



# HOME CAPITAL GROUP INC.

## **FINANCIAL HIGHLIGHTS**

*For the period ended June 30 (Unaudited)*

	Three Months Ended		Six Months Ended	
	2002	2001	2002	2001
<b>OPERATING RESULTS</b>				
Net Income	\$ 5,071,090	\$ 3,545,687	\$ 9,805,050	\$ 6,763,902
Total Revenue	27,195,606	22,027,393	52,999,964	43,051,063
Net Investment Margin (TEB) **	3.87%	3.50%	3.75%	3.48%
Earnings per Share - Basic	0.31	0.24	0.60	0.46
- Fully diluted	0.29	0.22	0.56	0.42
Return on Shareholders' Equity	24.58%	26.29%	24.51%	25.76%
Productivity Ratio	45.56%	42.77%	45.69%	41.58%
Book Value per Common Share	\$5.11	\$3.74	\$5.11	\$3.74
Common Share Price – close	\$15.05	\$8.82	\$15.05	\$8.82
<b>GROWTH IN BUSINESS</b>				
Total Assets			\$1,262,325,246	\$1,031,065,968
Loans, Mortgages and Other			1,042,341,665	862,712,770
Deposits and Borrowings			1,104,772,453	916,373,461
Common Shareholders' Equity			84,841,215	55,532,428
<b>FINANCIAL STRENGTH</b>				
Total Tier 1 Capital *			\$ 75,805,000	\$ 51,368,000
Total Capital *			96,681,000	66,368,000
Risk Adjusted Assets *			677,501,000	552,420,000
Tier 1 Capital Ratio *			11.19%	9.30%
Total Capital Ratio *			14.27%	12.01%
Net Impaired Loans as a % of Gross Mortgage Loans			0.46%	0.43%

\* These figures relate to the Company's operating subsidiary, Home Trust Company.

\*\* These figures are converted to a taxable equivalent basis.

Home Trust Company [www.hometrusted.ca](http://www.hometrusted.ca)  
Home Capital Group Inc. [www.homecapital.com](http://www.homecapital.com)

**JUNE 30, 2002**  
**Second Quarter Report**

**HOME CAPITAL GROUP INC.  
TO OUR SHAREHOLDERS**

*Home Capital Celebrates Seven Years of Consistent, Quarterly Earnings Growth*

Home Capital Group Inc.'s outstanding financial performance continued through the second quarter of 2002 with record results in earnings, earnings per share and total assets. Meanwhile, the Company is building on the success of its core mortgage lending business while positioning its new business lines for profitable future growth.

Through its wholly-owned subsidiary Home Trust Company, the Company has now achieved consistent quarter-over-quarter increases in earnings for 28 consecutive quarters. We know of no other deposit-taking financial institution in Canada with comparable results. This performance reflects the strength of our business strategy, the strong demand for Home Trust's products within our large target market and the dedication of our mortgage broker network and our employees.

**Net Earnings Rise Strongly**

For the three-month period ended June 30, 2002, net earnings rose 43.0% to \$5.1 million from \$3.5 million for the same period a year earlier. Earnings per share of \$0.31 represented a significant improvement of 29.2% over \$0.24 in the second quarter of 2001. Return on equity remained above 20% at 24.6% in the second quarter, down slightly from 26.3% recorded last year.

Net income for the six months ended June 30, 2002 rose by 45.0% to \$9.8 million from the \$6.8 million recorded through the first half of 2001. Net income per share increased from \$0.46 to \$0.60 and on a fully-diluted basis from \$0.42 to \$0.56. Return on equity remains strong at 24.5% for the six months under review.

**Total Assets Continue to Grow**

Total assets at the end of the quarter were \$1.26 billion, an increase of 22.4% over total assets on June 30, 2001 and an increase of 11.5% over assets at the end of the first quarter of 2002.

The Company experienced continued growth of its mortgage securitization program. During the second quarter, Home Capital issued a further \$16.1 million in MBS pooling of residential mortgages. This issue brings total MBS assets managed by Home Trust to \$91.1 million.

**Prudent Risk Management**

Home Capital's prudent approach to risk management and adherence to well-regarded underwriting techniques continues to serve it well. Net impaired loans as at June 30, 2002 represented 0.46%, a slight increase compared to 0.43% on June 30, 2001 and a reduction from the 0.51% at March 31, 2002.

Home Trust's general allowance increased from \$4.9 million at the end of June 2001 to \$6.5 million at the end of the current quarter. This represents 95.4 basis points of risk-weighted assets at that date, compared to 88.4 basis points at June 30, 2001 and 93.6 basis points at March 31, 2002. It is the Company's objective is to reach 100 basis points of risk-weighted assets by year-end 2002.

As at June 30, 2002, the operating subsidiary Home Trust's Tier 1 capital ratio was 11.2% compared to 9.3% at June 30, 2001. The total capital ratio rose to 14.3% or \$96.7 million, from 12.0% or \$66.4 million, at the end of the second quarter in 2001.

