Management Committee reviews these ratios on a regular basis while the Board of Directors reviews them quarterly.

The Company's principal subsidiary, Home Trust, calculates capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI, which are based on *International Convergence of Capital Measurement and Capital Standards – A Revised Framework* (Basel II) and *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* (Basel III). As Home Trust, a wholly owned subsidiary of the Company, is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited primarily by its permitted ACM. This is defined as the ratio of total regulatory assets to total regulatory capital of Home Trust.

Under Basel II and Basel III, Home Trust calculates risk-weighted assets for credit risk using the Standardized Approach and for operational risk using the Basic Indicator Approach. Home Trust's capital structure and risk-weighted assets were as follows:

Table 33: Basel III Regulatory Capital (Based only on the subsidiary, Home Trust Company)

(000s, except ratios and multiples)	December 31, 2013	
	All-in Basis	Transitional Basis
Common Equity Tier 1 capital (CET 1)		
Capital stock	$ 38,497	$ 38,497
Contributed surplus	951	951
Retained earnings	1,130,517	1,130,517
Accumulated other comprehensive loss	(18,490)	(18,166)
Cash flow hedge reserves	2,656	2,656
Regulatory deductions from CET 1[1]	(62,927)	(8,964)
Total CET 1 capital	1,091,204	1,145,491
Additional Tier 1 capital	–	–
Total Tier 1 capital	1,091,204	1,145,491
Tier 2 capital		
Collective allowance for credit losses[2]	31,500	31,500
Subordinated debentures	156,000	156,000
Total Tier 2 capital	187,500	187,500
Total regulatory capital	$ 1,278,704	$ 1,332,991
Risk-weighted assets for		
Credit risk	$ 5,702,192	$ 5,756,155
Operational risk	793,575	793,575
Total risk-weighted assets	$ 6,495,767	$ 6,549,730
Regulated capital to risk-weighted assets		
CET 1 ratio	16.80%	17.49%
Tier 1 capital ratio	16.80%	17.49%
Total regulatory capital ratio	19.69%	20.35%
Assets to regulatory capital multiple	N/A	13.19
National regulatory minimum		
CET 1 ratio (required January 1, 2013)	7.00%	
Tier 1 capital ratio (required January 1, 2014)	8.50%	
Total regulatory capital ratio (required January 1, 2014)	10.50%	

[1] Regulatory deductions on the all-in basis include intangible assets related to software development and unrealized multi-unit residential mortgage securitization gains, net of deferred taxes.

[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of credit risk-weighted assets in Tier 2 capital. At December 31, 2013, the Company's collective allowance represented 0.55% of risk-weighted assets.

Home Trust adopted certain Basel III capital requirements beginning January 1, 2013, as required by OSFI. The primary impact at adoption was the deduction from Common Equity Tier 1 capital on an all-in basis of $51.1 million of intangible assets, net of deferred taxes, related to IT development costs as well as the inclusion of all its accumulated other comprehensive income, net of cash flow hedge reserves. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For Home Trust, the transitional basis is applied to the deduction from capital of intangible assets related to development costs. Deductions for transitional calculations will commence in 2014. For the purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. ACM is calculated and evaluated on a transitional basis.

The Tier 1 and Total capital ratios as at December 31, 2012, calculated prior to the adoption of Basel III changes, were 17.01% and 20.68%. In the third quarter of 2013, the Company received confirmation that, in certain circumstances, off-balance sheet, insured single-family residential mortgages could be excluded from the ACM. The ACM of 13.98 as at December 31, 2012, calculated prior to the adoption of Basel III changes, would have been 13.39 had this treatment been applied.

In the first quarter of 2013 the terms of all subordinated debt were restructured, all of which is intercompany between parent and subsidiary, to comply with the non-viability contingent capital requirements in Basel III. This allowed for the inclusion of the subordinated debt in Tier 2 capital. Under Basel III this subordinated debt will be subject to straight-line amortization out of capital in the final five years prior to maturity. The principal amounts of the subordinated debt currently mature in 2021 and 2022 in the amounts of $100 million and $56 million, respectively.

Under Basel III, Home Trust's Common Equity Tier 1, Total Tier 1 and Total capital ratios significantly exceed OSFI's "All-in" regulatory targets of 7.0% for Common Equity Tier 1, 8.5% for Total Tier 1 and 10.5% for Total capital, as well as Home Trust's internal capital targets.

Table 34: Risk-Weighted Assets (RWA) (Based only on the subsidiary, Home Trust Company)

			2013
(000s, except %)	Balance Sheet Amounts	Effective Risk Weight[1]	Risk-weighted Amount
Cash and cash equivalents	$ 715,342	20.0%	$ 143,068
Restricted assets	648,283	3.6%	23,627
Available for sale securities	424,226	71.8%	304,579
Insured residential mortgages	6,484,974	0.6%	40,459
Uninsured single-family residential mortgages	9,728,804	35.4%	3,441,510
Uninsured residential commercial mortgages	178,465	100.5%	179,383
Non-residential commercial mortgages	994,210	100.4%	997,805
Credit card loans	293,485	44.6%	130,781
Other consumer retail loans	339,963	75.0%	254,973
Other assets	191,634	59.0%	113,159
Total assets subject to risk rating	19,999,386	28.1%	5,629,344
Intangible assets	73,405	–	–
Collective allowance for credit losses	(31,500)	–	–
Total assets	20,041,291	28.1%	5,629,344
Off-balance sheet items			
Loan commitments	835,368	8.7%	72,848
Total credit risk	20,876,659		5,702,192
Operational risk	–		793,575
Total	$20,876,659		$ 6,495,767

[1] The effective risk weight represents the weighted average of the risk weights for each asset category prescribed by OSFI weighted based on the Company's balance sheet classification.

Risk-weighted assets are determined by applying the OSFI-prescribed rules to on-balance sheet and off-balance sheet exposures. The Company's securitization activities are not subject to the Basel II securitization framework as they are all within the NHA MBS program and do not involve tranching of credit risk.

Risk-weighted assets as at December 31, 2012, which were calculated prior to the adoption of Basel III requirements, were $5.49 billion comprising $4.87 billion for credit risk and $0.62 billion for operational risk. Over the year, risk-weighted assets increased by $1.01 billion primarily due to growth in the Company's traditional uninsured single-family residential mortgages. The operational risk factor in the calculation also increased as the Company's gross income, on which the calculation is based, increased.

Capital and Lending Capacity

The Company has continuously maintained high levels of regulatory capital, as compared to its peers and larger institutions. This has provided additional protection to depositors and shareholders against losses that might be caused by severely unfavourable business developments, economic trends or other shocks. This is in addition to the collective allowance for credit losses, which currently exceeds the total write-offs recorded over the past two years. Currently, the Company exceeds its minimum regulatory capital requirement for the Common Equity Tier 1 capital ratio by a factor of more than two.

In addition to its high levels of regulatory capital, Home Trust has maintained a relatively low level of leverage as measured by its ACM. The ACM is the most constraining regulatory factor on the Company's capacity to lend. This factor is calculated based on total balance sheet assets without regard to any risk weighting and includes adjustments (permitted by OSFI) such as grandfathered mortgages that were securitized through CMHC-sponsored programs prior to March 31, 2010. Under IFRS, certain assets which had previously been securitized, sold and removed from the Company's balance sheet were returned to the balance sheet. These items were returned to the balance sheet primarily because the Company remained exposed to the risk of unscheduled repayments, or prepayments by borrowers. This reduces the Company's total lending capacity and potentially its capacity to renew the underlying insured mortgages with a reasonable return on the capital required to support such mortgages on the Company's balance sheet.

In 2012 and 2013 the Company completed transactions that transferred the risk of prepayments to third-party investors and the underlying mortgages were removed from the Company's balance sheet. In 2013, the treatment of these mortgages for the purpose of calculating the ACM was clarified, allowing the Company to make a similar adjustment to its calculation of ACM. Consequently, the Company's borrowing capacity increased without requiring any additional regulatory capital. This provides capacity for Home Trust to renew its significant portfolio of insured mortgages that will reach the end of their contractual terms but have a number of years until fully amortized to repayment. This represents a significant opportunity for future loan servicing revenue and gains on sales of securitized pools. The table below provides a summary of the maturity profile of the Company's securitized insured mortgages:

Table 35: Maturity Profile of Securitized Mortgages

					As at December 31, 2013
(000s)	2014	2015	2016	Thereafter	Total
Securitized single-family residential mortgages	$ 919,119	$ 1,418,344	$ 813,246	$ 569,388	$ 3,720,097
Securitized multi-unit residential mortgages	482,849	278,145	71,281	657,649	1,489,924
Total securitized mortgages	$ 1,401,968	$ 1,696,489	$ 884,527	$ 1,227,037	$ 5,210,021

In addition to the renewal opportunities, this also presents an opportunity for the Company to increase its level of lending to prime borrowers on insured loans, without the need to allocate substantial amounts of capital. This will further enable the Company to pursue its "one-stop-shop" mortgage lender strategy, which was embraced by mortgage brokers in earlier years and provided considerable advantages in the market.

During the year, the Company recorded $11.1 million of gains on mortgage sales. These gains include gains of $5.7 million on sales of $617.2 million of insured multi-unit residential mortgages and gains of $5.4 million on sales of $519.3 million of single-family residential mortgages. The principal values of mortgages being administered by the Company and excluded from the balance sheet are summarized in Table 14.

Capital Management Activity

During the third quarter of 2013, the Company filed a new Normal Course Issuer Bid through the Toronto Stock Exchange, which allows it to purchase over a 12-month period up to 10% of the public float outstanding on September 12, 2013. The Company believes that, from time to time, the market price of its common shares does not fully reflect the value of its business and the repurchase of shares may represent an appropriate and desirable business decision.

During 2013, the Company repurchased 39,100 common shares (2012 – 163,500 common shares) for $2.3 million, thereby reducing retained earnings by $2.2 million and share capital by $0.1 million (2012 – $7.8 million and $0.3 million, respectively).

Internal Capital Adequacy Assessment Process (ICAAP)

Under the Company's capital and risk management policies, and OSFI's guidelines, the Company is required to assess the adequacy of current and projected capital resources under expected and stressed conditions. This involves evaluating the Company's strategy, financial plan and risk appetite; assessing the effectiveness of its risk and capital management practices (including Board and senior management oversight); subjecting the Company's plans to a range of stress tests; and drawing conclusions about its capital adequacy (including a rigorous review and challenge). Based on the Company's ICAAP, management has concluded that Home Trust is adequately capitalized.

Credit Ratings

The following table presents the credit ratings for the Company and its subsidiary Home Trust. These investment-grade credit ratings would allow the Company to obtain institutional debt financing should the need arise for additional capital.

Table 36: Credit Ratings

	Home Capital Group Inc.			Home Trust Company		
	DBRS	Standard & Poor's	Fitch Rating	DBRS	Standard & Poor's	Fitch Rating
Long-term rating	BBB	BBB-	BBB	BBB (high)	BBB	BBB
Short-term rating	R2 (middle)	A-3	F2	R2 (high)	A-2	F2
Outlook	Stable	Stable	Negative	Stable	Stable	Negative

Share Information

Table 37: Share Information

(000s)	2013			2012		
	Number of Shares		**Amount**	Number of Shares		Amount
Common shares issued and outstanding[1]	**34,744**	**$**	**70,233**	34,630	$	61,903
Employee stock options outstanding[2]	**825**		**N/A**	783		N/A
Employee stock options exercisable[3]	**524**		**19,287**	557		19,647

[1] No shares were issued, other than through employee stock options exercised.

[2] Please see Note 17(C). Amount for employee stock options is not applicable.

[3] For employee stock options exercisable, the amount refers to proceeds payable to the Company upon exercise.

2014 Outlook for Capital Management

The Company remains committed to maintaining its financial strength, strong regulatory capital ratios and growing its capital base through earnings in 2014 and beyond. The inclusion of mortgages securitized after March 31, 2010 in the ACM makes this measure the Company's primary capital constraint; however, the favourable ruling on the sale of residual interest makes this less of a constraint going forward. The Company will continue to proactively monitor and assess its ACM on an ongoing basis.

RISK MANAGEMENT

The shaded areas of this section of the MD&A represent a discussion of risk management policies and procedures relating to credit, market and liquidity risks that are required under IFRS 7 *Financial Instruments: Disclosures*, which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented in this Risk Management section form an integral part of the audited consolidated financial statements for the year ended December 31, 2013.

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and consistently high return on equity. The Company continues to invest significantly in risk management practices and resources.

The Company's business strategies and operations expose the Company to a wide range of risks that could adversely affect its operations, financial condition, or financial performance, and which may influence an investor to buy, hold, or sell the Company's shares. When evaluating risks, the Company makes decisions about which risks it accepts, which risks it mitigates, offsets or hedges, and which risks it will avoid. These decisions are guided by the Company's risk appetite framework. The types of risk to which the Company is subject include, among others, credit, funding and liquidity, market, and operational risks.

Risk Appetite

The Company has adopted a risk appetite framework that sets out the amount and types of risk the Company will accept in pursuit of its business objectives and strategies. The Company's risk appetite framework provides the structure to link the objectives of the Company's key stakeholders with the level of risk the Company can, and is willing to, take. The risk appetite framework comprises five major components.

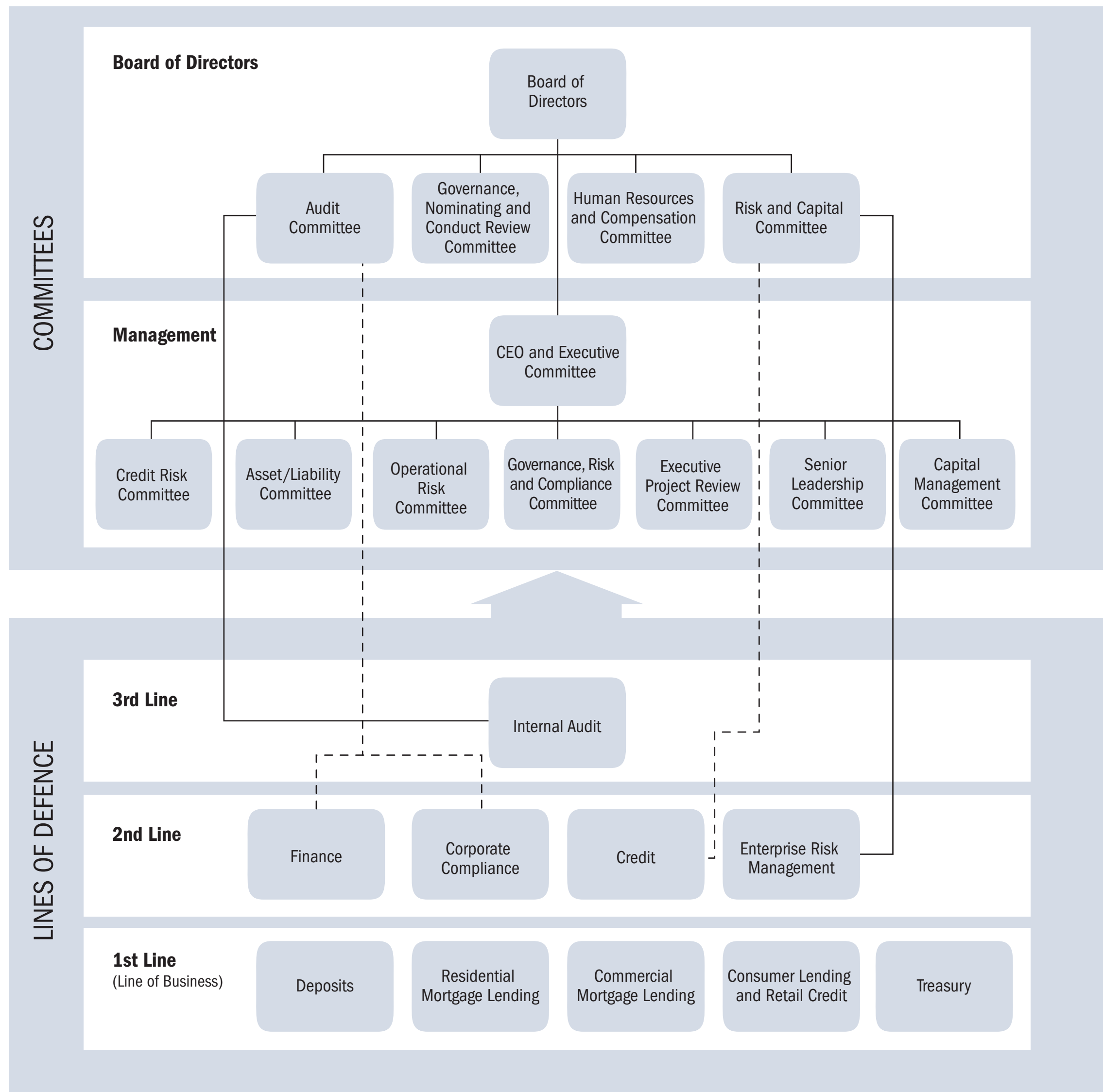
1. Clear articulation of the Company's overall mission and objectives, given key stakeholder concerns. The level of risk inherent in these objectives drives the level of risk the Company may accept.
2. Identification of the Company's risk capacity by identifying the supply of capital capable of supporting risk and absorbing loss. Risk capacity is limited by other factors including regulatory constraints.
3. Identification of the risks inherent in the corporate strategy supporting the mission and the governing objectives of the Company and establishment of a risk-taking philosophy that sets out the key principles that guide how the Company may take and mitigate risk.
4. Documentation of the amount and types of risk the Company may accept given its mission, risk capacity, strategy and risk-taking philosophy. The Company explicitly articulates its Balance Sheet risk appetite (how much of the Company's capital it will put at risk), Earnings Volatility risk appetite, Portfolio Composition risk appetite (the types of risk the Company will take) and Non-financial risk appetite (expressions of risk appetite that are difficult to quantify). Among others, the Company has established risk appetite statements addressing:
    - maximum capital at risk and minimum capital ratios;
    - maximum leverage or asset to capital multiple;
    - maximum amount of top-level individual risk types; and
    - reputational risk.
5. Establishment of risk limits as an expression of the Company's risk appetite for individual risks or factors that contribute to risk levels.

Risk Governance

The Company's strategies and management of risk are supported by an overall enterprise risk management (ERM) framework including policies, guidelines, and procedures for each major category of risk to which it is exposed (strategic, credit, market, funding and liquidity, operational, legislative and regulatory, and reputational). The Company defines ERM as an ongoing process involving its Board of Directors (the "Board"), management and other personnel in the identification, measurement, assessment and management of risks that may positively or negatively impact the organization as a whole. ERM is applied in strategy setting across the enterprise and is designed to provide reasonable assurance that the Company's objectives can be realized given its stated risk appetite. The goal of ERM is to help maximize, within the Company's risk appetite, the benefit to the enterprise, shareholders and other stakeholders from a portfolio of risks that the Company is willing to accept.

Supporting the Company's ERM structure is a risk culture and a governance framework, including Board and senior management oversight and an increasingly robust set of risk policies and guidelines reflective of the Company's risk appetite, that set boundaries for acceptable business strategies, exposures and activities. The Company's governance structure is supported by the industry standard three lines of defence model. Authority is delegated by the Board through the Chief Executive Officer to business units that are responsible for managing the risks they take in the pursuit of their business objectives. The ERM group, along with the Credit, Finance and Corporate Compliance groups, represents the second line of defence, and provides policy guidance to business units and helps ensure that all risks are identified, monitored, measured, assessed and reported to senior management and the Board. Internal Audit, the third line of defence, provides objective and independent reviews of the risk management process, its controls, and the effectiveness of governance, risk management and controls.

The governance structure as depicted in the following figure ensures that there is a framework in place for risk oversight and accountability across the organization. Risk owners are responsible for developing and executing strategies for controlling risk.



The Board is accountable for establishing the overall vision, mission, objectives and strategies of the Company and setting the Company's risk appetite and risk-bearing capacity. It challenges management's proposals and plans to ensure that the forecasted results and risk assessments are reasonable and in line with the Company's capabilities, objectives and risk appetite. These risk management responsibilities are primarily carried out through the Risk and Capital Committee of the Board. In this oversight role the Committee is designed to ensure that all significant risks to the Company, regardless of source, are proactively identified and effectively managed. This is accomplished by reviewing and approving, on at least an annual basis, all key risk policies; monitoring, on at least a quarterly basis, the Company's actual exposures versus Board-approved risk appetite and limits; and providing direction to management where deemed necessary. It further monitors to ensure that the ERM function is independent of the business activities it oversees and that an appropriate, independent monitoring and reporting framework is in place and operating effectively, so as to deliver accurate, timely and meaningful risk information for its review and evaluation.

The Executive Committee (EC), chaired by the Chief Executive Officer, is responsible for recommending corporate strategy to the Board and for overseeing its execution. A critical component of this mandate is recommending to the Risk and Capital Committee of the Board a risk appetite that aligns with the objectives and strategy of the Company. The EC is accountable for establishing an appropriate "risk aware" culture and proactively monitoring actual exposures and business activities in comparison to risk appetite. The EC reviews and validates the Company's portfolio of key risk exposures through comprehensive risk reporting as well as by an ongoing risk identification and assessment process. Through this process, significant risks are identified in light of current business, market, and economic conditions, ensuring that the risks the Company manages and monitors are not static but evolving in context with the greatest likelihood of impact on the Company at any given point in time.

