



# HOME CAPITAL GROUP INC.

## Second Quarter Report June 30, 2004

### Financial Highlights

	Three Months Ended		Six Months Ended	
<i>For the Period Ended June 30 (Unaudited)</i>				
<i>In Thousands of Dollars Except Per Share and Percentage Amounts</i>	<b>2004</b>	2003	<b>2004</b>	2003
<b>OPERATING RESULTS</b>				
Net Income	\$ 10,700	\$ 6,864	\$ 20,730	\$ 12,886
Total Revenue	44,558	33,533	87,330	65,780
Earnings per Share - Basic**	\$ 0.32	\$ 0.20	\$ 0.62	\$ 0.38
- Fully Diluted**	0.30	0.20	0.59	0.38
Return on Shareholders' Equity	31.58%	26.69%	31.69%	25.70%
Return on Average Assets	2.05%	1.75%	2.03%	1.71%
Productivity Ratio (Non-interest Expense/Net Interest Income Plus Fee Income)	36.74%	44.64%	37.05%	44.28%
<b>BALANCE SHEET HIGHLIGHTS</b>				
Total Assets			\$ 2,187,506	\$ 1,619,925
Loans			1,863,239	1,359,861
Deposits			1,918,579	1,414,155
Common Shareholders' Equity			140,478	105,985
Mortgage-Backed Security Assets Under Administration			403,362	208,080
<b>FINANCIAL STRENGTH</b>				
<b>Capital Measures</b>				
Risk Adjusted Assets*			\$ 1,131,319	\$ 842,981
Tier 1 Capital Ratio*			11.94%	11.91%
Total Capital Ratio*			14.14%	14.56%
<b>Credit Quality</b>				
Net Impaired Loans % of Gross Loans			0.32%	0.33%
Allowance % of Gross Impaired Loans			188.90%	183.76%
Annualized Provision % of Gross Loans			0.20%	0.20%
<b>Share Information</b>				
Book Value per Common Share**			\$ 4.17	\$ 3.16
Common Share Price – Close**			22.25	10.25
Market Capitalization			750,128	343,358

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

\*\* After giving effect to the Stock Dividend distributed on January 29, 2004, effectively a two for one share split.

*Home Capital Group Inc. is a holding company, publicly traded on the Toronto Stock Exchange (HCG), operating through its principal subsidiary, Home Trust Company. Home Trust is a federally regulated trust company offering deposit, mortgage lending, retail credit and credit card issuing services. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia and Nova Scotia.*

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

**Home Capital Continues its Profitability and Growth Momentum  
Net Earnings for the Second Quarter Increase by 55.9%; Return on Equity is 31.6%  
Company Celebrates *Nine Years* of Consecutive Quarterly Earnings Growth**

Home Capital Group (TSX:HCG) sustained its strong, upward momentum into the second quarter of 2004, recording strong growth in earnings, earnings per share, total assets and return on equity of 31.6%. **With the completion of this quarter, the Company has achieved consistent quarter-over-quarter increases in earnings for 36 consecutive quarters.**

- Net earnings for the three-month period ended June 30, 2004 increased 55.9% to \$10.7 million, compared with earnings of \$6.9 million for the same period a year earlier. Net income for the first six months of 2004 rose by 60.9% to \$20.7 million from the \$12.9 million recorded in the first half of 2003.
- Basic earnings per share increased by 60.0% to \$0.32, compared with \$0.20 for the comparable quarter of 2003. Fully diluted earnings per share rose by 50% to \$0.30 from \$0.20 recorded in the second quarter of the previous year. Net income per share for this six month period increased from \$0.38 to \$0.62, and on a fully diluted basis from \$0.38 to \$0.59.
- Total assets at June 30, 2004 were \$2.19 billion, an increase of 35.0% over assets of \$1.62 billion at June 30, 2003 and 15.3% greater than the \$1.9 billion in assets recorded at the close of 2003.
- Return on equity for the second quarter was 31.6%, compared to 26.7% for the comparable quarter of 2003 and 31.9% in the first quarter. For the first six months of 2004, return on equity was 31.7%.
- During the quarter, the Company issued a further \$82.0 million in Mortgage-Backed Securities (MBS) poolings of residential mortgages, generating \$3.2 million in revenues. The comparable figures for the second quarter of 2003 were \$36.2 million and \$1.5 million respectively. The MBS portfolio under administration stood at \$403.4 million at June 30, 2004, compared with \$208.1 million at June 30, 2003.
- Total mortgage originations in the second quarter of 2004 amounted to \$384.4 million, an increase of 58.0% over the \$243.2 million advanced in the second quarter of the previous year. During the first half of 2004, the Company recorded total mortgage originations of \$635.0 million, an increase of 43.2% over the \$443.5 million originated in the first six months of 2003.
- Net impaired loans at June 30, 2004 represented 0.32% of the total portfolio, compared to 0.31% at March 31, 2004 and 0.33% recorded in the same quarter last year. The Company continues to adhere to highly-effective underwriting and risk-management techniques.

The Company's Board of Directors has declared a quarterly dividend of \$0.03 per share payable on September 1, 2004 to shareholders of record at the close of business on August 16, 2004.

At the annual and special shareholders meeting held on May 12, 2004, shareholders of the Company approved a special resolution authorizing the reclassification of its issued and outstanding Class B subordinated voting shares as "Common Shares", and eliminating all other authorized but unissued classes of common shares. As a result, the trading symbol of the Company's listed shares was changed from "HCG.B" to "HCG".