**Consumer Lending Programs**

Home Trust continued to develop its new Equity Plus VISA product, which it launched in the first quarter. The product enables qualifying homeowners to access from \$10,000 to \$50,000 of equity in their homes as needed through a VISA credit card. The Company's credit card strategy going forward is to issue products secured by either cash or property.

Retail credit services provides installment financing for clients purchasing goods from various established merchants. This business has experienced strong market acceptance, and by June 30, 2002 had achieved receivables of \$5.8 million.

**Board Declares Dividend Increase**

In recognition of the Company's achievements of 2001 and the first quarter of 2002, and based on the encouraging outlook for the balance of the year, the Board of Directors has declared a dividend increase from \$0.10 to \$0.12 per share on an annualized basis. The first enhanced quarterly dividend of \$0.03 per share is payable on September 1, 2002 to shareholders of record at the close of business on August 15, 2002.

### **Additional Developments**

Subsequent to the end of the quarter, the Company announced that it had closed a debt financing with Canadian Western Bank for \$10.0 million. The proceeds were used to discharge the balance of the Penfund Capital (No. 1) Limited loan of \$8.0 million and the balance will be added to the capital base of Home Trust. The loan with Canadian Western Bank is a five-year term loan with a floating interest rate and is fully open.

### **Positive Outlook for Continued Profitable Growth**

At the Company's annual general meeting on May 29, 2002 I noted that Home Trust currently has less than a two percent market share of the segment of the mortgage market we serve and that I believe there is enormous potential for continued growth in the years ahead. Results for the first six months of 2002 strongly demonstrate the robust demand in the marketplace for our products.

I believe there is every reason to be optimistic about your Company's prospects for continued profitable growth. Home Capital has produced business results that provide a strong foundation for continued growth and performance in 2002 and into future years. The performance of the first six months indicate that we remain on target for completing another record year of earnings and asset growth.

GERALD M. SOLOWAY  
President & Chief Executive Officer  
July 25, 2002

## ***Management's Discussion and Analysis of Operating Performance***

Home Capital Group Inc. has achieved strong growth and financial performance in the second quarter of 2002. Total revenues increased 23.5% or \$5.2 million over the same period in 2001. For the six months ending June 30 revenues grew by 23.1% or \$9.9 million over June 2001. This increase is largely attributable to growth in the residential mortgage portfolio, which generated increased interest income of \$3.0 million over the three months ending June 2001 and \$6.0 million over the same six-month period last year. The Company's new consumer lending lines of business, which includes credit card and retail credit services, added \$1.0 million in revenues for the three months ended June 2002 and \$1.8 million for the six-month period. Dividends from securities increased \$2.7 million over the three months ending June 2001 and the six-month period last year as a result of a dividend received of \$2.6 million on redemption of preferred shares. This dividend income was partially offset by a \$2.1 million operating loss recognized on the redemption of the securities. For further information refer to Note 5 of the Interim Unaudited Consolidated Financial Statements.

### **Net Interest Income**

Net interest income is the difference between income earned on investments and the interest paid on deposits and any borrowings to fund those investments. This income has been adjusted to a tax equivalent basis because dividend income received by the Company is non-taxable. Net interest income on a taxable equivalent basis was \$11.6 million in the quarter and \$22.5 million for the six months, an increase over 2001 of 34.6% for the second quarter and 36.0% for six months (2001 second quarter-\$8.6 million and six months-\$16.5 million).

This improvement was the result of increased margins on the core business of loan lending over deposit taking reflected by a 3.8% spread for the quarter and year-to-date versus 3.5% for the quarter and six-month period last year. The overall net investment spread for the Company, which is the average rate of return on earning assets less the average rate paid on interest bearing liabilities, was 3.4% for the six-month period up from 3.3% in 2001.

### **Provision for Credit Losses**

The Company expensed \$0.9 million in the quarter and \$1.5 million year-to-date through provision for credit losses compared to \$0.3 and \$0.7 million last year. The increased provision for credit losses this year was due to the growth in the loan portfolio requiring increased general allowances. The Company's total general allowances amounted to \$6.5 million at the quarter end, a \$0.6 million increase over March 31, 2002 and \$1.6 million over June 2001.

### **Non-Interest Income**

Other income was \$2.4 million for the quarter and \$4.4 million for the six months, an increase of \$1.2 million (96.6%) and \$2.1 million (93.4%) from the same periods last year. VISA credit card operations contributed \$0.8 million in fee income this quarter and \$1.6 million for the six months. VISA operating costs (net of fee income) were capitalized in the prior year's quarter and six month periods as development costs during the start-up phase of this program. These costs are now being amortized, commencing January 1, 2002.

The Company issued its second Mortgage-Backed Security (MBS) pool for 2002, consisting of \$16.1 million of Canada Mortgage and Housing Corporation insured mortgages. Gains of \$0.6 million were realized for the quarter and \$1.3 million for the six months. Total funds under administration at the end of the quarter were \$91.1 million. These securities were sold without recourse and the Company continues to service the loans in these pools.

