



# HOME CAPITAL GROUP INC.

## FINANCIAL HIGHLIGHTS

For the three months ended (Unaudited)

	March 31 2003	December 31 2002	March 31 2002
<b>OPERATING RESULTS</b>			
Net Income	\$ 6,021,622	\$ 5,540,809	\$ 4,733,960
Total Revenue	32,247,161	30,362,592	25,804,358
Net Investment Margin (TEB) **	3.67%	3.72%	3.81%
Earnings per Share - Basic	0.36	0.33	0.29
- Fully diluted	0.35	0.32	0.27
Return on Shareholders' Equity	24.79%	24.13%	24.37%
Return on Average Assets	1.66%	1.64%	1.67%
Productivity Ratio (Non-interest Expense\Net Interest Income plus Fee Income)	43.92%	45.31%	45.82%
<b>GROWTH IN BUSINESS</b>			
Total Assets	\$ 1,512,933,696	\$ 1,394,288,570	\$ 1,131,649,943
Loans	1,254,860,933	1,171,101,630	969,392,055
Deposits and Borrowings	1,317,657,962	1,215,179,179	980,951,615
Common Shareholders' Equity	99,735,677	94,586,335	80,204,206
Assets Under Administration	179,662,231	140,642,687	80,953,052
<b>FINANCIAL STRENGTH</b>			
<b>Capital Measures</b>			
Risk Adjusted Assets *	\$ 820,353,000	\$ 755,185,000	\$ 622,608,000
Tier 1 Capital Ratio*	11.44%	11.66%	11.37%
Total Capital Ratio*	14.14%	14.52%	14.64%
<b>Credit Quality</b>			
Net Impaired Loans % of Gross Loans	0.35%	0.35%	0.51%
Allowance % of Gross Impaired Loans	182.39%	174.94%	114.71%
Annualized Provision % of Gross Loans	0.35%	0.36%	0.27%
<b>Share Information</b>			
Book Value per Common Share	\$5.96	\$5.64	\$4.85
Common Share Price – close	\$14.50	\$14.50	\$14.30
Market Capitalization	\$ 242,699,500	\$ 243,003,980	\$ 236,560,040

\* 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)

**MARCH 31, 2003**  
**First Quarter Report**

## HOME CAPITAL GROUP INC. TO OUR SHAREHOLDERS

### Home Capital Achieves Banner First Quarter Results: Earnings Increase by 27.2%; Assets Pass \$1.5 Billion Mark

Home Capital Group Inc. (TSX:HCG.B) completed the first quarter of 2003 with strong growth momentum and sustained profitability. Earnings, earnings per share, return on equity and total assets for the period all exceeded the results of the first quarter of the previous year as well as the fourth quarter of 2002. Highlights for the quarter include:

- The Company recorded its **31<sup>st</sup> consecutive quarter of increased earnings**, with earnings of \$6.0 million, representing an increase of 27.2% over earnings of \$4.7 million in the same period of 2002 and an increase of 8.7% over the \$5.5 million for the quarter ending December 31, 2002.
- Basic earnings per share increased by 24.1% to \$0.36, compared with \$0.29 for the first quarter of 2002. Fully diluted earnings per share rose to \$0.35 from \$0.27 in the first quarter of 2002, an increase of 29.6 %.
- Return on equity for the first quarter was 24.8%, compared to 24.4% for the first quarter of 2002, and a strong increase over the fourth quarter of 2002 at 24.1%. This also substantially exceeded the Company's ROE target of 20%.
- Total assets at March 31, 2003 were \$1.51 billion, an increase of 33.7% over assets of \$1.13 billion recorded at the end of the first quarter last year.
- During the quarter, the Company pooled and issued a further \$42.3 million of Mortgage-Backed Securities (MBS), generating \$1.6 million in revenues. The comparable figures for the first quarter of 2002 were \$18.4 million and \$0.7 million respectively. The MBS portfolio stood at \$179.7 million at the end of the quarter.
- Home Capital's consumer lending lines of business, comprised of retail credit and VISA card services, recorded a positive contribution in the first quarter of 2003.
- Net impaired loans at March 31, 2003 represented 0.35% of the total portfolio, equal to the fourth quarter of 2002, and down from one-year prior at 0.51%.

The Board of Directors has declared a quarterly dividend of \$0.03 per share payable on June 1, 2003 to shareholders of record at the close of business on May 14, 2003.