While the Bank of Canada has not raised its key lending rate, interest rates in the marketplace increased by approximately 100 basis points during the second quarter. Despite this, Home Trust has not seen any lessening of demand for its mortgage products and, in fact, enjoyed a record quarter for mortgage originations. We believe that interest rate increases for the balance of the year will be moderate and that consumer demand for housing will remain strong. We have continued our long-term policy of carefully matching deposits with mortgage maturities so that our interest rate spread has remained constant.

We remain confident that the Company will continue to achieve strong and profitable earnings growth through the balance of 2004.

**GERALD M. SOLOWAY**  
President & Chief Executive Officer  
July 22, 2004

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

### **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. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. Home Capital Group Inc. does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

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

#### **Net Income**

Net income was \$10.7 million for the second quarter, compared with \$6.9 million in the second quarter of 2003 and \$20.7 million for the six months ending June 2004 compared to \$12.9 million for the same period last year. This increase over the prior comparable periods was due to the following factors:

- Total interest and dividend income was \$37.4 million for the three months ended June 30, 2004 as compared to \$30.9 million for June 30, 2003 and \$72.9 million for the six months ended June 30, 2004 compared to \$58.5 million at June 30, 2003.
- Net interest income increased by 26.4% and 33.0%, respectively, to \$19.0 million for the quarter and \$36.7 million for the six months ended June 30, 2004. This compares to \$15.1 million for the quarter and \$27.6 million for the six months of June 2003.
- Non-interest income was \$7.2 million for the quarter and \$14.4 million for the six months ended June 30, 2004. These results are a significant increase over the \$2.6 million for the quarter and \$7.3 million for the six months for June 2003.
- Non-interest expenses increased by \$1.7 million to \$9.6 million in the second quarter of 2004 over the \$7.9 million reported for the June 2003 quarter ended. The six month non-interest expenses amounted to \$18.9 million for June 2004, an increase of 22.4% over the \$15.5 million reported for the six months of June 2003. The productivity ratio improved from 44.6% at June 2003 quarter end to 36.7% for the second quarter of 2004. The six months of 2004 ended at 37.1% compared to 44.3% for the same six month period in 2003.

#### **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. Net interest income was \$19.0 million this quarter, an increase of \$4.0 million over the second quarter of 2003. The six months net interest income was \$36.7 million, an increase of \$9.1 million over the six months of 2003.

This increase is due to the rise in interest income of \$8.6 million over the quarter and \$16.1 million over the six months ended June 30, 2003. These increases were the result of the growth of the loan portfolio, which grew to \$1.86 billion at June 30, 2004 as compared to \$1.36 billion at June 30, 2003.

Interest expense grew by \$2.5 million quarter over quarter and \$5.4 million for the six months ended June 30, 2004 over June 30, 2003. The interest spread on the core business of loan lending over deposit taking improved to 3.9% for the quarter and six months of 2004, compared to 3.6% for the second quarter and six months of 2003.

The mortgage operation continues to be the principal contributor to the increase in the net interest income at \$15.4 million for the second quarter 2004, compared to \$10.0 million for the second quarter last year and \$29.3 million for the six months ended June 2004 compared to \$19.7 million for the same period last year.

#### **Provision for Credit Losses**

The Company expensed \$0.9 million in the latest quarter and \$1.7 million year-to-date through the provisions for credit losses, compared to \$0.7 million and \$1.8 million last year. The Company continues to add to the general allowance for credit losses primarily in response to the growth of the loan portfolio. The total general allowance amounted to \$11.7 million at June 30, 2004, an increase of \$3.1 million over the \$8.6 million at June 30, 2003 and a \$1.4 million rise over the \$10.3 million allowance at December 31, 2003. At June 30, 2004 net impaired loans increased to \$6.1 million compared to \$5.1 million at December 31, 2003 and \$4.5 million at June 30, 2003. The Company has experienced no net losses in its residential mortgage portfolio in the last two and a half years.

### **Non-Interest Income**

Total non-interest income was \$7.2 million for the quarter and \$14.4 million for the six months, an increase of \$4.6 million and \$7.1 million from the same periods in 2003. All areas of the non-interest income realized increases with the mortgage operation as the largest contributor to non-interest income at \$5.6 million for the quarter and \$10.6 million for the six months of 2004. The consumer lending line of business contributed \$1.4 million of fee income in this quarter and \$2.3 million for the six months, an increase over the \$0.9 million for the second quarter and \$1.7 million for the six months of 2003.

The Company issued three MBS pools in the second quarter, consisting of \$82.0 million of Canada Mortgage and Housing Corporation insured residential mortgages for a total of \$128.6 million in securitizations for 2004 year-to-date. This represents an increase of \$50.0 million over the \$78.6 million total in the same period of 2003. Income from securitizations of \$2.9 million were realized in the quarter and \$5.5 million for the six months of 2004, up from the \$1.6 million and \$3.5 million realized in the quarter and six months of 2003. Total MBS funds under administration by Home Trust Company at the end of June 2004 reached \$403.4 million. These securities were sold without recourse, and the Company continues to service these mortgages.

The investment securities portfolio realized net gains of \$1.5 million for the six months compared with net losses of \$1.4 million in the same six months last year.

### **Non-Interest Expenses**

Total non-interest expenses for the three months ended June 30, 2004 were \$9.6 million, an increase of 22.1%, or \$1.7 million, over the second quarter of 2003 and up by 22.4%, or \$3.5 million, over the first six months ended June 30, 2003. Non-interest expenses for the consumer lending line of business increased to \$1.7 million for this quarter and \$3.0 million for the six months, as compared to \$1.3 million and \$2.7 million for last year.

Salaries and staff benefits rose by \$0.6 million, or 20.3%, over the quarter ended June 30, 2003 and \$1.2 million, or 18.9%, over the same six months of 2003. This growth is the result of additional personnel required to support the continued growth of the core mortgage lending business and part-time help over the summer holidays. The Company ended this quarter with 211 employees as compared to 191 employees at the year end, and 185 on June 30, 2003.

