



# HOME CAPITAL GROUP INC.

## First Quarter Report March 31, 2005

### Financial Highlights

For the Three Months Ended (Unaudited)

In Thousands of Dollars Except Per Share and Percentage Amounts

	March 31 2005	December 31 2004	March 31 2004
<b>OPERATING RESULTS</b>			
Net Income	\$ 13,576	\$ 12,271	\$ 10,030
Total Revenue	55,910	50,804	42,772
Earnings per Share - Basic	\$ 0.40	\$ 0.37	\$ 0.30
- Fully Diluted	0.39	0.35	0.29
Return on Shareholders' Equity	32.22%	31.32%	31.87%
Return on Average Assets	2.06%	2.00%	2.06%
Efficiency Ratio	36.04%	40.96%	37.37%
Efficiency Ratio (TEB)**	35.30%	40.01%	35.98%
(Non-interest Expense/Net Interest Income Plus Fee Income)			
<b>BALANCE SHEET HIGHLIGHTS</b>			
Total Assets	\$ 2,708,595	\$ 2,568,513	\$ 1,993,843
Loans	2,332,814	2,224,411	1,710,550
Deposits	2,378,991	2,265,184	1,745,739
Common Shareholders' Equity	174,885	162,207	130,551
Mortgage-Backed Security Assets Under Administration	567,066	500,740	346,947
<b>FINANCIAL STRENGTH</b>			
<b>Capital Measures</b>			
Risk Adjusted Assets*	\$ 1,389,087	\$ 1,311,920	\$ 1,049,840
Tier 1 Capital Ratio*	12.20%	12.02%	11.96%
Total Capital Ratio*	14.15%	14.03%	14.26%
<b>Credit Quality</b>			
Net Impaired Loans % of Gross Loans	0.45%	0.40%	0.31%
Allowance % of Gross Impaired Loans	134.11%	148.20%	197.33%
Annualized Provision % of Gross Loans	0.17%	0.20%	0.18%
<b>Share Information</b>			
Book Value per Common Share	\$ 5.17	\$ 4.80	\$ 3.88
Common Share Price – Close	33.68	31.25	25.00
Market Capitalization	1,140,207	1,055,536	841,685
Common Shares Outstanding - Number	33,854	33,777	33,667

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

\*\* See definition of TEB on page 2 of this interim consolidated financial report.

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

Home Capital Group Inc. [www.homecapital.com](http://www.homecapital.com)



**\*\*Taxable Equivalent Basis**

Most banks and trust companies analyze revenue on a taxable equivalent basis (“TEB”) to provide uniform measurement and comparison of net interest income. Net interest income (as presented in the consolidated statements of income) includes tax-exempt income on certain securities. Since dividends received on these securities are not taxable, the rate of tax applicable to this income is significantly lower, which reduces the provision for income taxes. The TEB of \$0.7 million for the first quarter of 2005 (Q1 2004 - \$1.0 million and Q4 2004 - \$0.7 million) increases the interest income and reduces the provision for income taxes. The TEB does not have a standard definition under generally accepted accounting principles and, therefore, may not be comparable to similar measures in other companies.

*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 of Shareholders - Wednesday, May 11, 2005 at 11:00 am**

You are invited to join us for the Home Capital Group Inc. Annual General Meeting (“AGM”). The AGM will provide the Board of Directors and management with an opportunity to report on the Company’s performance over the past year, its prospects going forward, and for shareholders to consider and vote on various matters as set out in the Management Information Circular.

The meeting, which will take place on Wednesday, May 11, 2005 at 11:00 am on the **2<sup>nd</sup> floor of the Design Exchange** (234 Bay Street, Toronto – just south of King Street, on the west side of Bay), will be followed by an informal lunch with members of the Board and management, to which all are welcome.

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

**Home Capital Earnings Increase by 35.4%  
Return on Equity Reaches 32.2% in the First Quarter  
39<sup>th</sup> Consecutive Quarter of Increased Profitable Growth**

Home Capital Group Inc. (TSX:HCG) delivered another robust performance in the first quarter of 2005 with a return on equity of 32.2% and strong growth in earnings, earnings per share and total assets. The Company has now achieved quarter-over-quarter increases in earnings for 39 successive quarters. All business segments, including mortgage originations, Mortgage-Backed Securities (MBS) and VISA operations, performed superbly.

- Net income for the quarter reached \$13.6 million, a 35.4% increase over \$10.0 million for the same period last year and 10.6% over the \$12.3 million recorded in the fourth quarter 2004.
- Basic earnings per share increased by 33.3% to \$0.40, compared to \$0.30 for the comparable quarter of 2004. Fully diluted earnings per share rose by 34.5% to \$0.39 from \$0.29 reported in the fourth quarter of the previous year.
- Return on equity stood at 32.2%, an increase from 31.3% in the fourth quarter of last year and up from 31.9% in the first quarter of 2004.
- Total assets grew to \$2.71 billion, a 35.9% increase over the \$1.99 billion recorded in the comparable quarter last year and a 5.5% rise from \$2.57 billion achieved in the fourth quarter of 2004. Total assets, including Mortgage-Backed Securities originated and administered by the Company, grew to \$3.28 billion from \$2.34 billion at March 31, 2004, up 39.9%.
- Total mortgage originations for the first quarter of 2005 amounted to \$331.8 million, compared to \$250.6 million advanced in the comparable quarter last year, an increase of 32.4%.
- Balances outstanding on the Equity Plus VISA (EPV) portfolio were \$63.9 million at March 31, 2005, a rise of 124.3% over the \$28.5 million reported at March 31, 2004, and 15.1% higher than the \$55.5 million at the end of the fourth quarter.
- Net impaired loans represented 0.45% of the total portfolio at close of the first quarter this year, compared to 0.40% at December 31, 2004 and 0.31% at March 31, 2004. These results continue to reflect the Company's focus on sensible and effective underwriting and risk-management techniques. No net losses have been incurred in the mortgage portfolio during the past 13 quarters.

During the first quarter, the Company issued \$85.9 million in MBS poolings of residential mortgages, generating \$5.2 million in revenues. The comparable figures for the first quarter of 2004 were \$46.6 million and \$2.6 million, respectively. The total MBS portfolio under administration stood at \$567.1 million at March 31, 2005 compared with \$346.9 million on the same date in 2004.

Subsequent to the quarter-end, the Company's Board of Directors declared a quarterly dividend of \$0.04 per share. The dividend will be payable on June 1, 2005 to shareholders of record at the close of business on May 16, 2005.

Home Capital continues to see exceptional growth opportunities in its target markets. To accommodate this growth, the Company has hired during the first three months of 2005 a group of talented people to fulfill vital roles in credit, information technology, mortgage marketing and sales, human resources and VISA operations. These new employees, together with our experienced and dedicated staff, will be instrumental in supporting Home Capital's strong earnings and asset growth momentum, going forward.

Home Capital believes that it has a proven, sustainable business model that continues to deliver the operational excellence, product innovation and strong financial results that will sustain its future profitable growth.

**GERALD M. SOLOWAY**  
President & Chief Executive Officer  
April 27, 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

This management's discussion and analysis ("MD & A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2005 included herein and the audited consolidated financial statements and MD & A for the year ended December 31, 2004. These are available on SEDAR at [www.sedar.com](http://www.sedar.com) or on pages 8 through 48 of the 2004 Annual Report. Except as discussed in the unaudited interim consolidated financial statements and MD & A, all other factors discussed and referred to in the MD & A for fiscal 2004 remain substantially unchanged. These interim consolidated financial statements and MD & A have been prepared based on information available as at April 27, 2005.

