



# HOME CAPITAL GROUP INC.

## Fourth Quarter Report December 31, 2004

### Financial Highlights

|  | Three Months Ended |          | Year Ended   |              |
|--|--------------------|----------|--------------|--------------|
| <i>For the Period Ended December 31 (Unaudited)</i>                            |                    |          |              |              |
| <i>In Thousands of Dollars Except Per Share and Percentage Amounts</i>         | 2004               | 2003     | 2004         | 2003         |
| <b>OPERATING RESULTS</b>   |                    |          |              |              |
| Net Income   | \$ 12,271          | \$ 8,736 | \$ 44,551    | \$ 29,507    |
| Total Revenue  | 50,804             | 41,656   | 186,689      | 144,589      |
| Earnings per Share - Basic**   | \$ 0.37            | \$ 0.26  | \$ 1.33      | \$ 0.88      |
| - Fully Diluted**  | 0.35               | 0.25     | 1.27         | 0.86         |
| Return on Shareholders' Equity   | 31.32%             | 29.81%   | 31.44%       | 27.35%       |
| Return on Average Assets   | 2.00%              | 1.91%    | 2.00%        | 1.79%        |
| Efficiency Ratio<br>(Non-interest Expense/Net Interest Income Plus Fee Income) | 40.96%             | 36.21%   | 37.46%       | 40.45%       |
| <b>BALANCE SHEET HIGHLIGHTS</b>  |                    |          |              |              |
| Total Assets   |                    |          | \$ 2,568,513 | \$ 1,897,176 |
| Loans  |                    |          | 2,224,411    | 1,608,301    |
| Deposits   |                    |          | 2,265,184    | 1,664,103    |
| Common Shareholders' Equity  |                    |          | 162,207      | 121,166      |
| Mortgage-Backed Security Assets Under Administration                           |                    |          | 500,740      | 315,131      |
| <b>FINANCIAL STRENGTH</b>  |                    |          |              |              |
| <b>Capital Measures</b>  |                    |          |              |              |
| Risk Adjusted Assets*  |                    |          | \$ 1,311,920 | \$ 994,516   |
| Tier 1 Capital Ratio*  |                    |          | 12.02%       | 11.65%       |
| Total Capital Ratio*   |                    |          | 14.03%       | 14.02%       |
| <b>Credit Quality</b>  |                    |          |              |              |
| Net Impaired Loans % of Gross Loans  |                    |          | 0.40%        | 0.31%        |
| Allowance % of Gross Impaired Loans  |                    |          | 148.20%      | 191.86%      |
| Annualized Provision % of Gross Loans  |                    |          | 0.20%        | 0.26%        |
| <b>Share Information</b>   |                    |          |              |              |
| Book Value per Common Share**  |                    |          | \$ 4.80      | \$ 3.61      |
| Common Share Price – Close**   |                    |          | 31.25        | 16.63        |
| Market Capitalization  |                    |          | 1,055,536    | 557,509      |

\*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.*

#### **Annual Meeting Notice**

The Annual Meeting of Shareholders of Home Capital Group Inc. will be held at the Design Exchange, Trading Floor, Second Floor, 234 Bay Street, Toronto, Ontario, on Wednesday, May 11, 2005 at 11:00 a.m. local time. Shareholders and guests are invited to join Directors and Management for lunch and refreshments following the Annual Meeting. All shareholders are encouraged to attend.

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

**Home Capital Records 38<sup>th</sup> Consecutive Quarter of Increased Earnings  
Net Earnings Increase by 40.5% and  
Return on Equity is 31.3% for the Fourth Quarter**

Home Capital Group Inc. (TSX:HCG) delivered another strong performance in the fourth quarter and year-end 2004 with a return on equity of 31.3% for the quarter and sustained growth in earnings, earnings per share and total assets. The Company has now achieved quarter-over-quarter increases in earnings for 38 consecutive quarters.

With the following outstanding results, Home Capital has surpassed all of its previously stated annual performance targets.

- Net income for the three-month period ended December 31, 2004 increased 40.5% to \$12.3 million, compared with earnings of \$8.7 million for the same period a year earlier. Net income for the twelve months of 2004 rose by 51.0% to \$44.6 million from the \$29.5 million recorded for the year ended 2003.
- Basic earnings per share increased by 42.3% to \$0.37, compared with \$0.26 for the comparable quarter of 2003. Fully diluted earnings per share rose by 40.0% to \$0.35 from \$0.25 recorded in the fourth quarter of the previous year. Net income per share for the twelve-month period grew from \$0.88 to \$1.33, an increase of 51.1%, and on a fully diluted basis from \$0.86 to \$1.27, up 47.7%.
- Total assets at December 31, 2004 were \$2.57 billion, an increase of 35.4% over assets of \$1.90 billion at December 31, 2003 and 9.2% greater than the \$2.35 billion in assets recorded at the end of September 2004. Total assets, including Mortgage-Backed Securities (MBS) administered by the Company, grew from \$2.21 billion at December 31, 2003 to \$3.07 billion at December 31, 2004, a rise of 38.7%.
- Return on equity for the fourth quarter was 31.3%, compared to 29.8% for the comparable quarter of 2003 and 31.7% in the third quarter of 2004. For 2004 as a whole, return on equity was 31.4% versus 27.4% in 2003.
- Total mortgage originations in the fourth quarter of 2004 amounted to \$407.7 million, an increase of 37.5% over the \$296.4 million advanced in the fourth quarter of the previous year. During the twelve months of 2004, the Company's mortgage originations of \$1.46 billion represented an increase of 37.3% over the \$1.06 billion recorded during the same period of 2003.
- Balances outstanding on the Equity Plus VISA (EPV) portfolio were \$55.5 million at December 31, 2004 compared to \$21.8 million at year-end 2003, an increase of 154.2%. Authorized credit limits for EPV grew by 172.5% to \$82.6 million for 2004 versus \$30.3 million in 2003.
- Net impaired loans at December 31, 2004 represented 0.4% of the total portfolio, compared to 0.3% at September 30, 2004 and 0.3% recorded at December 31, 2003. These results reflect the Company's continued adherence to highly-effective underwriting and risk-management techniques. No net losses have been incurred in the mortgage portfolio during the past three years.

On October 31, 2004, Great-West Lifeco Inc. redeemed all of its Class A Preferred Shares, Series 1 (GWO.PR.D) at par, of which the Company held 250,000 shares. Normally, this would result in neither a gain nor a loss. However, this transaction resulted in \$21.55 per share being received by the Company as a deemed dividend (which flowed to Home Trust tax free) and \$3.45 per share as a return of capital. Although this resulted in no cash loss to the Company, it resulted in a positive tax benefit by lowering the income tax expense by approximately \$2.1 million, which was recognized during the quarter.

During the quarter, the Company issued a further \$67.9 million in MBS poolings of residential mortgages, generating \$2.6 million in revenues. The comparable figures for the fourth quarter of 2003 were \$89.4 million and \$3.5 million, respectively. The MBS portfolio under administration stood at \$500.7 million at December 31, 2004 compared with \$315.1 million at year-end 2003.