General and administrative expenses increased by \$0.9 million for the second quarter and \$1.9 million for the six months over the same periods last year. This increase is related primarily to variable expenses that are volume driven. Growth in the mortgage lending business has expanded the Company's requirement for deposits, which in turn has increased deposit commissions and referral expenses.

The productivity ratio, which is defined as non-interest expenses as a percentage of net interest income plus fee income, ended the quarter at 36.7% and 37.1% for the six months ended June 30, 2004. This is an improvement when compared to the 44.6% for the quarter and 44.3% for the six months ended June 30, 2003.

### **Balance Sheet**

Total assets as at June 30, 2004 were \$2.19 billion, an increase of \$567.6 million, or 35.0%, over the \$1.62 billion reported a year ago and up by \$290.3 million, or 15.3%, over the December 31, 2003 balance of \$1.90 billion. Growth in the loan portfolio of \$503.4 million, or 37.0%, contributed to most of the year-over-year asset increase. Residential mortgages contributed \$462.2 million to the loan portfolio's growth and consumer lending added \$26.4 million. Other mortgages (non-residential) increased by \$17.8 million, mostly as a result of a mortgage portfolio purchased from the Bank of Nova Scotia during the third quarter of 2003. MBS receivables added \$13.2 million to total assets. Deferred development costs resulting from the establishment of the credit card operation decreased by \$0.7 million over June 30, 2003 from the ongoing amortization of this asset. The Company's investment portfolio increased by \$57.6 million, and cash resources decreased by \$14.2 million. Other assets increased by \$7.8 million, consisting of accrued interest receivable, deferred agent commissions, and other prepaid and deferred assets (Note 4). Deferred agent commissions increased alongside the growth in deposits and borrowings. Commissions are amortized over the terms of deposits, and lengthening deposit terms have correspondingly increased the deferred asset. Accrued interest receivable increased by \$2.0 million in relation to the increase in the loan and securities portfolio year-over-year.

Liabilities in this quarter rose to \$2.05 billion, an increase of \$533.1 million, or 35.2%, over the \$1.51 billion reported at June 30, 2003. Most of this year-over-year increase is related to the growth in deposits of \$504.4 million. The increase in deposit liabilities funded all of the loan portfolio growth. Retained earnings and other liabilities funded the increase in the securities and other assets offset by the decrease in cash resources funding the shortfall. Other liabilities increased by \$29.7 million, or 35.0%, over the \$84.8 million reported at June 30, 2003. This growth was principally the result of increases in accrued interest payable of \$14.3 million, which related to the rise in deposits and borrowings. Accounts payable and accrued liabilities contributed \$8.0 million and the increase in deferred commitment fees added \$2.6 million, due to the growth of the mortgage loan portfolio. Future income tax liabilities increased by \$4.6 million over June 30, 2003 as a consequence of the increase in the Ontario effective tax rate (Note 5). The Ontario statutory rate increased to 14.0% on January 1, 2004 from the 12.5% rate effective in 2003.

Shareholders' equity rose to \$140.5 million, an increase of \$34.5 million, or 32.6%, over \$106.0 million at June 30, 2003. This growth was internally generated from the net earnings for the twelve months of \$37.4 million, less \$3.7 million for dividends paid and payable to shareholders. The remaining \$0.8 million was from the proceeds received on the exercise of Company share options.

On January 7, 2004 the Company declared a stock dividend that on January 29, 2004 paid the holders of Class B subordinated voting shares one Class B share for each Class B share held. Consequently, the numbers of shares reported for prior years have been doubled for comparison purposes, period over period.

### **Risk Management**

The Company's key risk management policies and practices remain in place and unchanged from those outlined on pages 21 through 26 of the 2003 Annual Report.

### **Interest Rate Risk**

The objective of interest rate risk management is to ensure that the Company realizes stable and predictable earnings over specific time periods. The Company has adopted a fully balanced approach to the management of its asset and liability positions to prevent interest rate fluctuations from materially impacting future earnings. In the fourth quarter of 2003 the Company sold \$40.0 million of Government of Canada 4.25% bonds maturing September 1, 2008. These bonds were sold short with the intent of hedging against the issuance of MBS pools during 2004. During the first quarter, the Company closed \$10.0 million of this short position, realizing a \$0.3 million loss, which was netted against other interest income. In this quarter the Company closed the remaining \$30.0 million of this short position realizing \$0.4 million loss which was also netted against other interest income. As of June 30, 2004, the Company had no other trading positions.

The Company's interest rate risk management policy monitors the relationship between changes in interest rates and the impact on the economic value of shareholders' equity. As at June 30, 2004, an immediate and sustained 100 basis point increase in rates would have decreased the economic value of shareholders' equity over the next twelve months by \$0.6 million after-tax.

### **Liquidity Risk**

The Company holds a sufficient amount of liquidity to fund its obligations as they come due under normal operating conditions as well as under various stress scenarios with a framework of minimum levels of liquid assets to be held at all times. The Company holds liquid assets in the form of cash, bank deposits, treasury bills, bankers acceptances and government or government guaranteed bonds and debentures to meet the Company's minimum standards for liquidity. On June 30, 2004, liquid assets amounted to \$140.4 million, up 45.2% from the \$96.7 million held at June 30, 2003.

### **Credit Risk**

The provision for credit losses expensed during the second quarter was \$0.9 million, which is up from \$0.8 million that was expensed in the first quarter 2004, and from the \$0.7 million in the second quarter of last year. The credit quality of the loan portfolio remains strong, with total net impaired loans (NILs) at \$6.1 million at June 30, 2004 compared to \$5.1 million at December 31, 2003 and \$4.5 million at June 30, 2003. These levels represent NILs of 0.32% of the total loan portfolio for this quarter compared to 0.31% at the December 31, 2003 quarter end, and down from the 0.33% reported on June 30, 2003.