### **Non-Interest Expenses**

Total operating expenses for the three months ended June 30, 2002 increased to \$6.2 million, up by 53.0% or \$2.2 million over June 2001 and by 57.1% or \$4.4 million over the six months ended June 2001. Operating costs for the new consumer lending lines of business represented \$1.4 million for the quarter and \$2.8 million for the six months of this year.

Salaries and staff benefits rose by \$0.5 million or 23.6% in the quarter and \$1.1 million or 30.0% for the six months as compared to 2001. This increase is related both to the growth in the core business of mortgage lending, as well as staffing for the new consumer lending lines of business.

The productivity or efficiency ratio, defined as the measurement of non-interest expenses as a percentage of total revenues, increased to 45.6% for the quarter and 45.7% for the six months compared to 42.8% and 41.6% for the same periods of 2001. If the consumer lending lines of business were to be excluded from the measurement, the Company's productivity ratio would be 40.1% for the quarter and 40.2% for the six months. As the consumer lending business continues to mature, it is expected that the Company's overall productivity ratio will return to previous levels.

### **Balance Sheet**

Total assets as at June 30, 2002 reached \$1.26 billion, an increase of 22.4% or \$231.3 million, over the \$1.03 billion reported a year ago. The loan portfolio increase of \$179.6 million or 20.8% contributed to the majority of the asset growth. Residential mortgages contributed \$187.2 million to the loan portfolio growth and consumer lending added \$10.8 million. These increases were offset by a decline in other mortgages (non-residential) of \$16.8 million and an increase in the general allowance for credit losses of \$1.6 million. Mortgage-Backed Securities receivables added \$3.8 million. Development costs from the credit card operation that were deferred until December 31, 2001 increased by \$1.1 million over June 30, 2001, and other assets added \$2.7 million to total assets. The remaining asset growth of \$44.1 million was comprised of increased investment in the Company's preferred stock portfolio of \$25.3 million, and cash resources of \$35.2 million, which was partially offset by the decline in government guaranteed securities of \$16.4 million.

Other assets consist of accrued interest receivable, deferred deposit commissions, goodwill and other prepaid and deferred assets. Deferred agent commissions have increased correspondingly with the increase in deposits and borrowings. These commissions are amortized over the term of the deposit.

Liabilities as at June 30, 2002 have increased to \$1.18 billion, an increase of \$202.0 million or 20.7% over the \$975.5 million reported at June 30, 2001. The majority of this increase is related to the growth in deposits and borrowings of \$188.4 million; this increase funded most of the growth in the loan portfolio. Senior term loans declined by \$0.5 million. Other liabilities increased \$14.1 million or 30.8% over the \$45.7 million reported at June 30, 2001. The increase was attributable to increased accrued interest payable of \$8.5 million, an increase of \$3.8 million in future income taxes and \$1.8 million in deferred commitment fees, accounts payable and accrued liabilities.

Shareholders' equity climbed to \$84.8 million at June 30, 2002, an increase of \$29.3 million or 52.8% over the balance of \$55.5 million at June of last year. This growth in equity is attributable to funds received from the share issuance in September 2001 of \$12.5 million (net of issuance costs) and net earnings for the twelve months of \$17.9 million less \$1.8 million dividends paid and payable to shareholders.

### **Credit Quality**

The net impaired loans in the second quarter of 2002 were \$4.9 million or 0.46% of the total loan portfolio compared to \$3.7 million or 0.43% in the second quarter of 2001. This ratio has improved since the first quarter, when impaired loans stood at 0.51% or \$5.0 million. The Company closely monitors impaired loans and has established a loan loss allowance on the loan portfolio of \$6.5 million versus \$4.9 million in the same period of 2001.

The Company's mix of the mortgage portfolio consists of 96.2% residential, 2.7% store and apartments and 1.1% non-residential. Of the 96.2% residential mortgage portfolio, 3.5% is insured by Canada Mortgage and Housing Corporation. First mortgages represent 99.8% of the total mortgage portfolio.

The credit card receivable balance is comprised of \$5.5 million in secured and \$7.8 million in unsecured accounts. The total credit approved is comprised of \$10.1 million in secured and \$10.1 million in unsecured credit lines. Segments of the unsecured credit card portfolio experienced weaker credit performance than projected and, as a result, unsecured credit card issuance was discontinued in the first quarter of this year. The total allowance provided on the VISA credit card operation amounts to \$0.5 million or 3.9% of the total receivable balance, including those VISA cards secured by a cash deposit with the Company. Security deposits on VISA cards amounted to \$8.4 million and are included in the Company's deposits and borrowings.

Total Company losses realized on loans year-to-date are \$738,000. These include \$768,000 in consumer loans offset by \$30,000 in mortgage loan recoveries. Last year losses consisted of \$70,000 for the mortgage business; the credit card and retail consumer loan operations were early-stage and had not experienced any write-offs. The Company has increased the provision for this quarter to \$0.9 million totalling \$1.5 million year-to-date, compared to \$0.3 million and \$0.7 million in 2001. The Company has ensured that it is well positioned for any future unforeseen losses by establishing general allowances of \$6.5 million at June 30, 2002 as compared to the general allowances of \$4.9 million at June 30, 2001.