The most significant risks to the Company, described as principal risks and as reflected in the following diagram, are subject to more specific review, monitoring and assessment under the mandates of supporting risk committees. These committees (Credit Risk, Asset/Liability, Capital Management, Operational Risk, Governance, Risk and Compliance, Executive Project Review, and Senior Leadership) recommend policies and guidelines for approval as proposed by the lines of business, with review by the ERM group, and proactively monitor and assess the specific risks under their mandates compared to the approved risk appetite. In addition to the Executive Committee and the supporting risk committees, the Company's risk governance is supported by:

- The Chief Risk Officer and the ERM group. The ERM group is mandated to work with the executive team and the Board of Directors of the Company to support sustainable business performance through the independent identification, measurement, assessment and monitoring of all significant risks to the Company, regardless of source. Working closely with the Risk and Capital Committee of the Board, the ERM group recommends the Company's overall risk appetite and limits. It develops policies to address significant risks and recommends Board and/or management approval. ERM independently maintains a current view of the Company's risk profile by monitoring actual exposure and practice against approved risk appetite, limits, policies and guidelines.
- The Chief Compliance Officer (CCO) and Chief Anti-Money Laundering Officer (CAMLO) and the Corporate Compliance group. The CCO/Corporate Compliance group is mandated to establish and maintain an independent enterprise-wide Compliance Framework (a set of controls and oversight processes) designed to mitigate the Company's Legislative and Regulatory Risk. The CCO/Corporate Compliance group is mandated to promote a sound compliance culture; report to the Company's senior management and the Board about compliance with the Company's legislative and regulatory requirements; follow up with Senior Management on breaches; and make recommendations related to the Compliance Framework activities. The CCO and CAMLO are responsible for expressing an independent opinion to the Audit Committee on the status, adequacy and effectiveness of the Company's state of compliance on a periodic basis.
- The Senior Vice President, Internal Audit, and the Internal Audit department. Internal Audit is mandated to independently assess and report to the Audit Committee, the Board and management on the effectiveness of governance, risk management and internal control processes.
- The Chief Financial Officer and the Finance group. The Finance group compiles the Company's financial and capital plan for recommendation to the Executive Committee and Board, and reports to the Board, shareholders and regulators on the performance of the Company against these plans. The Finance group also updates the plan with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.

In order to align the Company's risk and control processes, management has formed the Governance, Risk and Compliance Committee to review and align the management structure, resources, processes and controls to match the size, complexity, scope, and risk profile of the organization. This committee makes recommendations to the Executive Committee to improve, operate and sustain all aspects of governance, risk and compliance.

Stress Testing

In addition to the day-to-day risk management practices, a key component of the ERM framework is stress testing and scenario analysis. Management conducts regular stress testing, including stress testing through its internal capital adequacy assessment process and ad hoc stress testing to evaluate a range of extreme but plausible scenarios. Stress tests are conducted to determine the potential impact of these events, the effectiveness of management's contingency plans to deal with these unlikely but possible events, and management's ability to mitigate the potential risk. A common set of scenarios is developed to assess the impact on the Company's financial results, capital and liquidity position, operational capabilities and the Company's ability to respond to the event. In particular, management has evaluated a range of economic scenarios, including a real estate-driven recession. Management analyzes the outcomes from stress testing and, where applicable, takes proactive measures to mitigate potential risks to the business.

Principal Risks

The Company has identified seven principal risks that are material to the business: strategic, credit, market, funding and liquidity, operational, legislative and regulatory, and reputational risk. In addition to these principal risks, The Company employs a risk register to outline risk sub-categories and provide more detailed linkages to the specific risks inherent to, or taken by, the business. These risks are identified, measured, assessed, and monitored on an ongoing basis, with regular reporting to both management and the Board of Directors. Where appropriate, principal and sub-category risks are mitigated through various actions to reduce the inherent risk to acceptable residual levels, as defined by the Company's risk appetite. Strategic and reputational risks are considered overarching risks, as substantial outcomes from other principal risks could pose significant second order impact to the Company's reputation or ability to execute strategic objectives.

Strategic Risk

Strategic and business risk is the risk of loss due to changes in the external business environment, the failure of management to adjust its strategies and business activities for external events or business results, or the inability of the business to change its cost levels in response to those changes. Strategic and business risk is managed by the EC. On a regular basis, the EC reviews the current environment, the business results and the actions of the Company's competitors and adjusts business plans accordingly. The Board approves the Company's strategies at least annually and reviews results against those strategies at least quarterly.

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason. The Company's overall exposure to credit risk is governed by a defined credit-specific risk appetite, limits and a Board-approved Credit Risk Policy. The Credit Risk Committee establishes, implements and monitors credit risk related policies and guidelines enterprise-wide, taking into account business objectives, risk appetite, planned financial performance and risk profile. Credit risk limits are established for all types of credit exposures, with geographic, product, property and security type limits established to cover all material classes of exposure. The Company's risk management policy limits the total aggregate exposure to any entity or connection. The lines of business are responsible for managing the Company's credit risks in accordance with approved policies and guidelines, and assessing overall credit conditions and exposures on an ongoing basis. The Credit Risk Committee, the ERM group, and the Risk and Capital Committee of the Board oversee the credit portfolio through ongoing reviews of credit-risk management policies, lending practices, portfolio composition and risk profile, the adequacy of the loan loss allowances and the allocation of credit risk-based capital.

At a transactional level, loans are independently approved by credit staff commensurate with their experience and expertise to extend credit within the bounds of the Company's credit risk policies. A foundation of the Company's approach to credit is a high level of due diligence on each individual transaction with oversight from a management team with strong industry experience. All transactions are subject to detailed reviews of the underlying security, an assessment of the applicant's ability to service the loan, and the application of a standard risk rating or credit score. Enhanced due diligence is conducted on transactions deemed to be higher credit risks based on pre-defined parameters. Transactions in excess of individual authority are approved by the Credit Risk Transactional Sub-Committee of the Credit Risk Committee and ultimately by the Risk and Capital Committee of the Board as required.

Table 38: Credit Risk Portfolio Monitors

(000s, except % and number of credit cards issued)	**2013**	2012
Total loans balance (net of individual allowances)	**$ 17,881,926**	$ 17,137,992
Mortgage Portfolio[1]		
Total mortgage portfolio balance (net of individual allowance)	**$ 17,248,478**	$ 16,538,499
Residential mortgages as a percentage of total mortgages	**94.2%**	94.0%
Non-residential mortgages as a percentage of total mortgages	**5.8%**	6.0%
Percentage of insured residential mortgages[2]	**37.6%**	44.8%
Percentage of mortgages current	**97.6%**	97.6%
Percentage of mortgages over 90 days past due	**0.5%**	0.4%
Percentage of insured residential mortgage originations	**25.1%**	19.3%
Loan to value ratio of residential mortgages (current uninsured)[3]	**65.9%**	65.5%
Credit Card Portfolio		
Total credit card portfolio balance	**$ 293,485**	$ 327,516
Percentage of Equityline *Visa* credit cards	**95.7%**	96.9%
Percentage of secured credit cards	**3.8%**	3.0%
Percentage of credit cards current	**97.8%**	96.6%
Percentage of credit cards over 90 days past due	**0.9%**	1.1%
Loan to value ratio of Equityline *Visa* (current)[3]	**66.1%**	69.9%
Visa card security deposits	**$ 15,997**	$ 14,345
Total authorized limits of credit cards	**$ 373,702**	$ 403,110
Total number of credit cards issued	**28,892**	26,840
Average balance authorized	**$ 13**	$ 15

1 Residential mortgages include multi-unit residential and other residential commercial mortgages.

2 Insured loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio.

3 Loan to value ratio is calculated as the current balance outstanding to the appraised value at origination.

Mortgage Lending

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

Credit risk mitigation is a key component of the Company's approach to credit risk management. The composition of the mortgage portfolio is well within the policy limits. Senior management and the ERM group closely monitor the credit performance of the mortgage loan portfolio. The portfolio continues to perform well, with arrears that are well within expected levels.

The Company mitigates credit risk on residential mortgages through collateral in the form of real property and, as such, loan to value (LTV) is a key credit metric. Please see Tables 43 and 44 for further information.

Due to the level of activity and price appreciation in the high-rise condominium market in certain cities, the Company continues to closely monitor market conditions and the performance of this portfolio. High-rise condominiums represent less than 8% of the residential mortgage portfolio and, of these, 36.4% are insured. The average current LTV of the condominium portfolio was 69.6% at the end of 2013. The credit performance of the condominium portfolio is strong and within the Company's expectations, with 98.1% of the portfolio current and 0.4% over 90 days.

The level of non-residential mortgages was relatively stable over the last 12 months and the Company anticipates that the non-residential portfolio will remain relatively stable. The Company slowly began increasing its exposure to non-residential lending in 2010 through 2012 in proportion with growth in the overall asset portfolio. The proportion is well within the policy limits.

Other Lending

Credit card balances were $293.5 million at the end of the year, virtually all of which are secured by either cash deposits or residential property. Within the credit card portfolio, Equityline *Visa* accounts, which are secured by residential property, represent the principal driver of receivable balances. The Equityline *Visa* portfolio had a weighted-average LTV at origination of 66.1% at the end of the year compared to 69.2% at the end of 2012. The LTV includes both the first mortgage and the secured Equityline *Visa* balance.

Senior management and the ERM group closely monitor the credit performance of the credit card portfolio. The portfolio continues to perform well, with arrears well within expected levels. As of December 31, 2013, $2.6 million or 0.9% of the credit card portfolio was over 90 days in arrears, compared to $3.6 million or 1.1% at December 31, 2012. In late 2012 the Company launched its preferred *Visa* card program, which offers unsecured *Visa* cards with relatively low authorized limits to the Company's mortgage clients with good credit performance. The preferred *Visa* portfolio represents 0.4% of the outstanding credit card balances at the end of the year.

Retail credit is secured by charges on financed assets, primarily improvements to residential property or fixtures, such as water heaters. Water heater loans are also guaranteed by the gas supplier.

Refer to the Loans note in the consolidated financial statements included in this report for a breakdown of the overall loan portfolio by geographic region. While the Company's strategy is to increase the geographic diversification of the loan portfolio, this has been tempered by credit conditions in local markets.

Table 39: Non-Performing Loans and Allowances

(000s, except %)	2013		2012		Change	
	Gross	**Net[1]**	Gross	Net[1]	Gross	Net[1]
Single-family residential mortgages	**$ 52,837**	**$ 51,636**	$ 50,169	$ 47,788	5.3%	8.1%
Residential commercial mortgages	**1,836**	**1,836**	4,527	4,527	(59.4%)	(59.4%)
Non-residential commercial mortgages	**7,189**	**7,189**	501	501	1,334.9%	1,334.9%
Credit card loans	**2,785**	**2,584**	3,616	3,505	(23.0%)	(26.3%)
Other consumer retail loans	**236**	**–**	214	–	10.3%	–
Non-performing loans	**64,883**	**63,245**	59,027	56,321	9.9%	12.3%
Total gross loans	**$17,883,564**		$17,140,698		4.3%	–
Net non-performing loans as a % of gross loans		**0.35%**		0.33%		
Total allowance for credit losses		**$ 33,978**		$ 33,638		
Total allowance as a % of gross loans		**0.19%**		0.20%		
Total allowance as a % of gross non-performing loans		**52.37%**		56.99%		
Write-offs, as a % of gross loans		**0.09%**		0.07%		

[1] Non-performing loans are net of individual allowances as shown in Table 40, Allocation of Allowance for Credit Losses.

Net non-performing loans remain within expected and acceptable ranges. As part of the Company's ongoing business strategy, experienced employees undertake reviews of delinquent and non-performing loans to analyze patterns and drivers and then modify, where appropriate, the Company's lending guidelines. This analytical approach and attention to emerging trends have resulted in continued low write-offs relative to the gross loans portfolio. Write-offs, net of recoveries, totalled $15.5 million or 0.09% of gross loans in 2013, compared to $12.4 million or 0.07% of gross loans in 2012. The Company continually monitors arrears and write-offs and deals effectively with non-performing loans.

Table 40: Allocation of Allowance for Credit Losses

(000s)	2013 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2013 Ending Balance
Individual allowances				
Single-family residential mortgages	$ 2,868	$ (11,165)	$ 10,257	$ 1,960
Residential commercial mortgages	432	(3,199)	2,792	25
Non-residential commercial mortgages	–	(230)	274	44
Credit card loans	111	(589)	679	201
Other consumer retail loans	227	(345)	366	248
	3,638	(15,528)	14,368	2,478
Collective allowance				
Single-family residential mortgages	16,523	–	1,509	18,032
Residential commercial mortgages	336	–	(9)	327
Non-residential commercial mortgages	9,300	–	–	9,300
Credit card loans	3,541	–	–	3,541
Other consumer retail loans	300	–	–	300
	30,000	–	1,500	31,500
Total allowance for credit losses	$ 33,638	$ (15,528)	$ 15,868	$ 33,978

(000s)	2012 Opening Balance	Write-offs Net of Recoveries	Provision for Credit Losses	2012 Ending Balance
Individual allowances				
Single-family residential mortgages	$ 1,087	$ (10,148)	$ 11,929	$ 2,868
Residential commercial mortgages	–	–	432	432
Non-residential commercial mortgages	78	(319)	241	–
Credit card loans	392	(1,572)	1,291	111
Other consumer retail loans	302	(342)	267	227
	1,859	(12,381)	14,160	3,638
Collective allowance				
Single-family residential mortgages	15,871	–	652	16,523
Residential commercial mortgages	428	–	(92)	336
Non-residential commercial mortgages	9,300	–	–	9,300
Credit card loans	3,541	–	–	3,541
Other consumer retail loans	300	–	–	300
	29,440	–	560	30,000
Total allowance for credit losses	$ 31,299	$ (12,381)	$ 14,720	$ 33,638

The Company maintains credit allowances that, in management's judgement, are sufficient to cover incurred losses and identified credit events in the loans portfolio.

Individual allowances represent the amount on identified non-performing loans required to reduce the carrying value of those loans to their estimated realizable amount. The balance will fluctuate from time to time and is driven by the performance of individual loans and the realizable value of the underlying security.

The collective allowance for credit losses is established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflects the relative risk of the various loan portfolios that the Company manages. At December 31, 2013, the Company held a collective allowance of $31.5 million, compared to $30.0 million held at December 31, 2012. The Company has security in the form of real property or cash deposits for virtually the entire loans portfolio. The Company's evaluation of the adequacy of the collective allowance takes into account asset quality, borrower creditworthiness, property location, past loss experience, current and forecasted probability of default and exposure at default based on product, risk ratings and credit scores, and current economic conditions. The Company periodically reviews the methods utilized in assessing the collective allowance, giving consideration to changes in economic conditions, interest rates and local housing market conditions. The principal factors impacting the assessment of the adequacy of the collective allowance are the stable economic environment in the Company's markets, the increased weighting of uninsured mortgages and the low loan to value of the uninsured mortgage portfolio. For the most part, these factors tend to offset each other and, accordingly, the collective allowance has been increased marginally and continues to exceed two years of current year write-offs.

2014 Outlook for Credit Risk

Please refer to the 2014 Outlook for Provision and Allowance for Credit Losses section included in the Financial Performance Review section of this MD&A.

Additional Information: Residential Loans and Equityline* Visa *Home Equity Line of Credit (HELOC)

The tables below provide additional information on the composition of the Company's single-family residential mortgage portfolio by province and insured status, as well as contractual remaining amortization periods and loan to value by province.

Table 41: Single-Family Residential Loans by Province

(000s, except %) **2013**

	Insured Residential Mortgages	**Percentage of Total for Province**	**Uninsured Residential Mortgages**	**Percentage of Total for Province**	**Equityline *Visa*[1]**	**Percentage of Total for Province**	**Total**
British Columbia	**$ 399,055**	**45.5%**	**$ 471,668**	**53.8%**	**$ 5,863**	**0.7%**	**$ 876,586**
Alberta	**339,525**	**52.9%**	**284,456**	**44.3%**	**17,702**	**2.8%**	**641,683**
Ontario	**3,707,836**	**29.7%**	**8,519,799**	**68.3%**	**253,731**	**2.0%**	**12,481,366**
Quebec	**245,272**	**44.2%**	**308,136**	**55.6%**	**1,260**	**0.2%**	**554,668**
Other	**146,971**	**50.0%**	**144,746**	**49.2%**	**2,309**	**0.8%**	**294,026**
	$ 4,838,659	**32.6%**	**$ 9,728,805**	**65.5%**	**$ 280,865**	**1.9%**	**$14,848,329**

(000s, except %) 2012

	Insured Residential Mortgages	Percentage of Total for Province	Uninsured Residential Mortgages	Percentage of Total for Province	Equityline *Visa*[1]	Percentage of Total for Province	Total
British Columbia	$ 484,925	56.2%	$ 369,557	42.9%	$ 7,821	0.9%	$ 862,303
Alberta	415,596	58.6%	270,563	38.1%	23,539	3.3%	709,698
Ontario	4,136,699	36.3%	6,979,420	61.2%	281,545	2.5%	11,397,664
Quebec	308,007	57.3%	227,617	42.4%	1,531	0.3%	537,155
Other	139,793	53.0%	121,026	45.9%	2,800	1.1%	263,619
	$ 5,485,020	39.8%	$ 7,968,183	57.9%	$ 317,236	2.3%	$13,770,439

[1] Equityline *Visa* is an uninsured product.

Table 42: Insured and Uninsured Single-Family Residential Mortgages by Contractual Remaining Amortization Period

(000s, except %) **2013**

	≤ 20 Years	**> 20 and ≤ 25 Years**	**> 25 and ≤ 30 Years**	**> 30 and ≤ 35 Years**	**> 35 Years**	**Total**
Balance outstanding	**$ 520,436**	**$ 1,579,125**	**$ 7,944,270**	**$ 4,471,217**	**$ 52,416**	**$14,567,464**
Percentage of total	**3.6%**	**10.8%**	**54.5%**	**30.7%**	**0.4%**	**100.0%**

(000s, except %) 2012

	≤ 20 Years	> 20 and ≤ 25 Years	> 25 and ≤ 30 Years	> 30 and ≤ 35 Years	> 35 Years	Total
Balance outstanding	$ 585,304	$ 1,566,157	$ 6,713,556	$ 4,412,537	$ 175,649	$13,453,203
Percentage of total	4.4%	11.6%	49.9%	32.8%	1.3%	100.0%

Table 43: Weighted-average Loan to Value (LTV) Ratios for Uninsured Single-family Residential Mortgages Originated During the Year

	2013	
	Uninsured Residential Mortgages[1]	Equityline *Visa*[1]
British Columbia	67.4%	55.7%
Alberta	69.1%	49.0%
Ontario	73.7%	57.3%
Quebec	67.7%	52.9%
Other	67.2%	53.2%
Total	**73.0%**	**57.2%**

[1] Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

An economic downturn is generally characterized by reduced growth or declines in gross domestic product, often combined with reduced rates of employment and declines in real estate values. The probability of delinquency in the residential mortgage portfolio is most closely correlated with changes in employment. Consequently, during an economic downturn, the Company would expect an increased rate of delinquency and also an increase in credit losses. The total single-family residential mortgage portfolio including HELOC was $14.85 billion as of December 31, 2013, of which $4.84 billion was insured against credit losses. The Company would expect to recover lost principal, interest and direct collection costs associated with this insured portion of the portfolio. Management monitors these risks carefully on an ongoing basis, including stress testing of the portfolio.

The Company's key mitigant against credit losses in the uninsured portfolio is the excess of the value of the collateral over the outstanding loan amount (expressed as loan to value ratio or LTV). As at December 31, 2013, the weighted-average LTV of the uninsured portfolio against the estimated current market value was 67.9% compared to 64.2% at the end of 2012. These LTVs were estimated using the Teranet-National Bank House Price Index and the most recent appraisals. If an economic downturn involved reduced real estate values, the margin of value over loan amounts would be eroded and the extent of loan losses could increase. The distribution of LTV around the mean for each significant market is indicated below.

Table 44: Weighted-Average Loan to Value Ratios for Uninsured Residential Mortgages

	2013		
	Weighted-average Current LTV[1]	Percentage of Total Value of Outstanding Mortgages with Current LTV Less than or Equal to	
		75%	65%
British Columbia	65.4%	86.9%	40.2%
Alberta	63.8%	91.0%	47.3%
Ontario	68.4%	70.8%	29.8%
Quebec	64.3%	93.2%	45.3%
Other	62.5%	92.1%	55.9%
Total	**67.9%**	**73.2%**	**31.7%**

[1] Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

Market Risk

For the Company, market risk consists primarily of investment risk and structural interest rate risk. A summary of these risks is as follows:

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments.

The Company's investment risk management framework includes investment policies that are approved by the Asset/Liability Committee (ALCO) and the Risk and Capital Committee of the Board. The ALCO is responsible for defining and monitoring the Company's investment portfolio and identifying investments that may be at risk of impairment. The Treasury group is responsible for managing the Company's investment portfolio in accordance with approved policies and assesses the impact of market events on potential implications to its total value. ERM recommends prudential policies, reviews procedures and guidelines, and provides enterprise-wide oversight of investment risk, including valuations.

Structural Interest Rate Risk

Structural interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings over specific time periods despite interest rate fluctuations. The Company has adopted an approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings, and seeks to organically match liabilities to assets in terms of maturity and interest rate repricing through its actions in the deposit market in priority to accessing off-balance sheet solutions.

The Company's market risk management framework includes interest rate risk policies that are approved by the ALCO and the Risk and Capital Committee of the Board. The ALCO is responsible for defining and monitoring the Company's structural interest rate risk and reviewing significant maturity and/or duration mismatches, as well as developing strategies that allow the Company to operate within its overall risk appetite. In addition, the ALCO oversees stress testing of structural interest rate risk using a number of interest rate scenarios. The Treasury group is responsible for managing the Company's interest rate gaps in accordance with approved policies and assesses the impact of market events on the Company's net interest income and economic value of shareholders' equity. The ERM group recommends prudential policies and guidelines, and provides independent enterprise-wide oversight of all interest rate risk.

From time to time, the Company enters into interest rate derivative transactions in order to hedge its structural interest rate risk. The use of derivative products has been approved by the Board; however, permitted usage is governed by specific policies. Derivatives are only permitted in circumstances in which the Company is hedging asset-liability mismatches, or loan commitments, or as a result of hedging requirements under the terms of its participation in the CMB program. Moreover, the policy expressly articulates that the use of derivatives is not permitted for transactions that are undertaken to potentially create trading profits through speculation on interest rate movements.

The interest rate sensitivity position as at December 31, 2013 is presented under Note 21 in the consolidated financial statements. The table in Note 21 represents positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category. This note summarizes assets and liabilities in terms of their contractual amounts. Over the lifetime of certain assets, some contractual obligations such as residential mortgages will be terminated prior to their stated maturity at the election of the borrower, by way of prepayments. Similarly, some contractual off-balance sheet mortgage commitments may be made but may not materialize. In measuring its interest rate risk exposure, the Company makes assumptions about these factors and monitors these against actual experience.

