



**HOME CAPITAL GROUP INC.**

**ANNUAL INFORMATION FORM**

**APRIL 29, 2003**

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**(1) Reference**

The portion referred to above of the following documents are incorporated by reference to Annual Information Form:

- (i) Annual Report for the year ended December 31, 2002 (the "Annual Report").
- (ii) Management Proxy Circular dated as of April 16, 2003 (the "Proxy Circular").

**Financial Information**

Unless otherwise noted, all information is given at, or for, the fiscal year ended December 31, 2002 and is expressed in Canadian dollars.

## **INCORPORATION**

On December 12, 1979 Sonor Petroleum Corporation, a predecessor company to Home Capital Group Inc. (sometimes herein referred to as “Home Capital” or the “Company”), was continued under the Canadian Business Corporations Act. On March 21, 1986, the name of Sonor Petroleum Corporation was changed to Sonor Resources Corporation and, on December 31, 1986, was further changed to Home Capital Group Inc. On July 18, 1988, Home Capital was continued under the Business Corporations Act, 1982 (Ontario). The Company’s registered and principal office is located at 145 King Street West, Suite 1910, Toronto, Ontario, M5H 1J8.

Home Capital Group Inc. is a holding company that operates through its 100% owned subsidiary, Home Trust Company (“Home Trust”) previously known as Home Savings & Loan Corporation. Home Savings & Loan Corporation was incorporated on September 28, 1977 under the Loan and Trust Corporations Act (Ontario). On March 9, 2000, Letters Patent of Continuance were issued authorizing Home Savings & Loan Corporation, incorporated under the Loan and Trust Corporations Act (Ontario) to carry on business as Home Trust Company under the Trust and Loan Companies Act (Canada).

## **GENERAL DEVELOPMENT OF THE BUSINESS**

In 1986, a new management group acquired control of Sonor Resources Corporation, a virtually inactive energy company. After disposing of the energy operations, management embarked on the development of a specialized financial services company.

In October 1986, the Company issued 2.5 million Class ‘B’ subordinated voting shares for proceeds of \$4.7 million. Of this, \$3.1 million was used as capital in the start-up of Kingsway General Insurance Company (“Kingsway”).

In December, 1986, the Company purchased 100 percent ownership of Home Trust in exchange for 3.4 million Class ‘B’ subordinated voting shares. At this time, the Company changed its name to Home Capital Group Inc. to reflect this acquisition and the Company’s strategy to provide specialized financial services to the markets that were ignored or underserved by larger companies.

In March 1987, an additional 2.75 million Class ‘B’ subordinated voting shares were issued for proceeds of \$4.9 million to increase the Company’s equity and allow it to provide additional capital to Home Trust.

In 1989, the Company determined to focus its resources on the growth of Home Trust and sold Kingsway to a management and investment group for \$3.9 million and transferred the entire portfolio of Home Capital Investment Management Inc. a subsidiary of the Company, to a major investment management company.

In 1993 and 1994 and again in 1996, the Company issued a total of \$3 million subordinated debentures, convertible to Class B subordinated voting shares at \$1.00 per share, as a means of maintaining capital and repaying a bank loan. On or before the maturity date of the subordinated debentures, July 29, 1998, all of the subordinated debentures were converted.

On October 16, 1997, the Company entered into an agreement with Penfund Capital (No. 1) Limited (“Penfund”), whereby Penfund provided a senior debenture, in the amount of \$5 million, for a period of five years. On July 21, 1998, the Company received an additional \$5 million under the same conditions as the original loan. Both loans bore interest at 8%. Principal was repayable in yearly installments of \$500,000, which began on October 16, 1998. This continued to October 16, 2002 when the balance was payable in full. The proceeds of this second loan were used to inject an additional \$5 million of capital into Home Trust. This second tranche provided financing for the growth in 1999 and well into 2000.

On November 10, 2000, the Company entered into an agreement with Surrey Metro Savings Credit Union (“Surrey Metro”), whereby Surrey Metro provided a subordinated secured note of \$5 million for a period of two years. The loan

bore interest at 9.50% per annum and was repayable in full on October 16, 2002. The proceeds of this loan were used to inject an additional \$5 million of capital into Home Trust for growth well into 2001.

On September 11, 2001, the Company completed its sale of 1.4 million of Class 'B' subordinated voting shares which were sold under a short form prospectus dated August 29, 2001. Gross cash proceeds totalled \$13.4 million reduced by \$0.9 million for share issue costs. Of the net proceeds of \$12.5 million, \$7.0 million was used to purchase common shares in the wholly-owned subsidiary Home Trust.