### Critical Accounting Estimates

Critical accounting estimates requiring management to make significant judgements, some of which are inherently uncertain, are included on page 10 of the 2004 Annual Report. These estimates are critical, since they refer to material amounts and require management to make estimates that, by their very nature, involve uncertainties. The preparation of the unaudited interim consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect the amount reported. Actual results could differ from those estimated.

Accounting policies requiring critical accounting estimates include the allowance for credit losses, securitization of Mortgage-Backed Securities ("MBS"), future income tax liabilities and contingencies for litigation. Further information can be found under Notes 2, 3, and 8 of the unaudited interim consolidated financial statements.

### 2005 Performance and 2005 Objectives

Home Capital published its financial objectives for 2005 in the Company's 2004 Annual Report. The following table compares actual performance against these objectives.

#### 2005 Performance and Objectives

		<b>Three Months Ended March 31, 2005</b>
	<b>2005 Objectives</b>	<b>Actual Results *</b>
Net Income	\$12.0 million for the quarter	<b>\$13.6 million or 35.4% over March 31, 2004</b>
Fully Diluted Earnings per Share	\$0.35 per share for the quarter	<b>\$0.39 per share or 34.5% over March 31, 2004</b>
Combined Total Assets and Assets Under Administration	\$2.81 billion for the 12 months	<b>\$3.28 billion or 39.9% increase over March 31, 2004</b>
Return on Equity	20%	<b>32.2%</b>
Efficiency Ratio (TEB)	36.0% to 43.0%	<b>35.3%</b>
Capital Ratios - Tier 1	9.5% minimum	<b>12.2%</b>
Capital Ratios - Total	12.0% minimum	<b>14.2%</b>
Provision for Loan Losses as a Percentage of Total Loans	0.2% to 0.3%	<b>0.2%</b>

\* 2005 Actual Results is the current year income and revenue results over the same period in the prior year. Total asset growth is the increase over the past twelve months and performance ratio targets are for the current year-to-date, annualized.

## Financial Highlights

### Overview

Net income was \$13.6 million in the first quarter of 2005 compared with \$12.3 million for the fourth quarter and \$10.0 million in the first quarter of 2004. These increases were due to the following factors:

- Total interest and dividend income was \$45.3 million for the three months ended March 31, 2005 as compared to \$49.3 million for December 31, 2004 and \$35.5 million for March 31, 2004. The 35.9% growth in the Company's assets year over year was a key factor contributing to the increase in total interest and dividend income. The decrease of \$4.0 million for the three months of 2005 over the three months ended December 31, 2004 was due to the receipt of a deemed dividend on a preferred share redemption of \$5.4 million. (Refer to Note 6 of the December 31, 2004 unaudited interim financial statements for further information). If the \$5.4 million of the deemed dividend in the fourth quarter of 2004 was excluded, total interest and dividend income would have increased by \$1.4 million, quarter over quarter.
- Net interest income decreased by 16.6% from the fourth quarter of 2004 and increased by 30.8%, to \$23.1 million, over the first quarter of 2004. This compares to \$27.7 million for the fourth quarter and \$17.7 million for the first quarter of 2004. Again, if the \$5.4 million deemed dividend is excluded, the resulting increase in interest income would be greater than the resulting growth in interest expense for these three month periods.
- Non-interest income was \$10.6 million for the quarter which represented an increase over the \$1.5 million reported in the fourth quarter and \$7.2 million in the first quarter of 2004. This increase in the first quarter over the fourth quarter of 2004 was 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 of \$1.5 million. The growth in the loan portfolio of 4.9% and 36.4% respectively over the fourth and first quarters of 2004 resulted in an increase in fee income of \$0.2 million and \$1.7 million respectively.
- Non-interest expenses increased by \$0.2 million to \$12.2 million in the first quarter of 2005 over the \$12.0 million reported for the three months ending December 2004, and by \$2.9 million over the \$9.3 million reported in the first quarter of 2004. The increase in the non-interest expenses in the first quarter of this year compared to the fourth quarter of 2004 was due to increased contributions to government benefit programs for employees and filing fees paid by the Company in the first quarter of 2005. The increase in the first quarter of 2005 relative to the first quarter of last year was related to the increase in employees quarter over quarter as well as the growth in variable expenses including referral fees, commission and insurance expenses, related to higher overall business volumes. Even with the increase in expenses in the first quarter of 2005 the large increase in total revenues improved the efficiency ratio in the first quarter to 36.0% from 41.0% in the last three months ending December 31, 2004 and 37.4% for the three months ending March 31, 2004.

### Net Investment 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 \$23.1 million in the first quarter, an increase of \$5.4 million or 30.8% over the \$17.7 million reported in the same quarter of 2004. This increase was largely the result of the growth in interest earning assets of \$695.2 million over March 2004, compared to an increase of \$632.3 million in interest bearing liabilities. The net interest margin decreased to 3.6% from 3.8% in the quarter ended March 2004. This contraction is related to increased volumes of mortgages which qualify for government guaranteed mortgage insurance and the increase in non-performing loans in this quarter requiring interest reversal. The increase in non-performing loans has not resulted in increased losses, and interest written-off is expected to be collected on the settlement of these mortgages.

Net interest income in this quarter declined by \$4.6 million, or 16.7% from the \$27.7 million reported in the fourth quarter of 2004. This decrease was largely the result of a \$5.4 million deemed dividend received in the fourth quarter of last year. This was partly offset by the growth in interest earning assets by \$134.5 million over December 2004, compared to an increase of \$113.8 million in interest bearing liabilities. The change in the mix of the mortgage portfolio resulted in a decrease in the interest spread between loans and deposits to 3.6% from 3.7% recorded for the three months ended December 31, 2004.

The mortgage lending line of business continues to be the principal contributor to the increase in the net interest income at \$17.9 million for the first quarter of 2005, compared to \$17.0 million during the fourth quarter and \$13.8 million for the first three months of 2004.

Refer to Note 10 of these unaudited interim financial statements which summarizes the Company's interest rate risk position as at March 31, 2005. The cumulative dollar gap is in a deficiency (liabilities and off-balance sheet items exceed total assets) at the end of the twelve months at \$255.2 million, compared to \$259.2 million at December 31, 2004 and a surplus of \$230.6 million at March 31, 2004. As shown in this note, the cumulative gap reverses to a surplus within the 1 to 3 year period for March 31, 2005 and December 31, 2004.

### **Provision for Credit Losses**

The Company expensed \$1.0 million in the first quarter compared to \$1.5 million and \$0.8 million, in the fourth and first quarters of 2004, respectively. This expense translates to 0.2% of total loans on an annualized basis. 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 \$14.3 million at March 31, 2005, an increase of \$0.7 million over the \$13.6 million at December 31, 2004 and a \$3.4 million rise over the \$10.9 million allowance at March 31, 2004. The growth in the general allowance for the three and twelve month periods amounted to 5.2% and 31.9%, aligned with the total asset growth of 5.5% and 35.9%.

At March 31, 2005 net impaired loans increased to \$10.5 million (0.45% of gross loans), compared to \$9.0 million (0.40% of gross loans) at December 31, 2004 and \$5.3 million (0.31% of gross loans) at March 31, 2004. The increase in net impaired loans has not resulted in increased loan write-offs. Total loans written-off for the three months ended March 31, 2005 decreased to \$154,000 compared to \$214,000 and \$343,000 for the three months ended December 31 and March 31, 2004.

### **Non-Interest Income**

Total non-interest income was \$10.6 million for the first quarter of 2005, an increase of \$9.1 million and \$3.4 million from the first and fourth three month periods of 2004.

The change over the fourth quarter of 2004 in the line item gain or loss on sale of securities was related to the recording of a loss of \$5.8 million realized on a preferred share redemption, as described in Note 6 of the December 31, 2004 interim unaudited consolidated financial statements.