The composition of the Company's mortgage portfolio consists of 96.8% residential, 2.4% store and apartments, and 0.8% non-residential. Within the residential mortgage portfolio, 4.9% is insured by Canada Mortgage and Housing Corporation. First mortgages represent 99.6% of the total mortgage portfolio.

As of June 30, 2004 the gross credit card receivable balance totalled \$50.5 million, comprised of \$46.3 million, or 91.7% in accounts secured either by cash deposits or residential mortgage collateral, and \$4.2 million, or 8.3% which is unsecured. The total credit approved includes \$69.9 million in secured and \$6.5 million in unsecured credit as compared with \$27.3 million in secured and \$7.3 million unsecured at June 30, 2003. The Company is not accepting any new unsecured accounts. Equity Plus VISA credit cards are secured by a collateral residential mortgage, and this product amounted to \$36.5 million of the credit card receivable balance as at June 30, 2004 as compared to \$10.8 million at June 30, 2003. Cash security deposits on credit card accounts amounted to \$16.1 million, and are included in the Company's deposits and borrowings.

Consumer loans receivables were \$11.5 million, compared to the \$11.6 million reported at June 30, 2003.

Write-offs applied against the accumulated allowance for credit losses realized on loans for the second quarter of 2004 were \$270,000 as compared to the second quarter of 2003 at \$290,000. Write-offs realized on loans year-to-date are \$612,700 compared to \$718,000 for the same period last year. All these losses were related to the unsecured loans in the consumer lending operation, with the mortgage lending operation experiencing no net losses to date in 2004. Last year's losses for the six month period consisted of \$716,000 in the consumer lending operation and \$2,000 on mortgage loans.

The Company has ensured that it is well positioned for any future unforeseen losses by establishing general allowances of \$11.7 million at June 30, 2004 as compared to the general allowances of \$10.3 million at December 31, 2003 and \$8.6 million at June 30, 2003. Total general allowances remained relatively stable at 103.3 basis points of the Company's risk-weighted assets, down from 103.6 basis points on December 31, 2003 and up from the 102.2 basis points at June 30, 2003.

### **Capital Management**

The Company's subsidiary, Home Trust Company's ("Home Trust") capital base continues to be strongly positioned. The Tier 1 capital ratio remained stable year-over-year at 11.9% for both June 30, 2004 and 2003 and increased from the 11.7% at December 31, 2003. The total capital ratio was 14.1% for this quarter, down from the 14.6% reported at June 30, 2003 and up from the 14.0% reported at December 31, 2003. This decrease in the total capital ratio is a result of the strong growth in Home Trust's total assets of 35.2% from June 30, 2003 to June 30, 2004, as risk-weighted assets increased by 34.2%, while capital grew by 30.3% over the same twelve month period. These ratios remain in excess of the minimum regulatory requirements of 7.0% for Tier 1 capital and 10.0% for total capital.

### **Segmented Information**

For the second quarter and six months of 2004, all lines of business improved their results, compared to the same periods of 2003.

### **Mortgage Business**

The Company's principal line of business contributed \$9.1 million and \$17.8 million to net income for the quarter and six months ended June 30, 2004, as compared to \$6.3 million and \$11.8 million for the same periods in June 2003. The total value of new mortgages advanced in the second quarter and six months of 2004 amounted to \$384.4 million and \$635.0 million, as compared to \$243.2 million and \$443.5 million for the same periods in June 2003.

The Company securitized \$82.0 million of residential mortgages in the second quarter and a total of \$128.6 million for the six months of this year, realizing total income on securitization of \$2.9 million for the quarter and \$5.5 million year-to-date. This was up from the \$78.6 million securitized in the first six months of last year with income of \$3.5 million. This will continue to be a contributor to the Company's income, however the new mortgage business will still be the major contributor with interest spreads of 3.4%.

The second mortgage program comprised of the agreement with Regency Finance Corp. ("Regency") whereby, the Company acts as Regency's agent in offering second mortgage loans. This program is still in its early stages having been launched in the fourth quarter of 2003. During the second quarter of 2004, second mortgages totalling \$5.3 million were advanced under this arrangement, for a total of \$8.0 million in the first six months of 2004, all of which were securitized into notes and purchased by the Company.

As of June 30, 2004 the Company held \$11.0 million in notes of these securitized pools. These notes have a yield of 8.4% with an average duration of 3.5 years. The Company also receives additional fee income for servicing and administering these mortgages for Regency. This additional income amounted to 1.34%, on an annualized basis. This business also provides the Company with additional opportunities in the first mortgage residential market that may not have been previously reached.

### **Consumer Lending and Credit Cards**

This line of business contributed \$0.7 million to net income for the three months ended and \$1.3 million for the six months ended June 30, 2004 largely due to the growth in the Equity Plus VISA portfolio. Equity Plus VISA amounts to \$36.5 million at June 30, 2004 and comprises 72.3% of the credit card receivable balance carrying an average interest rate of 11.8% on unpaid balances.

### **Outlook**

Home Capital is committed to serving selected segments of the financial services marketplace that are not being served by major financial institutions. The Company anticipates continued strong housing demands, and that increases in interest rates will be moderate and gradual. As a result of the favourable economic climate, the Company's strategic positioning, prudent risk management and proven operational effectiveness, Home Capital anticipates strong financial performance and profitable growth going forward. These successful quarterly financial results clearly indicate that the Company is well on its way to achieving and exceeding its stated objectives for 2004.