During the fourth quarter, certain MBS pools that had been on our books for more than three years experienced a rise in pay downs, resulting from declining interest rates, and the fact that CMHC-Insured mortgages may be paid out after three years, upon payment of a three-month penalty. As a result of the Company's ongoing review and projection of possible future pay downs that could occur should interest rates stay low or decline further, a \$1.5 million non-cash charge was taken in the fourth quarter. The adjustment corresponded to approximately 30 basis points on the total portfolio of \$500 million in MBS receivables.

Subsequent to the quarter-end, the Company's Board of Directors declared a quarterly dividend of \$0.04 per share. This represents an increase of 33% from the \$0.03 dividend declared and paid during the previous quarter. The increase in the quarterly dividend is attributable to the Company's consistent record of maintaining a strong balance sheet and solid earnings growth. The increased dividend will be payable on March 1, 2005 to shareholders of record at the close of business on February 15, 2005.

Canada's economic outlook continues to be favourable for Home Capital as we enter 2005. The Company has sustained strong growth in recent years, and we believe that exceptional growth opportunities still exist in our underserved marketplace.

Home Capital believes that it has a proven, sustainable business model that has the operational excellence and strong financial ability to continue its robust momentum in the coming year.

**GERALD M. SOLOWAY**  
President & Chief Executive Officer  
February 15, 2005

**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

### Performance Results

Home Capital published its financial objectives for 2004 in the Company's 2003 Annual Report. The following table compares actual performance against the objectives.

#### Performance for 2004

|   | 2004 Objectives             | Year Ended December 31, 2004<br>Actual Results    |
|---|-----------------------------|---|
| Total Net Earnings                                    | \$35.4 million for the year | <b>\$44.6 million or 51.0% over 2003</b>          |
| Fully Diluted Earnings per Share                      | \$1.03 per share            | <b>\$1.27 per share or 47.7% over 2003</b>        |
| Combined Total Assets and Assets Under Administration | \$2.65 billion              | <b>\$3.07 billion or 38.7% increase over 2003</b> |
| Return on Equity                                      | 20%                         | <b>31.4%</b>                                      |

### Net Income

Net income was \$12.3 million in the fourth quarter compared with \$11.6 million for the third quarter of 2004 and \$8.7 million in the fourth quarter of 2003. Net income for 2004 was \$44.5 million compared to \$29.5 million for the year ended 2003. These increases were due to the following factors:

- Total interest and dividend income was \$49.3 million for the three months ended December 31, 2004 as compared to \$40.6 million at September 30, 2004 and \$34.4 million for December 31, 2003. For the year as a whole, this income was \$162.8 million in 2004 compared to \$124.4 million at December 31, 2003. The 35.4% growth in the Company's assets was a key factor contributing to this increase in total interest and dividend income. In addition, in the fourth quarter, a deemed dividend on a preferred share redemption of \$5.4 million was received.
- Net interest income increased by 65.7% and 43.5%, respectively, to \$27.7 million for the quarter and \$85.1 million for the twelve months ended December 31, 2004. This compares to \$16.7 million for the quarter and \$59.3 million for the twelve months ended December 2003. The increase in interest income was greater than the resulting growth in interest expense combined with the deemed dividend of \$5.4 million received in the fourth quarter of 2004.
- Non-interest income was \$1.5 million for the quarter and \$23.8 million for the twelve months ended December 31, 2004. This represented a decrease over the \$7.3 million for the quarter and an increase over the \$20.2 million for the twelve months ending December 2003. This decrease in the quarter is the result of a loss of \$5.8 million recognized on the redemption of preferred shares and a reduction in the securitization gains on Mortgage-Backed Securities ("MBS"). The Company's on-going review of the pay down rate of mortgages in the administered portfolio resulted in a charge of \$1.5 million in the quarter (\$0.5 million - 2003).
- Non-interest expenses increased by \$2.1 million to \$12.0 million in the fourth quarter of 2004 over the \$9.9 million reported for the three months of September 2004 and by \$3.3 million over the \$8.7 million reported in the last quarter of 2003. The increase in the fourth quarter over the third quarter of 2004 was the result of a rise in the Company's provision for awards for performance, referral fees and capital taxes. The twelve month non-interest expenses amounted to \$40.8 million for December 2004, an increase of 26.9% over the \$32.1 million reported for the twelve months of December 2003. The increase over the twelve months is a result of increased staff, premises and referral fees. These additional expenses increased the efficiency ratio in the fourth quarter to 41.0% from 36.2% in the last three months ending December 2003. However, the twelve month efficiency ratio improved to 37.5% in 2004 compared to 40.5% for the preceding twelve month period.

### **Net Interest Income**

Net interest income is the difference between income earned on loans and investments and the interest paid on deposits and any other borrowings to fund those investments. Net interest income was \$27.7 million in the fourth quarter, an increase of \$11.0 million or 65.7% over the same quarter of 2003. Of the \$11.0 million increase, \$5.4 million resulted from dividends on a preferred share redemption received in this quarter. The twelve months net interest income was \$85.1 million, an increase of \$25.8 million or 43.5% over the twelve months of 2003. This increase was largely the result the growth in interest earning assets by \$653.3 million over December 2003, compared to an increase of \$600.1 million in interest bearing liabilities.

Interest and dividend income grew by \$14.9 million over the quarter and \$38.5 million over the twelve months ended December 31, 2003. These increases were the result of the growth of the loan portfolio, which rose to \$2.22 billion at December 31, 2004 as compared to \$1.61 billion at December 31, 2003. The Company received \$5.4 million as a deemed dividend on a preferred share redemption in the fourth quarter of this year, compared to \$1.9 million in deemed dividends received over the twelve months of 2003. However, this share redemption was offset by a \$5.8 million loss (which is reflected in the Loss on Sale and Redemption of Securities line of the Consolidated Statement of Income) compared to losses of \$2.2 million realized on share redemptions for the twelve months ended December 31, 2003. For further information on this transaction refer to Note 6 of these Interim (Unaudited) Consolidated Financial Statements.

Interest expense grew by \$3.9 million quarter-over-quarter and \$12.7 million for the twelve months ending December 31, 2004 over 2003 due to higher volumes of customer deposits. The interest spread on the core business of loan lending over deposit taking declined to 3.7% for the fourth quarter of 2004 from 3.8% in the same quarter of 2003. However, the spread improved for the twelve months of 2004 to 3.8%, compared to 3.7% for the twelve months of 2003. The Company anticipates that these spreads will remain relatively stable over the next year.

The mortgage lending line of business continues to be the principal contributor to the increase in the net interest income at \$16.9 million for the fourth quarter 2004, compared to \$13.0 million for the same quarter last year and \$62.0 million for the twelve months ended December 2004 compared to \$43.9 million last year.

### **Provision for Credit Losses**

The Company expensed \$1.5 million in the last quarter and \$4.5 million year-to-date through provisions for credit losses, compared to \$1.4 million and \$4.3 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 and total assets. The total general allowance amounted to \$13.6 million at December 31, 2004, an increase of \$3.3 million over the \$10.3 million at December 31, 2003 and a \$0.9 million rise over the \$12.7 million allowance at September 30, 2004. The increase in the general allowance for the year amounted to 32.2% which is aligned with the total asset growth of 35.4%.