The Company announced on January 25, 2002 a share conversion that reduced the number of the Company's multi-vote Class 'A' shares. The holders of the Company's 3,025,000 convertible Class 'A' multi-vote shares converted 1,500,000 of the Class 'A' shares into the same number of single-vote Class 'B' subordinated voting shares, effective January 24, 2002. The 1,500,000 shares have been listed on the Toronto Stock Exchange increasing the publicly traded Class 'B' subordinated voting shares from 13,322,610 to 14,822,610.

On March 12, 2002, Kenneth Fowler, who retired as director of the Company in the first quarter, converted his remaining 270,833 Class 'A' shares to the same number of Class 'B' subordinated voting shares. This conversion further increased the float of publicly trade shares by the 270,833.

On June 18, 2002, the Company entered into an agreement with Canadian Western Bank ("Canadian Western"), whereby Canadian Western provided a term loan of \$10 million for a period of five years. The proceeds of this term loan were received on July 10, 2002 and used to repay the \$8 million senior term loan with Penfund and the remaining \$2 million was used to purchase common shares in the wholly-owned subsidiary Home Trust.

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

## **GENERAL OVERVIEW**

The principal business of Home Capital is conducted through its subsidiary, Home Trust, a federally regulated financial institution that provides deposit, mortgage lending, retail credit and credit card issuing services. Home Trust presently operates through its branches located in Toronto, Hamilton, St. Catharines, Calgary, Vancouver and Halifax. There are presently 164 people employed.

Home Trust takes deposits in the form of short-term deposits, guaranteed investment certificates, registered retirement savings plans and registered retirement income funds. These deposit funds are then invested primarily in mortgages on residential properties, equity securities, bankers' acceptance, term deposits, treasury bills, corporate bonds and government bonds. Home Trust is a member of the Canada Deposit Insurance Corporation.

Home Trust's primary source of revenue is interest income earned on lending activities and the investment of surplus funds in stocks, bankers' acceptance, term deposits, treasury bills and government bonds. The major expense is the interest paid on the deposits held. Lending activities and the maintenance of loans also generate fee income.

Home Trust's sources of revenue are shown in the following table:

(dollars in thousands)	2002	%	2001	%	2000	%
Interest from loans	\$ 91,077	80.9%	\$ 76,181	83.0%	\$ 60,193	85.3%
Other interest	2,483	2.2%	3,301	3.6%	2,295	3.2%
Dividends from securities	7,631	6.8%	4,505	4.9%	2,898	4.1%
Fees and other income	9,286	8.3%	4,733	5.2%	4,518	6.4%
(Loss) gain on sale of securities	(2,310)	(2.1%)	6	0.0%	249	0.4%
Securitization gain on sale of mortgage-backed securities	4,389	3.9%	3,002	3.3%	453	0.6%
	\$ 112,556	100.0%	\$ 91,728	100.0%	\$ 70,606	100.0%

### Loan Arrears

A loan is recognized as being impaired when, the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 90 days. Any credit card that has a payment that is contractually 180 days in arrears is written-off. Net impaired loans were \$3,022,000 in 2000, \$5,017,000 in 2001 and 4,155,000 in 2002; as a percentage of the total mortgage portfolio, they were 0.39% in 2000, 0.52% in 2001 and 0.35% in 2002.

These ratios compare favourably with other large financial institutions. The Company continues to increase its general reserve from \$4,149,000 in 2000 to \$5,517,000 in 2001 and \$7,556,000 in 2002. The present general reserve amounts to 100 basis points of risk-weighted assets as compared to 91 basis points in 2001 and 86 basis points in 2000.

Net impaired loans were as follows:

(000's)	2002	2001	2000
Impaired loans	\$ 4,538	\$ 5,553	\$ 3,257
Specific loan provision	383	536	235
Net impaired loans	\$ 4,155	\$ 5,017	\$ 3,022

The following table illustrates the breakdown of the loans in arrears over 90 days:

(000's)	2002	2001	2000
90 to 179 days	\$ 3,218	\$ 3,749	\$ 1,863
180 plus days	1,320	1,804	1,394
Total	\$ 4,538	\$ 5,553	\$ 3,257

The Company's policy is to reverse all accrued and unpaid interest once a loan is deemed to be impaired or it is 90 days in arrears, whichever occurs first.