### **Certification of Interim Consolidated Financial Statements**

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. Management has reviewed the Interim Consolidated Financial Statements of Home Capital Group Inc. for the period ending June 30, 2004. Based on our knowledge, the Interim Consolidated Financial Statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the Interim Consolidated Financial Statements. Based on this knowledge, the Interim Consolidated Financial Statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of Home Capital Group Inc. as of June 30, 2004.

The Board of Directors and Audit and Risk Management Committee of Home Capital Group Inc. reviewed this quarterly report. The disclosure controls and procedures of Home Capital Group Inc. support the ability of the President and Chief Executive Officer and Treasurer of Home Capital Group Inc. to assure that Home Capital's Interim Consolidated Financial Statements are fairly presented.

**Gerald M. Soloway**

President and Chief Executive Officer  
July 22, 2004

**Cathy A. Sutherland, CA**

Treasurer

## Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	June 30 2004	June 30 2003	June 30 2004	June 30 2003
<i>In Thousands of Dollars, Except Per Share Amounts (Unaudited)</i>				
<b>Income</b>				
Interest from Loans	\$ 35,335	\$ 26,736	\$ 68,305	\$ 52,194
Dividends from Securities	1,334	3,194	3,040	4,591
Other Interest	732	1,003	1,584	1,667
	<b>37,401</b>	30,933	<b>72,929</b>	58,452
<b>Interest Expense</b>				
Interest on Deposits & Borrowings	18,369	15,877	36,226	30,857
Net Interest Income	19,032	15,056	36,703	27,595
Provision for Credit Losses (Note 2)	914	681	1,673	1,781
	<b>18,118</b>	14,375	<b>35,030</b>	25,814
<b>Non-interest Income</b>				
Fees and Other Income	4,065	2,743	7,472	5,241
Securitization Income on Mortgage-Backed Securities	2,910	1,583	5,477	3,503
Gain (Loss) on Sale and Redemption of Securities	182	(1,726)	1,452	(1,416)
	<b>7,157</b>	2,600	<b>14,401</b>	7,328
	<b>25,275</b>	16,975	<b>49,431</b>	33,142
<b>Non-interest Expenses</b>				
Salaries and Staff Benefits	3,840	3,193	7,693	6,473
Premises	631	445	1,218	866
General and Administration	5,152	4,243	10,023	8,125
	<b>9,623</b>	7,881	<b>18,934</b>	15,464
<b>INCOME BEFORE INCOME TAXES</b>	<b>15,652</b>	9,094	<b>30,497</b>	17,678
<b>Income Taxes</b>				
Current	3,193	2,909	7,343	4,848
Deferred	1,759	(679)	2,424	(56)
	<b>4,952</b>	2,230	<b>9,767</b>	4,792
<b>NET INCOME</b>	<b>\$ 10,700</b>	\$ 6,864	<b>\$ 20,730</b>	\$ 12,886
<b>NET INCOME PER COMMON SHARE</b>				
Basic (Note 6)	\$ 0.32	\$ 0.20	\$ 0.62	\$ 0.38
Fully Diluted (Note 6)	\$ 0.30	\$ 0.20	\$ 0.59	\$ 0.38
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Thousands)</b>				
Basic (Note 6)	33,615	33,336	33,593	33,427
Fully Diluted (Note 6)	35,027	34,302	34,935	34,299
Total Number Of Outstanding Common Shares	33,714	33,498	33,714	33,498
Book Value Per Share	\$ 4.17	\$ 3.16	\$ 4.17	\$ 3.16

## Consolidated Balance Sheets

<i>In Thousands of Dollars (Unaudited)</i>	June 30 2004	December 31 2003	June 30 2003
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with Regulated Financial Institutions	\$ 30,735	\$ 30,100	\$ 55,957
Treasury Bills Guaranteed by Canada	36,938	36,751	25,956
	<b>67,673</b>	66,851	81,913
<b>Securities</b>			
Issued or Guaranteed by Canada	82,827	55,685	25,344
Issued or Guaranteed by Provinces	798	798	500
Other Securities	109,469	112,784	109,600
	<b>193,094</b>	169,267	135,444
<b>Loans</b>			
Personal and Credit Card Loans	60,787	46,619	34,388
Residential Mortgages	1,756,392	1,511,311	1,294,172
Other Mortgages	57,741	60,671	39,919
General Allowance for Credit Losses (Note 2)	(11,681)	(10,300)	(8,618)
	<b>1,863,239</b>	1,608,301	1,359,861
<b>Other</b>			
Mortgage-Backed Securities Receivable	27,268	21,584	14,113
Capital Assets	2,655	1,893	2,198
Deferred Development Costs	1,807	2,167	2,467
Other Assets (Note 4)	31,770	27,113	23,929
	<b>63,500</b>	52,757	42,707
	<b>\$ 2,187,506</b>	\$ 1,897,176	\$ 1,619,925
<b>LIABILITIES</b>			
Term Loan	10,000	10,000	10,000
Subordinated Term Loan	4,000	4,000	5,000
<b>Deposits</b>			
Payable on Demand	10,172	13,980	9,241
Payable on a Fixed Date	1,908,407	1,650,123	1,404,914
	<b>1,932,579</b>	1,678,103	1,429,155
<b>Other</b>			
Cheques and Other Items in Transit	11,736	6,195	10,475
Other Liabilities (Note 5)	102,713	91,712	74,310
	<b>114,449</b>	97,907	84,785
	<b>2,047,028</b>	1,776,010	1,513,940
<b>SHAREHOLDERS' EQUITY</b>			
Capital Stock	32,283	31,734	31,572
Contributed Surplus (Note 7)	91	33	-
Retained Earnings	108,104	89,399	74,413
	<b>140,478</b>	121,166	105,985
	<b>\$ 2,187,506</b>	\$ 1,897,176	\$ 1,619,925