The Company's Annual General Meeting will be held at the Design Exchange, Trading Floor, Second Floor, 234 Bay Street, Toronto, Ontario on **Tuesday, May 27, 2003 at 11:00 a.m.** local time. Shareholders and guests are also invited to join Directors and Management for lunch and refreshments afterwards.

Home Capital continues to experience strong market demand in all areas of its business. Based on economic forecasts and a constant assessment of our competitive strengths, we see for Home Capital a future rich in opportunities for our shareholders, customers and employees.

**GERALD M. SOLOWAY**  
President & Chief Executive Officer  
April 24, 2003

**WILLIAM A. DIMMA**  
Chairman of the Board

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

### **Income**

Income in the first quarter of 2003 increased 4.6% or \$1.2 million over the fourth quarter of 2002 and 19.5% or \$4.5 million over the same quarter in 2002. This increase is largely attributable to the growth in the mortgage portfolio, which generated increased interest income of \$1.0 million over the quarter ended December 31, 2002, and \$3.5 million over the same three months last year. The Company's consumer lending lines of business contributed a total of \$1.3 million in interest income in this quarter compared to \$1.1 million in the three months ended December 31, 2002 and \$0.8 million in the quarter-end March 31, 2002. The change in dividend and other interest income amounted to \$0.1 million over the December 2002 quarter-end and \$0.5 million over the March 2002 quarter-end.

### **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 taxable equivalent basis due to non-taxable dividend income received by the Company. Net interest income (on a taxable equivalent basis) was \$13.3 million, up \$2.5 million from the \$10.8 million reported in the first quarter of the prior year, and by \$0.7 million from the \$12.6 million reported last quarter.

This improvement was the result of the increased average holdings of loans of \$1.21 billion for the quarter of March 31, 2003 as compared to \$964.0 million for the same quarter of 2002, and \$1.13 billion for the December 31, 2002 quarter. The spread on the core business of loan lending over deposit taking remained relatively unchanged at 3.76% for the current quarter compared to 3.78% for both the first and last quarter of the previous year.

### **Provision for Credit Losses**

During the quarter, the Company expensed \$1.1 million for the provision for credit losses which is approximately the same as the amount expensed in the final quarter of 2002, compared to the \$0.7 million expensed in the same quarter last year. The increased provision for credit losses for the first quarter 2003 was primarily due to the growth in the loan portfolio requiring increased general allowances. The Company's total general allowance amounted to \$8.3 million at the quarter-end, an increase of \$0.7 million over the \$7.6 million at December 31, 2002 and a \$2.5 million rise over the \$5.8 million at March 31, 2002.

### **Non-Interest Income**

Other income was \$4.7 million, an increase of \$1.9 million or 70.0% from the same quarter last year and \$0.7 million over December 31, 2002. The consumer lending operation has contributed \$0.8 million in fee income for each of these two quarters. The Company issued two Mortgage-Backed Security (MBS) pools in the current quarter consisting of \$42.3 million of Canada Mortgage and Housing Corporation insured residential mortgages. Gains in the quarter amounted to \$1.9 million compared to \$0.7 million in the first quarter of last year. Total MBS funds under administration at the end of this quarter were \$179.7 million. These securities were sold without recourse, and the Company continues to service these pools.

### **Non-Interest Expenses**

Total operating expenses for the three months ended March 31, 2003 were \$7.6 million, an increase of 28.4% or \$1.7 million over the first quarter of 2002 and up by 6.0% or \$0.4 million over the three months ended December 31, 2002. The consumer lending operation non-interest expenses have been held constant at \$1.4 million for this quarter, as well as the first and fourth quarters of last year.

Salaries and staff benefits rose by \$0.9 million or 37.5% over the quarter ended March 2002 and \$0.3 million or 10.9% over December 31, 2002 resulting from additional hires required to support the growth in the core mortgage lending business.

The productivity or efficiency ratio, defined as the measurement of non-interest expenses as a percentage of total revenues less interest charges, decreased to 43.9% for the quarter, an improvement when compared to the 45.3% and 45.8% experienced in the last and first quarter of 2002 respectively. As the consumer lending business continues to mature, the Company's overall productivity ratio is moving towards levels that were previously experienced.

### **Risk Management**

The Company's key risk management policies and practices remain in place and unchanged from those outlined on pages 21 through 25 of the 2002 Annual Report.