At December 31, 2004 net impaired loans increased to \$9.0 million, compared to \$5.1 million at December 31, 2003 and \$6.5 million at September 30, 2004. The increase in net impaired loans has not resulted in increases in loan write-offs. Total loans written-off in 2004 decreased to \$1.1 million compared to \$1.4 million for the twelve months of 2003. The rise in net impaired loans results, in part, from the increase in the average outstanding balance on loans in the portfolio. The actual number of loans that were in arrears amounted to 1.2% of the total loans in the Company's portfolio at December 31, 2004 compared to 1.4% at December 31, 2003.

### **Non-Interest Income**

Total non-interest income was \$1.5 million for the quarter and \$23.8 million for the twelve months, a decrease of \$5.7 million and an increase of \$3.6 million from the same periods in 2003.

The increase in the Loss on Sale of Securities component was the result of a loss of \$5.8 million realized on a preferred share redemption (refer to Note 6 of the Interim (Unaudited) Consolidated Financial Statements for further information).

The Fees and Other Income component of the non-interest income increased to \$4.9 million for the quarter and \$16.7 million for the twelve months of 2004. The mortgage line of the business contributed \$3.4 million in this quarter and \$11.6 million for the twelve months of 2004. The consumer lending line of business contributed \$1.5 million of fee income in this quarter and \$5.1 million for the twelve months, an increase over \$1.1 million for the third quarter 2004 and \$3.8 million for the twelve months of 2003.

The Company issued two MBS pools in the fourth quarter, consisting of \$67.9 million of Canada Mortgage and Housing Corporation insured residential mortgages for a total of \$279.4 million in securitizations for 2004. This represents an increase of \$67.6 million over the \$211.8 million total for the year in 2003. Income from securitizations of \$1.6 million was realized in the quarter and \$10.6 million for the twelve months of 2004, down from \$3.9 million and up from \$9.9 million realized in the fourth quarter and twelve months of 2003 respectively. During the quarter the Company continued their ongoing review of the pay down rate of the pooled mortgages. This review resulted in a charge to this component of \$1.5 million (\$0.5 million). Total MBS funds under administration at the end of December 2004 reached \$500.7 million. These securities were sold without recourse, and the Company continues to service these mortgages.

### **Non-Interest Expenses**

Total non-interest expenses for the three months ended December 31, 2004 were \$12.0 million, an increase of 37.9%, or \$3.3 million, over the fourth quarter of 2003 and up by 26.9%, or \$8.6 million, over the twelve months ending December 31, 2003. Non-interest expenses for the consumer lending line of business remained relatively consistent with the 2003 periods, at \$1.8 million for this quarter and \$6.3 million for the twelve months, as compared to \$1.5 million and \$5.7 million last year.

Salaries and staff benefits for the latest quarter rose by \$1.3 million, or 39.5%, over the fourth quarter ended December 31, 2003 and \$3.3 million, or 24.9%, over the same twelve months of 2003. This growth is the result of additional personnel required to support the continued growth of the core mortgage lending business as well as the growth of the consumer lending business. The Company ended 2004 with 228 employees as compared to 191 employees at the end of 2003, and 212 on September 30, 2004.

General and administrative expenses increased by \$1.8 million for the fourth quarter, and \$4.7 million for the twelve 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 efficiency ratio, which is defined as non-interest expenses as a percentage of net interest income plus fee income, ended the year at 37.5%. This is an improvement when compared to the 40.5% for the twelve months ended December 31, 2003. The efficiency ratio increased in the fourth quarter to 41.0% compared to the quarters ending September 30, 2004 at 34.6% and December 31, 2003 at 36.2%.

### **Income Tax Expense**

Income tax expense amounted to \$3.5 million (effective rate of 22.2%) for the quarter, and \$19.1 million (effective rate of 30.0%) for the twelve months of 2004. The deemed dividend received on a preferred share redemption resulted in a reduction to the income tax expense of \$2.1 million in the fourth quarter, as dividend income is non-taxable to the Company. The growing revenues in the Company's operations in Western Canada allows the Company to realize reduced tax rates in other provinces. In the absence of the tax free dividends the effective tax rate would have been 33.2% for the twelve months of 2004.

### **Balance Sheet**

Total assets as at December 31, 2004 were \$2.57 billion, an increase of \$671.3 million, or 35.4%, over the \$1.90 billion reported one year ago and up by \$217.0 million, or 9.2%, over the September 30, 2004 balance of \$2.35 billion. Growth in the loan portfolio of \$616.1 million, or 33.3%, contributed to most of the year-over-year asset increase. Residential mortgages contributed \$582.5 million to the total loan portfolio growth, consumer lending added \$32.8 million and other mortgages (non-residential) added \$4.1 million. MBS receivables added \$6.1 million to total assets. Deferred development costs resulting from the establishment of the credit card operation decreased by \$0.7 million over December 31, 2003 as a result of the ongoing amortization of this asset. The Company's investment securities portfolio increased by \$53.5 million, and cash resources decreased by \$16.4 million. Other assets increased by \$11.9 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.

Liabilities in this quarter rose to \$2.41 billion, an increase of \$630.3 million, or 35.5%, over the \$1.78 billion reported at December 31, 2003. Most of this year-over-year increase is related to the growth in deposits of \$601.1 million. Increased deposit liabilities funded most of the loan portfolio growth. Retained earnings and other liabilities funded the remaining mortgage lending growth and the increase in securities and other assets was offset by the decrease in cash resources. Other liabilities (Note 5) increased by \$29.9 million, or 32.6%, over the \$91.7 million reported at December 31, 2003. This growth was principally the result of increases in accrued interest payable of \$17.0 million, which related to the rise in deposits and borrowings. Higher accounts payable and accrued liabilities contributed \$6.0 million, and the increase in deferred commitment fees added \$3.5 million, due to the growth of the mortgage loan portfolio.

Shareholders' equity rose to \$162.2 million, an increase of \$41.0 million, or 33.9%, over \$121.2 million at December 31, 2003. This growth was internally generated from the net earnings for the twelve months of \$44.5 million, less \$4.4 million for dividends paid and payable to shareholders. The remaining \$0.9 million was from proceeds received on the exercise of Company share options at \$0.7 million, and \$0.2 million from the amortization of the fair value of share options.

### **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 had 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 six months of 2004, the Company closed this short position, realizing a \$0.7 million loss which was netted against Other Interest Income. During the fourth quarter of 2004, the Company again sold short \$40.0 million of Government of Canada 4.25% bonds maturing September 1, 2009 (refer to Note 9 for the reporting requirements for this transaction). This transaction resulted in \$0.2 million unrealized loss netted against Other Interest Income at December 31, 2004.

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 December 31, 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 \$0.5 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 December 31, 2004, liquid assets amounted to \$152.2 million, up 29.3% from the \$117.7 million held at December 31, 2003.

