Annual Report 2003

Canada's **First Choice** Alternative Provider *of* Residential First Mortgages

HOME CAPITAL GROUP INC.

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

Home Capital Group Inc. exists to benefit its shareholders through the pursuit of above average returns over the long term and with a minimum of risk. This goal is pursued through the positioning of Home Capital's wholly owned subsidiary, Home Trust Company. Home Trust's business activity is focused on unique niches in the Canadian financial marketplace, each of which generates above average returns, has below average risk and is not served by the larger, traditional financial institutions.

Business Profile

Mortgages

Home Trust is regarded as the first choice alternative provider of residential first mortgages and has developed a strong core business by lending to borrowers who may not meet all the lending criteria of the major financial institutions. With prudent lending policies, an extensive mortgage broker network and relationships with referral institutions, Home Trust is well recognized as a leader in its market niche.

Investments

Home Trust provides deposit investment services, including Certificates of Deposit, Guaranteed Investment Certificates, Registered Retirement Savings Plans and Registered Retirement Income Funds. Offering competitive rates and personal service, Home Trust has developed an extensive client base and has working relationships with hundreds of deposit brokers and investment dealers.

Consumer Lending

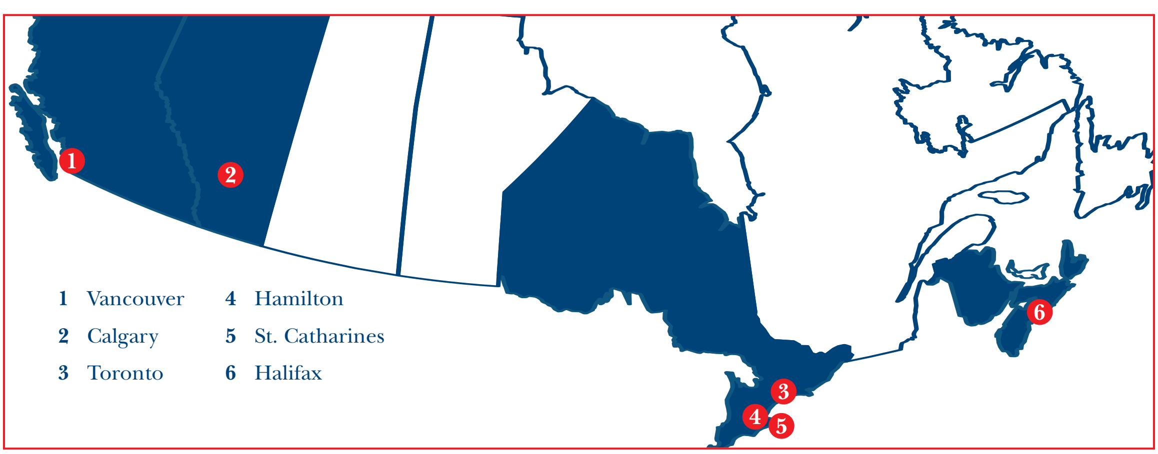
VISA*

Home Trust VISA is the first credit card program in Canada designed for individuals who wish to build or re-establish their credit history. In addition, the secured Equity Plus VISA card was introduced in 2002, enabling homeowners to access from $10,000 to $100,000 of equity in their homes as needed through a VISA credit card.

Retail Credit Services

Retail Credit Services provides installment financing for customers making purchases from established businesses.