The general allowances have increased to 95.4 basis points of the risk-weighted assets at June 30, 2002 compared to 88.4 basis points as of June 2001.

#### **Capital Ratios (Based on the Operating Subsidiary Home Trust Company)**

As at June 30, 2002, Home Trust's Tier 1 capital ratio was 11.2% compared to 9.3% at June 30, 2001. The growth in shareholders' equity of 52.8% over June 2001 was greater than the 22.6% growth in the risk-weighted assets, contributing to the improvement in the Tier 1 capital ratio. The total capital ratio increased to 14.3% at June 30, 2002 compared to 12.0% at June 30, 2001. This ratio for total capital exceeds the minimum regulatory target of 10%.

#### **Outlook**

The Company will continue to explore additional opportunities in the Canadian market that are not being served by the major financial institutions. We will continue to enhance profitability and return on equity while matching assets and liabilities to ensure that interest rate fluctuations will not materially impact on future earnings. It is anticipated that the Bank of Canada is likely to increase the interest rates during the current year by a further 50 to 100 basis points. However, even with the anticipated increases, interest rates are still low by historic standards. The Company agrees with the recent Canada Mortgage and Housing Corporation outlook that the country's housing market should remain strong throughout 2002.

## Earnings by Business Segment

	Home Trust							
	Mortgage Business		Consumer Lending				Total	
			Retail Services and Credit Cards		Other*			
	June 30	June 30	June 30	June 30	June 30	June 30	June 30	June 30
<i>For the three months ended</i>	2002	2001	2002	2001	2002	2001	2002	2001
<i>(Unaudited) thousands</i>								
Net interest income	\$ 8,151	\$ 6,174	\$ 905	\$ 52	\$ 4,186	\$ 1,533	\$ 13,242	\$ 7,759
Provisions for credit losses	498	294	390	41	-	-	888	335
Fees and other income	1,523	1,197	830	-	(1)	(1)	2,352	1,196
(Loss) gain on securities & mortgage-backed securities	560	545	-	-	(2,520)	(8)	(1,960)	537
Non-interest expense	3,674	3,616	1,438	85	1,100	358	6,212	4,059
Net income (loss) before provision for income taxes	6,062	4,006	(93)	(74)	565	1,166	6,534	5,098
Provision for income taxes	1,279	1,092	(36)	(31)	220	491	1,463	1,552
<b>Net Income (Loss)</b>	<b>\$ 4,783</b>	<b>\$ 2,914</b>	<b>\$ (57)</b>	<b>\$ (43)</b>	<b>\$ 345</b>	<b>\$ 675</b>	<b>\$ 5,071</b>	<b>\$ 3,546</b>

## Earnings by Business Segment

	Home Trust							
	Mortgage Business		Consumer Lending				Total	
			Retail Services and Credit Cards		Other*			
	June 30	June 30	June 30	June 30	June 30	June 30	June 30	June 30
<i>For the six months ended</i>	2002	2001	2002	2001	2002	2001	2002	2001
<i>(Unaudited) thousands</i>								
Net interest income	\$ 16,225	\$ 11,979	\$ 1,646	\$ 52	\$ 5,480	\$ 2,900	\$ 23,351	\$ 14,931
Provisions for credit losses	800	704	748	41	-	-	1,548	745
Fees and other income	2,785	2,293	1,646	-	-	(1)	4,431	2,292
(Loss) gain on securities & mortgage-backed securities	1,259	1,240	-	-	(2,517)	85	(1,258)	1,325
Non-interest expense	7,062	6,402	2,787	85	2,269	1,225	12,118	7,712
Net income (loss) before provision for income taxes	12,407	8,406	(243)	(74)	694	1,759	12,858	10,091
Provision for income taxes	2,878	2,617	(94)	(31)	269	741	3,053	3,327
<b>Net Income (Loss)</b>	<b>\$ 9,529</b>	<b>\$ 5,789</b>	<b>\$ (149)</b>	<b>\$ (43)</b>	<b>\$ 425</b>	<b>\$ 1,018</b>	<b>\$ 9,805</b>	<b>\$ 6,764</b>