To assist in matching assets and liabilities, the Company utilizes a variety of metrics including two interest rate risk sensitivity metrics that measure the relationship between changes in interest rates and the resulting estimated impact on both the Company's future net interest income and economic value of shareholders' equity. The Company measures these metrics over a number of different yield curve scenarios.

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

Table 45: Impact of Interest Rate Shifts

	Increase in interest rates		Decrease in interest rates	
(000s)	**December 31 2013**	December 31 2012	**December 31 2013**	December 31 2012
100 basis point shift				
Impact on net interest income, after tax (for the next 12 months)	**$ 12,601**	$ 12,614	**$ (12,601)**	$ (12,614)
Impact on net present value of shareholders' equity	**16,555**	9,746	**(18,003)**	(11,447)

As illustrated in the above table, an increase in interest rates will have a positive impact on net interest income after tax and the economic value of shareholder's equity in the event of a 100 basis point movement in rates without management action. A positive gap exists when interest-sensitive assets exceed interest-sensitive liabilities on specific maturity or repricing periods. As these gaps widen, the fluctuation in the sensitivity becomes more pronounced and, for this reason, the Company's ALCO manages this to within authorized limits.

Liquidity and Funding Risk

This is the risk that the Company is unable to generate or obtain cash or equivalents in a timely manner and at a reasonable cost to meet its commitments (both on- and off-balance sheet) as they become due. This risk will arise from fluctuations in the Company's cash flows associated with lending, securitization, deposit-taking, investing and other business activities.

The Company's liquidity risk management framework includes liquidity and funding risk policies, and a Contingency Funding Plan that are approved by the ALCO and the Risk and Capital Committee of the Board. The mandate of the ALCO includes establishing and recommending to the Board an enterprise-wide liquidity risk appetite. In addition, the ALCO reviews the composition and term structure of assets and liabilities, reviews liquidity and funding risk policies and strategies and regularly monitors compliance with those policies. The ALCO also oversees the stress testing of liquidity and funding risk and the testing of the Company's Contingency Funding Plan. The Treasury group is responsible for managing the Company's liquidity and funding risk positions in accordance with approved policies and assesses the impact of market events on liquidity requirements on an ongoing basis. The ERM group recommends liquidity policies and guidelines, and provides independent oversight of all liquidity and funding risk.

The Company's liquidity and funding risk policies are designed to ensure that cash balances and the inventory of other liquid assets are sufficient to meet all cash outflows both in ordinary market conditions and during periods of extreme market stress. The Company's policies address several key elements, such as the minimum levels of liquid assets to be held at all times; the composition of types of liquid assets to be maintained; daily monitoring of the liquidity position by Treasury, senior management, and the ERM group; monthly reporting to the ALCO; and quarterly reporting to the Risk and Capital Committee of the Board.

The Company uses a liquidity horizon as its main liquidity metric. Using maturity gap analysis, the Company projects a time horizon when its net cumulative cash flow turns negative, after taking into account the market value of its stock of liquid assets. The Company's liquidity horizon is calculated daily and is based upon contractual and behavioural cash flows. Forecasts are made using normal market conditions and a number of stressed liquidity scenarios, including ability to fund, deposit runoff, loan growth, liquidity portfolio valuation, loan arrears and write-downs. In addition, the Company regularly monitors a number of other structural funding and liquidity ratios in its overall funding and liquidity risk management framework.

The Company holds liquid assets in the form of cash, bank deposits, securities issued or guaranteed by the Government of Canada, securities issued by provincial governments, and highly rated short-term money market securities, corporate bonds and debentures. At December 31, 2013, eligible liquid assets amounted to $1.49 billion, compared to $771.8 million at December 31, 2012.

The Company's main sources of funding come from retail deposits and securitization. Retail deposits are primarily sourced through the deposit broker network and the Company relies heavily on this channel. The majority of these deposits are received through channels that are controlled by several of the major Canadian banks. The broker network provides the Company with access to a very large volume of potential deposits, which are sourced almost entirely from individual investors or small businesses. The bulk of deposits raised are CDIC-insured fixed-term Guaranteed Investment Certificates (GICs) that are not subject to early redemption. The Company has contractual agreements with most major national investment dealers and a large number of independent brokers. The Company continues to add new investment dealers and independent brokers in order to diversify its sources of funds.

In 2012, Home Trust launched a high interest savings account (HISA) offered only through financial advisors and investment and mutual fund dealers. In 2013, the Company was successful in building national distribution of the HISA, with the balance growing to $337.2 million (2012 – $19.8 million).

In 2012, Home Trust commenced a multi-year project aimed at further diversifying its funding sources by building a direct-to-consumer deposit business. In November 2013, this business was re-branded Oaken Financial. All existing direct deposit customers were migrated to the Oaken brand. In conjunction with the launch of Oaken, Home Trust launched the Oaken Savings Account to complement Oaken's suite of GICs.

In addition, in December 2013, the Company initiated an institutional deposits program, attracting $300 million of deposits in the initial offering. This is intended to be an ongoing program with deposit offerings twice annually. The offering was well received, with an oversubscription rate of 70% and an interest yield that is attractive to the Company.

The Company is an approved NHA MBS issuer and an approved seller into the CMB program, which are securitization initiatives sponsored by CMHC. Securitization funding provides the Company with long-term matched funding at attractive interest rates. Traditionally, the Company has used securitization markets to fund its Accelerator mortgages and insured multi-unit residential mortgages and, to a lesser extent, its traditional mortgages that qualified for bulk portfolio insurance. On-balance sheet Accelerator mortgages and multi-unit residential mortgages classified as held for sale are generally held for securitization and are funded with deposits until securitized. When mortgages are securitized, the Company receives principal and interest payments on its underlying mortgage loans before the required payments are passed through to MBS investors. However, as a part of its servicing obligations, the Company must pass-through any payments that are not collected due to arrears on a timely basis. In the case of defaults, the Company would make required payments to investors and place the mortgage/property through the insurance claims process to recoup any losses. This could result in cash flow timing mismatches that could marginally increase funding and liquidity risk.

Upcoming OSFI Liquidity Requirements

In November 2013, OSFI issued for comment a draft of the Liquidity Adequacy Requirements (LAR) Guideline that is applicable to banks and federal trust and loan companies. The draft LAR Guideline is part of the ongoing rollout of Basel III in Canada and sets out the new standards OSFI will use to assess the adequacy of the Company's liquidity. New standards include:

Liquidity Coverage Ratio (*LCR*) – effective January 1, 2015. The LCR establishes a common measure of liquidity risk and requires institutions to maintain sufficient liquid assets to cover a minimum of 30 days of cash flow requirements in a stress situation.

Net Stable Funding Ratio (*NSFR*) – effective January 1, 2018. The NSFR establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one-year time horizon. Although OSFI is still in the process of finalizing the LAR Guideline, Home Trust believes it is well positioned to comply with the new liquidity requirements.

2014 Outlook for Liquidity and Funding Risk

The Company will continue to diversify its funding sources in 2014. While retail deposits sourced from the deposit broker channel will continue to provide the majority of the Company's core funding, more reliance will be placed on the Company's HISA, Oaken Financial, and the issuance of wholesale deposit notes in the institutional capital markets.

It is anticipated that issuer competition for broker-sourced deposits may increase, possibly resulting in increased funding costs, whereby the Company would look to adjust its lending rates. It is also likely that the Company's funding diversification strategy will result in higher funding costs as the Company looks to deepen its penetration directly with customers and establish a presence in wholesale funding markets.

The rate of growth in the deposit portfolio is expected to mirror the growth of the Company's non-insured loan portfolio, while securitization will continue to support insured mortgages. Ensuring a reliable and sufficient source of deposits to fund operations and liquidity reserves will remain a key objective for the Company.

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. The impact of operational risk may include financial loss, loss of competitive position, or regulatory enforcement actions, among others. It is an integral and unavoidable part of the Company's business as it is inherent in every business and support activity, product and service. While operational risk cannot be eliminated, the Company has taken proactive steps to mitigate this risk. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls. The Company continues to strengthen its operational risk framework with the addition of staff, introduction of enhanced risk tools and methodologies including key risk indicators, and improvement in its risk analytics.

The Company's investment in its business continuity program was integral to a nimble and effective response to the 2013 Alberta and Toronto floods. Geo-spatial tools, using inputs from StatsCan census data, are being used to better inform the Company's understanding of exposure to natural disasters and have the potential to be used for customer analytics, portfolio performance analysis, and to inform underwriting decisions in areas at high risk of natural disasters.

The financial services sector, including the Company, remains exposed to cyber-crime risk. Threats are increasing in scale, scope and complexity. The Company is enhancing its information security program. Despite the Company's commitment to information and cyber security, the Company and its third-party service providers may not be able to fully mitigate all risks associated with the increased complexity and high rate of change in the threat landscape.

Key elements of the Company's operational risk framework include:

Governance

The Company maintains a system of comprehensive policies and an internal control framework designed to provide a sound and well-controlled operational environment. Operational risk policies are approved by the Operational Risk Committee and the Risk and Capital Committee of the Board. A three lines of defence model is used to manage operational risk, as described under Risk Governance. Oversight over the Company's operational risk exposures is also provided by the Operational Risk Committee.

Risk Identification and Assessment

A risk and control self-assessment program proactively identifies the Company's exposure to key operational risks and assesses the effectiveness of mitigating controls. Risk assessments are also performed on significant new initiatives (e.g., products, services and systems) by business and support areas and other internal subject matter experts to ensure that associated risks are identified, assessed and approved, and that the Company's control infrastructure can support the initiative prior to implementation.

Risk Measurement

The Company has adopted the Basic Indicator Approach for operational risk under Basel II. In addition, scenario analysis and stress testing are used to assess the possible impact of extreme but plausible operational risk loss events. Scenario analysis and stressing testing provide a forward-looking basis for managing exposures within and potentially beyond the Company's risk appetite.

Risk Monitoring and Reporting

The Company monitors key risk indicators to gain assurance that it remains within its stated risk appetite and to identify early warning signals of changes in the risk environment, control effectiveness and potential risk issues before they crystallize and result in financial loss or other negative impact.

Operational losses, including near misses, are collected, analyzed and reported in order to reduce the likelihood of future recurrences and to strengthen risk management practices. The Company also proactively analyzes operational events in the industry and external environment to understand its exposure, if any, to similar events and takes steps to prevent such occurrences.

Operational risk issues and action plans across the Company are centrally captured, classified, monitored and reported upon.

Reporting and monitoring forms an integral part of the Company's operational risk management processes, which are designed to ensure that risks and issues are identified, escalated and managed on a timely basis. Regular reporting is in place with respect to the Company's current and emerging operational risks, key risk indicators, operational loss events, external event analyses, issues management, new initiative risk assessment, crisis management preparedness and third-party risk management.

Business Continuity and Crisis Management

The Company has implemented an all hazards based business continuity and crisis management strategy to minimize the impact on the Company's clients and operations in the event of a disruption or other adverse event.

Corporate Insurance

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

Legislative and Regulatory Risk

Legislative and regulatory risk refers to the risk of non-compliance with an applicable legislative or regulatory requirement (law, regulation, guideline, an undertaking to a regulatory authority or provision, section, subsection, order, term or condition). This includes requirements that have been identified by the Governance, Risk and Compliance Committee and senior management that require the Company to do certain things, including conducting its affairs in a particular manner, and where non-compliance could have an impact on the Company's reputation and/or safety and soundness.

While all business units of the Company (as the first line of defence) are responsible for ensuring that legislative and regulatory risk is mitigated, the independent oversight of legislative and regulatory risk is principally managed by the CCO, CAMLO and the Corporate Compliance group as part of the Company's Compliance Framework.

Reputational Risk

Reputational risk is the risk that shareholders or the public will, with or without basis, judge the Company's operations or practices negatively, potentially resulting in a decline in its value, brand, liquidity, or customer base.

The Company views reputational risk as an exposure to earnings and/or capital from the consequence or failure to adequately manage any risk, regardless of the source, rather than a specific risk. Failure to effectively manage these risks can result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's strategic objectives.

The Company aims to safeguard its public reputation through its governance, compliance and risk management processes.

Risk Factors That May Affect Future Results

In addition to the risks described in this Risk Management section, there are numerous other risk factors: in particular macroeconomic and industry factors beyond the Company's control, which could cause the Company's results to differ significantly from the Company's plans, objectives and estimates. All forward-looking statements, including those in this MD&A, are subject to inherent risks and uncertainties, general and specific, which may cause the Company's actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these external factors are discussed below.

Monetary and Fiscal Policy

The Company's earnings are affected by the monetary policy of the Bank of Canada and the fiscal policy of the federal government of Canada and other governments in Canada and abroad. Changes in the supply of money, government spending and the general level of interest rates can affect the Company's profitability. A change in the level of interest rates affects the interest spread between the Company's deposits and loans and, as a result, impacts the Company's net interest income. Changes in monetary and fiscal policy and in the financial markets are beyond the Company's control and are difficult to predict or anticipate.

Level of Competition

The Company's performance is impacted by the level of competition in the markets in which it operates. The Company currently operates in a highly competitive industry. Customer retention can be influenced by many factors, such as the pricing of products or services, changes in customer service levels, changes in products or services offered, and general trends in consumer demand.

Changes in Legislation and Regulations

Changes in legislation and regulation, including interpretation or implementation, could affect the Company by limiting the scale and scope of its products and services. Also, the Company's failure to comply with its legislative and regulatory requirements could result in sanctions and financial penalties that could adversely impact the Company's earnings and damage its reputation and ability to operate as a regulated entity.

Information Systems and Technology

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

Accounting Policies and Estimates Used by the Company

The accounting policies and estimates the Company utilizes determine how the Company reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect the Company's results of operations and financial condition. More discussion is included in the Accounting Standards and Policies section and within the notes to the consolidated financial statements.

Ability to Attract and Retain Employees and Executives

The Company's future performance depends to a large extent on its ability to attract and retain key personnel. There is strong competition for the best people in the financial services sector. There is no assurance that the Company will be able to continue to attract and retain key personnel, although this remains a fundamental corporate priority.

ACCOUNTING STANDARDS AND POLICIES

The significant accounting policies are outlined in Note 2 to the consolidated financial statements included in this report. These policies are critical as they refer to material amounts and require management to make estimates.

Critical accounting estimates that require management to make significant judgements, some of which are inherently uncertain, are outlined in Note 2 to the consolidated financial statements included in this report. These estimates are critical as they involve material amounts and require management to make determinations that, by their very nature, include uncertainties. The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amounts reported. Actual results could differ from those estimates. Key areas where management has made estimates and applied judgement include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options and useful lives of capital assets and intangible assets. In addition, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Most loans and other assets are not derecognized, based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets. Certain loans are recognized only to the extent of the Company's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). Certain loans where residual interests in securitized transactions are sold are derecognized based on management's judgement that substantially all the risks and rewards of ownership have been transferred. Further information can be found under Notes 4, 5, 6, 9, 10, 14, 16, 19 and 22 to the consolidated financial statements.

ACCOUNTING DEVELOPMENTS

The following new IFRS pronouncements have been issued but are not yet effective and may have a future impact on the Company:

IFRS 9 Financial Instruments

The Company will be required to adopt IFRS 9, *Financial Instruments* (IFRS 9), which is the first phase of the IASB's project to replace IAS 39. On November 19, 2013, the IASB decided that the previously set mandatory effective date of January 1, 2015 would not allow sufficient time for entities to prepare to apply IFRS 9, and that a new date should be determined when IFRS 9 is closer to completion. IFRS 9 will provide new requirements for the way in which an entity should classify and measure financial assets and liabilities that are in the scope of IAS 39, with a final standard targeted in the first half of 2014. The standard requires all financial assets to be classified on the basis of the entity's business model for managing such financial assets and the contractual cash flow characteristics of the financial assets. On November 19, 2013, the IASB introduced a new hedge accounting model. The general hedge accounting standard is intended to provide better links between an entity's risk management activities, the rationale for hedging and the impact of hedging on the financial statements. The standard will potentially simplify the Company's hedge accounting strategies. The impairment phase of the IASB's financial instruments project is currently under development, with a review draft of the standard issued in March 2013 and a final standard targeted in the first half of 2014. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and Management's Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2013. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as of December 31, 2013.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and receipts and expenditures are being made in accordance with authorizations of management and the Board of Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Due to inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. As a result, the Company's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and COBIT, an IT governance framework, to evaluate the design of the Company's internal controls over financial reporting.

An evaluation of the design and operating effectiveness of internal controls over financial reporting was conducted as of December 31, 2013. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's internal controls over financial reporting were operating effectively as of December 31, 2013.

Changes in Internal Control over Financial Reporting

There were no significant changes in 2013 that have affected or could reasonably be expected to materially affect internal control over financial reporting.

Comparative Consolidated Financial Statements

The comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 audited consolidated financial statements. Please see Note 2 for further information.

NON-GAAP MEASURES AND GLOSSARY

Non-GAAP Measures

The Company uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with GAAP, are not defined by GAAP, and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The non-GAAP measures used in this MD&A are defined as follows:

Adjusted Net Income and Adjusted Earnings per Share

After-tax changes that are associated with derivative restructuring related to IFRS conversion, after-tax charges related to the resolution of disputed loans to commercial condominium corporations and after-tax investment tax credit benefits are adjusted against net income to present adjusted net income. The reconciliation of net income to adjusted net income and the resulting adjusted earnings per share are presented in Table 4 to this MD&A.

Reconciliation of Net Income to Adjusted Net Income

	Quarter					Year to date		
(000s, except % and per share amounts)	**Q4 2013**	Q3 2013	% Change	Q4 2012	% Change	**2013**	2012	% Change
Net income	**$ 68,827**	$ 66,417	3.6%	$ 58,965	16.7%	**$ 256,542**	$ 221,983	15.6%
Adjustment for derivative restructuring – IFRS conversion (net of tax)	**850**	931	(8.7%)	2,602	(67.3%)	**5,873**	2,602	125.7%
Adjustment for disputed loans to condominium corporations (net of tax)	**–**	–	–	–	–	**1,508**	–	–
Adjustment for investment tax credit benefits (net of tax)	**(1,470)**	(2,735)	(46.3%)	–	–	**(6,190)**	–	–
Adjusted Net Income	**$ 68,207**	$ 64,613	5.6%	$ 61,567	10.8%	**$ 257,733**	$ 224,585	14.8%
Adjusted Basic Earnings per Share	**$ 1.96**	$ 1.86	5.4%	$ 1.78	10.1%	**$ 7.43**	$ 6.47	14.8%
Adjusted Diluted Earnings per Share	**$ 1.95**	$ 1.85	5.4%	$ 1.77	10.2%	**$ 7.36**	$ 6.45	14.1%

Allowance as a Percentage of Gross Loans

Allowance as a percentage of gross loans is calculated as the total allowance divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans except for loans held for sale.

Assets to Capital Multiple (ACM)

The ACM provided in this MD&A is that of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. The multiple reflects total regulatory assets, including specified off-balance sheet items net of other specified deductions, divided by Total regulatory capital.

Common Equity Tier 1, Tier 1, and Total Capital Ratios

The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. Refer to Note 14(E) to the consolidated financial statements included in this report.

Efficiency or Productivity Ratio

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

Liquid Assets

Liquid assets are unencumbered high-quality assets for which there is a broad and active secondary market available to the Company to sell these assets without incurring a substantial discount. Liquid assets are a dependable source of cash used by the Company when it experiences short-term funding shortfalls.

Market Capitalization

Market capitalization is calculated as the closing price of the Company's common shares multiplied by the number of common shares of the Company outstanding.

Net Interest Margin (TEB)

Net interest margin is a measure of profitability of assets. Net interest margin (TEB) is calculated by taking net interest income, on a taxable equivalent basis, divided by the average total assets generating the interest income.

Net Interest Margin (Non-TEB)

Net interest margin is calculated by taking net interest income divided by the average total assets generating the interest income.

Net Non-Performing Loans as a Percentage of Gross Loans (NPL Ratio)

The NPL ratio is calculated as the total net non-performing loans divided by the gross on-balance sheet loans, which includes all on-balance sheet loans except for loans held for sale.

Provision as a Percentage of Gross Loans (PCL Ratio)

The PCL ratio is calculated as the total individual and collective provision expense divided by the gross on-balance sheet loans outstanding, which includes all on-balance sheet loans except for loans held for sale.

Return on Assets (ROA)

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

Return on Shareholders' Equity (ROE)

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

Risk-Weighted Assets (RWA)

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Home Trust Company. The calculations are in accordance with guidelines issued by OSFI. Refer to Note 14(E) to the consolidated financial statements included in this report.

Taxable Equivalent Basis (TEB)

Most banks and trust companies analyze and discuss their financial results on a taxable equivalent basis (TEB) to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income principally from preferred and common equity securities. The adjustment to TEB used in this MD&A increases income and the provision for income taxes to what they would have been had the income from tax-exempt securities been taxed at the statutory tax rate. TEB adjustments of $4.0 million for 2013 ($5.0 million – 2012) increased interest income as used in the calculation of net interest margin. Net interest margin is discussed on a TEB throughout this MD&A. See Table 6 for the calculation of net interest income on a tax equivalent basis.

Total Assets under Administration (AUA)

Total assets under administration refers to all on-balance sheet assets plus all off-balance sheet loans that qualify for derecognition under IFRS.

Total Loans under Administration (LUA)

Total loans under administration refers to all on-balance sheet loans plus all off-balance sheet loans that qualify for derecognition under IFRS.

Glossary of Terms

Assets or Loans under Administration refer to assets or loans administered by a financial institution that are beneficially owned by clients and therefore not reported on the balance sheet of the administering financial institution, plus all assets or loans beneficially owned by the Company and carried on the balance sheets.

Average Earning Assets represent the monthly average balance of deposits with other banks and loans and securities over a relevant period.

Basis Point is one-hundredth of a percentage point.