### **Credit Risk**

The provision for credit losses expensed during the fourth quarter of 2004, was \$1.5 million, which is up from \$1.3 million that was expensed in the third quarter, and from \$1.4 million in the fourth quarter of last year. Total net impaired loans ("NILs") stood at \$9.0 million as at December 31, 2004 compared to \$5.1 million at December 31, 2003 and \$6.5 million at September 30, 2004. These levels represent NILs of 0.40% of the total loan portfolio for this quarter versus 0.32% for the third quarter of 2004 and 0.31% reported at December 31, 2003 quarter end. The Company does not foresee increased loan loss exposure from these NILs. Actual losses realized have decreased year-over-year from \$1.4 million for the twelve months ended December 31, 2003 to \$1.1 million for the same period this year. These losses are all related to the consumer lending line of the business; no losses were experienced in the mortgage loan portfolio in 2004. The increase in the NILs can be explained, in part, by the increase in the average loan balance in the portfolio. The number of loans in arrears amounts to 1.2% of the total loans at December 31, 2004 compared to 1.4% at December 31, 2003.

The composition of the Company's mortgage portfolio includes 97.0% residential, 2.4% store and apartments, and 0.6% non-residential. Within the residential mortgage portfolio, 6.2% are insured by Canada Mortgage and Housing Corporation. First mortgages represent 99.7% of the total mortgage portfolio.

As of December 31, 2004 the gross credit card receivable balance totalled \$70.5 million, comprised of \$67.0 million, or 95.0% in accounts secured either by cash deposits or residential mortgage collateral, and \$3.5 million, or 5.0% which is unsecured. The total credit approved includes \$103.9 million in secured and \$6.0 million in unsecured credit as compared with \$45.1 million in secured and \$6.8 million unsecured at December 31, 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 \$55.5 million of the credit card receivable balance as at December 31, 2004 as compared to \$21.8 million at year-end 2003. Cash security deposits on credit card accounts amounted to \$18.4 million, and are included in the Company's deposits and borrowings.

Write-offs applied against the accumulated allowance for credit losses realized on loans for the fourth quarter of 2004 were \$214,000 as compared to the third quarter of 2004 at \$296,000 and the fourth quarter of 2003 at \$319,500. Write-offs realized on loans year-to-date are \$1.1 million compared to \$1.4 million during the same period last year. All losses were related to unsecured loans in the consumer lending operation; the mortgage operation ended with a small recovery. Last year's losses for the twelve month period were also related to the consumer lending operation with no losses in the mortgage operation.

The Company has ensured that it is well positioned for any future unforeseen losses by establishing general allowances of \$13.6 million at December 31, 2004 as compared to the general allowances of \$12.7 million at September 30, 2004 and \$10.3 million at December 31, 2003. Total general allowances remained stable at 103.8 basis points of the Company's risk-weighted assets, up from 103.6 basis points on December 31, 2003. The Company has developed a methodology to support the testing of the general allowance which uses the asset quality and the borrowers' credit worthiness. The general allowance will increase with the growth in the loans portfolio as no additional increase is required based on this new testing methodology.

## **Capital Management**

The Company's operating subsidiary, Home Trust Company's ("Home Trust") capital base continues to be strongly positioned. The Tier 1 capital ratio increased year-over-year to 12.0% at December 31, 2004 from the 11.7% reported at December 31, 2003. The total capital ratio was 14.0% for the fourth quarter, equaling the result at December 31, 2003. The total capital ratio remained steady despite the strong growth in Home Trust's total assets of 35.6% over December 2003. Risk-weighted assets increased by 31.9%, with growth in capital matching that rise at 32.0% over the twelve month period. The capital ratio was maintained even with the reduction in capital for dividend payments of \$2.0 million from Home Trust Company to Home Capital. These ratios continue to exceed the minimum regulatory requirements of 7.0% for Tier 1 capital and 10.0% for total capital.

As at December 31, 2004, Home Trust Company utilized 80.0% of its approved Assets to Regulatory Capital Multiple of 17.5 times providing significant capital for continued lending.

## **Segmented Information**

For the fourth quarter and twelve months of 2004, all lines of business improved their results, compared to the same periods of 2003 (refer to Note 10).

### **Mortgage Business**

The Company's principal line of business contributed \$8.4 million and \$35.9 million to net income for the fourth quarter and twelve months ended December 31, 2004, as compared to \$8.2 million and \$27.4 million for the same periods in December 2003. The reduction for the fourth quarter of 2004 was related to increased staffing costs and the charge of \$1.5 million from the ongoing review of the pay down rates. The portfolio continued to grow strongly as the total value of new mortgages advanced in the fourth quarter and twelve months of 2004 amounted to \$407.7 million and \$1.46 billion respectively, as compared to \$296.4 million and \$1.06 billion for the same periods in December 2003.

The Company securitized \$67.9 million of residential mortgages in the fourth quarter and a total of \$279.4 million for the twelve months of 2004, realizing total income on securitization of \$1.6 million for the quarter and \$10.6 million year-to-date. This will continue to be a contributor to the Company's income, however the mortgage lending business will still be the major contributor.

The second mortgage program is conducted by way of an agreement with Regency Finance Corp. ("Regency"), whereby the Company acts as Regency's agent in offering second mortgage loans. This program is now just over one year old, having been launched in the fourth quarter of 2003. During the fourth quarter of 2004, second mortgages totalling \$5.4 million were advanced under this agreement, for a total of \$19.0 million in the twelve months of 2004.

As of December 31, 2004 the Company held \$19.7 million in notes of these securitized pools. These notes have a yield of 10.0% with an average duration of 3.7 years. The Company also receives additional fee income for servicing and administering these mortgages for Regency. This income amounted to 1.5% of the portfolio on an annualized basis. The underlying credit quality of the mortgages which secure the notes receivable remains high with only one mortgage in arrears over 90 days for \$28,000 and no losses are expected to be realized on this mortgage. This program also provides the Company with additional opportunities in the residential first mortgage market.

### **Consumer Lending - Retail Services and Credit Cards**

This line of business contributed \$1.3 million to net income for the three months ended December 2004 and \$3.4 million for the twelve months of 2004 principally due to the growth in the Equity Plus VISA portfolio. The Equity Plus VISA loans portfolio amounted to \$55.5 million at December 31, 2004 and comprises 78.6% of the total credit card receivable balance of \$70.5 million, bearing an average interest rate of 11.8% on unpaid balances. The non-interest expenses increased to \$1.8 million for the fourth quarter compared to just under \$1.7 million for each of the prior quarters of 2004.

## **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 demand, and that increases in interest rates will be moderate and gradual in 2005. 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 throughout 2005.

The Company will continue to provide secured lending in the mortgage and credit card operations and even with anticipated moderate increases in interest rates it is not anticipated to have a significant impact on the Company's credit quality or growth strategy.

Targets established for 2005 include 20% increase in total net earnings, 20% increase in fully diluted earnings per share, 20% increase in combined total assets and securitized mortgages originated and managed by the Company, and 20% return on equity.