Home Trust Branches

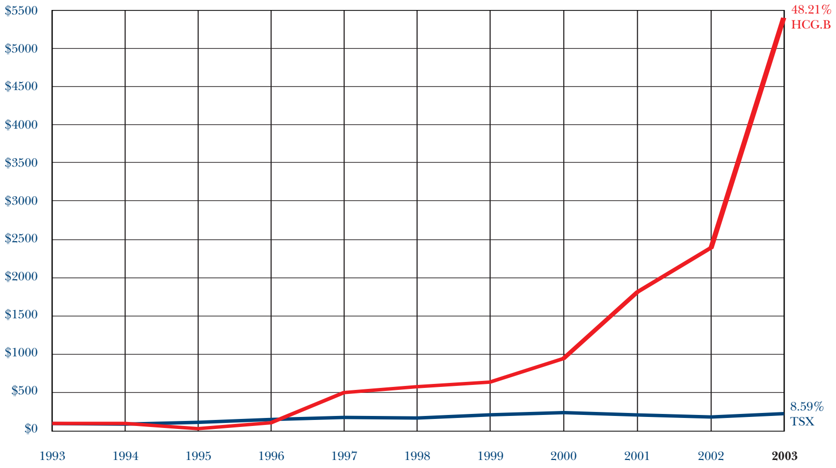


Financial Highlights

For the years ended December 31 (000's)	2003	2002	2001	2000	1999
Total assets	**$ 1,897,176**	1,394,289	1,136,220	892,078	738,136
Loans	**1,608,301**	1,171,102	958,564	776,177	635,939
Deposits and borrowings	**1,664,103**	1,215,179	995,120	794,666	671,068
Shareholders' equity	**121,166**	94,586	75,203	49,501	40,453
Revenue	**144,589**	112,556	91,728	70,606	53,021
Net income	**29,507**	20,595	14,860	10,452	8,081
Book value of common shares*	**3.61**	2.82	2.30	1.67	1.37
Earnings per share – basic*	**0.88**	0.62	0.49	0.35	0.27
Earnings per share – fully diluted*	**0.86**	0.59	0.46	0.33	0.26

- increasing growth in assets and earnings for 34 consecutive quarters
- both earnings and fully diluted earnings per share grew by more than 20% for eighth successive year
- return on equity surpassed 20% for sixth consecutive year
- total assets increased by 36.1% over year-end 2002, reaching $1.90 billion

Ten-year cumulative total return on $100 investment
Comparison between S&P/TSX Composite Index (TSX) and Home Capital Group Inc. (HCG.B)
December 31, 1993 – December 31, 2003



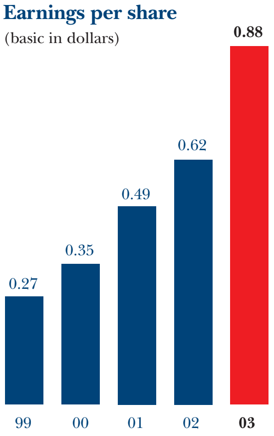
Home Capital Group Inc.
Stock price performance
Closing price as of December 31

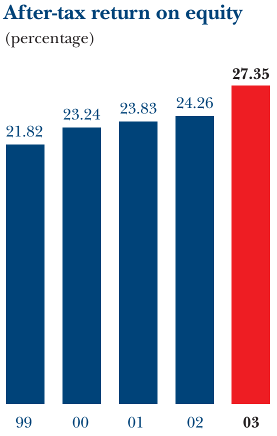
1994	$0.33
1995	$0.21
1996	$0.41
1997	$1.63
1998	$1.75
1999	$2.05
2000	$2.95
2001	$5.58
2002	$7.25
2003	**$16.63**

Compounded annual growth over 10 years (1994 – 2003) 48%

*Share prices have been restated to reflect two-for-one stock split on January 29, 2004

1998	1997	1996	1995	1994
538,876	434,120	346,817	340,826	373,629
471,841	385,873	311,783	305,938	337,090
493,386	399,497	318,838	314,631	347,109
33,620	25,004	20,594	19,406	19,346
42,069	33,754	32,985	34,790	32,088
6,067	3,018	1,187	60	409
1.14	1.03	0.96	0.90	0.90
0.23	0.14	0.06	–	0.02
0.19	0.11	0.05	–	0.02



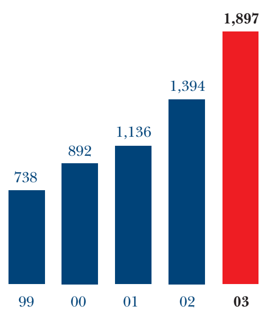


Proven Results

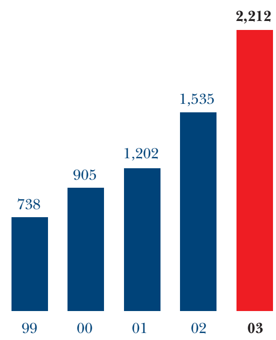
Growth

The Company continues to excel in key financial measurements. The development and growth of the core mortgage business resulted in asset growth of 36.1%, or 44.1% when including assets under administration and an increase in total revenue of 28.5%.