## Consolidated Statements of Changes in Shareholders' Equity

	For the Three Months Ended		For the Six Months Ended	
	June 30 2004	June 30 2003	June 30 2004	June 30 2003
<i>In Thousands of Dollars (Unaudited)</i>				
<b>CAPITAL STOCK</b>				
Class A Convertible Shares				
Balance at Beginning of the Period	\$ -	\$ 576	\$ -	\$ 576
Conversion to Class B Subordinated Voting Shares	-	(576)	-	(576)
Balance at End of the Period	-	-	-	-
Common Shares				
Balance at Beginning of the Period	32,077	30,983	31,734	31,354
Conversion from Class A Convertible Shares	-	576	-	576
Proceeds of Options Exercised	206	89	549	122
Redemption of Shares	-	(76)	-	(480)
Balance at End of the Period	32,283	31,572	32,283	31,572
<b>Total Capital Stock</b>	<b>\$ 32,283</b>	<b>\$ 31,572</b>	<b>\$ 32,283</b>	<b>\$ 31,572</b>
<b>CONTRIBUTED SURPLUS</b>				
Balance at Beginning of the Period	\$ 57	\$ -	\$ 33	\$ -
Amortization of Fair Value of Employee Stock Options (Note 7)	34	-	58	-
<b>BALANCE AT END OF THE YEAR</b>	<b>\$ 91</b>	<b>\$ -</b>	<b>\$ 91</b>	<b>\$ -</b>
<b>RETAINED EARNINGS</b>				
Balance at Beginning of the Period	\$ 98,417	\$ 68,177	\$ 89,399	\$ 62,656
Net Income for the Period	10,700	6,864	20,730	12,886
Dividends Paid During the Period	-	-	(1,012)	(501)
Dividends Declared During the Period	(1,013)	(628)	(1,013)	(628)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 108,104</b>	<b>\$ 74,413</b>	<b>\$ 108,104</b>	<b>\$ 74,413</b>

## Consolidated Statements of Cash Flows

<i>In Thousands of Dollars (Unaudited)</i>	Three Months Ended		Six Months Ended	
	June 30 2004	June 30 2003	June 30 2004	June 30 2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income for the Period	\$ 10,700	\$ 6,864	\$ 20,730	\$ 12,886
Adjustments to Determine Net Cash Flows Relating to Operating Activities:				
Future Income Taxes	1,759	(678)	2,424	(55)
Amortization of Capital Assets	184	178	340	336
Amortization of Securities	(59)	21	(115)	141
Amortization of Deferred Financing Costs	14	15	29	28
Amortization of Deferred Development Costs	180	150	360	300
Provision for Credit Losses	914	681	1,673	1,781
Change in Accrued Interest Receivable	(497)	(135)	(823)	(757)
Change in Accrued Interest Payable	712	(249)	5,478	6,900
(Gain) Loss on Sale of Securities	(182)	1,726	(1,452)	1,416
Gain on Sale of Mortgage-Backed Securities	(2,910)	(1,583)	(5,477)	(3,503)
Change in Mortgage-Backed Securities Receivable	2,251	1,089	3,660	1,891
Change in Other Assets	(2,941)	575	(3,863)	(578)
Change in Cheques and Other Items in Transit	4,457	2,026	5,541	4,649
Change in Other Liabilities	3,967	3,019	3,092	3,643
Amortization of Fair Value of Employee Stock Options (Note 7)	34	-	58	-
Cash Provided by Operating Activities	18,583	13,699	31,655	29,078
<b>FINANCING ACTIVITIES</b>				
Issuance of Subordinated Term Loan	-	-	-	5,000
Repayments for Subordinated Secured Loan	-	-	-	(5,000)
Deferred Financing Costs	-	-	-	(67)
Net Increase in Deposits	172,840	96,497	254,476	198,976
Issuance of Capital Stock	206	89	549	122
Normal Course Issuer Bid	-	(76)	-	(480)
Dividends Paid	(1,012)	(501)	(2,018)	(1,004)
Cash Provided by Financing Activities	172,034	96,009	253,007	197,547
<b>INVESTING ACTIVITIES</b>				
Activity in Securities				
Purchases	(28,541)	(10,787)	(51,863)	(47,687)
Proceeds on Sales	2,479	17,403	11,705	24,463
Proceeds on Maturities	7,862	11,938	17,898	15,982
Activity in Mortgages				
Net Increase	(227,103)	(135,721)	(370,477)	(259,597)
Proceeds from Securitization of Mortgage-Backed Securities	79,488	35,266	124,733	76,430
Net Increase in Personal and Credit Card Loans	(8,531)	(6,192)	(14,735)	(9,499)
Purchases of Capital Assets	(447)	(191)	(1,101)	(339)
Cash Used in Investing Activities	(174,793)	(88,284)	(283,840)	(200,247)
Net Increase in Cash and Cash Equivalents	15,824	21,423	822	26,378
Cash and Cash Equivalents at the Beginning of the Period	51,849	60,490	66,851	55,535
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 67,673</b>	<b>\$ 81,913</b>	<b>\$ 67,673</b>	<b>\$ 81,913</b>
Supplementary Disclosure of Cash Flow Information				
Amount of Interest Paid During the Period	\$ 17,656	\$ 16,127	\$ 30,747	\$ 23,957
Amount of Income Taxes Paid During the Period	4,088	2,106	9,756	4,123

## 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, 2003, as set out in the 2003 Annual Report on pages 33 through 49. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The accounting policies and methods of application 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. These interim consolidated financial statements reflect amounts, which must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. Actual results may differ from these estimates.