## **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 ended December 31, 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 December 31, 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  
February 15, 2005

**Cathy A. Sutherland, CA**  
Treasurer

## Consolidated Statements of Income

|  | Three Months Ended  |                     | Year Ended          |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | December 31<br>2004 | December 31<br>2003 | December 31<br>2004 | December 31<br>2003 |
| <i>In Thousands of Dollars, Except Per Share Amounts (Unaudited)</i> |                     |                     |                     |                     |
| <b>Income</b>  |                     |                     |                     |                     |
| Interest from Loans  | \$ 40,876           | \$ 31,562           | \$ 146,982          | \$ 112,842          |
| Dividends from Securities (Note 6)                                   | 6,615               | 1,758               | 10,937              | 7,760               |
| Other Interest (Note 9)  | 1,778               | 1,063               | 4,921               | 3,779               |
|  | <b>49,269</b>       | <b>34,383</b>       | <b>162,840</b>      | <b>124,381</b>      |
| <b>Interest Expense</b>  |                     |                     |                     |                     |
| Interest on Deposits & Borrowings                                    | 21,537              | 17,649              | 77,768              | 65,104              |
| Net Interest Income  | 27,732              | 16,734              | 85,072              | 59,277              |
| Provision for Credit Losses (Note 2)                                 | 1,501               | 1,405               | 4,465               | 4,286               |
|  | <b>26,231</b>       | <b>15,329</b>       | <b>80,607</b>       | <b>54,991</b>       |
| <b>Non-interest Income</b>   |                     |                     |                     |                     |
| Fees and Other Income  | 4,870               | 3,591               | 16,714              | 11,917              |
| Securitization Income on Mortgage-Backed Securities (Note 3)         | 1,634               | 3,871               | 10,625              | 9,949               |
| Loss on Sale and Redemption of Securities (Note 6)                   | (4,969)             | (189)               | (3,490)             | (1,658)             |
|  | <b>1,535</b>        | <b>7,273</b>        | <b>23,849</b>       | <b>20,208</b>       |
|  | <b>27,766</b>       | <b>22,602</b>       | <b>104,456</b>      | <b>75,199</b>       |
| <b>Non-interest Expenses</b>   |                     |                     |                     |                     |
| Salaries and Staff Benefits  | 4,677               | 3,352               | 16,459              | 13,183              |
| Premises   | 633                 | 466                 | 2,455               | 1,771               |
| General and Administration   | 6,677               | 4,874               | 21,891              | 17,200              |
|  | <b>11,987</b>       | <b>8,692</b>        | <b>40,805</b>       | <b>32,154</b>       |
| <b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>                      | <b>15,779</b>       | <b>13,910</b>       | <b>63,651</b>       | <b>43,045</b>       |
| Provision for income taxes   | 3,508               | 5,174               | 19,100              | 13,538              |
| <b>NET INCOME</b>  | <b>\$ 12,271</b>    | <b>\$ 8,736</b>     | <b>\$ 44,551</b>    | <b>\$ 29,507</b>    |
| <b>NET INCOME PER COMMON SHARE</b>                                   |                     |                     |                     |                     |
| Basic (Note 7)   | \$ 0.37             | \$ 0.26             | \$ 1.33             | \$ 0.88             |
| Fully Diluted (Note 7)   | \$ 0.35             | \$ 0.25             | \$ 1.27             | \$ 0.86             |
| <b>AVERAGE NUMBER OF COMMON SHARES<br/>OUTSTANDING (Thousands)</b>   |                     |                     |                     |                     |
| Basic (Note 7)   | 33,571              | 33,530              | 33,625              | 33,524              |
| Fully Diluted (Note 7)   | 35,199              | 34,630              | 35,034              | 34,446              |
| Total Number Of Outstanding Common Shares (Note 7)                   | 33,777              | 33,534              | 33,777              | 33,534              |
| Book Value Per Share   | \$ 4.80             | \$ 3.61             | \$ 4.80             | \$ 3.61             |

## Consolidated Balance Sheets

|  | December 31         | September 30 | December 31  |
|--|---------------------|--------------|--------------|
| <i>In Thousands of Dollars (Unaudited)</i>     | 2004                | 2004         | 2003         |
| <b>ASSETS</b>                                  |                     |              |              |
| <b>Cash Resources</b>                          |                     |              |              |
| Deposits with Regulated Financial Institutions | \$ 21,925           | \$ 33,821    | \$ 30,100    |
| Treasury Bills Guaranteed by Canada            | 28,574              | -            | 36,751       |
|  | <b>50,499</b>       | 33,821       | 66,851       |
| <b>Securities</b>                              |                     |              |              |
| Issued or Guaranteed by Canada                 | 108,971             | 96,312       | 55,685       |
| Issued or Guaranteed by Provinces              | 799                 | 799          | 798          |
| Other Securities                               | 113,014             | 115,755      | 112,784      |
|  | <b>222,784</b>      | 212,866      | 169,267      |
| <b>Loans</b>                                   |                     |              |              |
| Personal and Credit Card Loans                 | 79,405              | 68,823       | 46,619       |
| Residential Mortgages                          | 2,093,802           | 1,920,150    | 1,511,311    |
| Other Mortgages                                | 64,815              | 60,939       | 60,671       |
| General Allowance for Credit Losses (Note 2)   | (13,611)            | (12,727)     | (10,300)     |
|  | <b>2,224,411</b>    | 2,037,185    | 1,608,301    |
| <b>Other</b>                                   |                     |              |              |
| Mortgage-Backed Securities Receivable (Note 3) | 27,724              | 30,584       | 21,584       |
| Capital Assets                                 | 2,666               | 2,607        | 1,893        |
| Deferred Development Costs                     | 1,447               | 1,627        | 2,167        |
| Other Assets (Note 4)                          | 38,982              | 32,822       | 27,113       |
|  | <b>70,819</b>       | 67,640       | 52,757       |
|  | <b>\$ 2,568,513</b> | \$ 2,351,512 | \$ 1,897,176 |
| <b>LIABILITIES</b>                             |                     |              |              |
| Term Loan                                      | 10,000              | 10,000       | 10,000       |
| Subordinated Term Loan                         | 3,000               | 3,000        | 4,000        |
| <b>Deposits</b>                                |                     |              |              |
| Payable on Demand                              | 17,127              | 7,968        | 13,980       |
| Payable on a Fixed Date                        | 2,248,057           | 2,059,509    | 1,650,123    |
|  | <b>2,278,184</b>    | 2,080,477    | 1,678,103    |
| <b>Other</b>                                   |                     |              |              |
| Cheques and Other Items in Transit             | 6,535               | 10,405       | 6,195        |
| Other Liabilities (Note 5)                     | 121,587             | 109,432      | 91,712       |
|  | <b>128,122</b>      | 119,837      | 97,907       |
|  | <b>2,406,306</b>    | 2,200,314    | 1,776,010    |
| <b>SHAREHOLDERS' EQUITY</b>                    |                     |              |              |
| Capital Stock (Note 7)                         | 32,468              | 32,420       | 31,734       |
| Contributed Surplus (Note 8)                   | 178                 | 137          | 33           |
| Retained Earnings                              | 129,561             | 118,641      | 89,399       |
|  | <b>162,207</b>      | 151,198      | 121,166      |
|  | <b>\$ 2,568,513</b> | \$ 2,351,512 | \$ 1,897,176 |