## **Credit Risk**

The total provision for credit losses was \$1.1 million in the first quarter, which is equal to the amount expensed in the fourth quarter 2002, and an increase over the \$0.7 million expensed in the first quarter of last year. The credit quality of the loan portfolio remained strong with total net impaired loans (NILs), remaining at \$4.4 million for March 31, 2003, compared to the \$4.2 million for December 31, 2002 and \$5.0 million for March 31, 2002. These results equate to NILs at 0.35% of the total loan portfolio for this quarter as well as last quarter, and 0.51% for the March 31, 2002 quarter-end.

The mix of the Company's mortgage portfolio consists of 96.9% residential, 2.6% store and apartments, and 0.5% non-residential. Of the 96.9% residential mortgage portfolio, 2.7% is insured by Canada Mortgage and Housing Corporation. First mortgages represent 99.7% of the total mortgage portfolio.

The gross credit card receivable balance is comprised of \$12.9 million in accounts secured by cash deposits or mortgage collateral, and \$6.2 million in unsecured accounts. The total credit approved is comprised of \$21.3 million in secured and \$9.1 million in unsecured accounts. The total allowance provided on the consumer lending operation amounts to \$0.6 million or 2.1% of the total receivable balance, including those VISA accounts secured by a deposit with the Company. Security deposits on VISA accounts amounted to \$10.8 million and are included in the Company's deposits and borrowings. Equity Plus VISA credit cards are secured by a collateral residential mortgage, and this product amounts to \$6.4 million of the credit card receivable balance.

Total Company losses realized on loans year-to-date are \$428,000. These include \$434,000 in the consumer lending operation offset by \$6,000 in mortgage loan recoveries. Last year's losses in the first quarter consisted of \$247,700 for the consumer lending operation with \$42,500 in recoveries in the mortgage business. The Company has established a provision of \$1.1 million as compared to \$0.7 million in the same quarter last year. The Company has ensured that it is well positioned for any future unforeseen losses by establishing general allowances of \$8.3 million at March 31, 2003 as compared to the general allowances of \$5.8 million at March 31, 2002.

The Company's increase in the credit loss provision resulted in an increase of the general allowance to 101.2 basis points of the Company's risk-weighted assets. The Company continues to increase this general allowance. This percentage was 100.1 basis points at December 31, 2002 and 93.6 basis points at March 31, 2002.

## **Capital Management**

The Company's capital base continues to be strong. The tier 1 capital ratio of 11.4% is the same as the March 31, 2002 result compared to 11.7% at December 31, 2002. The total capital ratio was 14.1% for this quarter compared to 14.5% and 14.6% for the fourth and first quarters of last year respectively. This slight decline in the total capital ratio was due to the 33.7% increase in total assets, resulting in an increase in risk-weighted assets of 31.8% over March 31, 2002, whereas the increase in total capital of 27.2% over March 31, 2002 was slightly less. These ratios are well in excess of the minimum regulatory requirements of 7.0% for tier 1 capital and 10.0% for total capital.

## **Balance Sheet**

Total assets as at March 31, 2003 were \$1.51 billion, an increase of 33.7% or \$381.3 million, over the \$1.13 billion reported one year ago and up \$118.6 million or 8.5% over the year-end 2002. The loan portfolio increase of \$285.5 million or 29.5% contributed to the majority of the year-over-year asset increase. Residential mortgages contributed \$276.0 million to the loan portfolio growth and consumer lending added \$13.2 million. Other mortgages (non-residential) declined by \$1.2 million. Mortgage-Backed Securities receivables added \$6.4 million. Deferred development costs from the establishment of the credit card operation decreased by \$0.6 million over March 31, 2002 resulting from the continued amortization of this asset. The growth in the Company's investment portfolio by \$41.9 million was similar to the increase in cash resources of \$40.5 million. This increased the Company's liquid assets, which consist of cash bank deposits, treasury bills, bankers' acceptance and governments bonds and debentures, from \$34.3 million at March 31, 2002 to \$71.7 million at March 31, 2003.

Other assets increased by \$7.4 million and consist of accrued interest receivable, deferred agent commissions, goodwill, and other prepaid and deferred assets (Note 3). Deferred agent commissions have increased alongside the increase in deposits and borrowings. Commissions are amortized over the term of deposits, and extended terms have increased the deferred asset.