### Provision for Loan Losses

Provisions to loan losses are the charges to income for credit losses arising from the establishment of specific and general allowances. The mortgage loss allowance is broken down in the table below:

(000's)	2002	2001	2000
Specific reserve	\$ 383	\$ 536	\$ 235
General reserve	7,556	5,518	4,226
Total	\$ 7,939	\$ 6,053	\$ 4,461

## **Competition**

Home Trust competes with banks, trust companies and other deposit-taking institutions primarily in Ontario, Alberta, British Columbia and the Maritimes. The Company is registered to do business in every province across Canada except Quebec. Home Trust's ability to attract retail and institutional deposits depends largely on the interest rates it offers. Home Trust competes with other mortgage lenders but concentrates on providing residential first mortgages. At the beginning of 1994, the Company re-entered the CMHC-insured mortgage market to further expand its insured mortgage portfolio. Home Trust has formed alliances with a few of the larger financial institutions in the role of the first choice alternative lender to clients of these institutions.

## **New Lines of Business**

On December 7, 2000 Home Trust issued its first Mortgage-Backed Security ("MBS"). This is the securitization of mortgages that are insured under the Canada Mortgage and Housing Corporation (CMHC). These CMHC-insured mortgages originated by Home Trust are pooled, securitized and issued to investors as CMHC-insured Mortgage-Backed Securities. Interest is paid to the investors at the coupon rate stated on the securities. When the MBS security was sold, the estimated present value of the net interest spread (the difference between the weighted average mortgage rate and the MBS coupon rate, less a normal servicing fee and an estimated principal pay-down) results in the gain or loss on the sale of the security adjusted by issuance costs. The Company has issued MBS securities of \$12.4 million resulting in gains of \$0.5 million in 2000, \$57.7 million for \$3.0 million in gains in 2001 and \$94.9 million for \$4.4 million in gains in 2002 on the income. Total outstanding principal value of these securities at December 31, 2002 amounted to \$140.6 million.

On May 24, 2000 Home Trust became a General Member of VISA Canada, authorized to offer VISA cards and accordingly, engaged in the business of developing a secured VISA card. The efforts of the Company in the year 2000 and 2001 were devoted to the development of a VISA card operation and any revenues earned during this period adjusted the development costs on this operation. On January 1, 2002 the VISA project became fully operational, all revenues and expenses were recognized in the income statement.

In April, 2001 a new product was formed to provide installment financing for customers purchasing products from established merchants. This product is shown as personal loans on the balance sheet and in 2002 has been renamed to the Retail Credit Services division.

In March, 2002 the Company launched a new VISA product. The Equity Plus VISA card is a product that allows homeowners to use their home equity as collateral to obtain credit in the \$10,000 to \$50,000 range. At December 31, 2002, 208 cards have been issued for a total authorized credit of \$6.3 million.

## **Dividend Policy**

On June 1, 2001, the Board of Directors approved a dividend policy under which the Company paid a quarterly dividend at the rate of 2.5 cents per share on outstanding convertible Class A and Class B subordinated voting shares, equivalent to an annual rate of 10.0 cents per share. On May 28, 2002, the Board of Directors approved an increase in the dividend policy to 3.0 cents per share payable quarterly on outstanding Class A and Class B subordinated voting shares, equivalent to an annual rate of 12.0 cents per share. A total of 11.0 cents per share was declared and/or paid during the year.

## HISTORICAL RESULTS AND PERCENTAGES

### SELECTED CONSOLIDATED FINANCIAL DATA (in 000's except % and per share)

#### Five Year Financial Review

	Years Ended December 31				
	2002	2001	2000	1999	1998
Total assets	\$ 1,394,289	1,136,220	892,078	738,136	538,876
Senior term loan	-	8,000	8,500	9,000	9,500
Term loan	10,000	-	-	-	-
Subordinated secured loan	5,000	5,000	5,000	-	-
Deposits and borrowings	1,215,180	995,120	794,666	671,068	493,386
Accounts payable and accruals	69,523	52,897	34,411	17,615	2,370
	<u>1,299,703</u>	<u>1,061,017</u>	<u>842,577</u>	<u>697,683</u>	<u>505,256</u>
Shareholders' equity	\$ 94,586	75,203	49,501	40,453	33,620
Total Revenue	\$ 112,556	91,728	70,606	53,021	42,069
Net income	\$ 20,595	14,860	10,452	8,081	6,067

#### Ratios

Return on average assets	1.63%	1.47%	1.28%	1.27%	1.27%
Return on average shareholders' equity	24.26%	23.83%	23.24%	21.82%	20.70%
Class A and Class B subordinated voting shares outstanding	16,759	16,348	14,804	14,754	14,784
Net income per share	\$ 1.25	0.99	0.71	0.55	0.46
Book value per share	\$ 5.64	4.60	3.34	2.74	2.27