The Fees and Other Income component of the non-interest income increased to \$5.1 million for the quarter compared to \$4.9 million and \$3.4 million for the three months ending December and March 2004. The mortgage line of the business contributed \$3.7 million in this quarter, compared to \$3.4 million and \$2.5 million for the fourth and first quarters of 2004. The consumer lending line of business contributed \$1.3 million of fee income in this quarter, compared to \$1.5 million and \$0.9 million for the three months ended December and March 2004.

The Company issued two MBS pools in the first quarter, consisting of \$85.9 million of Canada Mortgage and Housing Corporation ("CMHC") insured residential mortgages. This represents an increase of \$18.0 million over the \$67.9 million in total MBS pools that were issued in the fourth quarter of 2004 and \$39.3 million over the \$46.6 issued in the first quarter of 2004. Income from securitizations of \$5.2 million was realized in the quarter, up from \$1.6 million and \$2.6 million realized in the fourth and first quarters of 2004 respectively. During the fourth quarter of 2004, the Company continued its ongoing review of the pay down rate of the securitized mortgages. This review resulted in a charge to this component of \$1.5 million in the fourth quarter of 2004; no adjustment was required in the first quarter of the current year. Total MBS funds under administration at the end of March 2005 reached \$567.1 million. These securities were sold without recourse, and the Company continues to service the mortgages.

### **Non-Interest Expenses**

Total non-interest expenses for the three months ended March 31, 2005 were \$12.2 million, an increase of 1.5%, or \$0.2 million, over the fourth quarter of 2004 and up by 30.6%, or \$2.9 million, over the three months ending March 31, 2004. Non-interest expenses for the consumer lending line of business remained relatively consistent with the 2004 periods, at \$1.6 million for this quarter, as compared to \$1.8 million in the fourth quarter and \$1.3 million in the first quarter last year.

Salaries and staff benefits for the latest quarter rose by \$0.1 million, or 3.1%, over the fourth quarter 2004 and \$1.0 million, or 25.1%, over the same period ended March 31, 2004. This growth was the result of hiring additional personnel required to support the continued growth of the Company. The Company ended this quarter with 238 employees as compared to 228 employees at the end of 2004, and 193 on March 31, 2004.

General and administrative expenses increased by \$0.1 million over the fourth quarter of 2004, and \$1.9 million over the same three month period last year. This increase is related primarily to variable expenses that are volume driven. Lending growth 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 first quarter at 36.0%. This is an improvement when compared to 41.0% for the three months ended December 31, 2004 and 37.4% for the three months ended March 31, 2004. The increase in non-interest expenses in the first quarter of 2005 was less than the increase in the total revenues over both the fourth and first quarters of 2004.

The Company continues to control all areas of expenses with the objective of remaining within the range of 36.0% to 43.0% efficiency ratio on a TEB. At March 31, 2005 the efficiency ratio on a TEB was 35.3%.

### **Income Taxes**

Income tax expense amounted to \$7.0 million (effective rate of 34.1%) for the quarter, compared to \$3.5 million (effective rate of 22.2%) for the fourth quarter and \$4.8 million (effective rate of 32.4%) in the first quarter of 2004. A deemed dividend received on a preferred share redemption in the fourth quarter of 2004, resulted in a reduction to the income tax expense of \$2.1 million, 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 lower provincial tax rates. In the absence of tax free dividends, the effective tax rate would have been 36.3% for the first three months of 2005.

## Balance Sheet Assets

Total assets as at March 31, 2005 were \$2.71 billion, an increase of \$714.8 million or 35.9%, over the \$1.99 billion reported one year ago and up by \$140.1 million, or 5.5%, over the December 31, 2004 asset balance of \$2.57 billion.

Growth in the loan portfolio of \$622.3 million, or 36.4%, contributed to most of the year-over-year asset increase. Residential mortgages contributed \$586.1 million to the total loan portfolio growth, consumer lending added \$3.6 million, and other mortgages (non-residential) added \$6.0 million. MBS receivables added \$8.5 million to total assets. Deferred development costs resulting from the establishment of the credit card operation decreased by \$0.8 million over March 31, 2004 as a result of the ongoing amortization of this asset. The Company's investment securities portfolio increased by \$69.1 million, and cash resources rose by \$3.8 million. Other assets increased by \$19.6 million, consisting of accrued interest receivable, deferred agent commissions, deferred finders fees and other prepaid and deferred assets (Note 4). Deferred finders fees increased with the growth of the mortgage loan portfolio. Finders fees are amortized over the term of mortgage loans and the volume and dollar increases in mortgage loans has correspondingly increased the deferred asset. Deferred agent commissions increased alongside the growth in deposits and borrowings. Commissions are amortized over the terms of deposits, and lengthening deposit terms increased the deferred asset.

During the first quarter, growth in the loan portfolio of \$108.4 million, or 4.9%, contributed to most of the increase over the December 31, 2004 asset balance. Residential mortgages contributed \$103.1 million to the total loan portfolio growth, consumer lending added \$6.7 million, and other mortgages (non-residential) decreased by \$0.7 million. Total other assets increased by \$5.5 million, consisting of Mortgage-Backed Securities receivable, capital assets, deferred development costs and other assets.

## Liabilities

Liabilities in this quarter rose to \$2.53 billion, an increase of \$670.4 million, or 36.0%, over the \$1.86 billion reported at March 31, 2004 and up by \$127.4 million, or 5.3%, over the \$2.41 billion reported at December 31, 2004.

Most of this year-over-year increase is related to the growth in deposits of \$633.3 million. Increased deposit liabilities funded all of the loan portfolio growth. The excess of the deposit growth, increased retained earnings and other liabilities funded the increase in cash resources, securities and other assets. Other liabilities (Note 5) increased by \$33.5 million, or 34.8%, over the \$96.3 million reported at March 31, 2004. This growth was principally the result of increases in accrued interest payable of \$20.5 million, which related to the rise in deposits and borrowings. Higher accounts payable and accrued liabilities added \$7.9 million, and the increase in deferred commitment fees increased other liabilities by \$3.3 million, driven by the growth of the mortgage loan portfolio.

The growth in liabilities over December 31, 2004 is related to the increase in deposits of \$113.8 million. Increased deposit liabilities funded all of the loan portfolio growth. The excess deposits, the increase in retained earnings, and other liabilities funded the rise in cash resources, securities and other assets during the first quarter.

## Shareholders' Equity

Shareholders' equity rose to \$174.9 million, an increase of \$12.7 million, or 7.8%, over \$162.2 million reported at December 31, 2004. This growth was internally generated from net income for the three months of \$13.6 million, less \$1.4 million for dividends payable to shareholders. The remaining \$0.5 million was from proceeds received on the exercise of Company share options of \$0.4 million, and \$0.1 million from the amortization of the fair value of share options.

The increase in shareholders' equity of \$44.3 million, or 34.0%, over \$130.6 million reported at March 31, 2004 was internally generated from the net income for the twelve month period of \$48.1 million, less \$4.7 million for dividends paid and payable to shareholders. The remaining \$0.9 million was from proceeds received on the exercise of Company share options of \$0.8 million, and \$0.1 million from the amortization of the fair value of share options.