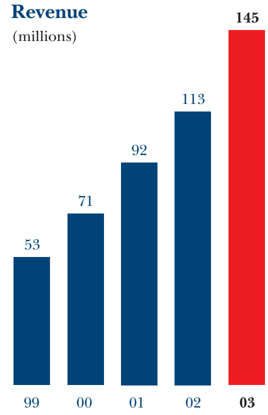
Assets
(millions)



Total assets including assets under administration
(millions)



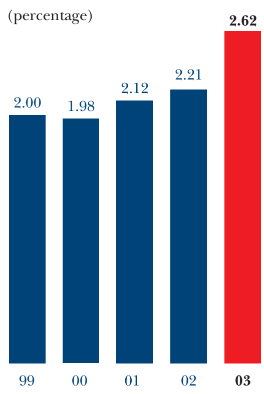
Revenue
(millions)



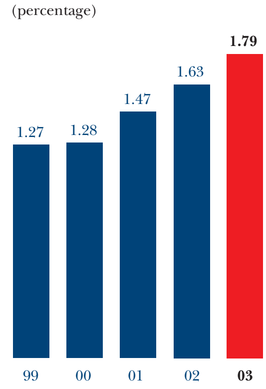
Returns

Home Capital Group maintains a strong return on assets, posting pre-tax return on assets of 2.62%, after-tax return on assets of 1.79% and a 28.1% increase in shareholders' equity.

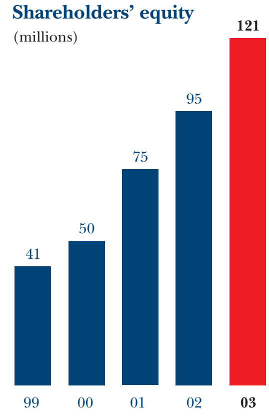
Pre-tax return on assets
(percentage)



After-tax return on assets
(percentage)



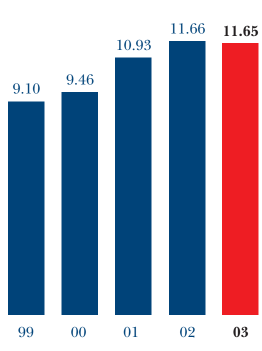
Shareholders' equity
(millions)



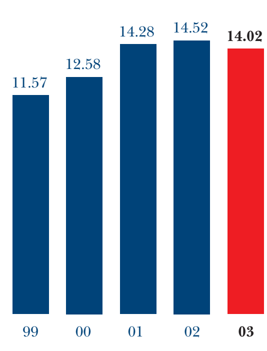
Risk

The Company continues to exceed all applicable regulatory and related standards. The level of impaired mortgages is comparable to that of major financial institutions. We are well regarded for our ability to effectively manage credit risk.

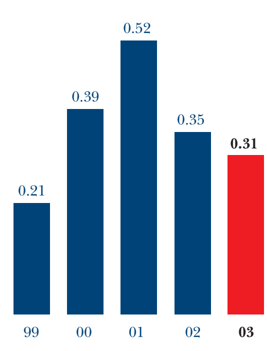
Tier 1 capital to risk weighted assets
(percentage)



Total capital to risk weighted assets
(percentage)



Net impaired loans of loan portfolio
(percentage)



Performance vs. Target

Return on Equity

Target: 20% return on equity for the sixth consecutive year

Home Capital again exceeded 20% in after-tax return on equity, reaching 27.4% at December 31, 2003, representing the sixth successive year in which the Company surpassed 20% ROE.

After-tax return on equity

27.4%

at December 31, 2003

Earnings

Target: 20% growth in earnings

The Company's strong growth in 2003 resulted in earnings of $29.5 million, an increase of 43.3% over the $20.6 million achieved in 2002. Home Capital has now achieved growth in earnings in excess of 20% for eight consecutive years.

Increase in earnings of

43.3%

over 2002

Earnings per Share

Target: 20% growth in fully diluted earnings per share

Fully diluted earnings per share rose 45.8% from $0.59 at year-end 2002 to $0.86 at December 31, 2003. This represents the eighth consecutive year in which Home Capital has exceeded 20% growth in fully diluted earnings per share.