### 2. LOANS

#### (A) Impaired Loans and Related Allowance for Specific Credit Losses

	As At June 30, 2004				
<i>In Thousands of Dollars</i>	Gross Amount of Impaired Loans		Specific Allowances		Carrying Value
Personal and Credit Card Loans	\$	253	\$	253	\$ -
Residential Mortgages		6,065		-	6,065
Other Mortgages		-		-	-
	\$	6,318	\$	253	\$ 6,065
					As At December 31, 2003
Personal and Credit Card Loans	\$	340	\$	299	\$ 41
Residential Mortgages		5,150		275	4,875
Other Mortgages		178		-	178
	\$	5,668	\$	574	\$ 5,094
					As At June 30, 2003
Personal and Credit Card Loans	\$	374	\$	358	\$ 16
Residential Mortgages		3,972		-	3,972
Other Mortgages		552		25	527
	\$	4,898	\$	383	\$ 4,515

#### (B) Allowance for Credit Losses

	For the Six Month Period Ended June 30, 2004				
<i>In Thousands of Dollars</i>	Specific Allowance		General Allowance For Credit Risk		Total
Balance at the Beginning of the Period	\$	574	\$	10,300	\$ 10,874
Provisions for Credit Losses for the Current Period		292		1,381	1,673
Write-offs		(701)		-	(701)
Recoveries		88		-	88
Balance at the End of the Period	\$	253	\$	11,681	\$ 11,934
					For the Six Month Period Ended December 31, 2003
Balance at the Beginning of the Period	\$	383	\$	8,618	\$ 9,001
Provisions for Credit Losses for the Current Period		823		1,682	2,505
Write-offs		(732)		-	(732)
Recoveries		100		-	100
Balance at the End of the Period	\$	574	\$	10,300	\$ 10,874
					For the Six Month Period Ended June 30, 2003
Balance at the Beginning of the Period	\$	383	\$	7,556	\$ 7,939
Provisions for Credit Losses for the Current Period		719		1,062	1,781
Write-offs		(822)		-	(822)
Recoveries		103		-	103
Balance at the End of the Period	\$	383	\$	8,618	\$ 9,001

## Notes to the Interim Unaudited Consolidated Financial Statements - Continued

### 3. LOAN SECURITIZATION

During the second quarter 2004, the Company securitized government guaranteed residential mortgage loans through the creation of Mortgage-Backed Securities of \$82.0 million (\$36.2 million - Q2 2003). The Company retained the rights to future excess interest on the residential mortgages valued at \$6.2 million (\$2.8 million - Q2 2003) and received cash flows on the securitization of these residential mortgages of \$79.5 million (\$35.2 million - Q2 2003). The gain on sale, net of transaction fees and expenses, was \$3.2 million (\$1.5 million - Q2 2003). The key assumptions used to value the sold and retained interests included a prepayment rate of 6.5% (7.0% - Q2 2003), an excess spread of 2.3% (2.5% - Q2 2003) and a discount rate of 3.8% (4.2% - Q2 2003). There are no expected credit losses as the mortgages are government guaranteed.

### 4. OTHER ASSETS

<i>In Thousand of Dollars</i>	<b>June 30 2004</b>	December 31 2003	June 30 2003
Accrued Interest Receivable	\$ 10,410	\$ 9,587	\$ 8,439
Income Taxes Receivable	118	-	-
Deferred Agent Commission	7,694	6,290	5,537
Goodwill	2,324	2,324	2,324
Other Prepaid Assets and Deferred Items	11,224	8,912	7,629
	<b>\$ 31,770</b>	<b>\$ 27,113</b>	<b>\$ 23,929</b>

### 5. OTHER LIABILITIES

<i>In Thousand of Dollars</i>	<b>June 30 2004</b>	December 31 2003	June 30 2003
Accrued Interest Payable	\$ 68,409	\$ 62,930	\$ 54,106
Income Taxes Payable	-	1,908	1,527
Dividends Payable	1,013	1,006	628
Deferred Commitment Fees	6,008	4,571	3,383
Future Income Taxes	11,431	9,007	6,829
Other, Including Accounts Payable and Accrued Liabilities	15,852	12,290	7,837
	<b>\$ 102,713</b>	<b>\$ 91,712</b>	<b>\$ 74,310</b>

### 6. CAPITAL STOCK

On January 7, 2004 the Company declared a stock dividend that would pay to the holders of Class B subordinated voting shares a dividend payable in Class B shares of the Company at the rate of one Class B share for each Class B share held. This dividend was paid on January 29, 2004 to shareholders of record at the close of business on January 21, 2004.

The directors have fixed the aggregate consideration for the Class B shares payable as a stock dividend at \$1.00, and directed the sum of \$1.00 be transferred from the retained earnings of the Company to the stated capital account maintained for the Class B shares.

<i>Thousands of Dollars /Shares</i>	<b>June 30 2004</b>		December 31 2003		June 30 2003	
	Number Of Shares	Amount	Number Of Shares	Amount	Number Of Shares	Amount
Common Shares	33,714	\$ 32,283	33,534	\$ 31,734	33,498	\$ 31,572
Share Purchase Options						
Outstanding, End of Period	1,391		1,501		1,384	
Exercisable, End of Period	748		651		679	

All capital stock has been restated to reflect this stock dividend for the previous periods for comparative purposes.

## Notes to the Interim Unaudited Consolidated Financial Statements - Continued

### 7. STOCK BASED COMPENSATION

During the second quarter and six months of 2004, for all options issued after January 1, 2003, the Company recognized a compensation expense of \$34,000 and \$58,000 for stock option awards in the Consolidated Interim Income Statement with an off-setting credit to Contributed Surplus. The fair value of options granted was estimated at the date of grant using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 3.5%, expected option life of 4.2 years, expected volatility of 28.5% and expected dividend yield of 3.4%. During the first quarter 2004, 70,000 options were granted with a weighted average fair value of \$4.85 per option. These options granted vest, subject to performance targets, over a four-year period at a rate of 25% per year and expire in seven years.