## Off-Balance Sheet Arrangements

The Company has not entered into any financial derivatives for hedging purposes during the first quarter. The Company had, however, entered into a financial instrument in the fourth quarter of 2004. This off-balance sheet financial transaction consisted of the short sale of Government of Canada bonds. These short sales were to provide an economic hedge against the future origination and funding of insured residential mortgages that were to be securitized after the fourth quarter of 2004. Such securizations have coupon rates that are set on the basis of five-year Government of Canada bond rates. At December 31, 2004 the Company had sold short \$40.0 million in Government of Canada 4.25% bonds maturing September 1, 2009. In the first quarter of 2005, \$10.0 million of this position had been closed which resulted in a \$76,000 realized loss, with \$48,000 recorded in the fourth quarter of 2004, and the remaining \$28,000 of the loss was netted against other interest income in the first quarter of 2005. The remaining \$30.0 million of the short sale of Government of Canada bonds has an unrealized loss at March 31, 2005 of \$0.3 million of which \$0.2 million was recorded in the fourth quarter of 2004 and the remaining \$0.1 million of the unrealized loss was accrued in the first quarter of 2005.

The Company uses special purpose entities to securitize insured residential mortgage loans for liquidity funding and capital management purposes. The transactions consist of the transfer of these loans to a Canadian trust company as security, in exchange for cash. When these assets are sold, the Company retains the rights to certain excess interest spreads and servicing liabilities, which constitute retained interests. The Company periodically reviews the value of the retained interests and any permanent impairment in value is charged to income, if applicable. The Company continues to administer all securitized assets after the sales. As of March 31, 2005 outstanding securitized mortgage loans administered amounted to \$567.1 million (\$500.7 million - Q4 2004 and \$346.9 million - Q1 2004) and retained interest of \$32.5 million (\$27.7 million - Q4 2004 and \$24.1 million - Q1 2004). For additional information refer to Note 4 in the consolidated financial statements of the 2004 Annual Report and Note 3 of these accompanying unaudited interim consolidated financial statements.

In the normal course of business, the Company offers certain credit instruments to meet the financial needs of its customers. Outstanding commitments for future advances on mortgage loans amounted to \$175.7 million at March 31, 2005 compared to \$160.9 million at December 31, 2004 and \$158.4 million at March 31, 2004. These commitments remain open for various dates through July, 2006. As of March 31, 2005 unutilized credit card balances amounted to \$43.9 million compared to \$39.4 million at December 31, 2004 and \$19.8 million at March 31, 2004.

### **Business and Financial Practices**

The Company's key business and financial policies and practices remain in place and unchanged from those outlined on pages 21 through 25 in the MD & A of the 2004 Annual Report.

### **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 March 31, 2005, liquid assets amounted to \$166.1 million, up 9.1% from the \$152.2 million held at December 31, 2004 and up 50.5% from the \$110.3 million held at March 31, 2004.

### **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. The interest rate sensitivity position as at March 31, 2005 is shown under Note 10 in these unaudited interim consolidated financial statements. The table provided represents these positions at a point in time, and the gap represents the difference between assets and liabilities in each maturity category.

In addition to matching assets and liabilities, the Company employs an interest rate risk sensitivity model that measures the relationship between changes in interest rates and the impact on the economic value of shareholders' equity. As at March 31, 2005, an immediate and sustained 100 basis point (1%) increase in rates would have decreased the economic value of shareholders' equity over the next twelve months by \$0.6 million, after-tax and a 200 basis point (2%) increase would result in a decrease of \$1.2 million, after-tax.

### **Credit Risk**

Credit risk management is the management of the credit risk associated with the total loan portfolio. This is the risk of loss of principal and/or interest from the failure of debtors, to honour their contractual obligations to the Company.

The composition of the Company's mortgage portfolio includes 97.2% residential, 2.3% store and apartments, and 0.5% non-residential. Within the residential mortgage portfolio, 5.5% are insured by Canada Mortgage and Housing Corporation. First mortgages represent 99.7% of the total mortgage portfolio.

As of March 31, 2005 the gross credit card receivable balance totalled \$78.5 million, comprised of \$75.3 million, or 96.0% in accounts secured either by cash deposits or residential mortgage collateral, and \$3.2 million, or 4.0% which is unsecured. The total credit approved includes \$116.6 million in secured and \$5.8 million in unsecured credit as compared with \$55.2 million in secured and \$6.7 million unsecured at March 31, 2004. The Company does not accept new unsecured accounts. Equity Plus VISA credit cards are secured by a collateral residential mortgage, and this product amounted to \$63.9 million of the credit card receivable balance as at March 31, 2005 as compared to \$55.5 million at December 31, 2004 and \$28.5 million at March 31, 2004. Cash security deposits on credit card accounts amounted to \$18.9 million, and are included in the Company's deposits and borrowings.

Write-offs applied against the accumulated allowance for credit losses realized on loans during the first quarter of 2005 were \$154,000 as compared to the fourth quarter of 2004 at \$214,000 and the first quarter of 2004 at \$343,000. All losses were related to unsecured loans in the consumer lending operation; the mortgage operation ended the quarter with a small recovery.

The Company has ensured that it is well positioned for any future unforeseen losses by establishing general allowances of \$14.3 million at March 31, 2005 as compared to the general allowances of \$13.6 million at December 31, 2004 and \$10.9 million at March 31, 2004. Total general allowances remained relatively stable at 103.1 basis points of the Company's risk-weighted assets, compared to 103.8 basis points at December 31, 2004 and the 103.7 basis points at March 31, 2004. The Company has developed a methodology to support the testing of the general allowance which considers asset quality, borrowers' credit worthiness and location. No increase was required from the adoption of the new valuation methodology.

### **Capital Management**

The capital base of the Company's operating subsidiary, Home Trust Company ("Home Trust"), continues to be strongly positioned. The Tier 1 capital ratio increased year-over-year to 12.2% at March 31, 2005 from the 12.0% reported at March 31, 2004. The total capital ratio was 14.2% for the first quarter, down from the 14.3% reported at March 31, 2004. The total capital ratio remained steady despite strong growth in Home Trust's total assets of 36.0% over March 2004. Risk-weighted assets increased by 32.3%, with growth in capital declining slightly to 31.7% over the twelve month period. The capital ratio was sustained despite the reduction in capital for dividend payments of \$1.3 million from Home Trust 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 March 31, 2005, Home Trust utilized 79.0% of its approved Assets to Regulatory Capital Multiple of 17.5 times (76.5% - Q1 2004), providing sufficient capital for continued lending growth.

## **Contractual Obligations**

Home Trust has signed a contract with Certegy Card Services Inc. (“Certegy”) for technology services for the processing and execution of all transactions related to the credit card operation. The card processing functions that will be performed by Certegy include but are not limited to application data, cardholder and related account information, cardholder authorization transactions, history logs and past due, over-limit and fraudulent account information. Certegy will invoice the subsidiary on a monthly basis describing all services in detail with the fees as set forth in the contract. This contract shall be in effect for a period of five years from the date that the subsidiary completes the conversion to Certegy. This conversion is anticipated to take place early in the third quarter of this year.

## **Updated Share Information**

As at March 31, 2005, the Company had 33,854,140 Common Shares outstanding. In addition, director and employee stock options outstanding amount to 1,353,250 (1,372,750 - Q4 2004 and 1,487,500 - Q1 2004) of which 897,000 are exercisable as of the quarter-end (944,000 - Q4 2004 and 793,750 Q1 2004) for proceeds on exercise of \$6.6 million (\$6.3 million - Q4 2004 and \$4.7 million - Q1 2004).

On April 24, 2005 the Company declared a quarterly cash dividend of \$0.04 per Common Share, payable June 1, 2005 to shareholders of record at the close of business on May 16, 2005.

## **Results by Business Segment**

The following discusses the mortgage and consumer lending lines of business for the first quarter of 2005 compared to both the first and fourth quarters of 2004 (refer to Note 11).