Canada Deposit Insurance Corporation (CDIC) is a Canadian federal Crown corporation created to protect qualifying deposits made with member financial institutions in case of their failure.

Collective Allowance (previously referred to as the General Allowance) is established for incurred losses inherent in the portfolio that are not presently identifiable on a loan-by-loan basis and reflects the relative risk of the various loan portfolios that the Company manages.

Derivatives used by the Company are contracts whose value is "derived" from movements in interest rates. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates.

Forwards used by the Company are contractual agreements to either buy or sell a specified amount of an interest-rate-sensitive financial instrument or security at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Hedging is a risk management technique used by the Company to neutralize, manage or offset interest rate, equity, or credit exposures arising from normal banking activities.

Impaired or Non-performing Loans are loans for which there is no longer reasonable assurance of the timely collection of principal or interest.

Individual Allowances (previously referred to as Specific Allowances) reduce the carrying value of individual credit assets to the amount expected to be recovered if there is evidence of deterioration in credit quality.

Insured Loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio. The Company's insured lending includes single-family homes and multi-unit residential properties.

Net Interest Income includes earnings on assets, such as loans and securities, including interest and dividend income, less interest expense paid on liabilities, such as deposits.

Notional Amount refers to the principal used to calculate interest and other payments under derivative contracts. The principal does not change hands under the terms of a derivative contract.

Office of the Superintendent of Financial Institutions Canada (OSFI) is the government agency responsible for regulation and supervision of banks, insurance companies, trust companies, loan companies and pension plans in Canada.

Provision for Credit Losses is a charge to income that represents an amount deemed adequate by management to fully provide for impairment in a portfolio of loans and other credit instruments, given the composition of the portfolio, the probability that default has occurred, the economic environment and the allowance for credit losses already established.

Securitization is the practice of selling pools of contractual debts, such as residential or commercial mortgages, to third parties.

Swaps are contractual agreements between two parties to exchange a series of cash flows. The only type of swap agreements used by the Company are interest rate swaps in which counterparties generally exchange fixed-rate and floating-rate interest payments based on a notional value in a single currency.

Acronyms

ALCO – Asset/Liability Committee

AOCI – Accumulated Other Comprehensive Income

CDIC – Canada Deposit Insurance Corporation

CMB – Canada Mortgage Bond

CMHC – Canada Mortgage and Housing Corporation

COSO – Committee of Sponsoring Organizations of the Treadway Commission

ERM – Enterprise Risk Management

GAAP – Generally Accepted Accounting Principles

GIC – Guaranteed Investment Certificate

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

LTV – Loan to Value (ratio expressed as a percentage)

MBS – Mortgage-Backed Security

MD&A – Management's Discussion and Analysis

NCCF – Net Cumulative Cash Flow

NHA – National Housing Authority

OCI – Other Comprehensive Income

OSFI – Office of the Superintendent of Financial Institutions Canada

TEB – Taxable Equivalent Basis

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS

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Management's Responsibility for Financial Information

The consolidated financial statements of Home Capital Group Inc. were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for publicly accountable enterprises, which are International Financial Reporting Standards as issued by the International Accounting Standards Board, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company. The consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this report is consistent with that in the consolidated financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control systems designed to provide assurance that the transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of business conduct and ethics and appropriate management information systems. Management has formed a disclosure committee, chaired by the CFO, which reviews all of the Company's financial disclosures for fairness before release to the Board or shareholders.

The internal control systems are further supported by a compliance function, which ensures that the Company and its employees comply with all regulatory requirements, as well as by an enterprise risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal audit function periodically assesses various aspects of the Company's operations and makes recommendations to management for, among other things, improvements to the control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada makes such examinations and inquiries as deemed necessary to satisfy itself that Home Trust Company is in a sound financial position and that it complies with the provisions of the Trust and Loan Companies Act (Canada).

Ernst & Young LLP, independent auditors, appointed by the shareholders, perform an annual audit of the Company's consolidated financial statements and their report follows.

The internal auditors, the chief compliance officer, the external auditors and the Office of the Superintendent of Financial Institutions Canada meet periodically with the Audit Committee, with management either present or absent, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and Management's Discussion and Analysis of results of operations and financial condition appearing in the Annual Report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee. The Audit Committee is composed solely of Directors who are not Officers or employees of the Company.

Gerald M. Soloway
Chief Executive Officer
Toronto, Canada
February 12, 2014

Robert J. Blowes, FCPA, FCA
Chief Financial Officer

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Home Capital Group Inc., which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Home Capital Group Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 12, 2014

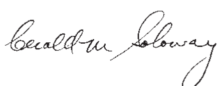
Consolidated Balance Sheets

thousands of Canadian dollars	December 31 2013	As at December 31 2012
ASSETS		
Cash and Cash Equivalents (note 4(A))	**$ 728,469**	$ 301,863
Available for Sale Securities (notes 4(B) and (C))	**424,272**	414,344
Loans Held for Sale	**137,975**	21,921
Loans (note 5)		
Securitized mortgages (note 6)	**5,210,021**	6,706,160
Non-securitized mortgages and loans	**12,671,905**	10,431,832
	17,881,926	17,137,992
Collective allowance for credit losses (note 5(E))	**(31,500)**	(30,000)
	17,850,426	17,107,992
Other		
Restricted assets (note 7)	**652,986**	725,493
Derivative assets (note 19)	**29,886**	45,388
Other assets (note 8)	**162,679**	100,983
Goodwill and intangible assets (notes 9 and 10)	**89,157**	82,095
	934,708	953,959
	$20,075,850	$18,800,079
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits (note 11)		
Deposits payable on demand	**$ 429,269**	$ 105,923
Deposits payable on a fixed date	**12,336,685**	10,030,676
	12,765,954	10,136,599
Senior Debt (note 12)	**147,343**	150,684
Securitization Liabilities (note 6)		
Mortgage-backed security liabilities	**660,964**	1,301,693
Canada Mortgage Bond liabilities	**5,112,100**	6,034,202
	5,773,064	7,335,895
Other		
Derivative liabilities (note 19)	**3,809**	2,386
Other liabilities (note 13)	**173,558**	170,502
Deferred tax liabilities (note 16(C))	**34,425**	35,800
	211,792	208,688
	18,898,153	17,831,866
Shareholders' Equity		
Capital stock (note 14)	**70,233**	61,903
Contributed surplus	**5,984**	6,224
Retained earnings	**1,119,959**	903,831
Accumulated other comprehensive loss (note 15)	**(18,479)**	(3,745)
	1,177,697	968,213
	$20,075,850	$18,800,079

Commitments and Contingencies (note 18)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:



Gerald M. Soloway
Chief Executive Officer

Robert A. Mitchell
Chair of Audit Committee

Consolidated Statements of Income

thousands of Canadian dollars, except per share amounts	For the year ended December 31 2013	 December 31 2012
Net Interest Income Non-Securitized Assets		
Interest from loans (note 5(F))	**$ 629,247**	$ 525,722
Dividends from securities	**11,165**	14,171
Other interest	**8,283**	4,019
	648,695	543,912
Interest on deposits	**268,233**	230,006
Interest on senior debt	**6,612**	6,831
Net interest income non-securitized assets	**373,850**	307,075
Net Interest Income Securitized Loans and Assets		
Interest income from securitized loans and assets (note 5(F))	**225,793**	287,871
Interest expense on securitization liabilities	**177,664**	213,474
Net interest income securitized loans and assets	**48,129**	74,397
Total Net Interest Income	**421,979**	381,472
Provision for credit losses (note 5(E))	**15,868**	14,720
	406,111	366,752
Non-interest Income		
Fees and other income	**61,252**	43,863
Securitization income (note 6(C))	**12,648**	8,306
Net realized and unrealized gains (losses) on securities	**2,589**	(55)
Net realized and unrealized (loss) gain on derivatives (note 19)	**(1,430)**	3,788
	75,059	55,902
	481,170	422,654
Non-interest Expenses		
Salaries and benefits	**70,954**	58,956
Premises	**9,901**	8,833
Other operating expenses	**62,883**	54,946
	143,738	122,735
Income Before Income Taxes	**337,432**	299,919
Income taxes (note 16(A))		
Current	**82,128**	82,176
Deferred	**(1,238)**	(4,240)
	80,890	77,936
NET INCOME	**$ 256,542**	$ 221,983
NET INCOME PER COMMON SHARE (note 14(D))		
Basic	**$ 7.40**	$ 6.40
Diluted	**$ 7.32**	$ 6.38
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (note 14(D))		
Basic	**34,670**	34,692
Diluted	**35,023**	34,820
Total number of outstanding common shares (note 14(B))	**34,744**	34,630
Book value per common share	**$ 33.90**	$ 27.96

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

thousands of Canadian dollars	For the year ended December 31 2013	December 31 2012
NET INCOME	**$ 256,542**	$ 221,983
OTHER COMPREHENSIVE (LOSS) INCOME		
Available for Sale Securities and Retained Interests		
Net unrealized (losses) gains	**(19,530)**	6,462
Net gains reclassified to net income	**(2,584)**	(114)
	(22,114)	6,348
Income tax (recovery) expense	**(5,859)**	1,775
	(16,255)	4,573
Cash Flow Hedges (note 19)		
Net unrealized gains (losses)	**702**	(370)
Net losses reclassified to net income	**1,362**	1,462
	2,064	1,092
Income tax expense	**543**	219
	1,521	873
Total other comprehensive (loss) income	**(14,734)**	5,446
COMPREHENSIVE INCOME	**$ 241,808**	$ 227,429

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, except per share amounts	Capital Stock	Contributed Surplus	Retained Earnings	Net Unrealized Gains (Losses) on Securities and Retained Interests Available for Sale, After Tax	Net Unrealized Losses on Cash Flow Hedges, After Tax	Total Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2012	**$ 61,903**	**$ 6,224**	**$ 903,831**	**$ 432**	**$ (4,177)**	**$ (3,745)**	**$ 968,213**
Comprehensive income	**–**	**–**	**256,542**	**(16,255)**	**1,521**	**(14,734)**	**241,808**
Stock options settled (notes 14(B), 17(C))	**8,400**	**(2,202)**	**–**	**–**	**–**	**–**	**6,198**
Amortization of fair value of employee stock options	**–**	**1,962**	**–**	**–**	**–**	**–**	**1,962**
Repurchase of shares (note 14(C))	**(70)**	**–**	**(2,232)**	**–**	**–**	**–**	**(2,302)**
Dividends ($1.08 per share)	**–**	**–**	**(38,182)**	**–**	**–**	**–**	**(38,182)**
Balance at December 31, 2013	**$ 70,233**	**$ 5,984**	**$1,119,959**	**$ (15,823)**	**$ (2,656)**	**$ (18,479)**	**$1,177,697**
Balance at December 31, 2011	$ 55,104	$ 5,873	$ 722,999	$ (4,141)	$ (5,050)	$ (9,191)	$ 774,785
Comprehensive income	–	–	221,983	4,573	873	5,446	227,429
Stock options settled (notes 14(B), 17(C))	7,088	(1,408)	–	–	–	–	5,680
Amortization of fair value of employee stock options	–	1,759	–	–	–	–	1,759
Repurchase of shares (note 14(C))	(289)	–	(7,828)	–	–	–	(8,117)
Dividends ($0.90 per share)	–	–	(33,323)	–	–	–	(33,323)
Balance at December 31, 2012	$ 61,903	$ 6,224	$ 903,831	$ 432	$ (4,177)	$ (3,745)	$ 968,213

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

thousands of Canadian dollars	For the year ended December 31 2013	 December 31 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 256,542**	$ 221,983
Adjustments to determine cash flows relating to operating activities:		
Deferred income taxes	**(1,238)**	(4,240)
Amortization of capital assets	**3,504**	3,118
Amortization of intangible assets	**7,864**	6,715
Amortization of net premium on securities	**2,562**	2,460
Amortization of securitization and senior debt transaction costs	**18,729**	13,396
Provision for credit losses	**15,868**	14,720
Change in accrued interest payable	**13,624**	13,519
Change in accrued interest receivable	**(1,388)**	(5,434)
Net realized and unrealized (gains) losses on securities	**(2,589)**	55
Realized gain on securitization	**(12,648)**	(8,306)
Settlement of derivatives	**3,816**	(370)
Loss (gain) on derivatives	**1,643**	(3,788)
Net increase in mortgages	**(1,980,163)**	(1,943,195)
Net decrease (increase) in restricted assets	**72,507**	(252,493)
Net increase in credit card loans and other consumer retail loans	**(35,002)**	(40,845)
Net increase in deposits	**2,629,355**	2,214,475
Activity in securitization liabilities		
Proceeds from sale of mortgage-backed securities derecognized	**602,948**	242,576
Proceeds from sale of mortgage-backed securities	**635,101**	407,848
Settlement and repayment of securitization liabilities	**(1,686,739)**	(1,044,674)
Amortization of fair value of employee stock options	**1,962**	1,759
Changes in taxes payable and other	**(31,475)**	(7,194)
Cash flows provided by (used in) operating activities	**514,783**	(167,915)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	**(2,302)**	(8,117)
Exercise of employee stock options	**6,198**	5,680
Dividends paid to shareholders	**(37,458)**	(31,244)
Cash flows used in financing activities	**(33,562)**	(33,681)
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in securities		
Purchases	**(182,382)**	(335,218)
Proceeds from sales	**150,494**	317,748
Purchases of capital assets	**(7,801)**	(4,324)
Capitalized intangible development costs	**(14,926)**	(9,141)
Cash flows used in investing activities	**(54,615)**	(30,935)
Net increase (decrease) in cash and cash equivalents during the year	**426,606**	(232,531)
Cash and cash equivalents at beginning of the year	**301,863**	534,394
Cash and Cash Equivalents at End of the Year (note 4(A))	**$ 728,469**	$ 301,863
Supplementary Disclosure of Cash Flow Information		
Dividends received on investments	**$ 9,022**	$ 12,626
Interest received	**853,125**	807,870
Interest paid	**443,646**	438,026
Income taxes paid	**98,724**	79,887

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(unless otherwise stated, all amounts are in Canadian dollars)

NOTE 1 CORPORATE INFORMATION

Home Capital Group Inc. (the Company) is a public corporation traded on the Toronto Stock Exchange. The Company is incorporated and domiciled in Canada with its registered and principal business offices located at 145 King Street West, Suite 2300, Toronto, Ontario. The Company operates primarily through its federally regulated subsidiary, Home Trust Company (Home Trust), which offers deposits, residential and non-residential mortgage lending, securitization of insured residential first mortgage products, consumer lending and credit card products. The Company's subsidiary, Payment Services Interactive Gateway Inc. (PSiGate), provides payment card services. Licensed to conduct business across Canada, Home Trust has branch offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba. The Company is the ultimate parent of the group.

These consolidated financial statements for the year ended December 31, 2013 were authorized for issuance by the Board of Directors (the Board) of the Company on February 12, 2014. The Board has the power to amend the consolidated financial statements after their issuance only in the case of discovery of an error.

Subsequent to the end of the year and before the date these consolidated financial statements were authorized for issuance, the Board of Directors declared a quarterly cash dividend of $11.1 million or $0.32 per common share payable on March 1, 2014 to shareholders of record at the close of business on February 24, 2014. In addition, on February 12, 2014 the Board approved a stock dividend of one common share per outstanding common share.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises, which are International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The accounting policies were consistently applied to all periods presented unless otherwise noted. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2013 consolidated financial statements. The primary change was the reclassification of Home Trust mortgage-backed securities used as Canada Mortgage Bond replacement assets as securitized mortgages. In prior periods, these mortgage-backed securities were classified as pledged securities. Restricted cash and pledged securities have been reclassified to restricted assets on the consolidated balance sheets. Previously, they were included with cash resources and securities, respectively. Fair value changes in loans held for sale and the derivative gains or losses on bond forwards entered into to hedge interest rate risk on these loans have been reclassified to securitization income on the consolidated statements of income. In addition, the Company's disclosure of earnings by business segment has been replaced by disclosure of interest income by product group, as this was determined to be a better reflection of how the business is managed.

Use of Judgement and Estimates

Management has exercised judgement in the process of applying the Company's accounting policies. In particular, the Company's management has applied judgement in the application of its accounting policy with respect to derecognition of the loans and other assets used in current securitization programs. Most loans and other assets that have been securitized are not derecognized, based on management's judgement that the Company has not transferred substantially all of the risks and rewards of ownership of the loans and other assets. Certain securitized loans are recognized only to the extent of the Company's continuing involvement, based on management's judgement that it cannot be determined whether substantially all the risks and rewards of ownership have been transferred while control has been retained as defined by IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). When residual interests in securitized transactions are sold, the underlying securitized loans are derecognized based on management's judgement that substantially all the risks and rewards of ownership have been transferred through the two transactions.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Key areas where management has made estimates include allowance for credit losses, fair values and impairment of financial instruments, goodwill and intangible assets, income taxes, fair value of stock options and useful lives of capital assets and intangible assets. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries, after the elimination of intercompany transactions and balances.

Subsidiaries are entities the Company controls. The Company has control when it has power over the entity, has exposure or rights to variable returns from its involvement and has the ability to use its power over the entity to affect returns. The subsidiaries included in the consolidated financial statements are Home Trust and PSiGate, both of which are wholly owned.

Cash and Cash Equivalents

For the purposes of the consolidated financial statements, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at amortized cost, which approximates fair value due to the short-term nature of the instruments. Interest income is recognized using the effective interest rate method and, to the extent not received at year end, recorded as a receivable in other assets on the consolidated balance sheets.

Securities

Securities are classified as either held for trading or available for sale, based on management's intentions. On the trade date, all securities are recognized at their fair value, which is normally the transaction price.

Held for trading securities are financial assets purchased for resale, generally within a short period of time and primarily held for liquidity purposes. Interest earned is included in other interest income. Held for trading securities are measured at fair value, using published bid prices, as at the consolidated balance sheet dates. All realized and unrealized gains and losses are reported in income under non-interest income. Transaction costs are expensed as incurred. The Company has not elected under the fair value option to designate any financial asset or liability as held for trading, nor does the Company have any securities classified as held for trading.

Available for sale securities are financial assets purchased for longer-term investment that may be sold in response to or in anticipation of changes in market conditions. Dividends and interest earned are included in dividends from securities or other interest income. Available for sale securities are measured at their fair value, using published bid prices, as at the consolidated balance sheet dates. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income (AOCI) until the security is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to net income. Transaction costs are capitalized.

At the end of each reporting period, the Company conducts a review to assess whether there is any objective evidence that an available for sale security is impaired. Objective evidence of impairment results from one or more events that occur after the initial recognition of the security and which event (or events) has an impact that can be reliably estimated on the estimated future cash flows of the security. Such objective evidence includes observable data that comes to the attention of the Company such as significant financial difficulty of the issuer of the security. In the case of equity securities, objective evidence of impairment includes a significant or prolonged decline in the fair value of the security below its cost. The determination of what is significant or prolonged is based on management's judgement. Generally, management considers a significant decline to be 20% or more and a prolonged decline to be 12 months or more.

When there is objective evidence of an impairment of an available for sale security, any cumulative loss that has been recognized in other comprehensive income (OCI) is reclassified from AOCI to net income. The amount of the cumulative loss reclassified is the difference between the acquisition cost (net of any principal repayment, amortization and cumulative losses recognized in net income) and current fair value. In the case of debt securities, subsequent increases in fair value that can be objectively related to an event occurring after the impairment loss was recognized result in a reversal of the impairment loss through net income. Impairment losses on equity securities are not subsequently reversed through net income.

Obligations Related to Securities Sold under Repurchase Agreements

The purchase and sale of securities under sale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis in the consolidated statements of income. The Company does not have any obligations related to securities sold under repurchase agreements in 2013 or 2012.

Loans Held for Securitization and Sale

When identifiable, loans for which the Company has the intention of securitizing and derecognizing from the consolidated balance sheets in the near term are classified as held for trading for accounting purposes and are carried at fair value. Unrealized gains and losses resulting from the change in fair value of these loans are reported as securitization income in non-interest income on the consolidated statements of income. Interest income earned on these loans is included in interest from loans. The fair value of loans held for trading is determined by discounting the expected future cash flows of the loans at market rates for financial instruments with similar terms and credit risk.

Loans

Loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the loan. Origination revenues and costs are applied to the carrying amount of the loan.

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

Interest income is accrued as earned with the passage of time and continues to accrue when a loan is considered impaired (with an appropriate allowance for credit loss as discussed below).

A loan is recognized as being impaired (non-performing) 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, an uninsured residential or commercial mortgage, a retail loan, or Equityline *Visa* loan is deemed to be impaired at the earlier of the date it has been individually provided for or when it has been in arrears for 90 days. Single-family and multi-unit residential mortgages (including securitized mortgages) guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. Credit losses are not anticipated on insured mortgages. Secured and unsecured credit card balances that have a payment that is contractually 120 days in arrears are individually provided for, and those that have a payment that is 180 days in arrears are written off.

When loans are classified as impaired, the book value of such loans is adjusted to their estimated realizable value based on the fair value of any security underlying the loan, net of any costs of realization, by totally or partially writing off the loan and/or establishing an allowance for loan losses as described below.

An impaired loan is not returned to an unimpaired status unless all principal and interest payments are up to date, and management is reasonably assured of the recoverability of the loan.

Allowance for Credit Losses

An allowance for credit losses is maintained at an amount that, in management's opinion, is considered adequate to absorb all credit-related losses that have occurred in the portfolio whether or not detected at the period end, including accrued interest on impaired loans. Allowances are mainly related to loans but may also apply to other assets. The allowance consists of accumulated individual and collective allowances, each of which is reviewed at least quarterly. The collective allowance is deducted from total loans on the consolidated balance sheets.

Individual Allowances

Individual allowances are determined on an item-by-item basis and reflect the associated estimate of credit loss. In the case of loans and Equityline *Visa* credit cards, the individual allowances are the amounts required to reduce the carrying value of an impaired asset, including accrued interest, to its estimated realizable amount. The fair value of the underlying security is used to estimate the realizable amount of the receivable. The allowance is the difference between the receivable's carrying value, including accrued interest, and its estimated realizable amount. For secured and unsecured credit card receivables, individual allowances are provided for arrears over 120 days.