Liabilities in this quarter increased to \$1.41 billion, an increase of \$361.8 million or 34.4% over the \$1.05 billion reported at March 31, 2002 and \$113.5 million or 8.7% over the year-end 2002. The majority of this year-over-year increase is related to the growth in deposits and borrowings of \$336.7 million; this increase funded all the growth in the loans and investments and some of the increase in cash resources. Other liabilities increased \$23.0 million, or 40.1% over the \$57.5 million reported at March 31, 2002 (Note 4). The increase was largely the result of increases in accrued interest payable of \$14.1 million related to the increase in the deposits and borrowings, and the increase of \$2.1 million in both future income taxes, accounts payable and accrued liabilities.

Shareholders' equity climbed to \$99.7 million, an increase of \$19.5 million or 24.4% over the \$80.2 million at March 31, 2002 and an increase of \$5.2 million, or 5.4% over the \$94.6 million at December 31, 2002. This growth was internally generated by the net earnings for the preceding twelve months of \$21.9 million, less \$2.0 million dividends paid and payable to shareholders, and a net decrease in Class "B" subordinated voting shares of \$0.4 million.

**Outlook**

The Company will continue to explore additional opportunities in the market that are not being served by the major financial institutions. Inflation and interest rates both remain relatively low, although some modest rate increases are possible later this year that will support the Company's performance through the remainder of 2003. The Company's strong earnings in the core mortgage lending business, diversified revenues, and ongoing expense control measures will continue. The Company is confident of sustaining strong and profitable growth throughout 2003.

**Caution Regarding Forward-Looking Statements**

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

## Earnings by Business Segment

<b>Home Trust Company</b>						
<i>For the Three Months Ended (Unaudited) Thousands</i>	<b>Mortgage Business</b>			<b>Consumer Lending Retail Services and Credit Cards</b>		
	<b>March 31</b>	December 31	March 31	<b>March 31</b>	December 31	March 31
	<b>2003</b>	2002	2002	<b>2003</b>	2002	2002
Net Interest Income	\$ 9,675	\$ 8,988	\$ 8,074	\$ 1,101	\$ 1,104	\$ 741
Provisions for Credit Losses	(646)	(476)	(302)	(454)	(581)	(358)
Fees and Other Income	1,656	1,588	1,262	843	828	816
Gain on Securities and Mortgage-Backed Securities	1,920	1,464	700	-	-	-
Non-interest Expense	(4,942)	(4,649)	(3,388)	(1,406)	(1,346)	(1,349)
Net Income (Loss) Before Provision for Income Taxes	7,663	6,915	6,346	84	5	(150)
Provision for Income Taxes	2,225	1,781	1,599	31	2	(58)
<b>Net Income (Loss)</b>	<b>\$ 5,438</b>	<b>\$ 5,134</b>	<b>\$ 4,747</b>	<b>\$ 53</b>	<b>\$ 3</b>	<b>\$ (92)</b>

## Earnings by Business Segment (continued)

<i>For the Three Months Ended (Unaudited) Thousands</i>	<b>Other*</b>			<b>Total</b>		
	<b>March 31</b>	December 31	March 31	<b>March 31</b>	December 31	March 31
	<b>2003</b>	2002	2002	<b>2003</b>	2002	2002
Net Interest Income	\$ 1,764	\$ 1,643	\$ 1,293	\$ 12,540	\$ 11,735	\$ 10,108
Provisions for Credit Losses	-	-	-	(1,100)	(1,057)	(660)
Fees and Other Income	-	-	1	2,499	2,416	2,079
Gain on Securities and Mortgage-Backed Securities	309	175	3	2,229	1,639	703
Non-interest Expense	(1,235)	(1,160)	(1,169)	(7,583)	(7,155)	(5,906)
Net Income (Loss) Before Provision for Income Taxes	838	658	128	8,585	7,578	6,324
Provision for Income Taxes	307	254	49	2,563	2,037	1,590
<b>Net Income (Loss)</b>	<b>\$ 531</b>	<b>\$ 404</b>	<b>\$ 79</b>	<b>\$ 6,022</b>	<b>\$ 5,541</b>	<b>\$ 4,734</b>