\*Other - includes other investments and corporate activities

**CONSOLIDATED STATEMENTS OF INCOME**

<i>(Unaudited)</i>	Three Months Ended		Six Months Ended	
	<b>June 30</b>	June 30	<b>June 30</b>	June 30
	<b>2002</b>	2001	<b>2002</b>	2001
<b>INCOME</b>				
<b>Interest Income</b>				
Interest from Loans	\$ 22,260,521	\$ 18,423,579	\$ 43,713,930	\$ 35,887,560
Dividends from Securities (Note 5)	3,840,807	1,153,260	4,928,507	2,195,064
Other Interest	702,344	717,470	1,184,084	1,351,904
	<b>26,803,672</b>	20,294,309	<b>49,826,521</b>	39,434,528
<b>Interest Expense</b>				
Interest on Deposits & Borrowings	13,561,050	12,535,469	26,475,004	24,503,469
Net Interest Income	13,242,622	7,758,840	23,351,517	14,931,059
Provision for Credit Losses	888,000	335,000	1,548,000	745,000
	<b>12,354,622</b>	7,423,840	<b>21,803,517</b>	14,186,059
<b>Non-interest Income</b>				
Fees and Other Income	2,351,571	1,196,182	4,430,873	2,291,614
Securitization Gains				
on Mortgage-Backed Securities	559,873	544,592	1,259,327	1,239,925
(Loss) Gain on Sale of Securities (Note 5)	(2,519,510)	(7,690)	(2,516,757)	84,996
	<b>391,934</b>	1,733,084	<b>3,173,443</b>	3,616,535
	<b>12,746,556</b>	9,156,924	<b>24,976,960</b>	17,802,594
<b>Non-interest Expenses</b>				
Salaries and Staff Benefits	2,417,672	1,957,008	4,802,481	3,695,663
Premises	326,938	210,018	570,078	418,576
General and Administration	3,467,679	1,892,748	6,746,193	3,597,920
	<b>6,212,289</b>	4,059,774	<b>12,118,752</b>	7,712,159
<b>INCOME BEFORE INCOME TAXES</b>	<b>6,534,267</b>	5,097,150	<b>12,858,208</b>	10,090,435
<b>Income Taxes</b>				
Current	583,247	48,956	2,067,093	1,774,921
Deferred	879,930	1,502,507	986,065	1,551,612
	<b>1,463,177</b>	1,551,463	<b>3,053,158</b>	3,326,533
<b>NET INCOME</b>	<b>\$ 5,071,090</b>	\$ 3,545,687	<b>\$ 9,805,050</b>	\$ 6,763,902
<b>NET INCOME PER CLASS A AND CLASS B SHARE:</b>				
Basic	<b>\$0.31</b>	\$0.24	<b>\$0.60</b>	\$0.46
Fully diluted	<b>\$0.29</b>	\$0.22	<b>\$0.56</b>	\$0.42
<b>AVERAGE NUMBER OF CLASS A AND CLASS B SHARES OUTSTANDING</b>				
Basic	<b>16,490,059</b>	14,813,245	<b>16,418,834</b>	14,810,240
Fully diluted	<b>17,371,643</b>	16,137,664	<b>17,422,942</b>	16,138,961
Total Number Of Outstanding Class A And B Shares	16,589,060	14,860,795	16,589,060	14,860,795
Book Value per share	\$5.11	\$3.74	\$5.11	\$3.74

**CONSOLIDATED BALANCE SHEETS**

	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
	<b>June 30</b>	December 31	June 30
	<b>2002</b>	2001	2001
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with Regulated Financial Institutions	\$ 51,981,213	\$ 18,069,542	\$ 14,668,004
Treasury Bills Guaranteed by Government	14,995,940	31,931,213	17,115,512
	<b>66,977,153</b>	<b>50,000,755</b>	<b>31,783,516</b>
<b>Securities</b>			
Issued or Guaranteed by Canada	6,217,395	4,134,120	17,505,430
Issued or Guaranteed by Province	8,184,824	13,119,156	13,369,928
Other Securities	106,968,071	82,205,217	81,631,996
	<b>121,370,290</b>	<b>99,458,493</b>	<b>112,507,354</b>
<b>Loans</b>			
Retail Services and Credit Cards	17,898,085	15,223,404	7,135,244
Residential Mortgages	992,158,261	909,393,315	804,938,688
Other Mortgages	38,748,332	39,465,142	55,520,059
General Allowance for Credit Losses	(6,463,013)	(5,517,376)	(4,881,221)
	<b>1,042,341,665</b>	<b>958,564,485</b>	<b>862,712,770</b>
<b>Other</b>			
Mortgage-Backed Securities Receivable	6,790,133	5,269,385	3,010,590
Capital Assets	2,068,665	2,168,172	2,087,620
Deferred Development Costs	3,065,571	3,363,715	1,976,970
Other Assets (Note 3)	19,711,769	17,395,215	16,987,148
	<b>31,636,138</b>	<b>28,196,487</b>	<b>24,062,328</b>
	<b>\$ 1,262,325,246</b>	<b>\$ 1,136,220,220</b>	<b>\$ 1,031,065,968</b>
<b>LIABILITIES</b>			
Senior Term Loans	\$ 8,000,000	\$ 8,000,000	\$ 8,500,000
Subordinated Secured Loan	5,000,000	5,000,000	5,000,000
Deposits and Borrowings			
Payable on Demand	9,274,385	10,393,269	9,507,458
Payable on a Fixed Date	1,095,498,068	984,727,405	906,866,003
	<b>1,117,772,453</b>	<b>1,008,120,674</b>	<b>929,873,461</b>
<b>OTHER</b>			
Cheques and Other Items in Transit	5,821,766	4,658,419	5,149,471
Other Liabilities (Note 4)	53,889,812	48,238,602	40,510,608
	<b>59,711,578</b>	<b>52,897,021</b>	<b>45,660,079</b>
	<b>1,177,484,031</b>	<b>1,061,017,695</b>	<b>975,533,540</b>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	31,994,008	31,296,523	18,697,940
Contributed surplus	-	-	133,253
Retained earnings	52,847,207	43,906,002	36,701,235
	<b>84,841,215</b>	<b>75,202,525</b>	<b>55,532,428</b>
	<b>\$ 1,262,325,246</b>	<b>\$ 1,136,220,220</b>	<b>\$ 1,031,065,968</b>