Collective Allowances

Collective allowances are established to absorb credit losses on the aggregate exposures in each of the Company's loan portfolios for which losses have been incurred but not yet individually identified. The collective allowance is based upon statistical analysis of past performance, level of allowance already in place and management's judgement. The collective allowance, based on the historical loss experience adjusted to reflect changes in the portfolios and credit policies, is applied to each pool of loans with common risk characteristics. This estimate includes consideration of economic and business conditions.

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

Securitized Loans and Securitization Liabilities

The Company periodically securitizes mortgages and sells the securities to investors or Canada Mortgage and Housing Corporation (CMHC) sponsored entities. Mortgage loan securitization is part of the Company's liquidity and funding strategy. The Company securitizes through to CMHC sponsored programs.

In the absence of sales of retained interests (see below), most transfers of pools of mortgages under the current programs do not result in derecognition of the mortgages from the Company's consolidated balance sheets. As such, these transactions result in the recognition of securitization liabilities when cash is received from the securitization entities. Such mortgages are reclassified to securitized residential mortgages on the consolidated balance sheets and continue to be accounted for as loans, as described above.

The securitization liabilities are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the liability. The effective interest rate is the rate that exactly discounts estimated future cash outflows over the expected life of the liability. Transaction costs and premiums or discounts are applied to the carrying amount of the liability. Also included in securitization liabilities on the consolidated balance sheets are amounts related to fair value hedge accounting that increase or decrease the carrying amount of the securitization liability. Please see Note 19 for more information.

In certain cases, the Company's remaining involvement is quite limited, although it has not transferred substantially all of its risks and rewards in the underlying loans and it has retained control, as defined by IAS 39. Such mortgages are securitized and sold and the Company has residual interest and servicing responsibilities for the assets sold, with very little exposure to variable cash flows. The Company accounts for its continuing involvement as retained interests and servicing liabilities on the consolidated balance sheets. Gains or losses on these transactions are recognized as securitization income in non-interest income on the consolidated statements of income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs. Retained interests are classified as available for sale assets and are stated at their fair value with unrealized gains and losses reported in AOCI. The fair value of the retained interests is estimated using discounted cash flow methodology. Retained interests are revalued quarterly to assess for impairment.

In certain circumstances, the Company sells its residual interest arising from securitization transactions. When this results in the Company transferring substantially all of the risks and rewards of ownership associated with the underlying mortgages, the mortgages are derecognized and a resulting gain or loss is recorded. These gains or losses are recognized as securitization income in non-interest income on the consolidated statements of income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer.

Restricted Assets

Restricted assets include cash or cash equivalents and securities that are contractually restricted, such as collateral associated with derivative transactions and participation in securitization programs. Restricted assets also include cash, non–Home Trust MBS or treasury bills pledged as Canada Mortgage Bond replacement assets. The accounting treatment for cash and securities is described above.

Derivatives Held for Risk Management Purposes

The Company utilizes derivatives to manage interest rate risk. Derivatives are carried at fair value and are reported as assets if they have a positive fair value and as liabilities if they have a negative fair value. The Company applies hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39. The Company utilizes two types of hedge relationships for accounting purposes, fair value hedges and cash flow hedges. If derivative instruments do not meet all of the criteria for hedge accounting, the changes in fair value of such derivatives are recognized in net income.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Company's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability or cash flow being hedged and how hedge effectiveness is assessed. To qualify for hedge accounting, the Company has decided that there must be a correlation of between 80% and 125% in the changes in fair values or cash flows between the hedged and hedging items.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, at least quarterly. Hedge ineffectiveness occurs when the changes in the fair value of the hedging item (derivative) differ significantly from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in income.

Fair Value Hedges

Fair value hedges generally use interest rate swap derivatives to hedge changes in the fair value of fixed-rate assets or liabilities ("the hedged items") attributable to interest rate risk. Changes in fair value of the hedged items are recorded as part of the carrying value of the hedged items and are recognized in "net realized and unrealized gain (loss) on derivatives". Changes in fair value of the hedging item (interest rate swap) are also recognized in "net realized and unrealized gain (loss) on derivatives".

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in income immediately.

Cash Flow Hedges

Cash flow hedges generally use bond forwards or interest rate swaps to hedge changes in future cash flows attributable to interest rate fluctuations arising on highly probable forecasted issuances of fixed-rate liabilities.

The effective portion of the change in fair value of the derivative instrument is recognized in OCI until the forecasted cash flows being hedged are recognized in income in future accounting periods. When the forecasted cash flows are recognized in income, an appropriate amount of the fair value changes of the derivative instrument is reclassified from AOCI into income. Any hedge ineffectiveness is immediately recognized in non-interest income. If the forecasted issuance of fixed-rate liabilities is no longer expected to occur, the related cumulative gain or loss in AOCI is immediately recognized in income.

Capital Assets

Capital assets, which comprise office furniture and equipment, computer equipment and software, and leasehold improvements, are recorded at cost and amortized over their estimated useful lives on a straight-line basis. The ranges of useful lives for each asset type are as follows:

Office furniture and equipment	5 to 10 years
Computer equipment and software	3 to 7 years

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

The Company assesses, at each reporting period date, whether there is an indication that a capital asset may be impaired. If any indication of impairment exists, the Company performs an impairment test to determine whether an impairment loss is required to be recognized. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Capital Assets and Intangible Assets.

Goodwill

Goodwill is initially measured as the excess of the price paid for the acquisition of a consolidated entity over the fair value of the net identifiable tangible and intangible assets acquired. Goodwill is allocated to the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each unit to which the goodwill has been allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment. Impairment is determined for goodwill by assessing whether the carrying amount of a CGU, including the allocated goodwill, exceeds its recoverable amount. The recoverable amount is determined as the greater of the estimated fair value less the costs of disposal or the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying amount of goodwill and any excess is allocated pro rata to the carrying amount of other assets in the CGU, on the basis of the carrying amount of each asset in the unit. Any goodwill impairment is charged to income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Intangible Assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The Company's intangible assets comprise software development costs. The Company's software development costs are considered to have finite useful lives and are amortized on a straight-line basis over their useful lives, generally not exceeding 10 years. The amortization period and the amortization method are reviewed at least at each financial year end. Changes in the expected useful lives are accounted for by changing the amortization period, as appropriate, and treated as changes in accounting estimates. Amortization expense is included in other operating expenses in the consolidated statements of income.

The Company capitalizes eligible development costs related to software projects. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with development. The Company commences amortization of these costs over the appropriate useful life when development of the asset is substantially complete and the asset becomes available for use in the manner intended by management. Overhead costs, costs incurred during the research phase, costs to train staff to operate the asset and costs incurred after the software was substantially completed and available for use are expensed as incurred.

The Company assesses, at each reporting period date, whether there is an indication that an intangible asset may be impaired. If any indication of impairment exists, the Company performs an impairment test to determine whether an impairment loss is required to be recognized. In relation to development costs for software that is not yet available for use, the Company performs an impairment test on an annual basis as well as when indications of impairment exist. Such annual impairment tests will continue until the software is available for use. The impairment tests are performed in accordance with the steps discussed in the accounting policy note below entitled Impairment of Capital Assets and Intangible Assets.

Impairment of Capital Assets and Intangible Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. If it is not possible to determine the recoverable amount of the individual asset, the Company determines the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use, where value in use is the present value of the future cash flows expected to be derived from the asset or the CGU. Where the carrying amount of the asset or the CGU exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount. The Company evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

Deposits

Deposits are financial liabilities that are measured at cost using the effective interest rate method. Deposit origination costs are included in deposits on the consolidated balance sheets as incurred and amortized to interest expense over the term of the deposit.

Senior Debt

Senior debt is carried at amortized cost, including the principal amount received on issue, plus accrued interest and costs incurred on issue, less repayments of principal and interest, amortization of issue costs and any premium or discount to the face amount of the debt. Issue costs and premiums or discounts are amortized to income using the effective interest rate method. Also included in senior debt on the consolidated balance sheets are amounts related to fair value hedge accounting which increase or decrease the carrying amount of the senior debt. Please see Note 19 for more information.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the period in which those temporary differences are expected to be recovered or settled. Deferred tax assets are only recognized for deductible temporary differences, carry forward of unused tax credits and losses to the extent that it is probable that taxable profit will be available and the carry forward of unused tax credits and losses can be utilized.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the principal market or most advantageous market that is accessible to the Company for the asset or liability.

Valuation techniques used to determine fair value maximize the use of relevant observable inputs and minimize the use of unobservable inputs. If the asset or liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure the fair value. Please see Note 22 for more information on the specific valuation techniques used to determine fair value and the related inputs for each class of assets or liabilities where fair value is disclosed.

Inputs for valuation techniques used to measure fair value are categorized into three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Please see Note 22 for more information. When inputs used to measure the fair value of an asset or liability are categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fee Income

Fee income is accrued and recognized as income as the associated services are rendered.

Stock-based Compensation Plans

The Company has stock-based compensation plans, which are described in Note 17.

The Company's Employee Stock Option Plan provides for the granting of stock options to certain employees of the Company. In some cases, stock appreciation rights are also granted in tandem with the stock option, providing the Company with, at its sole discretion, the alternative of settling the award in cash at an amount equal to the excess of the market price of the shares to which the option relates over the exercise price of the option. The Company accounts for stock options, including those with tandem stock appreciation rights, as equity-settled transactions where the fair value of options granted is charged to salary expense over the option vesting period, with the offsetting amount recognized in contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized separately over its respective vesting period. For each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the consolidated statements of income with a corresponding adjustment to equity. The fair value of the options granted is determined using a Black-Scholes option pricing model.

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

The Company grants restricted share units (RSUs) to certain key members of management. RSUs are settled in cash equivalents of common shares. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as dividends on common shares. Changes in the obligation resulting from changes in the market price of common shares are recognized in the consolidated statements of income as compensation expense, proportionally to the amount of the reward recognized.

The Company grants performance share units (PSUs) to certain key members of management. PSUs are settled in cash equivalents of common shares. PSUs earn dividend equivalents in the form of additional PSUs at the same rate as dividends on common shares. Changes in the obligation resulting from changes in the market price of common shares are multiplied by a performance factor ranging from 0% to 200% and are recognized in the consolidated statements of income as compensation expense, proportionally to the amount of the reward recognized.

Employee Benefit Plans

Under both the Employee Share Ownership Plan and the Employee Retirement Savings Plan, the Company's contribution is expensed when paid. Please see Note 17 for more information.

Earnings per Share

Both basic and diluted earnings per share (EPS) are presented for the Company's common shares. Basic income per common share is determined as net income for the year divided by the average number of common shares outstanding for the year.

Diluted income per common share is determined as net income for the year divided by the average number of common shares outstanding plus the stock options potentially exercisable for the year, as determined under the treasury stock method. The treasury stock method determines the net number of incremental common shares that could be purchased with the assumption that all in-the-money stock options are exercised and the proceeds are used to purchase common shares at the average market price during the year.

NOTE 3 FUTURE CHANGES IN ACCOUNTING POLICIES

The following accounting pronouncements issued by the IASB were not effective as at December 31, 2013 and therefore have not been applied in preparing these consolidated financial statements.

IFRS 9 *Financial Instruments*

The Company will be required to adopt IFRS 9, *Financial Instruments* (IFRS 9), which is the first phase of the IASB's project to replace IAS 39. On November 19, 2013, the IASB decided that the previously set mandatory effective date of January 1, 2015 would not allow sufficient time for entities to prepare to apply IFRS 9, and that a new date should be determined when IFRS 9 is closer to completion. IFRS 9 will provide new requirements for the way in which an entity should classify and measure financial assets and liabilities that are in the scope of IAS 39, with a final standard targeted in the first half of 2014. The standard requires all financial assets to be classified on the basis of the entity's business model for managing such financial assets and the contractual cash flow characteristics of the financial assets. On November 19, 2013, the IASB introduced a new hedge accounting model. The general hedge accounting standard is intended to provide better links between an entity's risk management activities, the rationale for hedging and the impact of hedging on the financial statements. The standard will potentially simplify the Company's hedge accounting strategies. The impairment phase of the IASB's financial instruments project is currently under development, with a review draft of the standard issued in March 2013 and a final standard targeted in the first half of 2014. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

NOTE 4 CASH RESOURCES AND SECURITIES

(A) Cash Resources

thousands of Canadian dollars	**December 31 2013**	December 31 2012
Cash and Cash Equivalents		
Deposits with regulated financial institutions	**$ 728,469**	$ 301,863
Cash resources unrestricted to Company use	**$ 728,469**	$ 301,863

The Company has a revolving term credit facility with a Canadian chartered bank in the amount of $50 million, which is available to the Company subject to meeting certain financial ratio requirements. As at December 31, 2013, all ratio requirements have been met and no amounts have been drawn against the borrowing facility.

(B) Available for Sale Securities at Fair Value by Type and Remaining Term to Maturity and Rate Reset Date

					December 31 2013	December 31 2012
thousands of Canadian dollars	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Fair Value	Total Fair Value
Debt securities	$ 134,573	$ 14,986	$ –	$ –	$ 149,559	$ 104,832
Common shares	60	–	–	–	60	8,836
Preferred shares	65,128	114,669	77,512	15,689	272,998	299,557
Mutual funds	1,655	–	–	–	1,655	1,119
	$ 201,416	$ 129,655	$ 77,512	$ 15,689	$ 424,272	$ 414,344

(C) Available for Sale Securities – Net Unrealized Gains and Losses

					As at December 31, 2013
thousands of Canadian dollars, except %	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-Average Yield
Debt securities	$ 149,501	$ 58	$ –	$ 149,559	1.4%
Common shares	35	25	–	60	2.5%
Preferred shares	294,713	–	(21,715)	272,998	4.7%
Mutual funds	1,001	654	–	1,655	–
	$ 445,250	$ 737	$ (21,715)	$ 424,272	

					As at December 31, 2012
thousands of Canadian dollars, except %	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Weighted-Average Yield
Debt securities	$ 104,712	$ 120	$ –	$ 104,832	2.5%
Common shares	8,007	2,100	(1,271)	8,836	4.6%
Preferred shares	300,040	4,163	(4,646)	299,557	4.7%
Mutual funds	1,001	118	–	1,119	–
	$ 413,760	$ 6,501	$ (5,917)	$ 414,344	

Net unrealized gains and losses (excluding impairment losses which are transferred to net income) are included in AOCI and presented in the table above. These unrealized gains and losses are not included in net income. Please see Note 15 for more information.

The unrealized gains or losses included above represent the differences between the cost of a security and its current fair value. The Company regularly monitors its investments and market conditions for indications of impairment.

For the year ended December 31, 2013, the Company recognized $0.2 million (2012 – $1.8 million) of impairment losses on available for sale securities.

NOTE 5 LOANS

(A) Loans by Geographic Region and Type (net of individual allowances for credit losses)

As at December 31, 2013

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	**$ 334,511**	**$ 256,770**	**$ 2,835,878**	**$ 192,751**	**$ 100,187**	**$ 3,720,097**
Securitized multi-unit residential mortgages	**201,181**	**191,910**	**706,883**	**186,521**	**203,429**	**1,489,924**
Total securitized mortgages	**535,692**	**448,680**	**3,542,761**	**379,272**	**303,616**	**5,210,021**
Single-family residential mortgages	**536,212**	**367,211**	**9,391,757**	**360,657**	**191,530**	**10,847,367**
Residential commercial mortgages[1]	**8,897**	**16,192**	**135,133**	**28,689**	**7,969**	**196,880**
Non-residential commercial mortgages	**7,753**	**38,660**	**881,702**	**16,234**	**49,861**	**994,210**
Credit card loans	**7,230**	**19,324**	**262,016**	**1,260**	**3,655**	**293,485**
Other consumer retail loans	**899**	**1,256**	**334,652**	**2,900**	**256**	**339,963**
Total non-securitized mortgages and loans[2]	**560,991**	**442,643**	**11,005,260**	**409,740**	**253,271**	**12,671,905**
	$ 1,096,683	**$ 891,323**	**$14,548,021**	**$ 789,012**	**$ 556,887**	**$17,881,926**
As a % of portfolio	**6.1%**	**5.0%**	**81.4%**	**4.4%**	**3.1%**	**100.0%**

As at December 31, 2012

thousands of Canadian dollars, except %	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	$ 433,529	$ 343,318	$ 3,616,877	$ 256,953	$ 113,080	$ 4,763,757
Securitized multi-unit residential mortgages	258,757	203,081	908,513	339,477	232,575	1,942,403
Total securitized mortgages	692,286	546,399	4,525,390	596,430	345,655	6,706,160
Single-family residential mortgages	420,953	342,841	7,499,242	278,671	147,739	8,689,446
Residential commercial mortgages[1]	5,642	19,380	102,674	25,201	1,580	154,477
Non-residential commercial mortgages	3,521	25,953	860,703	61,691	36,548	988,416
Credit card loans	9,104	25,062	287,877	1,532	3,941	327,516
Other consumer retail loans	975	787	269,594	–	621	271,977
Total non-securitized mortgages and loans[2]	440,195	414,023	9,020,090	367,095	190,429	10,431,832
	$ 1,132,481	$ 960,422	$13,545,480	$ 963,525	$ 536,084	$17,137,992
As a % of portfolio	6.6%	5.6%	79.1%	5.6%	3.1%	100.0%

[1] Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

[2] Loans exclude mortgages held for sale.

(B) Past Due Loans that are not Impaired

A loan is recognized as being impaired (non-performing) 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, an uninsured residential or commercial mortgage, or retail loan, or Equityline *Visa* loan is deemed to be impaired at the earlier of the date it has been individually provided for or when it has been in arrears for 90 days. Single-family and multi-unit residential mortgages (including securitized mortgages) guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. Credit losses are not anticipated on insured mortgages. Secured and unsecured credit card balances that have a payment that is contractually 120 days in arrears are individually provided for, and those that have a payment that is 180 days in arrears are written off.

As at December 31, 2013

thousands of Canadian dollars	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 27,522	$ 4,370	$ 265	$ 4,982[1]	$ 37,139
Securitized multi-unit residential mortgages	–	–	–	9,919[1]	9,919
Single-family residential mortgages	243,821	48,540	6,804	6,159[1]	305,324
Residential commercial mortgages	1,195	573	–	–[1]	1,768
Non-residential commercial mortgages	8,685	902	–	–	9,587
Credit card loans	3,653	1,932	963	23	6,571
Other consumer retail loans	70	30	31	–	131
	$ 284,946	$ 56,347	$ 8,063	$ 21,083	$ 370,439

As at December 31, 2012

thousands of Canadian dollars	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Securitized single-family residential mortgages	$ 38,243	$ 6,581	$ 453	$ 4,679[1]	$ 49,956
Securitized multi-unit residential mortgages	–	–	–	–[1]	–
Single-family residential mortgages	213,669	49,935	6,100	8,474[1]	278,178
Residential commercial mortgages	–	544	–	–[1]	544
Non-residential commercial mortgages	9,247	–	–	–	9,247
Credit card loans	3,846	1,731	1,965	8	7,550
Other consumer retail loans	112	48	21	–	181
	$ 265,117	$ 58,839	$ 8,539	$ 13,161	$ 345,656

[1] Insured residential mortgages are considered impaired when they are 365 days past due.

(C) Impaired Loans and Individual Allowances for Credit Losses

Residential mortgages guaranteed by the Government of Canada are not considered impaired until payment is contractually 365 days past due. As securitized residential mortgages are all fully insured, credit losses are not anticipated.

As at December 31, 2013

thousands of Canadian dollars	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 52,837	$ 1,836	$ 7,189	$ 2,785	$ 236	$ 64,883
Individual allowances on principal	(1,201)	–	–	(201)	(236)	(1,638)
Net amount of impaired loans	$ 51,636	$ 1,836	$ 7,189	$ 2,584	$ –	$ 63,245

As at December 31, 2012

thousands of Canadian dollars	Single-Family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Gross amount of impaired loans	$ 50,169	$ 4,527	$ 501	$ 3,616	$ 214	$ 59,027
Individual allowances on principal	(2,381)	–	–	(111)	(214)	(2,706)
Net amount of impaired loans	$ 47,788	$ 4,527	$ 501	$ 3,505	$ –	$ 56,321

Included in the gross amount of impaired loans are foreclosed loans with an estimated realizable value of $2.2 million (2012 – $1.7 million).

(D) Collateral

The fair value of collateral held against mortgages is based on appraisals at the time a loan is originated. Appraisals are only updated should circumstances warrant it or if a mortgage becomes impaired. At December 31, 2013, the total appraised value of the collateral held for mortgages past due that are not impaired, as determined when the mortgages were originated, was $539.7 million (2012 – $502.1 million). For impaired mortgages, the total appraised value of collateral at December 31, 2013 was $86.0 million (2012 – $153.9 million).