#### Quarterly Results

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
<b>2002</b>					
Total revenue	\$ 25,804	27,196	29,194	30,362	112,556
Net income	\$ 4,734	5,071	5,249	5,541	20,595
Per share	\$ 0.29	0.31	0.32	0.33	1.25
<b>2001</b>					
Total revenue	\$ 21,024	22,027	23,760	24,917	91,728
Net income	\$ 3,218	3,546	3,982	4,114	14,680
Per share	\$ 0.22	0.24	0.26	0.27	0.99

## DIRECTORS AND EXECUTIVE OFFICERS

The Directors of the Company were elected at the 2001 annual meeting of shareholders held May 29, 2002, and will hold office until the next annual meeting of the shareholders of the Company to be held on May 27, 2003 or until their successors are otherwise elected or appointed. The Directors also have appointed certain of their number to serve on the Company's Audit and Risk Management Committee, Executive Committee, Investment Committee, Human Resources and Compensation Committee and Corporate Governance and Nominating Committee.

Name, Principal Occupation and Business	Municipality of Residence	Director Since
JOHN CHRISTODOULOU (1)(2) Chairman and Chief Executive Officer Guardian Capital Group Inc.	Toronto, Ontario	1990
HON. WILLIAM G. DAVIS (1)(3)(4)(5) P.C., C.C., Q.C. Counsel, Torys	Brampton, Ontario	1999
WILLIAM A. DIMMA (1)(3)(4)(5) Corporate Director	Toronto, Ontario	1994
HARVEY F. KOLODNY (1)(2)(5) Professor Emeritus, Rotman School of Management, University of Toronto	Toronto, Ontario	1989
JOHN M. E. MARSH (3)(4) Corporate Director	Port Colborne, Ontario	1986
ROBERT A. MITCHELL (1)(5) Corporate Director	Oakville, Ontario	2002
SHEILA L. ROSS (3) Partner, TMP Worldwide Executive Search	Toronto, Ontario	1999
GERALD M. SOLOWAY (2)(4) President and Chief Executive Officer Home Capital Group Inc.	Toronto, Ontario	1986

Indicates:

- (1) Audit and Risk Management Committee
- (2) Investment Committee
- (3) Human Resources and Compensation Committee
- (4) Executive Committee
- (5) Corporate Governance and Nominating Committee

**Officers**

Name	Office	Municipality of Residence
William A. Dimma	Chairman of the Board	Toronto, Ontario
Gerald M. Soloway	President and Chief Executive Officer	Toronto, Ontario
W. Roy Vincent	Senior Vice-President and Chief Operating Officer	Toronto, Ontario
Rodney K. Adams	Senior Vice-President	Richmond Hill, Ontario
Cathy A. Sutherland	Treasurer	Welland, Ontario
Sharron I. Hatton	Corporate Secretary	Toronto, Ontario

All of the above named directors and executive officers have held their present position or other executive positions with the same or associated firms or organizations for the past five years except for Mr. Adams and Mr. Mitchell. Mr. Adams joined the Company in December 2000 as a Senior Vice-President and was appointed as an officer for the Company on May 29, 2002. Prior to joining the Company Mr. Adams was the President and CEO of Beneficial Canada from 1989 to 1998 and President of Associates Financial Services from 1998 to 1999. Mr. Mitchell joined the Company in October 2001 and was elected as a director for the Company on May 29, 2002. Prior to October 2001, Mr. Mitchell was a partner with Ernst & Young LLP Chartered Accountants.

**Shareholdings of Directors and Officers**

Directors and officers of the Company, as a group, hold 983,334 Class A shares and 2,024,058 Class B subordinated voting shares, representing 78.4% of the total Class A shares and 13.1% of the total Class B subordinated voting shares, respectively.

**Additional Information**

The Class B subordinated voting shares of Home Capital Group Inc. trade on the Toronto Stock Exchange under the ticker symbol HCG.B.

Additional information relating to the directors' and officers' remuneration, principal holders of the Company's Class A shares, Class B subordinated voting shares and options to purchase securities is contained in the Company's Management Information Circular dated April 16, 2003 prepared in connection with the annual meeting of shareholders of the Company to be held on May 27, 2003. Additional financial information is provided in the Company's comparative financial statements for the year ended December 31, 2002 and is contained in the 2002 Annual Report.

Copies of the foregoing documents may be obtained upon request from the Corporate Secretary of the Company. Come visit our web sites: Home Capital Group Inc.- [www.homecapital.com](http://www.homecapital.com) and Home Trust Company – [www.hometrusted.ca](http://www.hometrusted.ca).