\*Other - includes other investments and corporate activities

## CONSOLIDATED STATEMENTS OF INCOME

<i>(Unaudited)</i>	Three Months Ended		
	March 31 2003	December 31 2002	March 31 2002
<b>Income</b>			
Interest from Loans	\$ 25,458,422	\$ 24,348,881	\$ 21,453,409
Dividends from Securities	1,396,915	1,379,527	1,087,700
Other Interest	663,916	579,197	481,740
	<b>27,519,253</b>	<b>26,307,605</b>	<b>23,022,849</b>
<b>Interest Expense</b>			
Interest on Deposits & Borrowings	14,979,610	14,572,872	12,913,954
Net Interest Income	12,539,643	11,734,733	10,108,895
Provision for Credit Losses	1,100,000	1,057,000	660,000
	<b>11,439,643</b>	<b>10,677,733</b>	<b>9,448,895</b>
<b>Non-interest Income</b>			
Fees and Other Income	2,498,872	2,415,606	2,079,302
Securitization Gains on Mortgage-Backed Securities	1,919,609	1,464,446	699,454
Gain on Sale of Securities	309,427	174,935	2,753
	<b>4,727,908</b>	<b>4,054,987</b>	<b>2,781,509</b>
	<b>16,167,551</b>	<b>14,732,720</b>	<b>12,230,404</b>
<b>Non-interest Expenses</b>			
Salaries and Staff Benefits	3,280,160	2,957,830	2,384,809
Premises	421,035	384,088	243,140
General and Administration	3,882,047	3,812,846	3,278,514
	<b>7,583,242</b>	<b>7,154,764</b>	<b>5,906,463</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,584,309</b>	<b>7,577,956</b>	<b>6,323,941</b>
<b>Income Taxes</b>			
Current	1,939,464	2,711,640	1,483,846
Future	623,223	(674,493)	106,135
	<b>2,562,687</b>	<b>2,037,147</b>	<b>1,589,981</b>
<b>NET INCOME</b>	<b>\$ 6,021,622</b>	<b>\$ 5,540,809</b>	<b>\$ 4,733,960</b>
<b>NET INCOME PER CLASS A AND CLASS B SHARE</b>			
Basic	<b>\$0.36</b>	\$0.33	\$0.29
Fully diluted	<b>\$0.35</b>	\$0.32	\$0.27
<b>AVERAGE NUMBER OF CLASS A AND CLASS B SHARES OUTSTANDING</b>			
Basic	<b>16,669,302</b>	16,673,096	16,404,823
Fully diluted	<b>17,081,411</b>	17,131,284	17,496,910
Total Number of Outstanding Class A and B Shares	<b>16,737,895</b>	16,758,895	16,542,660
Book Value per Share	<b>\$5.96</b>	\$5.64	\$4.85

**CONSOLIDATED BALANCE SHEETS**

	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
	<b>March 31</b>	December 31	March 31
	<b>2003</b>	2002	2002
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with Regulated Financial Institutions	\$ 22,561,748	\$ 24,580,055	\$ 19,955,168
Treasury Bills Guaranteed by Government	37,927,847	30,954,941	-
	<b>60,489,595</b>	55,534,996	19,955,168
<b>Securities</b>			
Issued or Guaranteed by Canada	19,917,784	12,559,449	6,230,026
Issued or Guaranteed by Province	9,164,885	6,197,648	18,118,753
Other Securities	126,662,496	111,002,945	89,491,666
	<b>155,745,165</b>	129,760,042	113,840,445
<b>Loans</b>			
Personal and Credit Card Loans	28,532,535	25,251,930	15,331,286
Residential Mortgages	1,195,993,898	1,116,647,294	920,026,762
Other Mortgages	38,633,566	36,758,286	39,864,477
General Allowance for Credit Losses	(8,299,066)	(7,555,880)	(5,830,470)
	<b>1,254,860,933</b>	1,171,101,630	969,392,055
<b>Other</b>			
Mortgage-Backed Securities Receivable	12,651,146	10,375,022	6,220,210
Capital Assets	2,185,517	2,194,806	2,060,256
Deferred Development Costs	2,617,067	2,767,067	3,215,003
Other Assets (Note 3)	24,384,273	22,555,007	16,966,806
	<b>41,838,003</b>	37,891,902	28,462,275
	<b>\$ 1,512,933,696</b>	\$ 1,394,288,570	\$ 1,131,649,943
<b>LIABILITIES</b>			
Senior Term Loans	\$ -	\$ -	\$ 8,000,000
Term Loan	10,000,000	10,000,000	-
Subordinated Term Loan (Note 5)	5,000,000	-	-
Subordinated Secured Loan	-	5,000,000	5,000,000
Deposits and Borrowings			
Payable on Demand	8,275,496	12,207,188	7,489,732
Payable on a Fixed Date	1,309,382,466	1,202,971,991	973,461,883
	<b>1,332,657,962</b>	1,230,179,179	993,951,615
<b>Other</b>			
Cheques and Other Items in Transit	8,448,437	5,825,939	5,715,919
Other Liabilities (Note 4)	72,091,620	63,697,117	51,778,203
	<b>80,540,057</b>	69,523,056	57,494,122
	<b>1,413,198,019</b>	1,299,702,235	1,051,445,737
<b>SHAREHOLDERS' EQUITY</b>			
Capital Stock	31,558,765	31,930,215	31,960,663
Retained Earnings	68,176,912	62,656,120	48,243,543
	<b>99,735,677</b>	94,586,335	80,204,206
	<b>\$ 1,512,933,696</b>	\$ 1,394,288,570	\$ 1,131,649,943