(E) Allowance for Credit Losses

						2013
thousands of Canadian dollars	**Single-family Residential Mortgages**	**Residential Commercial Mortgages**	**Non-Residential Commercial Mortgages**	**Credit Card Loans**	**Other Consumer Retail Loans**	**Total**
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the year	**$ 2,381**	**$ –**	**$ –**	**$ 111**	**$ 214**	**$ 2,706**
Provision for credit losses	**9,985**	**3,199**	**230**	**679**	**367**	**14,460**
Write-offs	**(12,048)**	**(3,407)**	**(241)**	**(1,129)**	**(436)**	**(17,261)**
Recoveries	**883**	**208**	**11**	**540**	**91**	**1,733**
	1,201	**–**	**–**	**201**	**236**	**1,638**
Allowance on accrued interest receivable						
Balance at the beginning of the year	**487**	**432**	**–**	**–**	**13**	**932**
Provision for credit losses	**272**	**(407)**	**44**	**–**	**(1)**	**(92)**
	759	**25**	**44**	**–**	**12**	**840**
Total individual allowance	**1,960**	**25**	**44**	**201**	**248**	**2,478**
Collective allowance						
Balance at the beginning of the year	**16,523**	**336**	**9,300**	**3,541**	**300**	**30,000**
Provision for credit losses	**1,509**	**(9)**	**–**	**–**	**–**	**1,500**
	18,032	**327**	**9,300**	**3,541**	**300**	**31,500**
Total allowance	**$ 19,992**	**$ 352**	**$ 9,344**	**$ 3,742**	**$ 548**	**$ 33,978**
Total provision	**$ 11,766**	**$ 2,783**	**$ 274**	**$ 679**	**$ 366**	**$ 15,868**

						2012
thousands of Canadian dollars	Single-family Residential Mortgages	Residential Commercial Mortgages	Non-Residential Commercial Mortgages	Credit Card Loans	Other Consumer Retail Loans	Total
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the year	$ 760	$ –	$ 60	$ 392	$ 290	$ 1,502
Provision for credit losses	11,769	–	259	1,291	266	13,585
Write-offs	(10,598)	–	(322)	(1,914)	(419)	(13,253)
Recoveries	450	–	3	342	77	872
	2,381	–	–	111	214	2,706
Allowance on accrued interest receivable						
Balance at the beginning of the year	327	–	18	–	12	357
Provision for credit losses	160	432	(18)	–	1	575
	487	432	–	–	13	932
Total individual allowance	2,868	432	–	111	227	3,638
Collective allowance						
Balance at the beginning of the year	15,871	428	9,300	3,541	300	29,440
Provision for credit losses	652	(92)	–	–	–	560
	16,523	336	9,300	3,541	300	30,000
Total allowance	$ 19,391	$ 768	$ 9,300	$ 3,652	$ 527	$ 33,638
Total provision	$ 12,581	$ 340	$ 241	$ 1,291	$ 267	$ 14,720

There were no provisions, allowances or net write-offs on securitized residential mortgages.

(F) Interest Income by Product

thousands of Canadian dollars	2013	2012
Traditional single-family residential mortgages	$ 482,491	$ 381,971
Accelerator single-family residential mortgages	15,044	17,440
Residential commercial mortgages	12,954	11,000
Non-residential commercial mortgages	62,681	61,229
Credit card loans	28,966	34,722
Other consumer retail loans	27,111	19,360
Total interest income on non-securitized loans	629,247	525,722
Securitized single-family residential mortgages	144,702	200,679
Securitized multi-unit residential mortgages	73,712	80,757
Assets pledged as collateral for securitization	7,379	6,435
Total interest income on securitized loans	225,793	287,871
	$ 855,040	$ 813,593

(G) Loans by Remaining Contractual Term to Maturity

					December 31 2013	December 31 2012
thousands of Canadian dollars	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total Book Value	Total Book Value
Securitized single-family residential mortgages	$ 919,119	$ 2,231,590	$ 569,388	$ –	$ 3,720,097	$ 4,763,757
Securitized multi-unit residential mortgages	482,849	349,426	258,343	399,306	1,489,924	1,942,403
Single-family residential mortgages	7,155,829	2,928,154	696,735	66,649	10,847,367	8,689,446
Residential commercial mortgages	121,719	68,509	3,904	2,748	196,880	154,477
Non-residential commercial mortgages	590,201	315,971	88,038	–	994,210	988,416
Credit card loans	293,485	–	–	–	293,485	327,516
Other consumer retail loans	13,642	42,765	135,460	148,096	339,963	271,977
	9,576,844	5,936,415	1,751,868	616,799	17,881,926	17,137,992
Collective allowance for credit losses	–	–	–	–	(31,500)	(30,000)
	$ 9,576,844	$ 5,936,415	$ 1,751,868	$ 616,799	$17,850,426	$17,107,992

NOTE 6 SECURITIZATION ACTIVITY

(A) Securitized Assets and Liabilities

The Company's wholly owned subsidiary, Home Trust, securitizes insured single-family residential and multi-unit residential mortgage loans by participating in the National Housing Authority mortgage-backed securities (NHA MBS) program. Through the program, the Company issues securities backed by residential mortgage loans that are insured against borrowers' default. Once the mortgage loans are securitized, the Company assigns underlying mortgages and/or related securities to CMHC. As an issuer of the MBS, Home Trust is responsible for advancing all scheduled principal and MBS interest payments to CMHC, whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered will ultimately be recovered from the insurer.

The securitized activity includes the Company's participation in the Canada Mortgage Bond (CMB) program. Under the CMB program, CMHC guarantees the bonds of a special purpose trust, Canada Housing Trust (CHT). CHT uses the proceeds of its bond issuance to finance the purchase of NHA MBS issued by Home Trust. As the CMB is a bullet bond, the Company must provide eligible replacement assets to re-collateralize the CMB as the underlying mortgages amortize or are prepaid.

In many securitization activities, the Company retains certain prepayment and/or interest rate risks and rewards related to the transferred mortgages. Due to retention of these risks and rewards, transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowing transactions. There are no expected credit losses on the securitized mortgage assets as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of either the Company or Home Trust in the event of failure of debtors to pay when due. In other securitization activities, derecognition or continuing involvement accounting is applied. Please see Note 6(B) for further information.

The following table presents the gross carrying amounts of mortgages and other assets assigned during the year, which are recorded on the consolidated balance sheets as securitized residential mortgages or restricted assets, or recorded off-balance sheet as loans under administration.

thousands of Canadian dollars	**2013**	2012
Mortgages assigned in new securitizations	**$ 1,261,660**	$ 646,785
Mortgage assets assigned as replacements of repaid amounts to CHT		
Through repurchase agreement	**336,113**	255,478
Mortgage assets	**592,811**	224,584
Total assets assigned as replacements of repaid amounts to CHT	**928,924**	480,062
Net (reduction) addition of non–Home Trust MBS and treasury bills	**(57,884)**	246,446
Gross carrying amount of mortgages and other assets assigned	**2,132,700**	1,373,293
Off-balance sheet portion of mortgages assigned	**$ 617,244**	$ 233,892

MBS securitization liabilities are repaid on a monthly basis as the principal payments are collected from securitized loans. CMB liabilities are bullet bond liabilities with fixed maturities. Any principal collected against securitized assets underlying CMB liabilities is used to purchase replacement assets. Interest accrued on securitization liabilities is recorded in other liabilities on the consolidated balance sheets and is based on the underlying MBS and CMB coupon.

Securitization liabilities recorded on the consolidated balance sheets represent the funding received on securitization of insured mortgages and other assets assigned under the NHA MBS and the CMB programs when the transaction does not qualify for off-balance sheet treatment for the assets. Accrued interest on these liabilities is classified in other liabilities as accrued interest payable on securitization liabilities.

The following table presents the new securitization liabilities added during the year, which are secured by insured mortgages and other pledged assets.

thousands of Canadian dollars	**2013**	2012
Addition to securitization liabilities as a result of on-balance sheet activity	**$ 644,416**	$ 412,893
Buyback, maturity and amortization of securitization liabilities	**(1,686,791)**	(1,048,123)
Residual interest sales	**(518,488)**	(662,402)
Other[1]	**(1,968)**	(15,548)
Net on-balance sheet securitization activity	**(1,562,831)**	(1,313,180)
Proceeds received for mortgages assigned in new securitizations	**$ 1,242,991**	$ 639,968

[1] Other includes premiums, discounts and transaction costs.

(B) Securitization Liabilities by Remaining Contractual Term to Maturity

thousands of Canadian dollars, except %	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2013 Total Book Value	December 31 2012 Total Book Value
Mortgage-backed security liabilities	$ 85,087	$ 225,860	$ 350,017	$ –	$ 660,964	$ 1,301,693
Contractual yield	2.6%	1.7%	2.2%	–	2.1%	2.1%
Canada Mortgage Bond liabilities	$ 1,277,150	$ 2,944,031	$ 398,763	$ 492,156	$ 5,112,100	$ 6,034,202
Contractual yield	2.9%	2.3%	3.1%	3.8%	2.6%	2.7%
	$ 1,362,237	$ 3,169,891	$ 748,780	$ 492,156	$ 5,773,064	$ 7,335,895

(C) Securitization Income

The Company securitizes and sells through the NHA MBS program certain insured multi-unit residential mortgages with no pre-payment privileges. These mortgages are recognized on the Company's consolidated balance sheets only to the extent of the Company's continuing involvement in the mortgages (continuing involvement accounting). The Company's continuing involvement is limited to its retained interest and its obligations for mortgage servicing. There is no prepayment or credit risk associated with the retained interest or the cost of servicing. The mortgages are effectively derecognized as a result of this transaction. The retained interest and servicing liability are recorded on the consolidated balance sheets in other assets and other liabilities, respectively.

The Company sells residual interests in certain pools of insured single-family residential mortgages securitized through the NHA MBS program. The sales result in the Company transferring substantially all of the risks and rewards of ownership associated with the underlying mortgages and the mortgages are derecognized. The gain on these transactions is included in non-interest income under securitization income in the consolidated statements of income.

The following tables provide quantitative information about these securitization and sales activities.

	2013			2012		
thousands of Canadian dollars	Single-Family Residential MBS	Multi-Unit Residential MBS	Total MBS	Single-Family Residential MBS	Multi-Unit Residential MBS	Total MBS
Carrying value of underlying mortgages derecognized	$ 519,261	$ 617,244	$ 1,136,505	$ 662,153	$ 233,892	$ 896,045
Gains on sale of mortgages or residual interest[1]	5,354	5,687	11,041	4,845	3,300	8,145
Retained interests recorded	–	26,131	26,131	–	9,691	9,691
Servicing liability recorded	–	4,563	4,563	–	1,786	1,786

[1] Gains on sale of mortgages are net of hedging impact.

thousands of Canadian dollars	2013	2012
Gain on sale of mortgages or residual interest	$ 11,041	$ 8,145
Change in unrealized gain or loss on		
Mortgages held for sale	(815)	(16)
Bond forwards marked to market	924	60
Net change in unrealized gain or loss	109	44
Servicing income	1,498	117
Total securitization income	$ 12,648	$ 8,306

The bond forwards included in the above table are entered into to hedge interest rate risk on loans held for sale. These derivatives are not designated in hedge accounting relationships. As shown in the above table, the gains or losses on these derivatives are mostly offset by the fair value changes related to the loans held for sale, which are classified as held for trading for accounting purposes.

(D) Assets Assigned as Collateral

As a requirement of the NHA MBS and CMB programs, the Company assigns to CMHC all of its interest in existing mortgage pools. If the Company fails to make timely payment under an NHA MBS or CMB security, CMHC may enforce the assignment of the mortgages included in all the mortgage pools as well as other assets backing the mortgage-backed securities issued.

The following table presents the principal value of the Company's on-balance sheet mortgage loans and other assets assigned as collateral. The mortgages are recorded as securitized single-family or multi-unit residential mortgages, and assets assigned as CMB replacement assets are recorded as restricted assets.

thousands of Canadian dollars	**December 31 2013**	December 31 2012
Carrying value of insured mortgages assigned as collateral, including replacement mortgages	**$ 5,210,021**	$ 6,706,160
Non–Home Trust MBS and treasury bills assigned as collateral	**530,150**	588,069
Total securitized assets assigned as collateral	**$ 5,740,171**	$ 7,294,229

Non–Home Trust MBS and treasury bills assigned as collateral are accounted for as available for sale assets and included in restricted assets on the consolidated balance sheets. Please see Note 7 for more information.

NOTE 7 RESTRICTED ASSETS

thousands of Canadian dollars	**December 31 2013**	December 31 2012
Restricted cash		
Restricted cash – Canada Mortgage Bond program	**$ 91,900**	$ 100,387
Restricted cash – interest rate swaps	**21,482**	21,655
Restricted cash – other programs	**9,454**	15,382
Total restricted cash	**122,836**	137,424
Non–Home Trust MBS and treasury bills assigned as replacement assets	**530,150**	588,069
Total restricted assets	**$ 652,986**	$ 725,493

Restricted cash – Canada Mortgage Bond program represents deposits held as collateral by CMHC in connection with the Company's securitization activities. To participate in the NHA MBS programs, the Company is required to maintain an amount of cash in a trust account to cover deposits of unscheduled principal prepayments (UPP) and property taxes collected on the securitized loans. The Company is allowed to invest the above amount in eligible securities.

Restricted cash – interest rate swaps are deposits held by swap counterparties as collateral for the Company's interest rate swap transactions. The Company is required to provide collateral against its interest rate swap transactions as part of the agreements with the counterparties. The terms and conditions for the collateral are governed by International Swaps and Derivatives Association (ISDA) agreements.

Restricted cash – other programs are reserve accounts held in trust for the water heater financing program and for PSiGate operations.

The following table provides the remaining contractual term to maturity of non-Home Trust MBS and treasury bills assigned as CMB replacement assets. Please see Note 6(D) for more information.

					December 31 2013	December 31 2012
thousands of Canadian dollars	**Within 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Fair Value**	Total Fair Value
Non–Home Trust MBS and treasury bills assigned as replacement assets	**$ 525,430**	**$ 4,720**	**$ –**	**$ –**	**$ 530,150**	$ 588,069

NOTE 8 OTHER ASSETS

thousands of Canadian dollars	**December 31 2013**	December 31 2012
Accrued interest receivable	**$ 62,961**	$ 61,481
Prepaid CMB coupon	**7,168**	12,486
Securitization receivable and retained interest	**54,556**	10,714
Capital assets	**10,875**	6,578
Income taxes recoverable	**9,519**	–
Other prepaid assets and deferred items	**17,600**	9,724
	$ 162,679	$ 100,983

NOTE 9 INTANGIBLE ASSETS

Intangible assets comprise internally developed software costs which are principally related to the Company's core banking system. These costs are amortized over 10 years, commencing December 2011. The following table presents the net carrying amount of software costs for the core banking system and other software costs as at December 31, 2013, and 2012, along with the changes in net carrying amount for the years ended December 31, 2013 and 2012.

	2013			2012		
thousands of Canadian dollars	**Core Banking System**[1]	**Other Software Costs**[2]	**Total**	Core Banking System[1]	Other Software Costs[2]	Total
Cost						
Balance at the beginning of the year	**$ 67,672**	**$ 7,156**	**$ 74,828**	$ 62,193	$ 3,494	$ 65,687
Additions from internal development	**8,285**	**6,641**	**14,926**	5,479	3,662	9,141
Balance at the end of the year	**75,957**	**13,797**	**89,754**	67,672	7,156	74,828
Accumulated amortization						
Balance at the beginning of the year	**6,498**	**1,987**	**8,485**	330	1,440	1,770
Amortization expense	**7,586**	**278**	**7,864**	6,168	547	6,715
Balance at the end of the year	**14,084**	**2,265**	**16,349**	6,498	1,987	8,485
Carrying amount at the end of the year	**$ 61,873**	**$ 11,532**	**$ 73,405**	$ 61,174	$ 5,169	$ 66,343

[1] As at December 31, 2013, there was $14.2 million ($5.2 million – December 31, 2012) in work in progress related to the core banking system that was not being amortized.

[2] As at December 31, 2013, there was $3.5 million ($0.8 million – December 31, 2012) in work in progress related to other software costs that was not being amortized.

NOTE 10 GOODWILL

The carrying amount of goodwill in relation to each of the Company's subsidiaries is as follows:

thousands of Canadian dollars	**December 31 2013**	December 31 2012
Home Trust	**$ 2,324**	$ 2,324
PSiGate	**13,428**	13,428
	$ 15,752	$ 15,752

There have been no additions, disposals or impairment losses of goodwill during the year.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, considering the business level at which goodwill is monitored for internal management purposes. The PSiGate goodwill is allocated to the PSiGate legal entity (the unit). Management has determined that the recoverable amount of the unit exceeds its carrying amount and that no impairment exists. The following information relates to the annual impairment test of the unit that was conducted during the fourth quarter of 2013.

The recoverable amount of the unit was determined on the basis of its fair value less costs of disposal. The fair value of the unit was determined using a discounted cash flow methodology where estimated cash flows were projected to December 31, 2017 and assuming a terminal growth rate of 3.0% (2012 – 3.0%) thereafter. A revenue growth rate of 4.9% (2012 – 8.1%) was assumed over the period of projections, with a stable gross margin percentage. Operating expenses considered necessary to support the expected growth were included and increased over the period of projections at an expected inflationary rate. Planned capital expenditures, also necessary to support expected growth, were incorporated.

A discount rate of 15.5% (2012 – 15.5%) was used, which comprised a risk-free rate, equity risk premium, size premium and company-specific risk premium. The risk-free rate, equity risk premium and size premium were based on data from external sources whereas the company-specific risk premium was based on factors considered by management to be specific to PSiGate.

The discounted cash flow methodology used is most sensitive to the discount rate and revenue growth rate used. In consideration of this sensitivity, management determined that either an increase in the discount rate from 15.5% to 18.1% or a decrease in annual revenue growth from 4.9% to a growth rate of 0.1% for each year of the projection, assuming unchanged values for the other assumptions, would have caused the recoverable amount to equal the carrying amount.

NOTE 11 DEPOSITS BY REMAINING CONTRACTUAL TERM TO MATURITY

thousands of Canadian dollars, except %	Payable on Demand	Within 1 Year	1 to 3 Years	3 to 5 Years	December 31 2013 Total	December 31 2012 Total
Individuals	**$ 429,269**	**$ 7,007,706**	**$ 4,066,638**	**$ 742,381**	**$12,245,994**	$ 9,903,666
Businesses	**–**	**133,302**	**77,840**	**308,818**	**519,960**	232,933
	$ 429,269	**$ 7,141,008**	**$ 4,144,478**	**$ 1,051,199**	**$12,765,954**	$10,136,599
Effective contractual yield	**1.5%**	**2.0%**	**2.3%**	**2.8%**	**2.1%**	2.2%

Included in deposits are institutional deposit notes in the principal amount of $300 million, with an effective contractual yield of 3.41% and mature in 2018.

NOTE 12 SENIOR DEBT

The Company issued $150.0 million principal amount of 5.20% debentures on May 4, 2011. The debentures pay interest semi-annually on May 4 and November 4 in each year. The debentures mature on May 4, 2016 and are redeemable at the option of the Company upon 30 days written notice to the registered holder at a redemption price equal to the greater of par and the price that would provide a yield to maturity equal to the Government of Canada bond rate plus 0.66%, plus accrued and unpaid interest to the date of redemption. The carrying amount includes unamortized issue costs and fair value adjustments related to interest rate hedging.

NOTE 13 OTHER LIABILITIES

thousands of Canadian dollars	December 31 2013	December 31 2012
Accrued interest payable on deposits	**$ 112,242**	$ 93,856
Accrued interest payable on securitization liabilities	**14,833**	19,595
Income taxes payable	**–**	21,912
Other, including accounts payable and accrued liabilities	**46,483**	35,139
	$ 173,558	$ 170,502

NOTE 14 CAPITAL

(A) Authorized

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

(B) Common Shares Issued and Outstanding

	2013		2012	
thousands	Number of Shares	Amount	Number of Shares	Amount
Outstanding at the beginning of the year	**$ 34,630**	**$ 61,903**	$ 34,625	$ 55,104
Options exercised	**153**	**8,400**	169	7,088
Repurchase of shares	**(39)**	**(70)**	(164)	(289)
Outstanding at the end of the year	**$ 34,744**	**$ 70,233**	$ 34,630	$ 61,903

On February 12, 2014 the Board approved a stock dividend of one common share per each outstanding common share. The Company has no preferred shares outstanding.

(C) Repurchase of Shares

During the year, 39,100 (2012 – 163,500) common shares were purchased for $2.3 million (2012 – $8.1 million). The purchase price of shares acquired through the Normal Course Issuer Bid is allocated between share capital and retained earnings. The reduction to share capital for the year ended December 31, 2013 was $0.1 million (2012 – $0.3 million). The balance of the purchase price of $2.2 million (2012 – $7.8 million) was charged to retained earnings.

(D) Earnings per Common Share (EPS)

Basic earnings per common share of $7.40 (2012 – $6.40) is determined as net income for the year divided by the average number of common shares outstanding of 34.7 million (2012 – 34.7 million).

Diluted earnings per common share of $7.32 (2012 – $6.38) is determined as net income for the year divided by the average number of common shares outstanding of 34.7 million (2012 – 34.7 million) plus the stock options potentially exercisable, as determined under the treasury stock method, of 353 thousand (2012 – 128 thousand) for a total of 35.0 million (2012 – 34.8 million) diluted common shares.

Diluted income per common share excludes contingently assumable average options outstanding of 300,875 with a weighted-average exercise price of $62.07 for December 31, 2013 and contingently assumable average options outstanding of 225,750 with a weighted-average exercise price of $47.17 for December 31, 2012, as not all vesting and performance criteria had been met.

(E) Capital Management

The Company has a Capital Management Policy that governs the quantity and quality of capital held. The objectives of the policy are to ensure that capital levels are adequate and that Home Trust meets all regulatory capital requirements, while also providing a sufficient return to investors. The Risk and Capital Committee and the Board review the policy annually and monitor compliance with the policy on a quarterly basis.

The Company's subsidiary, Home Trust, is subject to the regulatory capital requirements stipulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). These requirements are consistent with international standards (Basel II and Basel III) set by the Bank for International Settlements. Home Trust follows the Basel II Standardized Approach for calculating credit risk and Basic Indicatory Approach for operational risk. In addition, Home Trust pays dividends subject to any restrictions by OSFI.

The regulatory capital position of Home Trust was as follows:

thousands of Canadian dollars, except ratios and multiples	December 31 2013	
	All-In Basis	Transitional Basis
Common Equity Tier 1 capital (CET 1)[1]	$ 1,091,204	$ 1,145,491
Additional Tier 1 capital	–	–
Tier 1 capital	1,091,204	1,145,491
Tier 2 capital[2]	187,500	187,500
Total regulatory capital	$ 1,278,704	$ 1,332,991
Risk-weighted assets for		
Credit risk	$ 5,702,192	$ 5,756,155
Operational risk	793,575	793,575
Total risk-weighted assets	$ 6,495,767	$ 6,549,730
Regulated capital to risk-weighted assets		
CET 1 ratio	16.80%	17.49%
Tier 1 capital ratio	16.80%	17.49%
Total regulatory capital ratio	19.69%	20.35%
Assets to regulatory capital multiple	N/A	13.19
National regulatory minimum		
CET 1 ratio (required January 1, 2013)	7.00%	
Tier 1 capital ratio (required January 1, 2014)	8.50%	
Total regulatory capital ratio (required January 1, 2014)	10.50%	

[1] Regulatory deductions on the all-in basis include intangible assets related to software development and unrealized multi-unit residential mortgage securitization gains, net of deferred taxes.