<b>CAPITAL STOCK</b>				
Class A Convertible Shares				
Balance at Beginning of Period	\$ 576,295	\$ 1,390,000	\$ 1,390,000	\$ 1,390,000
Conversion to Class B Subordinated Voting Shares	-	-	(813,705)	-
<b>Balance at End of Period</b>	<b>\$ 576,295</b>	<b>\$ 1,390,000</b>	<b>\$ 576,295</b>	<b>\$ 1,390,000</b>
Class B Subordinated Voting Shares				
Balance at Beginning of Period	\$ 31,384,368	\$ 17,238,192	\$ 29,906,523	\$ 17,239,583
Conversion from Class A Convertible Shares	-	-	813,705	-
Proceeds of Options Exercised	189,060	92,750	875,100	108,050
Redemption of Shares	(155,715)	(23,002)	(177,615)	(39,693)
<b>Balance at End of Period</b>	<b>31,417,713</b>	<b>17,307,940</b>	<b>31,417,713</b>	<b>17,307,940</b>
<b>Total Capital Stock</b>	<b>\$ 31,994,008</b>	<b>\$ 18,697,940</b>	<b>\$ 31,994,008</b>	<b>\$ 18,697,940</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance at Beginning of Period	\$ -	\$ 215,875	\$ -	\$ 266,825
Proceeds of Options Exercised	-	-	-	-
Redemption of Shares	-	(82,622)	-	(133,572)
<b>Balance at End of Period</b>	<b>\$ -</b>	<b>\$ 133,253</b>	<b>\$ -</b>	<b>\$ 133,253</b>
<b>RETAINED EARNINGS</b>				
Balance at the Beginning of the Period	\$ 48,243,543	\$ 33,527,193	\$ 43,906,002	\$ 30,604,958
Net Income for the Period	5,071,090	3,545,687	9,805,050	6,763,902
Dividends Paid during the Period	-	-	(396,419)	(295,980)
Dividends Declared during the Period	(467,426)	(371,645)	(467,426)	(371,645)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 52,847,207</b>	<b>\$ 36,701,235</b>	<b>\$ 52,847,207</b>	<b>\$ 36,701,235</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Six months ended	
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	June 30		June 30	
	2002	2001	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income for the period	\$ 5,071,090	\$ 3,545,687	\$ 9,805,050	\$ 6,763,902
Add (deduct) items not affecting cash:				
Future income taxes	879,930	1,502,507	986,065	1,551,612
Amortization of capital assets	218,398	163,589	408,062	268,165
Amortization of securities	(77,377)	(166,570)	(180,161)	(327,446)
Amortization of goodwill and deferred financing costs	30,579	53,817	61,157	107,635
Amortization of deferred development costs	149,432	-	298,144	-
Provision for credit losses	888,000	335,000	1,548,000	745,000
Change in accrued interest receivable	(143,505)	(119,494)	(269,863)	(814,324)
Change in accrued interest payable	698,447	1,265,877	4,351,240	5,884,460
Loss (gain) on sale of investments	2,519,510	7,690	2,516,757	(84,996)
Gain on sale of mortgage-backed securities	(559,873)	(544,592)	(1,259,327)	(1,239,925)
Change in mortgage-backed securities	458,159	1,309,174	966,791	1,622,084
Change in other assets	(2,632,037)	(3,214,625)	(2,107,848)	(3,828,439)
Change in cheques and other items in transit	105,847	793,427	1,163,347	3,048,132
Change in other liabilities	462,223	1,646,267	329,677	690,189
Cash provided by operating activities	8,068,823	6,577,754	18,617,091	14,386,049
<b>FINANCING ACTIVITIES</b>				
Net (decrease) increase in deposits and borrowings	123,820,838	64,870,096	109,651,779	121,707,378
Issuance of capital stock	189,060	92,750	875,100	108,050
Normal course issuer bid	(155,715)	(105,624)	(177,615)	(173,265)
Dividends paid	(396,419)	(295,980)	(879,619)	(592,068)
Cash provided by financing activities	123,457,764	64,561,242	109,469,645	121,050,095
<b>INVESTING ACTIVITIES</b>				
Activity in securities				
Purchases	(25,822,155)	(14,480,025)	(41,964,670)	(40,797,537)
Proceeds on sales	15,329,573	1,798,144	15,329,573	3,469,224
Proceeds on maturities	520,606	1,712,133	2,386,706	2,306,983
Activity in mortgages				
Net increase	(86,630,072)	(62,795,910)	(115,969,878)	(106,641,685)
Proceeds from securitization of mortgage-backed securities	15,623,243	10,342,970	33,212,747	24,337,768
Net increase in personal and credit card loans	(3,298,990)	(6,019,333)	(3,796,261)	(6,997,724)
Net increase in deferred development costs	-	(981,244)	-	(1,265,794)
Purchases of capital assets	(226,807)	(666,819)	(308,555)	(1,308,506)
Cash used in investing activities	(84,504,602)	(71,090,084)	(111,110,338)	(126,897,271)
Net increase in cash and cash equivalents	47,021,985	48,912	16,976,398	8,538,873
Cash and cash equivalents at the beginning of the period	19,955,168	31,734,604	50,000,755	23,244,643
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>\$ 66,977,153</b>	<b>\$ 31,783,516</b>	<b>\$ 66,977,153</b>	<b>\$ 31,783,516</b>
Supplementary disclosure of cash flow information				
Amount of interest paid during the period	\$ 12,862,603	\$ 11,269,592	\$ 22,172,641	\$ 18,669,639
Amount of income taxes paid during the period	2,625,784	1,698,314	3,719,075	5,104,770