### **Mortgage Lending**

The Company’s principal line of business contributed \$10.9 million to net income during the first quarter of 2005, as compared to \$8.4 million and \$8.6 million for the same periods in December and March 2004. The slight decline during the fourth quarter of 2004 was related to increased staffing costs and a charge of \$1.5 million from the ongoing review of pay down rates on securitized mortgages. The portfolio remained strong as the total value of new mortgages advanced in the first quarter of 2005 amounted to \$331.8 million, as compared to \$407.7 million and \$250.6 million for the same periods in December and March 2004, respectively. Historically, the first quarter of the year is a slower period for mortgage lending.

The Company securitized \$85.9 million of residential mortgages in the first quarter, realizing total income on securitization of \$5.2 million. Securitization will continue to be a contributor to the Company’s income, however the mortgage lending business overall is expected to remain 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. As of March 31, 2005 the Company held \$23.6 million in Notes Receivable issued by Regency, compared to \$19.0 million at December 31, 2004 and \$6.2 million at March 31, 2004.

These Notes have a yield of 8.5% and an average duration of 3.6 years. The Company also receives fee income for servicing and administering these mortgages for Regency. This income amounted to 0.6% of the portfolio on an annualized basis. The underlying credit quality of the mortgages securing the Notes Receivable remains high with only 2.4% mortgages in arrears up to 30 days and no mortgage in arrears over 30 days. This program has experienced no losses since inception. This program also provides the Company with additional marketing opportunities in the residential first mortgage marketplace.

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

This line of business contributed \$1.2 million to net income for the three months ended March 2005 compared to \$1.3 million and \$0.5 million for the three months ended December and March 2004. Net interest income declined in the current quarter due to the differences in the accrual periods, quarter over quarter. The Equity Plus VISA loans portfolio amounted to \$63.9 million at March 31, 2005 (\$55.5 million - Q4 2004 and \$28.5 million - Q1 2004) and comprises 81.8% (78.6% - Q4 2004 and 67.8% - Q1 2004) of the total credit card receivable balance of \$78.5 million, bearing an average interest rate of 11.9% (11.8% - Q4 2004 and 12.0% - Q1 2004) on outstanding balances.

## Quarterly Financial Highlights

In thousands of dollars, except per share amounts and percentages

	2005				2004			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net interest income (TEB)*	\$ 23,829	\$ 28,426	\$ 21,363	\$ 19,786	\$ 18,635	\$ 17,556	\$ 15,763	\$ 15,986
Less TEB adjustment	714	694	726	754	964	822	815	930
Net interest income per financial statements	23,115	27,732	20,637	19,032	17,671	16,734	14,948	15,056
Non-interest income	10,631	1,535	7,913	7,157	7,244	7,273	5,607	2,600
Total revenues	55,910	50,804	48,555	44,558	42,772	41,656	37,153	33,533
Net income	13,576	12,271	11,550	10,700	10,030	8,736	7,885	6,864
Return on common shareholders' equity	32.2%	31.3%	31.7%	31.6%	31.9%	29.8%	28.8%	26.7%
Return on average total assets	2.1%	2.0%	2.0%	2.1%	2.1%	1.9%	1.9%	1.8%
Earnings per common share								
Basic	\$ 0.40	\$ 0.37	\$ 0.34	\$ 0.32	\$ 0.30	\$ 0.26	\$ 0.24	\$ 0.20
Fully diluted	\$ 0.39	\$ 0.35	\$ 0.33	\$ 0.30	\$ 0.29	\$ 0.25	\$ 0.23	\$ 0.20
Book value per common share	\$ 5.17	\$ 4.80	\$ 4.48	\$ 4.17	\$ 3.88	\$ 3.61	\$ 3.38	\$ 3.16
Efficiency ratio (TEB)*	35.3%	40.0%	33.8%	35.7%	36.0%	35.0%	37.4%	42.4%
Efficiency ratio	36.0%	41.0%	34.6%	36.7%	37.4%	36.2%	38.9%	44.6%
Tier 1 capital ratio**	12.2%	12.0%	11.8%	11.9%	12.0%	11.7%	11.7%	11.9%
Total capital ratio**	14.2%	14.0%	13.9%	14.1%	14.3%	14.0%	14.2%	14.6%
Net impaired loans as % of gross loans	0.45%	0.40%	0.32%	0.32%	0.31%	0.31%	0.32%	0.33%
Annualized provision as % of gross loans	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.2%

\* TEB - taxable equivalent basis: see definition on page 2 of these unaudited interim consolidated financial statements.

\*\* These figures are related to Home Trust.

The financial results for each of the last eight quarters are summarized in the preceding table. This table illustrates the Company's consistent growth in earnings, increasing return on equity and assets, improved efficiency trends and continued capital ratios, quarter over quarter.

### Outlook

Home Capital is committed to serving selected segments of the Canadian financial services marketplace that are not being served by major financial institutions. The Company continues to benefit from an attractive economic environment in the regions where it conducts business. Credible forecasts for the remainder of the year foresee moderate economic growth across Canada, with sustained low interest rates supporting both new residential construction and resale markets. Home Capital remains strongly positioned to benefit from these economic conditions, as well as untapped opportunities in its target markets.

Having achieved strong first quarter results, the Company is well positioned to meet its 2005 performance targets, which include: 20% increase in net income, 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 March 31, 2005. Based on our knowledge, the Interim Consolidated Financial Statements do not contain any untrue statement of a 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 March 31, 2005.

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  
April 27, 2005

**Cathy A. Sutherland, C.A.**  
Treasurer

## Consolidated Statements of Income

	For the Three Month Periods Ended		
	March 31	December 31	March 31
<i>In Thousands of Dollars, Except Per Share Amounts (Unaudited)</i>	2005	2004	2004
<b>Income</b>			
Interest from Loans	\$ 42,134	\$ 40,876	\$ 32,970
Dividends from Securities	1,263	6,615	1,706
Other Interest	1,882	1,778	852
	<b>45,279</b>	49,269	35,528
<b>Interest Expense</b>			
Interest on Deposits and Borrowings	22,164	21,537	17,857
Net Interest Income	23,115	27,732	17,671
Provision for Credit Losses (Note 2)	996	1,501	759
	<b>22,119</b>	26,231	16,912
<b>Non-interest Income</b>			
Fees and Other Income	5,079	4,870	3,407
Securitization Income on Mortgage-Backed Securities (Note 3)	5,185	1,634	2,567
Gain (Loss) on Sale and Redemption of Securities	367	(4,969)	1,270
	<b>10,631</b>	1,535	7,244
	<b>32,750</b>	27,766	24,156
<b>Non-interest Expenses</b>			
Salaries and Staff Benefits	4,820	4,677	3,853
Premises	570	633	587
General and Administration	6,773	6,677	4,871
	<b>12,163</b>	11,987	9,311
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>20,587</b>	15,779	14,845
Provision for Income Taxes	7,011	3,508	4,815
<b>NET INCOME</b>	<b>\$ 13,576</b>	\$ 12,271	\$ 10,030
<b>NET INCOME PER COMMON SHARE</b>			
Basic	\$ 0.40	\$ 0.37	\$ 0.30
Fully Diluted	\$ 0.39	\$ 0.35	\$ 0.29
<b>AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Thousands)</b>			
Basic	33,792	33,571	33,570
Fully Diluted	35,086	35,199	35,056
Total Number of Outstanding Common Shares (Note 6)	33,854	33,777	33,667
Book Value Per Share	\$ 5.17	\$ 4.80	\$ 3.88