[2] The Company is allowed to include its collective allowance for credit losses up to a prescribed percentage of 1.25% of credit risk-weighted assets in Tier 2 capital. At December 31, 2013, the Company's collective allowance represented 0.55% of credit risk-weighted assets.

Home Trust adopted certain Basel III capital requirements, as required by OSFI, beginning January 1, 2013. The primary impact at adoption was the deduction from Common Equity Tier 1 capital on an all-in basis of $51.1 million of intangible assets, net of deferred taxes, related to information technology development costs as well as the inclusion of all accumulated other comprehensive income, net of cash flow hedges. The transitional basis allows for the transition of certain capital deductions over a period ending January 1, 2018, whereas the all-in basis includes all applicable deductions immediately. For purposes of meeting minimum regulatory capital ratios prescribed by OSFI, the all-in basis is required. The Assets to Regulatory Capital Multiple (ACM) is calculated and evaluated on a transitional basis.

In Q1 2013, Home Trust amended the terms of all its subordinated debt, of which all debt is issued to the Company, to comply with the non-viability contingent capital requirements. This allowed for the inclusion of the subordinated debt in Tier 2 capital. Under Basel III this subordinated debt will be subject to straight-line amortization out of capital in the final five years prior to maturity. The principal amounts of the subordinated debt currently mature in 2021 and 2022 in the amounts of $100 million and $56 million, respectively.

Currently, Home Trust's Common Equity Tier 1, Total Tier 1, and Total capital ratios significantly exceed OSFI's regulatory targets of 7.0% for Common Equity Tier 1, 8.5% for Total Tier 1 and 10.5% for Total capital ratios, as well as Home Trust's internal capital targets.

NOTE 15 ACCUMULATED OTHER COMPREHENSIVE INCOME

thousands of Canadian dollars	**December 31 2013**	December 31 2012
Unrealized (losses) gains on		
Available for sale securities and retained interests	**$ (21,530)**	$ 584
Income tax (recovery) expense	**(5,707)**	152
	(15,823)	432
Unrealized losses on		
Cash flow hedges	**(3,612)**	(5,676)
Income tax recovery	**(956)**	(1,499)
	(2,656)	(4,177)
Accumulated other comprehensive loss	**$ (18,479)**	$ (3,745)

NOTE 16 INCOME TAXES

(A) Reconciliation of Income Taxes

The combined federal and provincial income tax rate varies each year depending on changes in the statutory tax rate imposed by the federal and provincial governments. The effective rate of income tax in the consolidated statements of income is different from the combined federal and provincial income tax rate of 26.49% (2012 – 26.43%).

thousands of Canadian dollars	**2013**	2012
Income before income taxes	**$ 337,432**	$ 299,919
Income taxes at statutory combined federal and provincial income tax rates	**89,377**	79,254
Increase (decrease) in income taxes at statutory income tax rates resulting from		
Tax-exempt income	**(2,956)**	(3,744)
Non-deductible expenses	**568**	495
Future tax rate changes and other	**91**	1,931
Scientific research and experimental development investment tax credits	**(6,190)**	–
Income tax	**$ 80,890**	$ 77,936

(B) Reconciliation of Income Tax Rates

	2013	2012
Statutory income tax rate	**26.49%**	26.43%
Increase (reduction) in income tax rate resulting from		
Tax-exempt income	**(0.89)%**	(1.26)%
Non-deductible expenses	**0.17%**	0.17%
Future tax rate changes and other	**0.03%**	0.65%
Scientific research and experimental development investment tax credits	**(1.83)%**	–
Effective income tax rate	**23.97%**	25.99%

(C) Sources of Deferred Tax Balances

thousands of Canadian dollars		**December 31 2013**		December 31 2012
Deferred tax liabilities				
Commissions	**$**	**7,649**	$	6,921
Finders' fees, net of commitment fees		**5,949**		7,905
Securitization transaction costs		**4,008**		5,932
Swaps		**5,258**		5,525
Development costs		**19,443**		16,656
Other		**344**		730
		42,651		43,669
Deferred tax assets				
Allowance for credit losses		**7,534**		7,443
Other		**692**		426
		8,226		7,869
Net deferred tax liability	**$**	**34,425**	$	35,800

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

During the year, the Company recognized Scientific Research and Experimental Development investment tax credits related to the development of its core banking system. The investment tax credits recognized related to work performed in 2009–2012. The Company recorded the benefit for these years based on information providing assurance that these claims will be accepted. The investment tax credits are recorded as a reduction of tax provisions, net of any tax that would be eligible on such benefit.

NOTE 17 EMPLOYEE BENEFITS

(A) Employee Share Ownership Plan

Under the Employee Share Ownership Plan, every year eligible employees can elect to purchase common shares of the Company up to 10% of their annual earnings. The Company matches 50% of the employees' contribution amount. During each pay period, all contributions are used by the plan's trustee to purchase the common shares in the open market. The Company's contributions are fully vested immediately. The Company's contributions are expensed as paid and totalled $0.9 million for 2013 (2012 – $0.8 million).

(B) Employee Retirement Savings Plan

During the year, Home Trust contributed $0.9 million (2012 – $0.8 million) to the employee group registered retirement savings plan.

(C) Stock Options

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

	2013			2012		
thousands, except per share amounts and years	**Number of Shares**		**Weighted-Average Exercise Price**	Number of Shares		Weighted-Average Exercise Price
Outstanding at the beginning of the year	**783**	**$**	**38.71**	929	$	37.16
Granted	**216**		**68.91**	51		47.20
Exercised	**(153)**		**40.51**	(169)		33.56
Forfeited	**(21)**		**48.23**	(28)		33.74
Outstanding at the end of the year	**825**	**$**	**46.04**	783	$	38.71
Exercisable at the end of the year	**524**	**$**	**36.83**	557	$	35.29
Weighted-average market price per share at date of exercise		**$**	**61.02**		$	48.48
Weighted-average remaining contractual life in years			**4.0**			3.7

The Company's stock option plan was approved by the shareholders of the Company on December 31, 1986. The plan was amended in 2002 to conform to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. As at December 31, 2013, the maximum number of options on common shares that may be issued was 5,335,198, representing approximately 15.4% of the aggregate number of common shares. The exercise price of the options is fixed by the Board at the time of issuance at the market price of such shares, subject to all applicable regulatory requirements. The exercise period of any option is limited to a period of seven years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant is determined in each case by the Board. Stock options that are currently issued and outstanding vest at a rate of 25% per year over four years on the condition that set earnings per share targets are achieved for each year as established by the Board at the time of the grant.

During 2010, the Company approved an amendment to the employee stock option plan to provide stock appreciation rights that allow cash settlement of vested stock options, at the Company's discretion. No options were settled in cash during 2013 or 2012.

As at December 31, 2013, the exercise prices for stock options outstanding to acquire common shares ranged from $16.27 to $79.75. The weighted-average range of exercise prices for stock options outstanding and exercisable are presented below along with the number of options outstanding and exercisable and the weighted-average contractual life remaining.

(D) Stock Options Outstanding

					As at December 31 2013
	Stock options outstanding			**Stock options exercisable**	
	Number Outstanding	**Weighted-Average Contractual Life Remaining in Years**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
Range of exercise prices					
$15.01 – $30.00	**164,750**	**1.9**	**$ 16.27**	**164,750**	**$ 16.27**
$30.01 – $40.00	**15,000**	**2.4**	**31.87**	**15,000**	**31.87**
$40.01 – $50.00	**420,750**	**3.6**	**46.43**	**320,375**	**46.09**
$50.01 – $60.00	**94,000**	**6.0**	**57.94**	**23,500**	**57.94**
$60.01 – $70.00	**32,000**	**6.6**	**64.01**	**–**	**–**
$70.01 – $80.00	**98,000**	**6.9**	**79.32**	**–**	**–**
	824,500	**4.0**	**$ 46.04**	**523,625**	**$ 36.83**

The Company determines the fair value of options granted using a Black-Scholes option pricing model. The weighted-average fair value of the options granted during the year was $22.05 (2012 – $15.37).

The following assumptions were used to determine the fair value of each of the following option grants on the date of grant:

Canadian dollars, except % and years	**December 2013**	**November 2013**	**August 2013**	**February 2013**	August 2012	March 2012	February 2012
Fair value of options granted	**$ 26.56**	**$ 26.55**	**$ 19.96**	**$ 17.70**	$ 14.70	$ 17.10	$ 17.87
Share price	**$ 79.29**	**$ 79.49**	**$ 62.60**	**$ 57.08**	$ 45.32	$ 49.73	$ 51.00
Exercise price	**$ 79.30**	**$ 79.74**	**$ 64.01**	**$ 58.86**	$ 46.39	$ 49.55	$ 50.23
Expected share price volatility	**34.5%**	**34.6%**	**34.6%**	**35.6%**	35.9%	36.0%	36.1%
Option life	**7.0**	**7.0**	**7.0**	**7.0**	7.0	7.0	7.0
Expected period until exercise in years[1]	**4.0**	**4.0**	**4.0**	**4.0**	4.0	4.0	4.0
Forfeiture rate	**6.8%**	**6.8%**	**6.8%**	**6.8%**	6.8%	6.8%	6.8%
Expected dividend yield	**1.41%**	**1.41%**	**1.66%**	**1.82%**	2.03%	1.77%	1.73%
Risk-free rate of return	**2.19%**	**2.13%**	**2.18%**	**1.77%**	1.40%	1.69%	1.73%

[1] Exercisable upon vesting.

The above assumptions for expected volatility were determined on the basis of historical volatility.

The Company determines the fair value of stock options on the grant date and records this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus (2013 – $2.0 million; 2012 – $1.8 million). When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in capital stock (2013 – $6.2 million; 2012 – $5.7 million).

(E) Deferred Share Units

The Company grants DSUs to Directors of the Company. Under the plan, the Directors may elect annually to accept remuneration in the form of cash, cash and DSUs or DSUs prior to the beginning of the year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to settle the DSUs until retirement or termination of directorship. The cash value of the DSUs is equivalent to the market value of common shares when settlement takes place. The fair value of the DSU liability as at December 31, 2013 was $1.98 million (2012 – $1.02 million). As of December 31, 2013, there were 24,443 DSUs outstanding (2012 – 17,275).

(F) Restricted Share Units

The Company grants RSUs to certain key members of management. The RSUs vest at a rate of one-third each year over a three-year period. The vested amount is settled on the vesting date. RSUs earn dividend equivalents in the form of additional RSUs at the same rate as dividends on common shares. The cash value of the RSUs is equivalent to the market value of common shares on the vesting date. The fair value of the RSU liability as at December 31, 2013 was $206 thousand (2012 – $34 thousand). As of December 31, 2013, there were 20,940 RSUs outstanding (2012 – 4,986 RSUs outstanding).

(G) Performance Share Units

The Company grants PSUs to certain key members of management. The PSUs vest after three years on the condition that certain performance criteria are met. The vested amount is settled on the vesting date. PSUs earn dividend equivalents in the form of additional PSUs at the same rate as dividends on common shares. The cash value of the PSUs is equivalent to the market value of common shares on the vesting date multiplied by a performance factor ranging from 0% to 200%. The fair value of the PSU liability as at December 31, 2013 was $541 thousand and there were 17,159 PSUs outstanding. The Company did not grant PSUs prior to 2013.

(H) Share-Based Compensation Expense

The expense recognized in the consolidated statements of income in relation to share-based compensation was as follows:

thousands of Canadian dollars	2013	2012
Expense arising from equity-settled share-based payment transactions	$ 1,962	$ 1,759
DSUs, RSUs and PSUs (representing all expenses arising from cash-settled share-based payment transactions)	1,348	209
	$ 3,310	$ 1,968

NOTE 18 COMMITMENTS AND CONTINGENCIES

(A) Lease Commitments

The Company has entered into commercial leases on premises and property, as well as certain computer hardware and software leases. There are no restrictions imposed by lease arrangements. Future minimum lease payments under non-cancellable operating leases are as follows:

thousands of Canadian dollars	December 31 2013	December 31 2012
Within one year	$ 8,806	$ 4,562
After one year but not more than five years	27,116	15,285
More than five years	21,770	15,811
	$ 57,692	$ 35,658

Lease payments recognized as an expense in the consolidated statements of income amounted to $16.5 million in 2013 (2012 – $12.1 million).

(B) Credit Commitments

Outstanding commitments for funding on mortgages amounted to $754.6 million as at December 31, 2013 (2012 – $571.8 million). Commitments for loans remain open for various periods. The average rate on mortgage commitments is 4.60% (2012 – 4.88%).

The Company also has contractual commitments to extend credit to its clients for its credit card products. The contractual commitments for these products represent the maximum potential credit risk, assuming that all the contractual amounts are fully utilized, the clients default and collection efforts are unsuccessful. At December 31, 2013, these contractual commitments in aggregate were $373.7 million (2012 – $403.1 million), of which $80.8 million (2012 – $75.7 million) had not been drawn by customers. Outstanding commitments for future advances for the Equityline *Visa* portfolio were $5.8 million at December 31, 2013 (2012 – $4.8 million).

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

(C) Directors' and Officers' Indemnification

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

(D) Contingencies

There were no material contingencies identified by the Company in 2013.

NOTE 19 DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps and forward contracts to hedge exposures to interest rate risk. The Company generally uses its derivative instruments in hedge accounting relationships to minimize volatility in earnings caused by changes in interest rates. When a hedging derivative functions effectively, gains, losses, revenues or expenses of the hedging derivative will offset the gains, losses, revenues or expenses of the hedged item. To qualify for hedge accounting treatment, the hedging relationship is formally designated and documented at its inception. The documentation describes the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged and how the effectiveness of the hedge is assessed. Changes in the fair value of the derivative instruments must be highly effective at offsetting either the changes in the fair value of the on-balance sheet asset or liability being hedged or the changes in the amount of future cash flows.

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value for derivatives is determined from swap curves adjusted for credit risks. Swap curves are obtained directly from market sources or calculated from market prices.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, retrospectively and prospectively, over the life of the hedge. Any ineffectiveness in the hedging relationship is recognized immediately through non-interest expense in net realized and unrealized gain or loss on derivatives.

Cash Flow Hedging Relationships

The Company uses bond forward contracts or interest rate swaps to hedge the economic value exposure to movements in interest rates between the time that the Company determines that it will likely incur liabilities pursuant to asset securitization, and the time the securitization transaction is complete and the liabilities are incurred. The intent of the bond forward or interest rate swap is to manage the change in cash flows of the future interest payments on the anticipated secured borrowings through asset securitization. Changes in the fair value of the derivative instrument that occur before the liability is incurred are recorded in AOCI. The fair value changes recorded in AOCI are reclassified into net interest income over the term of the hedged item.

The following table presents gains or losses related to cash flow hedges included in the Company's financial results:

thousands of Canadian dollars	2013	2012
Fair value gain (loss) recorded in OCI	$ 702	$ (370)
Fair value losses recorded in non-interest income (ineffectiveness)	13	–
Losses reclassified from OCI to net interest income and securitization gains	(1,362)	(1,462)

Fair Value Hedging Relationships

The Company uses interest rate swaps to hedge changes in the fair value of fixed-rate assets and liabilities, which are associated with changes in market interest rates. Fair value hedges include hedges of fixed-rate mortgages and fixed-rate liabilities, which include deposits, deposit notes, senior debt and securitization liabilities.

The following table presents gains or losses related to fair value hedges included in the Company's financial results:

thousands of Canadian dollars	2013	2012
Fair value changes recorded on interest rate swaps[1]	$ (16,494)	$ (26,609)
Fair value changes of hedged fixed-rate liabilities for interest rate risk[2]	22,881	33,615
Hedge ineffectiveness gain recognized in non-interest income	$ 6,387	$ 7,006

[1] Unrealized gains and losses on hedging derivatives (interest rate swaps) are recorded as derivative assets or liabilities, as appropriate, on the consolidated balance sheets.

[2] Unrealized gains and losses on fixed-rate hedged items for the risk being hedged are recorded as part of the associated fixed-rate asset or liability on the consolidated balance sheets.

Other Derivative Gains and Losses

From time to time, the Company enters into derivative positions to hedge interest rate risk and such derivatives are not designated as hedges for accounting purposes. The changes in fair value of such derivatives flow directly to the consolidated statements of income. Net realized and unrealized gains of $0.2 million (2012 – $0.3 million) were recorded in income through net realized and unrealized gain or loss on derivatives.

The Company may also enter into bond forwards or interest rate swaps to hedge interest rate risk on loans held for securitization. Realized and unrealized gains or losses on these derivatives are included in securitization income on the consolidated statements of income. Please see Note 6 for more information.

Net realized and unrealized gains or losses on derivatives include amounts related to the restructuring of certain derivative positions upon adoption of IFRS. A charge of $8.0 million was recorded in 2013 (2012 – $3.5 million).

As at December 31, 2013 and 2012, the outstanding interest rate swap and bond forward contract positions were as follows:

thousands of Canadian dollars							As at December 31, 2013
Year of Maturity	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-Weighted Balance	Derivative Asset	Derivative Liability	Net Fair Market Value
Swaps designated as hedges							
Maturing in 2014	$ 586,000	$ 3,204	$ 3,204	$ 641	$ 3,204	$ (69)	$ 3,135
Maturing in 2015	833,914	16,154	20,324	4,065	16,154	–	16,154
Maturing in 2016	207,100	4,335	5,370	1,074	4,335	(251)	4,084
Maturing in 2018	549,200	1,616	4,362	872	1,616	(2,849)	(1,233)
Maturing in 2020	59,000	3,186	4,071	814	3,186	–	3,186
	2,235,214	28,495	37,331	7,466	28,495	(3,169)	25,326
Undesignated swaps							
Maturing in 2016	50,000	–	250	50	–	(595)	(595)
	50,000	–	250	50	–	(595)	(595)
Bond forwards[1]							
Maturing in 2018	43,700	212	431	236	212	–	212
Maturing in 2019	50,000	256	1,006	201	256	–	256
Maturing in 2023	122,500	923	2,760	2,401	923	(45)	878
	216,200	1,391	4,197	2,838	1,391	(45)	1,346
Total	$ 2,501,414	$ 29,886	$ 41,778	$ 10,354	$ 29,886	$ (3,809)	$ 26,077

thousands of Canadian dollars							As at December 31, 2012
Year of Maturity	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-Weighted Balance	Derivative Asset	Derivative Liability	Net Fair Market Value
Swaps designated as hedges							
Maturing in 2013	$ 265,200	$ 4,305	$ 4,305	$ 861	$ 4,305	$ –	$ 4,305
Maturing in 2014	230,500	5,851	7,004	1,401	5,851	–	5,851
Maturing in 2015	798,914	21,522	25,484	5,097	21,522	(20)	21,502
Maturing in 2016	192,200	5,954	6,797	1,359	5,954	(200)	5,754
Maturing in 2018	25,700	1,671	2,057	411	1,671	–	1,671
Maturing in 2020	59,000	6,015	6,900	1,380	6,015	–	6,015
	1,571,514	45,318	52,547	10,509	45,318	(220)	45,098
Undesignated swaps							
Maturing in 2016	100,000	–	–	–	–	(2,156)	(2,156)
	100,000	–	–	–	–	(2,156)	(2,156)
Bond forwards[1]							
Maturing in 2023	17,500	70	202	40	70	(10)	60
	17,500	70	202	40	70	(10)	60
Total	$ 1,689,014	$ 45,388	$ 52,749	$ 10,549	$ 45,388	$ (2,386)	$ 43,002

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

The notional amount represents the amount to which the rate or price is applied in order to calculate the amount of cash exchanged under the contract. Notional amounts do not represent an asset or liability recorded on the consolidated balance sheets.

NOTE 20 CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table presents an analysis of each asset and liability line item by amounts, including prepayment assumptions, expected to be recovered or settled within one year or after one year as at December 31, 2013 and 2012.

	As at December 31, 2013			As at December 31, 2012		
thousands of Canadian dollars	**Within 1 Year**	**After 1 Year**	**Total**	Within 1 Year	After 1 Year	Total
Assets						
Cash and cash equivalents	**$ 728,469**	**$ –**	**$ 728,469**	$ 301,863	$ –	$ 301,863
Available for sale securities	**201,416**	**222,856**	**424,272**	162,368	251,976	414,344
Loans held for sale	**137,975**	**–**	**137,975**	21,921	–	21,921
Securitized mortgages	**1,741,367**	**3,468,654**	**5,210,021**	1,684,143	5,022,017	6,706,160
Non-securitized mortgages and loans	**9,005,240**	**3,666,665**	**12,671,905**	7,037,009	3,394,823	10,431,832
Collective allowance for credit losses	**(21,000)**	**(10,500)**	**(31,500)**	(20,000)	(10,000)	(30,000)
Restricted assets	**648,266**	**4,720**	**652,986**	545,063	180,430	725,493
Derivative assets	**3,204**	**26,682**	**29,886**	4,305	41,083	45,388
Other assets	**151,804**	**10,875**	**162,679**	94,405	6,578	100,983
Goodwill and intangible assets	**–**	**89,157**	**89,157**	–	82,095	82,095
Total assets	**$12,596,741**	**$ 7,479,109**	**$20,075,850**	$ 9,831,077	$ 8,969,002	$18,800,079
Liabilities						
Deposits payable on demand	**$ 429,269**	**$ –**	**$ 429,269**	$ 105,923	$ –	$ 105,923
Deposits payable on a fixed date	**7,141,008**	**5,195,677**	**12,336,685**	5,806,019	4,224,657	10,030,676
Senior debt	**–**	**147,343**	**147,343**	–	150,684	150,684
Mortgage-backed security liabilities	**85,087**	**575,877**	**660,964**	469,790	831,903	1,301,693
Canada Mortgage Bond liabilities	**1,277,150**	**3,834,950**	**5,112,100**	912,419	5,121,783	6,034,202
Derivative liabilities	**69**	**3,740**	**3,809**	–	2,386	2,386
Other liabilities	**173,558**	**–**	**173,558**	170,502	–	170,502
Deferred tax liabilities	**–**	**34,425**	**34,425**	–	35,800	35,800
Total liabilities	**$ 9,106,141**	**$ 9,792,012**	**$18,898,153**	$ 7,464,653	$10,367,213	$17,831,866
Net	**$ 3,490,600**	**$ (2,312,903)**	**$ 1,177,697**	$ 2,366,424	$ (1,398,211)	$ 968,213

NOTE 21 INTEREST RATE SENSITIVITY

The Company is exposed to interest rate risk as a result of a difference, or gap, between the maturity or repricing date of interest-sensitive assets and liabilities. The following tables show the gap positions at December 31, 2013 and 2012 for selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date as a result of a mortgage becoming impaired and for credit commitments and derivatives. Variable rate assets and liabilities are allocated to a maturity category based on their interest repricing date.