Fully diluted earnings per share grew

45.8%

over year-end 2002

Assets

Target: 20% growth in combined total assets and securitized mortgages originated and managed by the Company

Total assets grew to $1.90 billion by December 31, 2003, an increase of 36.1% over the $1.39 billion achieved the previous year. The Company also administers a portfolio of Mortgage-Backed Securities originated and sold by Home Trust Company, which grew to $315.1 million at year-end 2003 from $140.6 million recorded in 2002, and is not reflected in the total assets. By including the administered MBS portfolio, the total asset growth would stand at 44.1%.

Total assets increased

36.1%

over year-end 2002

REPORT TO SHAREHOLDERS

Home Capital achieved another year of outstanding performance in 2003, recording its best financial results to date and substantially exceeding all of its annual performance objectives. The Company has begun 2004 with excellent prospects for continuing its eight-year track record of strong growth and profitability.

Among the highlights of 2003, Home Capital achieved

- its 34th consecutive quarter-over-quarter increase of earnings growth, which was recorded in the fourth quarter of 2003;
- its eighth consecutive year in which fully diluted earnings per share growth exceeded 20%, with an increase of 45.8% over 2002;
- after-tax return on equity of 27.4%, exceeding its 20% target for the sixth consecutive year; and
- total assets of $1.90 billion by year-end, an increase of 36.1% over 2002.

Earnings per share growth of

45.8%

now eight successive years over 20%

A Year for the Record Books

Home Capital's 2003 financial performance surpassed the record year of 2002. Net income for 2003 rose 43.3% to $29.5 million. Net earnings per share increased by 41.9% to $0.88 and fully diluted earnings per share grew by 45.8% to $0.86. Return on equity reached 27.4% for the year, an increase over 24.3% in 2002.

Home Capital's strong profitability was achieved alongside robust portfolio growth. The Company's total assets reached $1.90 billion by year-end, representing an increase of 36.1% over assets at the end of the prior year. The Company also administers a portfolio of Mortgage-Backed Securities ("MBS") originated and sold by its subsidiary, Home Trust Company, which is not included in the asset total. In 2003, $211.8 million in MBS pools were issued, a 123.3% increase over the $94.9 million total for 2002. Combined total assets and securitized mortgages originated and managed by the Company increased by 44.1% over December 31, 2002 from $1.53 billion to $2.21 billion.

Subsequent to year-end, the Company announced that it would pay a dividend to the holders of its Class B subordinate voting shares, payable in Class B shares of the Corporation at the rate of one Class B share for each Class B share currently held. This stock dividend was declared as a means of effectively "splitting" the outstanding stock of Home Capital Group, with the goal of creating greater liquidity for the Company's shareholders and improving market access to shares of Home Capital Group. The stock dividend was paid on January 29, 2004 to shareholders of record at the close of business on January 21, 2004.

At the same time, the Company's Board of Directors also declared an annualized increase in the cash dividend from $0.15 per share to $0.24 per share. Following completion of the stock dividend, this will result in an annual dividend of $0.12 per share.

The Company's success in building a highly profitable, well-controlled, growth-oriented business has continued to attract the interest of investors. The price of the Company's shares on the Toronto Stock Exchange (TSX) appreciated by 129.3% during the year, from $7.25 per share at the close of 2002 to $16.63 as at December 31, 2003.

Return on equity of

27.4%

exceeding 20% after-tax ROE

for sixth consecutive year

A Tradition of Conservative Risk Management

Home Capital has long been committed to a prudent approach to risk management and adherence to well-regarded underwriting techniques. Net impaired loans at the close of 2003 represented 0.31% of the total portfolio, compared with 0.35% at the end of the previous year. At December 31, 2003, the general allowance stood at $10.3 million, representing 103.6 basis points of risk-weighted assets, compared with 100.1 basis points of risk-weighted assets at year-end 2002.

At December 31, 2003, the Company's subsidiary, Home Trust, had a Tier 1 regulatory capital ratio of 11.7% — remaining at the same level as at the end of 2002. Total capital rose to $139.5 million from $109.6 million in 2002. Home Trust's total capital ratio at year-end was 14.0%, which is higher than the average of the six leading Canadian banks at 13.4% as of December 31, 2003.

Home Trust's mortgage securitization program has enabled it to further accelerate its lending activities without corresponding capital requirements, while providing a broader range of residential mortgage offerings to the marketplace. The total portfolio of Mortgage-Backed Securities at year-end 2003 was $315.1 million, an increase of 124.1% over the $140.6 million recorded in the previous year.