## Notes to the Interim Unaudited Consolidated Financial Statements

### 1. Accounting Policies Used to Prepare the Interim Unaudited Consolidated Financial Statements

These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2001, as set out in the 2001 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods of applications used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in the Company's most recent annual audited financial statements except as described in Note 2 below.

### 2. Change in Accounting Policies

#### a) Amortization of Goodwill

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

For comparative purposes the net impact of the change if the amortization was recorded would be a small decrease in net income of \$46,478 for the six months ended June 30, 2002. It is management's belief there is no impairment of goodwill.

#### b) Stock-based Compensation

The Company provides compensation to certain employees in the form of stock options. The Company follows the intrinsic value based method of accounting for such awards; consequently, no expense is recognized for stock options as the strike price is set at the market price on the issue date of the awards. When the options are exercised, the proceeds received by the Company are recorded as common share capital.

In the first quarter of 2002, the Company granted certain employees to receive Class B shares if certain performance criteria is met. As at June 30, 2002, the performance criteria has not been met. As a result, the contingently issuable shares have not been included in the computation of basic or diluted earnings per share.

#### c) Derivatives

The Company has entered into a foreign exchange swap agreement to manage its exposure of foreign exchange fluctuations. Foreign exchange swaps are normally designated as hedges (reducing exchange risk) and any gains or losses are recognized on the same basis as, and netted against, the income related to the hedged item. At June 30, 2002 the Company had outstanding foreign exchange contracts in the notional principal amount of \$5.4 million.

### 3. Other Assets

	June 30 2002	December 31 2001	June 30 2001
Accrued interest receivable	\$ 7,236,113	\$ 6,966,250	\$ 6,753,953
Income taxes receivable	2,044,172	1,024,840	1,235,847
Deferred agent commission	4,698,881	4,236,300	3,508,640
Goodwill, net of amortization	2,323,914	2,323,914	2,370,393
Other prepaid assets and deferred items	3,408,689	2,843,911	3,118,315
	<u>19,711,769</u>	<u>17,395,215</u>	<u>16,987,148</u>

### 4. Other Liabilities

	June 30 2002	December 31 2001	June 30 2001
Accrued interest payable	\$ 40,936,199	\$ 36,584,959	\$ 32,451,421
Dividends payable	467,426	483,200	371,645
Deferred commitment fees	1,752,260	1,254,904	1,158,288
Future income taxes	6,248,287	5,262,222	2,435,480
Other, including accounts payable and accrued liabilities	4,485,640	4,653,317	4,093,774
	<u>\$ 53,889,812</u>	<u>\$ 48,238,602</u>	<u>\$ 40,510,608</u>

### 5. Securities Redemption

On April 22, 2002 Conoco Canada Resources (formerly Gulf Canada Resources) called for redemption their Series 1 preferred shares. The redemption price was allocated between proceeds of disposition and a deemed dividend. These securities were held in the subsidiary Home Trust Company for investment purposes. Home Trust Company held 560,000 preferred shares of Conoco Resources with a book value of \$2.3 million (\$4.11 per share). The redemption price of \$5.00 per share for \$2.8 million was allocated as follows:

- deemed dividend of \$2.6 million which was not taxable to Home Trust Company
- proceeds of disposition of stock of \$218,400

This resulted in a partial operating loss of \$2.1 million that resulted in a reduction of income tax expense of \$0.5 million which was recorded in the second quarter results.