As at December 31, 2013

thousands of Canadian dollars, except %	Floating Rate	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash and cash equivalents	$ 50,526	$ 677,943	$ –	$ –	$ –	$ –	$ –	$ 728,469
Weighted-average interest rate	1.0%	1.0%	–	–	–	–	–	1.0%
Available for sale securities	–	37,818	68,784	94,814	129,655	93,201	–	424,272
Weighted-average interest rate	–	2.0%	2.5%	3.0%	4.2%	4.5%	–	3.5%
Loans held for sale	–	–	–	–	–	137,975	–	137,975
Weighted-average interest rate	–	–	–	–	–	3.7%	–	3.7%
Securitized mortgages	–	2,154,530	421,987	603,121	957,023	1,073,360	–	5,210,021
Weighted-average interest rate	–	2.8%	3.9%	4.1%	3.6%	4.1%	–	3.4%
Non-securitized mortgages and loans	–	2,057,497	1,722,058	4,501,134	3,301,711	1,067,311	(9,306)	12,640,405
Weighted-average interest rate	–	5.3%	5.1%	5.3%	5.1%	5.5%	–	5.2%
Other assets	122,836	447,079	138,123	–	4,720	–	221,950	934,708
Weighted-average interest rate	1.2%	0.9%	1.5%	–	1.6%	–	–	0.8%
Total	$ 173,362	$ 5,374,867	$ 2,350,952	$ 5,199,069	$ 4,393,109	$ 2,371,847	$ 212,644	$20,075,850
Weighted-average interest rate	1.1%	3.4%	4.6%	5.1%	4.7%	4.7%	–	4.3%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 338,381	$ –	$ –	$ –	$ –	$ –	$ 90,888	$ 429,269
Weighted-average interest rate	1.5%	–	–	–	–	–	–	1.5%
Deposits payable at a fixed rate	–	838,509	1,889,830	4,412,669	4,144,478	1,051,199	–	12,336,685
Weighted-average interest rate	–	1.9%	2.0%	2.1%	2.3%	2.8%	–	2.2%
Senior debt	–	–	–	–	147,343	–	–	147,343
Weighted-average interest rate	–	–	–	–	5.2%	–	–	5.2%
Securitization liabilities	–	2,536,540	499,825	659,953	997,915	1,078,831	–	5,773,064
Weighted-average interest rate	–	1.9%	3.2%	2.8%	2.9%	3.3%	–	2.6%
Other liabilities	–	3,809	–	–	–	–	207,983	211,792
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	1,177,697	1,177,697
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 338,381	$ 3,378,858	$ 2,389,655	$ 5,072,622	$ 5,289,736	$ 2,130,030	$ 1,476,568	$20,075,850
Weighted-average interest rate	1.5%	1.9%	2.2%	2.2%	2.5%	3.1%	–	2.1%
	$ (165,019)	$ 1,996,009	$ (38,703)	$ 126,447	$ (896,627)	$ 241,817	$(1,263,924)	$ –
Credit commitments	–	(748,741)	305	19	26,758	721,659	–	–
Weighted-average interest rate	–	4.6%	6.3%	5.1%	5.0%	4.6%	–	–
Interest rate sensitivity gap	$ (165,019)	$ 1,247,268	$ (38,398)	$ 126,466	$ (869,869)	$ 963,476	$(1,263,924)	$ –
Cumulative gap	$ (165,019)	$ 1,082,249	$ 1,043,851	$ 1,170,317	$ 300,448	$ 1,263,924	$ –	$ –
Cumulative gap as a percentage of total assets	(0.8)%	5.4%	5.2%	5.8%	1.5%	6.3%	–	–

As at December 31, 2012

thousands of Canadian dollars, except %	Floating Rate	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
Assets								
Cash and cash equivalents	$ 11,858	$ 290,005	$ –	$ –	$ –	$ –	$ –	$ 301,863
Weighted-average interest rate	1.0%	1.0%	–	–	–	–	–	1.0%
Available for sale securities	–	86,902	52,803	22,663	87,213	164,763	–	414,344
Weighted-average interest rate	–	2.6%	2.4%	3.0%	5.2%	4.5%	–	3.9%
Loans held for sale	–	–	–	–	–	21,921	–	21,921
Weighted-average interest rate	–	–	–	–	–	3.0%	–	3.0%
Securitized mortgages	–	2,488,249	248,657	743,190	1,855,921	1,370,143	–	6,706,160
Weighted-average interest rate	–	2.8%	4.9%	4.9%	4.0%	4.1%	–	3.7%
Non-securitized mortgages and loans	–	1,779,351	1,382,405	3,539,715	2,893,053	820,039	(12,731)	10,401,832
Weighted-average interest rate	–	6.1%	5.3%	5.5%	5.2%	5.5%	–	5.5%
Other assets	122,042	430,446	30,789	7,174	180,430	–	183,078	953,959
Weighted-average interest rate	1.0%	0.9%	1.3%	1.2%	1.5%	–	–	0.9%
Total	$ 133,900	$ 5,074,953	$ 1,714,654	$ 4,312,742	$ 5,016,617	$ 2,376,866	$ 170,347	$18,800,079
Weighted-average interest rate	1.0%	3.7%	5.1%	5.4%	4.6%	4.6%	–	4.5%
Liabilities and shareholders' equity								
Deposits payable on demand	$ 19,825	$ –	$ –	$ –	$ –	$ –	$ 86,098	$ 105,923
Weighted-average interest rate	1.7%	–	–	–	–	–	–	1.7%
Deposits payable at a fixed rate	–	706,686	1,729,232	3,370,101	3,581,002	643,655	–	10,030,676
Weighted-average interest rate	–	2.0%	2.1%	2.0%	2.5%	2.7%	–	2.2%
Senior debt	–	–	–	–	–	150,684	–	150,684
Weighted-average interest rate	–	–	–	–	–	5.2%	–	5.2%
Securitization liabilities	–	2,531,345	387,283	944,636	2,151,375	1,321,256	–	7,335,895
Weighted-average interest rate	–	1.9%	3.2%	2.9%	2.9%	3.2%	–	2.6%
Other liabilities	–	2,386	–	–	–	–	206,302	208,688
Weighted-average interest rate	–	–	–	–	–	–	–	–
Shareholders' equity	–	–	–	–	–	–	968,213	968,213
Weighted-average interest rate	–	–	–	–	–	–	–	–
Total	$ 19,825	$ 3,240,417	$ 2,116,515	$ 4,314,737	$ 5,732,377	$ 2,115,595	$ 1,260,613	$18,800,079
Weighted-average interest rate	1.7%	1.9%	2.3%	2.2%	2.6%	3.2%	–	2.2%
	$ 114,075	$ 1,834,536	$ (401,861)	$ (1,995)	$ (715,760)	$ 261,271	$(1,090,266)	$ –
Credit commitments	–	(567,041)	2,342	–	20,369	544,330	–	–
Weighted-average interest rate	–	4.8%	5.5%	–	5.9%	4.8%	–	–
Interest rate sensitivity gap	$ 114,075	$ 1,267,495	$ (399,519)	$ (1,995)	$ (695,391)	$ 805,601	$(1,090,266)	$ –
Cumulative gap	$ 114,075	$ 1,381,570	$ 982,051	$ 980,056	$ 284,665	$ 1,090,266	$ –	$ –
Cumulative gap as a percentage of total assets	0.6%	7.3%	5.2%	5.2%	1.5%	5.8%	–	–

Based on the current interest rate gap position at December 31, 2013, the Company estimates that a 100 basis point decrease in interest rates would decrease net interest income after tax and other comprehensive income over the next 12 months by $12.6 million and $0.7 million, respectively, and decrease net present value of shareholders' equity by $18.0 million. A 100 basis point increase in interest rates would increase net interest income after tax and other comprehensive income over the next 12 months by $12.6 million and $0.7 million, respectively, and increase net present value of shareholders' equity by $16.6 million.

NOTE 22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments. The valuation methods and assumptions are described below.

The estimated fair value amounts approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants that are under no compulsion to act at the balance sheet date in the principal or most advantageous market which is accessible to the Company. For financial instruments carried at fair value that lack an active market, the Company applies present value and valuation techniques that use observable market inputs. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

As at December 31, 2013

thousands of Canadian dollars	Financial Assets Held for Trading	Financial Assets Available for Sale	Loans and Receivables	Financial Liabilities at Amortized Cost	Carrying Value	Fair Value	Fair Value Over (Under) Carrying Value
Assets							
Cash and cash equivalents	$ 728,469	$ –	$ –	$ –	$ 728,469	$ 728,469	$ –
Available for sale securities	–	424,272	–	–	424,272	424,272	–
Loans held for sale	137,975	–	–	–	137,975	137,975	–
Securitized mortgages	–	–	5,210,021	–	5,210,021	5,256,782	46,761
Non-securitized mortgages and loans	–	–	12,640,405	–	12,640,405	13,100,882	460,477
Restricted assets	122,836	530,150	–	–	652,986	652,986	–
Derivative assets	29,886	–	–	–	29,886	29,886	–
Securitization receivable and retained interest	–	31,935	22,621	–	54,556	54,726	170
Other	–	–	79,648	–	79,648	79,648	–
Total Assets	$ 1,019,166	$ 986,357	$17,952,695	$ –	$19,958,218	$20,465,626	$ 507,408
Liabilities							
Deposits	$ –	$ –	$ –	$ 12,765,954	$12,765,954	$12,904,296	$ 138,342
Senior debt	–	–	–	147,343	147,343	157,294	9,951
Securitization liabilities	–	–	–	5,773,064	5,773,064	5,862,439	89,375
Derivative liabilities	3,809	–	–	–	3,809	3,809	–
Other	–	–	–	173,558	173,558	173,558	–
Total Liabilities	$ 3,809	$ –	$ –	$18,859,919	$18,863,728	$19,101,396	$ 237,668

As at December 31, 2012

thousands of Canadian dollars	Financial Assets Held for Trading	Financial Assets Available for Sale	Loans and Receivables	Financial Liabilities at Amortized Cost	Carrying Value	Fair Value	Fair Value Over (Under) Carrying Value
Assets							
Cash and cash equivalents	$ 301,863	$ –	$ –	$ –	$ 301,863	$ 301,863	$ –
Available for sale securities	–	414,344	–	–	414,344	414,344	–
Loans held for sale	21,921	–	–	–	21,921	21,921	–
Securitized mortgages	–	–	6,706,160	–	6,706,160	6,936,657	230,497
Non-securitized mortgages and loans	–	–	10,401,832	–	10,401,832	10,896,860	495,028
Restricted assets	137,424	588,069	–	–	725,493	725,493	–
Derivative assets	45,388	–	–	–	45,388	45,388	–
Securitization receivable and retained interest	–	9,172	1,542	–	10,714	10,714	–
Other	–	–	73,967	–	73,967	73,967	–
Total Assets	$ 506,596	$ 1,011,585	$17,183,501	$ –	$18,701,682	$19,427,207	$ 725,525
Liabilities							
Deposits	$ –	$ –	$ –	$10,136,599	$10,136,599	$10,331,151	$ 194,552
Senior debt	–	–	–	150,684	150,684	160,344	9,660
Securitization liabilities	–	–	–	7,335,895	7,335,895	7,207,578	(128,317)
Derivative liabilities	2,386	–	–	–	2,386	2,386	–
Other	–	–	–	170,502	170,502	170,502	–
Total Liabilities	$ 2,386	$ –	$ –	$17,793,680	$17,796,066	$17,871,961	$ 75,895

The following methods and assumptions were used to estimate the fair values of financial instruments:

- Cash and cash equivalents, restricted cash (included in restricted assets), other assets and other liabilities approximate their carrying values due to their short-term nature.
- Available for sale securities are valued based on the quoted bid price. Third-party MBS are fair valued using average dealer quoted prices.
- Fair value of loans held for sale, all of which are insured, is determined by discounting the expected future cash flows of the loans at current market rates imputed by the realized sale of loans with similar terms.
- The fair value of the retained interest is determined by discounting the expected future cash flows using the current MBS spread over Government of Canada Bonds imputed from recent sale transactions.
- The fair value of securitization receivables is determined by discounting the expected future cash flows using current interest rate swap rates.
- Restricted assets include both securities valued based on quoted bid price and securities where fair value is determined using average dealer quoted prices.
- Securitized and non-securitized mortgages and loans are carried at amortized cost in the financial statements. For fair value disclosures, the fair value is estimated by discounting the expected future cash flows of the loans, adjusting for credit risk and prepayment assumptions at current market rates for offered loans with similar terms.
- Fair value of derivative financial instruments is calculated as described in Note 19.
- Retail deposits are not transferable by the deposit holders. In the absence of such transfer transactions, fair value of deposits is determined by discounting the expected future cash flows of the deposits at offered rates for deposits with similar terms. The fair value of the institutional deposit notes is determined using current rates of Government of Canada Bonds. The rates reflect the credit risks of similar instruments.
- Fair value of securitization liabilities is determined using current market rates for MBS and CMB.
- Fair value of the senior debt is determined using current market rates of Government of Canada Bonds. The rates reflect the credit risks of similar instruments.

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

Level 1: Significant inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes cash and cash equivalents, equity securities traded on the Toronto Stock Exchange and quoted corporate and government-backed debt instruments.

Level 2: Significant inputs are observable for the asset or liability, either directly or indirectly and are not quoted prices included within Level 1. This level includes loans held for sale, interest rate swaps, bond forwards, mutual funds, certain corporate debt instruments and senior debt.

Level 3: Significant inputs are unobservable for the asset or liability. This level includes retained interest, securitized and non-securitized mortgages and loans, securitization receivables and liabilities, other assets and liabilities, and deposits.

The following table presents the fair value of financial instruments across the levels of the fair value hierarchy.

				As at December 31, 2013
thousands of Canadian dollars	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Cash and cash equivalents	$ 728,469	$ –	$ –	$ 728,469
Loans held for sale	–	137,975	–	137,975
Derivative assets	–	29,886	–	29,886
Restricted assets	122,836	–	–	122,836
Financial instruments available for sale				
Debt securities	149,559	–	–	149,559
Common shares	60	–	–	60
Preferred shares	272,998	–	–	272,998
Mutual funds	–	1,655	–	1,655
Restricted assets	381,356	148,794	–	530,150
Retained interest	–	–	31,935	31,935
Loans and receivables				
Securitized mortgages	–	–	5,256,782	5,256,782
Non-securitized mortgages and loans	–	–	13,100,882	13,100,882
Securitization receivables	–	–	22,791	22,791
Other	–	–	79,648	79,648
Total	$ 1,655,278	$ 318,310	$18,492,038	$20,465,626
Financial liabilities carried at amortized cost				
Deposits	$ –	$ –	$12,904,296	$12,904,296
Senior debt	–	157,294	–	157,294
Securitization liabilities	–	–	5,862,439	5,862,439
Other	–	–	173,558	173,558
Financial liabilities at fair value				
Derivative liabilities	–	3,809	–	3,809
Total	$ –	$ 161,103	$18,940,293	$19,101,396

thousands of Canadian dollars	Level 1	Level 2	Level 3	Total
				As at December 31, 2012
Financial assets held for trading				
Cash and cash equivalents	$ 301,863	$ –	$ –	$ 301,863
Loans held for sale	–	21,921	–	21,921
Derivative assets	–	45,388	–	45,388
Restricted assets	137,424	–	–	137,424
Financial instruments available for sale				
Debt securities	104,832	–	–	104,832
Common shares	8,836	–	–	8,836
Preferred shares	299,557	–	–	299,557
Mutual funds	–	1,119	–	1,119
Restricted assets	369,718	218,351	–	588,069
Retained interest	–	–	9,172	9,172
Loans and receivables				
Securitized mortgages	–	–	6,936,657	6,936,657
Non-securitized mortgages and loans	–	–	10,896,860	10,896,860
Securitization receivables	–	–	1,542	1,542
Other	–	–	73,967	73,967
Total	$ 1,222,230	$ 286,779	$17,918,198	$19,427,207
Financial liabilities carried at amortized cost				
Deposits	$ –	$ –	$10,331,151	$10,331,151
Senior debt	–	160,344	–	160,344
Securitization liabilities	–	–	7,207,578	7,207,578
Other	–	–	170,502	170,502
Financial liabilities at fair value				
Derivative liabilities	–	2,386	–	2,386
Total	$ –	$ 162,730	$17,709,231	$17,871,961

During 2013 and 2012, the Company did not transfer any financial instrument from Level 1 or Level 2 to Level 3 of the fair value hierarchy.

NOTE 23 RELATED PARTY TRANSACTIONS

IFRS considers key management personnel to be related parties. Compensation of key management personnel of the Company is as follows:

thousands of Canadian dollars	**2013**	2012
Short-term employee benefits	**$ 7,626**	$ 6,646
Share-based payment	**1,719**	2,147
Other long-term benefits	**241**	203
	$ 9,586	$ 8,996

The Company had no related party transactions, other than with key management personnel, as described above, for the years ended December 31, 2013 and 2012.

NOTE 24 RISK MANAGEMENT

The Company is exposed to various types of risk owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include credit, liquidity and funding, interest rate investment, operational reputational and legislative and regulatory risk. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company's ERM structure is supported by a governance framework that includes policies, management standards, guidelines and procedures appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

A description of the Company's risk management policies and procedures is included in the shaded text of the Risk Management section of the MD&A. Significant exposures to credit, liquidity and interest rate risks are described in Notes 4, 5, 19 and 21.

Corporate Directory

HOME CAPITAL GROUP INC.

Directors:

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

Hon. William G. Davis P.C., C.C., Q.C. [3, 4]
Vice Chair of the Board
Counsel
Davis Webb LLP
Brampton, Ontario

James C. Baillie [2, 3]
Counsel
Torys LLP
Toronto, Ontario

William Falk [2, 3]
Managing Partner
PricewaterhouseCoopers LLP
Grand Valley, Ontario

Diana L. Graham [1, 2]
Corporate Director
Toronto, Ontario

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

Robert A. Mitchell, CPA, CA [1, 2, 3]
Corporate Director
Oakville, Ontario

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

Bonita Then [1, 2]
Corporate Director
Toronto, Ontario

Leslie Thompson [2, 4]
President
LESRISK, Debt and Risk Management Inc.
Toronto, Ontario

[1] Member of the Audit Committee
[2] Member of the Risk and Capital Committee
[3] Member of the Governance, Nominating and Conduct Review Committee
[4] Member of the Human Resources and Compensation Committee

Committees:

Audit Committee
Robert A. Mitchell
Chair
Bonita Then
Vice Chair

Risk and Capital Committee
Bonita Then
Chair
Leslie Thompson
Vice Chair

Governance, Nominating and Conduct Review Committee
Hon. William G. Davis
Chair
James C. Baillie
Vice Chair

Human Resources and Compensation Committee
Kevin P.D. Smith
Chair
John M.E. Marsh
Vice Chair

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

Robert Blowes, FCPA, FCA
Chief Financial Officer and Executive Vice President

Pino Decina
Executive Vice President, Residential Mortgage Lending

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

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

David J. Novak
Senior Vice President, Chief Risk Officer

Marie Holland, CPA, CA
Senior Vice President, Internal Audit

John Hong
Senior Vice President, Chief Compliance Officer and Chief Anti-Money Laundering Officer

Stephen Copperthwaite, CMA, ORMP
Senior Vice President, Relationship Manager

Greg Parker
Senior Vice President, Treasurer

Fariba Rawhani
Senior Vice President, Chief Information Officer

Chair Emeritus:

William A. Dimma

Annual Meeting Notice

The Annual Meeting of Shareholders of Home Capital Group Inc. will be held at One King West, Grand Banking Hall, Toronto, Ontario, on Wednesday, May 14, 2014 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

Corporate Directory

HOME TRUST COMPANY

Directors:

Kevin P. D. Smith
Chairman of the Board

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

James C. Baillie

William Falk

Diana L. Graham

John M. E. Marsh

Robert A. Mitchell, CPA, CA

Martin Reid

Gerald M. Soloway

Bonita Then

Leslie Thompson

Officers:

Gerald M. Soloway
Chief Executive Officer

Martin Reid
President

Brian R. Mosko
Chief Operating Officer and Executive Vice President

Robert Blowes, FCPA, FCA
Chief Financial Officer and Executive Vice President

Pino Decina
Executive Vice President, Residential Mortgage Lending

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

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Senior Vice President, Chief Compliance Officer and Chief Anti-Money Laundering Officer

Stephen Copperthwaite, CMA, ORMP
Senior Vice President, Relationship Manager

Greg Parker
Senior Vice President, Treasurer

Fariba Rawhani
Senior Vice President, Chief Information Officer

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Fax: 204-942-1638

Auditors:
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Principal Bankers:
Bank of Montreal
Bank of Nova Scotia

Transfer Agent:
Computershare Investor Services Inc.
100 University Avenue
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Stock Listing:
Toronto Stock Exchange
Ticker Symbol: HCG

Options Listing:
Montreal Stock Exchange
Ticker Symbol: HCG

Capital Stock:
As at December 31, 2013, there were 34,744,090 Common Shares outstanding

Memberships:
Canada Deposit Insurance Corporation
Trust Companies Association of Canada

For Shareholder Information, Please Contact:
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