## Consolidated Statements of Changes in Shareholders' Equity

|   | For the Three Months Ended |                     | Year Ended          |                     |
|---|----------------------------|---------------------|---------------------|---------------------|
|   | December 31<br>2004        | December 31<br>2003 | December 31<br>2004 | December 31<br>2003 |
| <i>In Thousands of Dollars (Unaudited)</i>                    |                            |                     |                     |                     |
| <b>CAPITAL STOCK</b>  |                            |                     |                     |                     |
| Class A Convertible Shares                                    |                            |                     |                     |                     |
| Balance at Beginning of the Period                            | \$ -                       | \$ -                | \$ -                | \$ 576              |
| Conversion to Class B Subordinated Voting Shares              | -                          | -                   | -                   | (576)               |
| Balance at End of the Period                                  | -                          | -                   | -                   | -                   |
| Common Shares   |                            |                     |                     |                     |
| Balance at Beginning of the Period                            | 32,420                     | 31,623              | 31,734              | 31,354              |
| Conversion from Class A Convertible Shares                    | -                          | -                   | -                   | 576                 |
| Proceeds of Options Exercised                                 | 48                         | 111                 | 734                 | 284                 |
| Redemption of Shares  | -                          | -                   | -                   | (480)               |
| Balance at End of the Period                                  | 32,468                     | 31,734              | 32,468              | 31,734              |
| <b>Total Capital Stock</b>                                    | <b>\$ 32,468</b>           | <b>\$ 31,734</b>    | <b>\$ 32,468</b>    | <b>\$ 31,734</b>    |
| <b>CONTRIBUTED SURPLUS</b>                                    |                            |                     |                     |                     |
| Balance at Beginning of the Period                            | \$ 137                     | \$ -                | \$ 33               | \$ -                |
| Amortization of Fair Value of Employee Stock Options (Note 8) | 41                         | 33                  | 145                 | 33                  |
| <b>BALANCE AT END OF THE YEAR</b>                             | <b>\$ 178</b>              | <b>\$ 33</b>        | <b>\$ 178</b>       | <b>\$ 33</b>        |
| <b>RETAINED EARNINGS</b>                                      |                            |                     |                     |                     |
| Balance at Beginning of the Period                            | \$ 118,641                 | \$ 81,669           | \$ 89,399           | \$ 62,656           |
| Net Income for the Period                                     | 12,271                     | 8,736               | 44,551              | 29,507              |
| Dividends Paid During the Period                              | -                          | -                   | (3,038)             | (1,758)             |
| Dividends Declared During the Period                          | (1,351)                    | (1,006)             | (1,351)             | (1,006)             |
| <b>BALANCE AT END OF THE PERIOD</b>                           | <b>\$ 129,561</b>          | <b>\$ 89,399</b>    | <b>\$ 129,561</b>   | <b>\$ 89,399</b>    |

## Consolidated Statements of Cash Flows

|   | Three Months Ended  |                     | Year Ended          |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | December 31<br>2004 | December 31<br>2003 | December 31<br>2004 | December 31<br>2003 |
| <i>In Thousands of Dollars (Unaudited)</i>                                |                     |                     |                     |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |                     |                     |                     |                     |
| Net Income for the Period   | \$ 12,271           | \$ 8,736            | \$ 44,551           | \$ 29,507           |
| Adjustments to Determine Net Cash Flows Relating to Operating Activities: |                     |                     |                     |                     |
| Future Income Taxes   | (2,986)             | 1,626               | 392                 | 2,122               |
| Amortization of Capital Assets  | 273                 | 208                 | 814                 | 743                 |
| Amortization of Securities  | (101)               | (38)                | (297)               | 62                  |
| Amortization of Deferred Financing Costs                                  | 15                  | 15                  | 58                  | 57                  |
| Amortization of Deferred Development Costs                                | 180                 | 150                 | 720                 | 600                 |
| Provision for Credit Losses   | 1,501               | 1,405               | 4,465               | 4,286               |
| Change in Accrued Interest Receivable                                     | (1,362)             | (288)               | (3,217)             | (1,906)             |
| Change in Accrued Interest Payable  | 7,213               | 6,134               | 17,025              | 15,725              |
| Loss on Sale and Redemption of Securities                                 | 4,969               | 189                 | 3,490               | 1,658               |
| Gain on Sale of Mortgage-Backed Securities                                | (1,634)             | (3,871)             | (10,625)            | (9,949)             |
| Change in Mortgage-Backed Securities Receivable                           | 6,520               | 1,704               | 12,639              | 4,973               |
| Change in Other Assets  | (4,812)             | (732)               | (8,710)             | (2,642)             |
| Change in Cheques and Other Items in Transit                              | (3,870)             | (1,104)             | 340                 | 369                 |
| Change in Other Liabilities   | 7,590               | 2,757               | 12,113              | 9,665               |
| Amortization of Fair Value of Employee Stock Options (Note 8)             | 41                  | 33                  | 145                 | 33                  |
| Cash Provided by Operating Activities                                     | 25,808              | 16,924              | 73,903              | 55,303              |
| <b>FINANCING ACTIVITIES</b>   |                     |                     |                     |                     |
| Issuance of Subordinated Term Loan  | -                   | -                   | -                   | 5,000               |
| Repayments for Subordinated Secured Loan                                  | -                   | -                   | -                   | (5,000)             |
| Deferred Financing Costs  | -                   | -                   | -                   | (67)                |
| Repayment of Subordinated Term Loan                                       | -                   | -                   | (1,000)             | (1,000)             |
| Net Increase in Deposits  | 197,707             | 115,874             | 601,081             | 448,923             |
| Issuance of Capital Stock   | 48                  | 111                 | 734                 | 284                 |
| Normal Course Issuer Bid  | -                   | -                   | -                   | (480)               |
| Dividends Paid  | (1,013)             | (629)               | (4,044)             | (2,261)             |
| Cash Provided by Financing Activities                                     | 196,742             | 115,356             | 596,771             | 445,399             |
| <b>INVESTING ACTIVITIES</b>   |                     |                     |                     |                     |
| Activity in Securities  |                     |                     |                     |                     |
| Purchases   | (28,609)            | (37,362)            | (107,195)           | (117,743)           |
| Proceeds on Sales   | 3,324               | 10,839              | 15,415              | 52,060              |
| Proceeds on Maturities  | 10,499              | 4,917               | 35,070              | 24,456              |
| Activity in Mortgages   |                     |                     |                     |                     |
| Net Increase  | (245,837)           | (175,536)           | (866,145)           | (605,609)           |
| Proceeds from Securitization of Mortgage-Backed Securities                | 65,884              | 86,301              | 271,232             | 205,585             |
| Purchased Mortgages   | -                   | -                   | -                   | (25,388)            |
| Net Increase in Personal and Credit Card Loans                            | (10,801)            | (7,605)             | (33,816)            | (22,306)            |
| Purchases of Capital Assets   | (332)               | (6)                 | (1,587)             | (441)               |
| Cash Used in Investing Activities   | (205,872)           | (118,452)           | (687,026)           | (489,386)           |
| Net Increase in Cash and Cash Equivalents                                 | 16,678              | 13,828              | (16,352)            | 11,316              |
| Cash and Cash Equivalents at the Beginning of the Period                  | 33,821              | 53,023              | 66,851              | 55,535              |
| <b>Cash and Cash Equivalents at the End of the Period</b>                 | <b>\$ 50,499</b>    | <b>\$ 66,851</b>    | <b>\$ 50,499</b>    | <b>\$ 66,851</b>    |
| Supplementary Disclosure of Cash Flow Information                         |                     |                     |                     |                     |
| Amount of Interest Paid During the Period                                 | \$ 14,325           | \$ 11,516           | \$ 60,743           | \$ 49,379           |
| Amount of Income Taxes Paid During the Period                             | 4,236               | 3,550               | 17,948              | 10,854              |