Home Trust Company held \$500,000 Bell Canada International 6¾ % Convertible Debenture, which matured on February 15, 2002. On maturity, Bell Canada International converted the Debenture into 1,822,423, Bell Canada International common shares. During the second quarter, Home Trust sold all of these shares, resulting in a loss of \$443,077

## **CORPORATE DIRECTORY AND SHAREHOLDER INFORMATION**

### **HOME CAPITAL GROUP INC.**

145 King Street West, Suite 1910  
Toronto, Ontario M5H 1J8

#### **DIRECTORS**

John M. Christodoulou  
Hon. William G. Davis P.C., C.C., Q.C.  
William A. Dimma  
Harvey F. Kolodny  
John M. E. Marsh  
Robert A. Mitchell  
Sheila L. Ross  
Gerald M. Soloway

#### **OFFICERS**

William A. Dimma  
*Chairman of the Board*  
Gerald M. Soloway  
*President and  
Chief Executive Officer*  
W. Roy Vincent  
*Senior Vice President  
and Chief Operating Officer*  
Rod Adams  
*Senior Vice President*  
Cathy A. Sutherland, C.A.  
*Treasurer*  
Sharron I. Hatton  
*Corporate Secretary*

#### **AUDITORS**

Ernst & Young LLP  
Chartered Accountants  
Toronto, Ontario

#### **BANKERS**

*Home Capital Group Inc.  
Home Trust Company*

Bank of Montreal, St. Catharines

#### **CORPORATE COUNSEL**

*Home Capital Group Inc.  
Home Trust Company*

Torys *and*  
Gowling Lafleur Henderson LLP

#### **TRANSFER AGENT**

Computershare Trust Company  
Of Canada  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
Tel: (416) 981-9633  
1-800-663-9097

#### **CAPITAL STOCK**

As at June 30, 2002 there were  
1,254,167 Class A and 15,334,893  
Class B Shares outstanding

#### **STOCK LISTING**

Toronto Stock Exchange  
Ticker Symbol: HCG.B

### **HOME TRUST COMPANY**

145 King Street West, Suite 1910  
Toronto, Ontario M5H 1J8

#### **DIRECTORS**

Hon. William G. Davis P.C., C.C., Q.C.  
*Chairman of the Board*  
William A. Dimma  
Harvey F. Kolodny  
John M. E. Marsh  
Robert A. Mitchell  
Sheila L. Ross  
Gerald M. Soloway  
W. Roy Vincent

#### **BRANCHES**

##### **TORONTO**

145 King Street West, Suite 1910  
Toronto, Ontario M5H 1J8  
Tel: (416) 360-4663  
1-800-990-7881  
Fax: (416) 363-7611  
1-888-470-2092

Vice President -  
Brian R. Mosko  
Vice President, Mortgage Lending -  
Nick Kyprianou  
Manager, Credit -  
Mal Nuzum  
Senior Manager, Mortgage Services -  
Jan Morrison  
Asst. Vice Presidents, Toronto Office -  
Heather Flegg  
James Hill  
Assistant Vice President, Securitization -  
David Molzahn  
Managers, Mortgage Lending -  
Alix Burbidge  
Laurie Chalabardo  
Bobby Ramgoolam

##### **RETAIL CREDIT SERVICES**

Assistant Vice President, Sales-  
Cathy Boon  
Tel: (416) 775-5072

##### **VISA**

Senior Director, VISA Credit Card Services-  
Michael Marlowe  
Tel: (416) 775-5045

##### **HAMILTON**

Suite 800, 21 King Street West  
Hamilton, Ontario L8P 4W7  
Tel: (905) 522-0250  
1-800-944-3419  
Fax: (905) 522-1888  
1-888-771-9967

Asst. Vice President, Hamilton Office -  
Marguerite Ryan  
Manager, Mortgages -  
Brad Hamilton

### **ST. CATHARINES**

Suite 100, P.O.Box 1554  
15 Church Street  
St. Catharines, Ontario L2R 7J9  
Tel: (905) 688-3131  
1-888-771-9913  
Fax: (905) 688-0534  
1-888-771-9914

### **CALGARY**

441 – 5<sup>th</sup> Ave. S.W., Suite 310  
Calgary, Alberta T2P 2V1  
Tel: (403) 244-2432  
1-866-235-3081  
Fax: (403) 244-6542

Senior Manager, Mortgages -  
Larry Frondall

### **VANCOUVER**

200 Granville Street, Suite 1288  
Vancouver, B.C. V6C 1S4  
Tel: (604) 484-4663  
1-866-235-3080  
Fax: (604) 484-4664

Mortgage Development Officers -  
Sophia Blanchette  
Darren DeMille

*For more information about  
**HOME TRUST VISA**, please  
call 1-877-569-6333.*

#### **FOR SHAREHOLDER INFORMATION, PLEASE CONTACT:**

Sharron I. Hatton  
*Corporate Secretary*  
Home Capital Group Inc.  
145 King Street West, Suite 1910  
Toronto, Ontario M5H 1J8  
Tel: (416) 360-4663  
Fax: (416) 363-7611

#### **WEBSITES:**

*Home Capital Group Inc.*  
[www.homecapital.com](http://www.homecapital.com)  
*Home Trust Company*  
[www.hometruster.ca](http://www.hometruster.ca)

**Home Capital Group Inc. has established an e-mail investor information service. Sign up for the service at our web site [www.homecapital.com](http://www.homecapital.com) and you will receive quarterly reports, the annual report, management information circular, and other articles of interest immediately upon release delivered to your e-mail.**