## Consolidated Balance Sheets

<i>In Thousands of Dollars (Unaudited)</i>	<b>March 31</b>	December 31	March 31
	<b>2005</b>	2004	2004
<b>ASSETS</b>			
<b>Cash Resources</b>			
Deposits with Regulated Financial Institutions	\$ 45,973	\$ 21,925	\$ 48,944
Treasury Bills Guaranteed by Canada	9,656	28,574	2,905
	<b>55,629</b>	50,499	51,849
<b>Securities</b>			
Issued or Guaranteed by Canada	125,829	108,971	65,860
Issued or Guaranteed by Provinces	799	799	798
Other Securities	117,165	113,014	107,995
	<b>243,793</b>	222,784	174,653
<b>Loans</b>			
Personal and Credit Card Loans	86,150	79,405	52,507
Residential Mortgages	2,196,848	2,093,802	1,610,781
Other Mortgages	64,137	64,815	58,116
General Allowance for Credit Losses (Note 2)	(14,321)	(13,611)	(10,854)
	<b>2,332,814</b>	2,224,411	1,710,550
<b>Other</b>			
Mortgage-Backed Securities Receivable (Note 3)	32,513	27,724	24,067
Capital Assets	2,540	2,666	2,391
Deferred Development Costs	1,237	1,447	1,987
Other Assets (Note 4)	40,069	38,982	28,346
	<b>76,359</b>	70,819	56,791
	<b>\$ 2,708,595</b>	\$ 2,568,513	\$ 1,993,843
<b>LIABILITIES</b>			
Term Loan	10,000	10,000	10,000
Subordinated Term Loan	3,000	3,000	4,000
Deposits			
Payable on Demand	11,511	17,127	9,084
Payable on a Fixed Date	2,367,480	2,248,057	1,736,655
	<b>2,391,991</b>	2,278,184	1,759,739
<b>Other</b>			
Cheques and Other Items in Transit	11,911	6,535	7,279
Other Liabilities (Note 5)	129,808	121,587	96,274
	<b>141,719</b>	128,122	103,553
	<b>2,533,710</b>	2,406,306	1,863,292
<b>SHAREHOLDERS' EQUITY</b>			
Capital Stock (Note 6)	32,873	32,468	32,077
Contributed Surplus	231	178	57
Retained Earnings	141,781	129,561	98,417
	<b>174,885</b>	162,207	130,551
	<b>\$ 2,708,595</b>	\$ 2,568,513	\$ 1,993,843

## Consolidated Statements of Changes in Shareholders' Equity

<i>In Thousands of Dollars (Unaudited)</i>	For the Three Month Periods Ended		
	March 31 2005	December 31 2004	March 31 2004
<b>CAPITAL STOCK</b>			
Common Shares			
Balance at Beginning of the Period	\$ 32,468	\$ 32,420	\$ 31,734
Proceeds of Options Exercised	405	48	343
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 32,873</b>	<b>\$ 32,468</b>	<b>\$ 32,077</b>
<b>CONTRIBUTED SURPLUS</b>			
Balance at Beginning of the Period	\$ 178	\$ 137	\$ 33
Amortization of Fair Value of Employee Stock Options (Note 7)	53	41	24
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 231</b>	<b>\$ 178</b>	<b>\$ 57</b>
<b>RETAINED EARNINGS</b>			
Balance at Beginning of the Period	\$ 129,561	\$ 118,641	\$ 89,399
Net Income for the Period	13,576	12,271	10,030
Dividends Declared During the Period	(1,356)	(1,351)	(1,012)
<b>BALANCE AT END OF THE PERIOD</b>	<b>\$ 141,781</b>	<b>\$ 129,561</b>	<b>\$ 98,417</b>

## Consolidated Statements of Cash Flows

For the Three Month Periods Ended

<i>In Thousands of Dollars (Unaudited)</i>	March 31 2005	December 31 2004	March 31 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income for the Period	\$ 13,576	\$ 12,271	\$ 10,030
Adjustments to Determine Net Cash Flows Relating to Operating Activities:			
Future Income Taxes	1,525	(2,986)	665
Amortization of Capital Assets	185	273	156
Amortization of Securities	(114)	(101)	(56)
Amortization of Deferred Financing Costs	15	15	15
Amortization of Deferred Development Costs	210	180	180
Provision for Credit Losses	996	1,501	759
Change in Accrued Interest Receivable	(893)	(1,362)	(326)
Change in Accrued Interest Payable	8,259	7,213	4,766
(Gain) Loss on Sale and Redemption of Securities	(367)	4,969	(1,270)
Gain on Sale of Mortgage-Backed Securities	(5,185)	(1,634)	(2,567)
Change in Mortgage-Backed Securities Receivable	2,448	6,520	1,409
Change in Other Assets	(209)	(4,812)	(922)
Change in Cheques and Other Items in Transit	5,376	(3,870)	1,084
Change in Other Liabilities	(1,568)	7,590	(875)
Amortization of Fair Value of Employee Stock Options (Note 7)	53	41	24
Cash Provided by Operating Activities	24,307	25,808	13,072
<b>FINANCING ACTIVITIES</b>			
Net Increase in Deposits	113,807	197,707	81,636
Issuance of Capital Stock	405	48	343
Dividends Paid	(1,351)	(1,013)	(1,006)
Cash Provided by Financing Activities	112,861	196,742	80,973
<b>INVESTING ACTIVITIES</b>			
Activity in Securities			
Purchases	(31,856)	(28,609)	(23,322)
Proceeds on Sales	4,144	3,324	9,226
Proceeds on Maturities	7,184	10,499	10,036
Activity in Mortgages			
Net Increase	(188,367)	(245,837)	(143,374)
Proceeds from Securitization of Mortgage-Backed Securities	83,846	65,884	45,245
Net Increase in Personal and Credit Card Loans	(6,930)	(10,801)	(6,204)
Purchases of Capital Assets	(59)	(332)	(654)
Cash Used in Investing Activities	(132,038)	(205,872)	(109,047)
Net Increase in Cash and Cash Equivalents	5,130	16,678	(15,002)
Cash and Cash Equivalents at the Beginning of the Period	50,499	33,821	66,851
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>\$ 55,629</b>	<b>\$ 50,499</b>	<b>\$ 51,849</b>
Supplementary Disclosure of Cash Flow Information			
Amount of Interest Paid During the Period	\$ 13,906	\$ 14,325	\$ 13,091
Amount of Income Taxes Paid During the Period	9,591	4,236	5,667

## Notes to the Interim Unaudited Consolidated Financial Statements

### 1. ACCOUNTING POLICIES USED TO PREPARE THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2004, as set out in the 2004 Annual Report on pages 28 through 48. 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 unaudited interim consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement 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

		<b>As At March 31, 2005</b>			
<i>In Thousands of Dollars</i>	Gross Amount of Impaired Loans	Specific Allowances	Carrying Value		
Personal and Credit Card Loans	\$ 454	\$ 212	\$ 242		
Residential Mortgages	10,559	525	10,034		
Other Mortgages	215	-	215		
	<b>\$ 11,228</b>	<b>\$ 737</b>	<b>\$ 10,491</b>		
As At December 31, 2004					
Personal and Credit Card Loans	\$ 252	\$ 204	\$ 48		
Residential Mortgages	9,340	400	8,940		
Other Mortgages	-	-	-		
	<b>\$ 9,592</b>	<b>\$ 604</b>	<b>\$ 8,988</b>		
As At March 31, 2004					
Personal and Credit Card Loans	\$ 261	\$ 261	\$ -		
Residential Mortgages	5,460	175	5,285		
Other Mortgages	-	-	-		
	<b>\$ 5,721</b>	<b>\$ 436</b>	<b>\$ 5,285</b>		