For those options issued prior to January 1, 2003 no compensation expense has been recognized. Had these options fallen under the same accounting policy they would have had the effect of reducing net income by \$115,000.

### 8. EARNINGS BY BUSINESS SEGMENT

*Thousands of Dollars (Unaudited)* For the Three Months Ended

	Mortgage Business		Consumer Lending Retail Services & Credit Cards		Other		Total	
	June 30	June 30	June 30	June 30	June 30	June 30	June 30	June 30
	2004	2003	2004	2003	2004	2003	2004	2003
Net Interest Income	\$ 15,441	\$ 10,024	\$ 1,728	\$ 1,142	\$ 1,863	\$ 3,890	\$ 19,032	\$ 15,056
Provisions for Credit Losses	(610)	(483)	(304)	(198)	-	-	(914)	(681)
Fees and Other Income	2,691	1,917	1,367	826	7	-	4,065	2,743
Gain on Sale of Securities & Mortgage-Backed Securities	2,910	1,583	-	-	182	(1,726)	3,092	(143)
Non-interest Expense	(6,635)	(4,783)	(1,692)	(1,296)	(1,296)	(1,802)	(9,623)	(7,881)
Income Before Income Taxes	13,797	8,258	1,099	474	756	362	15,652	9,094
Income Taxes	(4,657)	(1,924)	(397)	(173)	102	(133)	(4,952)	(2,230)
Net Income	\$ 9,140	\$ 6,334	\$ 702	\$ 301	\$ 858	\$ 229	\$ 10,700	\$ 6,864

*Thousands of Dollars (Unaudited)* For the Six Months Ended

	Mortgage Business		Consumer Lending Retail Services & Credit Cards		Other		Total	
	June 30	June 30	June 30	June 30	June 30	June 30	June 30	June 30
	2004	2003	2004	2003	2004	2003	2004	2003
Net Interest Income	\$ 29,259	\$ 19,698	\$ 3,272	\$ 2,243	\$ 4,172	\$ 5,654	\$ 36,703	\$ 27,595
Provisions for Credit Losses	(1,080)	(1,129)	(593)	(652)	-	-	(1,673)	(1,781)
Fees and Other Income	5,164	3,573	2,298	1,668	10	-	7,472	5,241
Gain (Loss) on Securities & Mortgage-Backed Securities	5,477	3,503	-	-	1,452	(1,416)	6,929	2,087
Non-interest Expense	(11,889)	(9,724)	(3,019)	(2,702)	(4,026)	(3,038)	(18,934)	(15,464)
Income Before Income Taxes	26,931	15,921	1,958	557	1,608	1,200	30,497	17,678
Income Taxes	(9,163)	(4,149)	(708)	(204)	104	(439)	(9,767)	(4,792)
Net Income	\$ 17,768	\$ 11,772	\$ 1,250	\$ 353	\$ 1,712	\$ 761	\$ 20,730	\$ 12,886

For management reporting purposes, our operations are grouped into the main business segments of Mortgage and Deposit Business, Consumer Lending which consists of consumer loans and credit card operations. The Other segment includes security investments and corporate activities.

## Corporate Directory and Shareholder Information

### HOME CAPITAL GROUP INC.

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

#### Directors

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

#### Officers

Gerald M. Soloway  
*President and  
Chief Executive Officer*  
W. Roy Vincent  
*Senior Vice President  
and Chief Operating Officer*  
Nick Kyprianou  
*Senior Vice President*  
Brian R. Mosko  
*Senior Vice President*  
Brian E. Wilson, C.A.  
*Senior Vice President*  
Cathy A. Sutherland, C.A.  
*Treasurer*  
Sharron I. Hatton  
*Corporate Secretary*

#### Auditors

*Home Capital Group Inc.*  
*Home Trust Company*  
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: 1-800-564-6253

#### Capital Stock

As at June 30, 2004 there were  
33,713,640 Common Shares outstanding

#### Stock Listing

Toronto Stock Exchange  
Ticker Symbol: HCG

### 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, C.A.

Sheila L. Ross  
Gerald M. Soloway  
W. Roy Vincent

### BRANCHES

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*Asst. Vice Presidents, Toronto Office*  
Hugh Anderson  
James Hill

#### Managers, Mortgage Lending

Laurie Chalabardo  
Pierre Lafleur  
Bobby Ramgoolam  
Agostino Tuzi

#### Second Mortgage Program

*Senior Manager, Mortgage Lending*  
Pino Decina  
Tel: (416) 777-5834

#### Retail Credit Services

*Asst. 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  
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*Asst. Vice President, Hamilton Office*  
Marguerite Ryan

#### Managers, Mortgages

Brad Hamilton  
Craig Perigo

#### St. Catharines

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1-866-544-3081

*Senior Manager, Mortgages*  
Emilio Fuoco

#### Manager, Mortgages

Christine O'Connor

#### Vancouver

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*Asst. Vice President, Mortgages*  
Heather Flegg

*Manager, Mortgage Lending*  
Lorie Martin

#### 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 Managers, Mortgage Lending

Scott Congdon  
Jeff Ayer

#### For Shareholder Information,

#### Please Contact:

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*Corporate Secretary*  
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#### Websites

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

**Home Capital Group Inc. has established an e-mail investor information service. Sign up at our web site [www.homecapital.com](http://www.homecapital.com) and you will receive quarterly reports, press releases, the annual report, the management information circular, and other information pertaining to the Company.**