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	(Unaudited) For the Three Months Ended March 31 2003	(Unaudited) For the Three Months Ended March 31 2002
<b>CAPITAL STOCK</b>		
Class A Convertible Shares		
Balance at Beginning of Period	\$ 576,295	\$ 1,390,000
Conversion to Class B Subordinated Voting Shares	-	(813,705)
Balance at End of Period	\$ 576,295	\$ 576,295
Class B Subordinated Voting Shares		
Balance at Beginning of Period	\$ 31,353,920	\$ 29,906,523
Conversion from Class A Convertible Shares	-	813,705
Proceeds of Options Exercised	32,750	686,040
Redemption of Shares	(404,200)	(21,900)
Balance at End of Period	30,982,470	31,384,368
<b>Total Capital Stock</b>	<b>\$ 31,558,765</b>	<b>\$ 31,960,663</b>
<b>RETAINED EARNINGS</b>		
Balance at the Beginning of the Period	\$ 62,656,120	\$ 43,906,002
Net Income for the Period	6,021,622	4,733,960
Dividends Paid During the Period	-	-
Dividends Declared During the Period	(500,830)	(396,419)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 68,176,912</b>	<b>\$ 48,243,543</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited)*

Three months ended

	<b>March 31</b>	
	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income for the Period	\$ 6,021,622	\$ 4,733,960
Add (Deduct) Items not Affecting Cash:		
Future Income Taxes	623,223	106,135
Amortization of Capital Assets	157,618	189,664
Amortization of Securities	120,463	(102,784)
Amortization of Deferred Financing Costs	13,161	30,577
Amortization of Deferred Development Costs	150,000	148,712
Provision for Credit Losses	1,100,000	660,000
Change in Accrued Interest Receivable	(622,268)	(126,358)
Change in Accrued Interest Payable	7,149,316	3,652,793
Gain on Sale of Securities	(309,427)	(2,753)
Gain on Sale of Mortgage-Backed Securities	(1,919,609)	(699,454)
Change in Mortgage-Backed Securities Receivable	802,101	508,632
Change in Other Assets	(1,153,547)	524,189
Change in Cheques and Other Items in Transit	2,622,498	1,057,500
Change in Other Liabilities	623,901	(132,546)
<b>Cash Provided by Operating Activities</b>	<b>15,379,052</b>	<b>10,548,267</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Subordinated Term Loan	5,000,000	-
Repayments for Subordinated Secured Loan	(5,000,000)	-
Deferred Financing Costs	(66,612)	-
Net Increase (Decrease) in Deposits and Borrowings	102,478,783	(14,169,059)
Issuance of Capital Stock	32,750	686,040
Normal Course Issuer Bid	(404,200)	(21,900)
Dividends Paid	(502,767)	(483,200)
<b>Cash Provided by Financing Activities</b>	<b>101,537,954</b>	<b>(13,988,119)</b>
<b>INVESTING ACTIVITIES</b>		
Activity in Securities		
Purchases	(36,900,544)	(16,142,515)
Proceeds on Sales	7,059,927	-
Proceeds on Maturities	4,044,458	1,866,100
Activity in Mortgages		
Net Increase	(123,875,162)	(29,339,806)
Proceeds from Securitization of Mortgage-Backed Securities	41,164,071	17,589,505
Net Increase in Personal and Credit Card Loans	(3,306,828)	(497,271)
Purchases of Capital Assets	(148,329)	(81,748)
<b>Cash Used in Investing Activities</b>	<b>(111,962,407)</b>	<b>(26,605,735)</b>
Net Increase in Cash and Cash Equivalents	4,954,599	(30,045,587)
Cash and Cash Equivalents at the Beginning of the Period	55,534,996	50,000,755
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 60,489,595</b>	<b>\$ 19,955,168</b>
<b>Supplementary Disclosure of Cash Flow Information</b>		
Amount of Interest Paid During the Period	\$ 7,830,294	\$ 9,310,038
Amount of Income Taxes Paid During the Period	2,017,094	1,093,291

## 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, 2002, as set out in the 2002 Annual Report on pages 33 through 47. 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.