#### (B) Allowance for Credit Losses

		<b>For the Three Month Period Ended March 31, 2005</b>			
<i>In Thousands of Dollars</i>	Specific Allowance	General Allowance for Credit Risk	Total		
Balance at the Beginning of the Period	\$ 604	\$ 13,611	\$ 14,215		
Provisions for Credit Losses for the Current Period	286	710	996		
Write-offs	(268)	-	(268)		
Recoveries	115	-	115		
Balance at the End of the Period	<b>\$ 737</b>	<b>\$ 14,321</b>	<b>\$ 15,058</b>		
For the Three Month Period Ended December 31, 2004					
Balance at the Beginning of the Period	\$ 202	\$ 12,727	\$ 12,929		
Provisions for Credit Losses for the Current Period	617	884	1,501		
Write-offs	(273)	-	(273)		
Recoveries	58	-	58		
Balance at the End of the Period	<b>\$ 604</b>	<b>\$ 13,611</b>	<b>\$ 14,215</b>		
For the Three Month Period Ended March 31, 2004					
Balance at the Beginning of the Period	\$ 574	\$ 10,300	\$ 10,874		
Provisions for Credit Losses for the Current Period	205	554	759		
Write-offs	(384)	-	(384)		
Recoveries	41	-	41		
Balance at the End of the Period	<b>\$ 436</b>	<b>\$ 10,854</b>	<b>\$ 11,290</b>		

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

### 3. LOAN SECURITIZATION

During the first quarter 2005, the Company securitized government guaranteed (CMHC) residential mortgage loans through the creation of Mortgage-Backed Securities of \$85.9 million (\$67.9 million - Q4 2004 and \$46.6 million - Q1 2004). The Company retained the rights to future excess interest on these residential mortgages valued at \$7.2 million (\$4.6 million - Q4 2004 and \$3.9 million - Q1 2004) for the first quarter. Cash flows of \$83.8 million (\$65.9 million - Q4 2004 and \$45.2 million - Q1 2004) were received on the securitization of these residential mortgages in the first quarter. The first quarter gain on sale, net of transaction fees and expenses, was \$4.6 million (\$2.6 million - Q4 2004 and \$2.3 million - Q1 2004). The key assumptions used to value the sold and retained interests included a prepayment rate of 8.5% (8.5% - Q4 2004 and 6.5% - Q1 2004) for the first quarter of 2005. An excess spread of 3.0% (2.6% - Q4 2004 and 2.7% - Q1 2004) was estimated for the quarter. The discount rate was 3.6% (3.8% - Q4 2004 and 3.6% - Q1 2004) for the first quarter of 2005. There are no expected credit losses as the mortgages are government guaranteed.

### 4. OTHER ASSETS

<i>In Thousand of Dollars</i>	<b>March 31 2005</b>	December 31 2004	March 31 2004
Accrued Interest Receivable	\$ 13,697	\$ 12,804	\$ 9,913
Deferred Agent Commission	8,806	8,979	6,791
Deferred Finders Fees	8,843	9,185	7,361
Goodwill	2,324	2,324	2,324
Other Prepaid Assets and Deferred Items	6,399	5,690	1,957
	<b>\$ 40,069</b>	<b>\$ 38,982</b>	<b>\$ 28,346</b>

### 5. OTHER LIABILITIES

<i>In Thousand of Dollars</i>	<b>March 31 2005</b>	December 31 2004	March 31 2004
Accrued Interest Payable	\$ 88,214	\$ 79,955	\$ 67,696
Income Taxes Payable	788	4,545	585
Dividends Payable	1,356	1,351	1,012
Deferred Commitment Fees	8,341	8,062	5,052
Future Income Taxes	10,924	9,399	9,672
Other, Including Accounts Payable and Accrued Liabilities	20,185	18,275	12,257
	<b>\$ 129,808</b>	<b>\$ 121,587</b>	<b>\$ 96,274</b>

### 6. CAPITAL STOCK

During the first quarter of 2005, 77,000 Common Shares (23,500 Common Shares - Q4 2004 and 133,000 Common Shares - Q1 2004) were issued under the directors, management and employee share purchase option plan for a total cash consideration of \$405,000 (\$48,000 - Q4 2004 and \$343,000 - Q1 2004).

During the first quarter of 2005, share purchase options in the amount of 30,000 vested (268,750 Common Shares - Q4 2004 and 273,750 Common Shares - Q1 2004). These options have performance criteria that were met, the options are vested.

During the first quarter of 2005, 57,500 Common Share purchase options were granted to employees of the Company, with performance criteria attached that must be met before the options will vest.

Issued and Outstanding	<b>March 31 2005</b>		December 31 2004		March 31 2004	
<i>In Thousands of Dollars /Shares</i>	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Common Shares	33,854	\$ 32,873	33,777	\$ 32,468	33,667	\$ 32,077
Share Purchase Options		Weighted-average Exercise Price		Weighted-average Exercise Price		Weighted-Average Exercise Price
Outstanding, End of Period	1,353	\$ 9.92	1,373	\$ 8.62	1,488	\$ 8.24
Exercisable, End of Period	897	7.41	944	6.64	794	5.94

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

### 7. STOCK BASED COMPENSATION

As for all options issued after January 1, 2003, the Company recognized a compensation expense. This was \$53,000 for the quarter (\$41,000 - Q4 2004 and \$24,000 - Q1 2004) for stock option awards in the Consolidated Interim Income Statement, with an off-setting credit to Contributed Surplus. The fair value of options granted is estimated at the date of grant using the Black-Scholes valuation model with the following assumptions: risk-free interest rate of 3.5%, anticipated option life of 4.1 years, anticipated volatility of 28.7% and anticipated dividend yield of 3.2%. During the first quarter of 2005, 57,500 options were granted with a weighted-average fair value of \$7.01 per option. These granted options will vest subject to performance targets over a four-year period at a rate of 25% per year and expire in five 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 first quarter of 2005 by \$58,000 (\$58,000 - Q4 2004 and \$58,000 - Q1 2004).

### 8. INCOME TAXES

#### Reconciliation of Income Taxes:

<i>In Thousands of Dollars</i>	<b>March 2005</b>	December 2004	March 2004
Income Before Income Taxes	\$ 20,587	\$ 15,779	\$ 14,845
Income Taxes at Statutory Combined Federal and Provincial Income Tax Rates	7,420	5,732	5,362
Increase (Decrease) in Income Taxes at Statutory Income Tax Rates Resulting From:			
Tax-exempt Income	(456)	(2,738)	(616)
Non-deductible Expenses	27	26	6
Other	20	488	63
Income Tax	\$ 7,011	\$ 3,508	\$ 4,815

#### Sources of Future Income Tax Balances:

<i>In Thousands of Dollars</i>	<b>March 2005</b>	December 2004	March 2004
Future Income Tax Liabilities			
Deferred Agent Commissions and Other Charges	\$ 6,379	\$ 6,566	\$ 5,116
Mortgage-Backed Securities Receivable	12,141	10,208	7,744
Deferred Development Costs	447	523	718
	18,967	17,297	13,578
Future Income Tax Assets			
Allowance for Credit Losses	3,683	3,463	1,825
Mark-to-market Adjustments to Securities	1,347	1,523	1,673
Deferred Commitment Fees	3,013	2,912	408
	8,043	7,898	3,906
Net Future Income Tax Liability	10,924	9,399	9,672

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

### 9. FINANCIAL INSTRUMENTS

During the fourth quarter of 2004, 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, with a coupon rate of 4.25% and a maturity of September 1, 2009. The Company intends to close this transaction upon 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 sale 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 regarding 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 CICA guideline, and therefore \$190,000 was recorded in the fourth quarter of 2004 as a decrease in the line item Other Interest Income on the Consolidated Statement of Income.