## 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

| <i>In Thousands of Dollars</i> | As At December 31, 2004        |       |                     |                |
|--------------------------------|--------------------------------|-------|---------------------|----------------|
|                                | Gross Amount of Impaired Loans |       | Specific Allowances | Carrying Value |
| Personal and Credit Card Loans | \$                             | 252   | \$ 204              | \$ 48          |
| Residential Mortgages          |                                | 9,340 | 400                 | 8,940          |
| Other Mortgages                |                                | -     | -                   | -              |
|                                | \$                             | 9,592 | \$ 604              | \$ 8,988       |
|                                | As At September 30, 2004       |       |                     |                |
| Personal and Credit Card Loans | \$                             | 202   | \$ 202              | \$ -           |
| Residential Mortgages          |                                | 6,463 | -                   | 6,463          |
| Other Mortgages                |                                | -     | -                   | -              |
|                                | \$                             | 6,665 | \$ 202              | \$ 6,463       |
|                                | 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       |

#### (B) Allowance for Credit Losses

| <i>In Thousands of Dollars</i>                     | For the Year Ended December 31, 2004 |                                   |       |         |
|--|--------------------------------------|-----------------------------------|-------|---------|
|  | 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 twelve months | 1,153                                | 3,312                             |       | 4,465   |
| Write-offs   | (1,322)                              | -                                 |       | (1,322) |
| Recoveries   | 199                                  | -                                 |       | 199     |
| Balance at the End of the Period                   | \$ 604                               | \$ 13,612                         | \$    | 14,216  |
|  | For the Year Ended December 31, 2003 |                                   |       |         |
| Balance at the Beginning of the Period             | \$ 383                               | \$ 7,556                          | \$    | 7,939   |
| Provisions for Credit Losses for the twelve months | 1,542                                | 2,744                             |       | 4,286   |
| Write-offs   | (1,554)                              | -                                 |       | (1,554) |
| Recoveries   | 203                                  | -                                 |       | 203     |
| Balance at the End of the Period                   | \$ 574                               | \$ 10,300                         | \$    | 10,874  |

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

### 3. LOAN SECURITIZATION

During the fourth quarter 2004, the Company securitized (CMHC) government guaranteed residential mortgage loans through the creation of Mortgage-Backed Securities of \$67.9 million (\$89.4 million - Q4 2003) and \$279.4 million for the twelve months of 2004 (\$211.8 million - 2003). The Company retained the rights to future excess interest on the residential mortgages valued at \$4.6 million (\$6.6 million - Q4 2003) for the fourth quarter and \$20.0 million for the twelve months of 2004 ( \$15.3 million - 2003). Cash flows were received on the securitization of these residential mortgages of \$65.9 million (\$86.3 million - Q4 2003) in the fourth quarter and \$271.2 million for the twelve months (\$205.6 million - 2003). The gain on sale, net of transaction fees and expenses, was \$2.6 million (\$3.5 million - Q4 2003) in the fourth quarter and \$11.8 million for the twelve months (\$9.1 million - 2003). The key assumptions used to value the sold and retained interests included a prepayment rate of 8.5% (6.5% - Q4 2003) for the fourth quarter of 2004 and 12.7% for the twelve months (8.2% - 2003). The excess spread of 2.6% (2.5% - Q4 2003) was estimated for the quarter and 2.6% for the twelve months (2.6% - 2003). The discount rate of 3.8% (3.7% - Q4 2003) for the quarter 2004 and the twelve months was 3.7% (3.9% - 2003). There are no expected credit losses as the mortgages are government guaranteed.

### 4. OTHER ASSETS

| <i>In Thousand of Dollars</i>           | December 31<br>2004 | September 30<br>2004 | December 31<br>2003 |
|---|---------------------|----------------------|---------------------|
| Accrued Interest Receivable             | \$ 12,804           | \$ 11,442            | \$ 9,587            |
| Deferred Agent Commission               | 8,979               | 8,325                | 6,290               |
| Goodwill                                | 2,324               | 2,324                | 2,324               |
| Other Prepaid Assets and Deferred Items | 14,875              | 10,731               | 8,912               |
|   | <b>\$ 38,982</b>    | <b>\$ 32,822</b>     | <b>\$ 27,113</b>    |

### 5. OTHER LIABILITIES

| <i>In Thousand of Dollars</i>                             | December 31<br>2004 | September 30<br>2004 | December 31<br>2003 |
|---|---------------------|----------------------|---------------------|
| Accrued Interest Payable                                  | \$ 79,955           | \$ 72,742            | \$ 62,930           |
| Income Taxes Payable                                      | 4,545               | 1,813                | 1,908               |
| Dividends Payable   | 1,351               | 1,013                | 1,006               |
| Deferred Commitment Fees                                  | 8,062               | 7,044                | 4,571               |
| Future Income Taxes                                       | 9,399               | 12,385               | 9,007               |
| Other, Including Accounts Payable and Accrued Liabilities | 18,275              | 14,435               | 12,290              |
|   | <b>\$ 121,587</b>   | <b>\$ 109,432</b>    | <b>\$ 91,712</b>    |

### 6. SECURITIES REDEMPTION

On October 31, 2004 Great-West Lifeco Inc. called their Series 1 preferred shares for redemption. 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 250,000 preferred shares of Great-West Lifeco Inc. with a book value of \$6.7 million (\$26.67 per share). The redemption price of \$25.00 per share for \$6.3 million was allocated as follows;

- A) \$5.4 million deemed dividend which was not taxable for Home Trust Company
- B) \$0.9 million proceeds on disposition of the shares

This resulted in a loss on the sale of securities of \$5.8 million which was recorded in the results for the three months and the year to date ending December 31, 2004.

### 7. CAPITAL STOCK

During the fourth quarter of 2004, 23,500 common shares (242,750 common shares for the twelve month period ended December 31, 2004) were issued under the directors, management and employee share purchase option plan for a total cash consideration of \$48,063 (\$734,295 for the twelve month period ended December 31, 2004).

During the fourth quarter of 2004, share purchase options in the amount of 268,750 vested and 541,250 of options vested during the twelve months ended December 31, 2004. These options have performance criteria attached that must be met before the options are vested. For three sets of stock options these criteria were met in the first and the fourth quarter of 2004.

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 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.