### 2. Stock-based Compensation

The Company provides compensation to certain employees and directors in the form of stock options. The Company has not recognized any expense 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.

All options granted on or after January 1, 2002 will be accounted for using the fair value method. The fair value of the future grants is determined using the Black-Scholes Options Pricing model, and disclosed over the applicable vesting period. The amount of the compensation expense for this quarter using this option-pricing model would be an increase to salaries and benefits of \$114,105 and a decrease to net income in the amount of \$72,320.

In the first quarter of 2002 options were issued to employees based on a vesting period tied to the achievement of a performance condition. These contingently issuable shares have satisfied the necessary performance condition for the vesting period, and therefore 117,500 options have been included in the calculation of fully-diluted earnings per share.

### 3. Other Assets

	March 31 2003	December 31 2002	March 31 2002
Accrued Interest Receivable	\$ 8,303,606	\$ 7,681,338	\$ 7,092,608
Deferred Agent Commission	5,072,007	5,162,462	4,053,639
Goodwill	2,323,914	2,323,914	2,323,914
Other Prepaid Assets and Deferred Items	8,684,746	7,387,293	3,496,645
	<b>24,384,273</b>	<b>22,555,007</b>	<b>16,966,806</b>

### 4. Other Liabilities

	March 31 2003	December 31 2002	March 31 2002
Accrued Interest Payable	\$ 54,355,214	\$ 47,205,898	\$ 40,237,752
Income Taxes Payable	562,101	437,624	22,545
Dividends Payable	500,830	502,767	396,419
Deferred Commitment Fees	2,723,104	2,309,699	1,378,235
Future Income Taxes	7,507,743	6,884,520	5,368,357
Other, Including Accounts Payable and Accrued Liabilities	6,442,628	6,356,609	4,374,895
	<b>\$ 72,091,620</b>	<b>\$ 63,697,117</b>	<b>\$ 51,778,203</b>

### 5. Subordinated Term Loan

On January 23, 2003 the Company received \$5.0 million from Canadian Western Bank ("Canadian Western") to repay a \$5.0 million subordinated secured loan with Surrey Metro Savings Credit Union. The loan from Canadian Western is for a term of five years, payable on July 10, 2007 with interest calculated at the bank's prime lending rate, plus 4.0%. The collateral for this loan is a promissory note from the Company; a general security agreement, subject only to permitted encumbrances not exceeding the \$10 million granted by the Company in favour of the "first security" to Canadian Western; a secondary pledge of all the issued and outstanding shares in the capital of Home Trust Company; and assignment of \$5.0 million in subordinated notes issued to Home Trust Company.

## **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, Ontario

#### **CORPORATE COUNSEL**

*Home Capital Group Inc.  
Home Trust Company*

Torys LLP 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 March 31, 2003 there were  
1,254,167 Class A and 15,483,728  
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  
Asst. Vice Presidents, Toronto Office -  
Hugh Anderson  
James Hill  
Managers, Mortgage Lending -  
Alix Burbidge  
Laurie Chalabardo  
Bobby Ramgoolam  
Sean Robinson

##### **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

##### **EQUITY PLUS VISA**

Manager, Equity Plus VISA -  
Karen Minns  
Tel: (416) 775-5097

##### **HAMILTON**

21 King Street West, Suite 800  
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**

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

### **CALGARY**

5920 MacLeod Trail S.W. Suite 501  
Calgary, Alberta T2H 0K2  
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  
Asst. Vice President, Mortgages -  
Heather Flegg

### **HALIFAX**

Duke Tower  
5251 Duke Street, Suite 1205  
Halifax, Nova Scotia B3J 1P3  
Tel: (902) 422-4387  
1-888-306-2421  
Fax: (902) 422-8891  
Regional Manager, Mortgage Lending -  
Scott Congdon

### **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.hometrusted.ca](http://www.hometrusted.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.**