The Company closed \$10.0 million of this short sale and realized loss of \$28,000 which was recorded as a decrease to the line item Other Interest Income. The remaining short sale of \$30.0 million has an unrealized loss at March 31, 2005 of \$261,000 which resulted in \$118,500 as an unrealized loss, decreasing the line item Other Interest Income.

### 10. INTEREST RATE SENSITIVITY

The Company's exposure to interest rate risk results from the difference, or gap, between the maturity or repricing date of interest sensitive assets and liabilities, including off-balance sheet items. The following table shows the gap positions at March 31, 2005 and December 31, 2004 and March 31, 2004 for selected period intervals. Figures in brackets represent an excess of liabilities over assets.

<i>In Thousands of Dollars</i>	Floating Rate	0 to 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Non-interest Sensitive	Total
<b>March 31, 2005</b>							
Total Assets	\$ 17,370	\$ 192,814	\$ 585,497	\$ 1,357,148	\$ 442,660	\$ 113,106	\$ 2,708,595
Total Liabilities and Equity	13,000	263,917	605,154	1,064,264	434,145	328,115	2,708,595
Off-balance Sheet Items	-	149,234	19,565	(68,108)	(100,691)	-	-
Interest Rate Sensitive Gap	\$ 4,370	\$ (220,337)	\$ (39,222)	\$ 360,992	\$ 109,206	\$ (215,009)	\$ -
Cumulative Gap	\$ 4,370	\$ (215,967)	\$ (255,189)	\$ 105,803	\$ 215,009	\$ -	\$ -
Cumulative Gap as a % of Total Assets	0.2%	(8.0%)	(9.4%)	3.9%	7.9%	-	-
<b>December 31, 2004</b>							
Total Assets	\$ 21,921	\$ 187,712	\$ 516,250	\$ 1,320,730	\$ 455,705	\$ 66,195	\$ 2,568,513
Total Liabilities and Equity	13,000	159,396	655,599	1,028,957	421,232	290,329	2,568,513
Off-balance Sheet Items	-	137,144	19,899	(118,935)	(38,108)	-	-
Interest Rate Sensitive Gap	\$ 8,921	\$ (108,828)	\$ (159,248)	\$ 410,708	\$ 72,581	\$ (224,134)	\$ -
Cumulative Gap	\$ 8,921	\$ (99,907)	\$ (259,155)	\$ 151,553	\$ 224,134	\$ -	\$ -
Cumulative Gap as a % of Total Assets	0.3%	(3.9%)	(10.1%)	5.9%	8.7%	-	-
<b>March 31, 2004</b>							
Total Assets	\$ 33,264	\$ 217,004	\$ 723,379	\$ 654,079	\$ 286,592	\$ 79,525	\$ 1,993,843
Total Liabilities and Equity	14,000	200,208	376,097	794,339	366,012	243,187	1,993,843
Off-balance Sheet Items	-	136,776	16,016	(52,763)	(100,029)	-	-
Interest Rate Sensitive Gap	\$ 19,264	\$ (119,980)	\$ 331,266	\$ (87,497)	\$ 20,609	\$ (163,662)	\$ -
Cumulative Gap	\$ 19,264	\$ (100,716)	\$ 230,550	\$ 143,053	\$ 163,662	\$ -	\$ -
Cumulative Gap as a % of Total Assets	1.0%	(5.1%)	11.6%	7.2%	8.2%	-	-

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

### 11. EARNINGS BY BUSINESS SEGMENT

The Company operates principally through two operations - mortgage lending and consumer lending. The mortgage lending operation consists of mortgage lending, securitization of government insured mortgage loans and the Regency Financial Corp. administration of mortgage loans. The consumer lending operation consists of credit cards services and installment loans to customers of retail businesses. The Other category includes treasury and security investment activities.

The following table details the earnings and assets of the Company by business segment:

*In Thousands of Dollars*

	Mortgage Lending			Consumer Lending Retail Services & Credit Cards		
	Mar. 31 2005	Dec. 31 2004	Mar. 31 2004	Mar. 31 2005	Dec. 31 2004	Mar. 31 2004
For the Three Months Ended						
Net Interest Income	\$ 17,854	\$ 17,023	\$ 13,818	\$ 2,316	\$ 2,668	\$ 1,544
Provisions for Credit Losses	(740)	(1,175)	(470)	(256)	(326)	(289)
Fees and Other Income	3,738	3,427	2,473	1,338	1,464	931
Gain (Loss) on Sale of Securities & Mortgage-Backed Securities	5,185	1,634	2,567	-	-	-
Non-interest Expense	(8,970)	(8,163)	(5,254)	(1,557)	(1,774)	(1,327)
Income Before Income Taxes	17,067	12,746	13,134	1,841	2,032	859
Income Taxes	(6,167)	(4,361)	(4,506)	(665)	(734)	(310)
<b>Net Income</b>	<b>\$ 10,900</b>	<b>\$ 8,385</b>	<b>\$ 8,628</b>	<b>\$ 1,176</b>	<b>\$ 1,298</b>	<b>\$ 549</b>
<b>Total Assets</b>	<b>\$ 2,348,190</b>	<b>\$ 2,180,729</b>	<b>\$ 1,733,237</b>	<b>\$ 91,176</b>	<b>\$ 81,918</b>	<b>\$ 55,795</b>

*In Thousands of Dollars*

	Other			Total		
	Mar. 31 2005	Dec. 31 2004	Mar. 31 2004	Mar. 31 2005	Dec. 31 2004	Mar. 31 2004
For the Three Months Ended						
Net Interest Income	\$ 2,945	\$ 8,041	\$ 2,309	\$ 23,115	\$ 27,732	\$ 17,671
Provisions for Credit Losses	-	-	-	(996)	(1,501)	(759)
Fees and Other Income	3	(21)	3	5,079	4,870	3,407
Gain (Loss) on Sale of Securities & Mortgage-Backed Securities	367	(4,969)	1,270	5,552	(3,335)	3,837
Non-interest Expense	(1,636)	(2,050)	(2,730)	(12,163)	(11,987)	(9,311)
Income Before Income Taxes	\$ 1,679	\$ 1,001	\$ 852	\$ 20,587	\$ 15,779	\$ 14,845
Income Taxes	(179)	1,587	1	(7,011)	(3,508)	(4,815)
<b>Net Income</b>	<b>\$ 1,500</b>	<b>\$ 2,588</b>	<b>\$ 853</b>	<b>\$ 13,576</b>	<b>\$ 12,771</b>	<b>\$ 10,030</b>
<b>Total Assets</b>	<b>\$ 269,229</b>	<b>\$ 305,866</b>	<b>\$ 204,811</b>	<b>\$ 2,708,595</b>	<b>\$ 2,568,513</b>	<b>\$ 1,993,843</b>

## 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 Investor Services Inc.  
100 University Avenue  
Toronto, Ontario M5J 2Y1  
Tel: 1-800-564-6253

#### Capital Stock

As at March 31, 2005 there were  
33,854,140 Common Shares outstanding

#### Stock Listing

Toronto Stock Exchange  
Ticker Symbol: HCG

### HOME TRUST COMPANY

145 King Street West, Suite 1910  
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Hon. William G. Davis P.C., C.C., Q.C.  
*Chairman of the Board*

William A. Dimma  
Harvey F. Kolodny  
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Laurie Chalabardo  
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Marguerite Ryan

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Craig Perigo

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Emilio Fuoco

#### Managers, Mortgages

Christine O'Connor  
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*Vancouver Office*  
Heather Flegg

#### Managers, Mortgages

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#### Regional Managers, Mortgages

Scott Congdon  
Jeff Ayer

#### For Shareholder Information, Please Contact:

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#### Websites

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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.**



HOME CAPITAL GROUP INC.