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

| Issued and Outstanding              | <b>December<br/>31<br/>2004</b> |           | September<br>30<br>2004 |           | December<br>31<br>2003 |           |
|-------------------------------------|---------------------------------|-----------|-------------------------|-----------|------------------------|-----------|
| <i>Thousands of Dollars /Shares</i> |                                 |           |                         |           |                        |           |
|                                     | Number<br>Of Shares             | Amount    | Number<br>Of Shares     | Amount    | Number<br>Of Shares    | Amount    |
| Common Shares                       | 33,777                          | \$ 32,468 | 33,754                  | \$ 32,420 | 33,534                 | \$ 31,734 |
| Share Purchase Options              |                                 |           |                         |           |                        |           |
| Outstanding, End of Period          | 1,373                           |           | 1,396                   |           | 1,501                  |           |
| Exercisable, End of Period          | 944                             |           | 699                     |           | 651                    |           |

## 8. STOCK BASED COMPENSATION

During the fourth quarter and twelve months of 2004, for all options issued after January 1, 2003, the Company recognized a compensation expense of \$41,000 and \$145,000 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 3.3%. During the first quarter 2004, 120,000 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 for the twelve months ended December 31, 2004 by \$230,500.

## 9. FINANCIAL INSTRUMENTS

During the fourth quarter, the Company entered into an off-balance sheet financial transaction for risk management purposes. The Company short sold \$40.0 million of Government of Canada Bonds, coupon rate of 4.25% with a maturity of September 1, 2009. The Company intends to close this transaction upon the receipt of the funds from the next sale of securitized residential insured mortgages. The rates for securitized residential insured mortgages are set off the Government of Canada Bond rate, and therefore this short sell is intended to effectively lock in the rate prior to the Company's year end.

The Canadian Institute of Chartered Accountants ("CICA") has issued an accounting guideline for the application of hedge accounting that has been adopted by the Company. Changes in the fair value of derivatives that do not qualify for hedge accounting are recorded in Other Interest Income.

The short sale of the \$40.0 million of Government Canada Bonds does not qualify for hedge accounting under the new guideline, and therefore \$190,000 was recorded as a decrease on the Consolidated Statement of Income in the line item Other Interest Income.

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

### 10. EARNINGS BY BUSINESS SEGMENT

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

|   | Mortgage Business |           | Consumer Lending<br>Retail Services & Credit Cards |          | Other    |          | Total     |           |
|---|-------------------|-----------|--|----------|----------|----------|-----------|-----------|
|   | Dec. 31           | Dec. 31   | Dec. 31  | Dec. 31  | Dec. 31  | Dec. 31  | Dec. 31   | Dec. 31   |
|   | 2004              | 2003      | 2004   | 2003     | 2004     | 2003     | 2004      | 2003      |
| Net Interest Income   | \$ 17,023         | \$ 12,759 | \$ 2,668   | \$ 1,405 | \$ 8,041 | \$ 2,570 | \$ 27,732 | \$ 16,734 |
| Provisions for Credit Losses                                      | (1,175)           | (1,094)   | (326)  | (311)    | -        | -        | (1,501)   | (1,405)   |
| Fees and Other Income   | 3,427             | 2,514     | 1,464  | 1,077    | (21)     | -        | 4,870     | 3,591     |
| Gain (Loss) on Sale of Securities<br>& Mortgage-Backed Securities | 1,634             | 3,871     | -  | -        | (4,969)  | (189)    | (3,335)   | 3,682     |
| Non-interest Expense  | (8,163)           | (5,059)   | (1,774)  | (1,487)  | (2,050)  | (2,146)  | (11,987)  | (8,692)   |
| Income Before Income Taxes  | 12,746            | 12,991    | 2,032  | 684      | 1,001    | 235      | 15,779    | 13,910    |
| Income Taxes  | (4,361)           | (4,838)   | (734)  | (250)    | 1,587    | (86)     | (3,508)   | (5,174)   |
| Net Income  | \$ 8,385          | \$ 8,153  | \$ 1,298   | \$ 434   | \$ 2,588 | \$ 149   | \$ 12,271 | \$ 8,736  |

*Thousands of Dollars (Unaudited) For the Year Ended*

|   | Mortgage Business |           | Consumer Lending<br>Retail Services & Credit Cards |          | Other     |           | Total     |           |
|---|-------------------|-----------|--|----------|-----------|-----------|-----------|-----------|
|   | Dec. 31           | Dec. 31   | Dec. 31  | Dec. 31  | Dec. 31   | Dec. 31   | Dec. 31   | Dec. 31   |
|   | 2004              | 2003      | 2004   | 2003     | 2004      | 2003      | 2004      | 2003      |
| Net Interest Income   | \$ 62,183         | \$ 43,889 | \$ 7,881   | \$ 5,018 | \$ 15,008 | \$ 10,371 | \$ 85,072 | \$ 59,278 |
| Provisions for Credit Losses                                      | (3,225)           | (3,020)   | (1,240)  | (1,266)  | -         | -         | (4,465)   | (4,286)   |
| Fees and Other Income   | 11,652            | 8,073     | 5,061  | 3,844    | 1         | -         | 16,714    | 11,917    |
| Gain (Loss) on Sale of Securities<br>& Mortgage-Backed Securities | 10,625            | 9,949     | -  | -        | (3,490)   | (1,658)   | 7,135     | 8,291     |
| Non-interest Expense  | (27,355)          | (19,177)  | (6,315)  | (5,742)  | (7,135)   | (7,236)   | (40,805)  | (32,155)  |
| Income Before Income Taxes  | 53,880            | 39,714    | 5,387  | 1,854    | 4,384     | 1,477     | 63,651    | 43,045    |
| Income Taxes  | (17,999)          | (12,318)  | (1,946)  | (679)    | 845       | (541)     | (19,100)  | (13,538)  |
| Net Income  | \$ 35,881         | \$ 27,396 | \$ 3,441   | \$ 1,175 | \$ 5,229  | \$ 936    | \$ 44,551 | \$ 29,507 |

For management reporting purposes, operations are grouped into the main business segments of Mortgage and Deposit Business, and Consumer Lending, which consists of retail services 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  
Brian R. Mosko .  
*Senior Vice Presidents*  
  
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

#### Transfer Agent

Computershare Trust Company of  
Canada  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
Tel: 1-800-564-6253

#### Capital Stock

As at December 31, 2004 there were  
33,777,140 Common Shares outstanding

#### Stock Listing

Toronto Stock Exchange  
Ticker Symbol: HCG

### HOME TRUST COMPANY

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#### Directors

Hon. William G. Davis P.C., C.C., Q.C.  
*Chairman of the Board*  
  
William A. Dimma  
Harvey F. Kolodny  
Nick Kyprianou  
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#### Managers, Mortgage Lending

Lisa Abbatangelo  
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Pierre Lafleur  
Bobby Ramgoolam  
Agostino Tuzi

#### Second Mortgage Program

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Marguerite Ryan

#### Managers, Mortgages

Brad Hamilton  
Craig Perigo

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*Senior Manager, Mortgages*  
Emilio Fuoco

#### Managers, Mortgage Lending

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#### Asst. Vice President, Mortgages

Heather Flegg

#### Manager, Mortgage Lending

Lorie Martin

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1-888-306-2435

#### Regional Managers, Mortgage Lending

Scott Congdon  
Jeff Ayer

#### For Shareholder Information,

#### Please Contact:

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#### Websites

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[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 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.**



HOME CAPITAL GROUP INC.