Accelerated Growth in New Mortgage Lending

Home Capital's financial performance in 2003 was driven primarily by accelerated growth in the Company's core residential mortgage business. The value of new mortgages advanced during the year grew by 64.0% on a year over year basis, from $647.4 million in 2002 to $1.06 billion in 2003.

A well-executed strategy is central to the Company's success in growing its primary mortgage business. Home Trust continues to strengthen its marketing and mortgage underwriting teams, while at the same time expanding its network of mortgage brokers and delivering exceptional service quality to these valued partners.

Several favourable market factors also contributed to this exceptional performance, including strong population growth in key urban markets, robust levels of new housing construction and the continuation of affordable interest rates.

Increasing growth in earnings and assets for

34

consecutive quarters

Solid Progress Achieved in Complementary Businesses

The Company's residential first mortgage business is the foundation stone on which it is building complementary businesses.

Home Trust's consumer lending line of business includes both the Home Trust VISA card program and retail credit services. The secured Equity Plus VISA credit card, which enables qualifying homeowners to access from $10,000 to $100,000 of equity in their homes as required, has been particularly well received and experienced strong growth throughout 2003. Total credit card receivables grew to $35.5 million from $16.4 million in the previous year.

Retail credit services, which provides installment financing for consumers purchasing products through established retailers, recorded $11.2 million in receivables at the close of 2003, up from $8.9 million one year earlier.

In the fourth quarter, the Company entered into an arrangement with Regency Finance Corp., a Toronto-based company, to become Regency's agent in offering second mortgage loans to Ontario homebuyers. This new service assists eligible borrowers who require additional purchase financing or who wish to refinance their residential property up to 85% of the current market value, and provides Home Trust with fee revenues.

Saluting Our Valued Partners and Employees

Home Capital's success has been built on its adherence to a proven strategy and a sound set of business principles. The Company continues to exercise vigilance in managing risk and focus on strong lending fundamentals. We appreciate the outstanding contributions of hundreds of dedicated professionals, both outside and within Home Capital. In addition to recognizing the confidence and support of our valued network of mortgage brokers, partners, customers and shareholders, we extend our particular gratitude to the Company's 191 dedicated employees, whose professionalism and hard work have helped to make Home Capital the success it is today.

Achieved total asset growth of

36.1%

over 2002,

reaching $1.90 billion

Outlook for 2004

Home Capital continued to gain momentum throughout 2003, and we are very optimistic about the Company's prospects for robust profitability and growth again in 2004. Each year, the Company identifies key financial performance targets for the next business year. The objectives for 2004 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.

We look forward with confidence to the opportunities ahead to build on the Company's achievements and to meet or exceed our stated objectives for 2004. We remain optimistic about our ability to continue generating superior returns for all shareholders in 2004.

(signed) William A. Dimma

William A. Dimma
Chairman of the Board

(signed) Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer

Management's Discussion and Analysis

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.

Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS

Overview

This section of the Annual Report provides management's detailed discussion and analysis of the financial condition and results of operations of Home Capital Group Inc. (the "Company") for the year ended December 31, 2003. The discussion and analysis relates principally to the Company's subsidiary, Home Trust Company ("Home Trust"), which provides residential first mortgage lending, consumer lending and deposit taking services. It also provides a review of the Company's risk management policies relating to the credit, liquidity, and market and capital risks that are applicable to the Company's balance sheet.

This Annual Report contains forward-looking statements of the Company. These statements are subject to random factors and risk factors, several of which are independent of the Company's control and could have an impact on the Company's operations, performance and results. Factors include legislative and regulatory changes, changes in competition, changes in technology, financial market conditions and the economic climate in Canada. Readers are therefore cautioned not to place undue reliance on these forward-looking statements.

Comparative performance indicators of the Canadian banking industry referred to in this document are obtained from the published results of publicly traded Schedule 1 banks. Readers are cautioned that the banks in this industry group have operations and asset size that may not be comparable to each other or Home Capital Group Inc.

The Company achieved record overall financial results for 2003. Double-digit asset and loan growth of 36.1% and 37.3% respectively was achieved. Credit quality remained strong and loan loss provisions were below the Canadian bank average of 0.39%. The productivity ratio at 40.5% remains better than the industry average at 67.3%. Return on shareholders' equity reached 27.4% at year-end, again exceeding the Canadian bank average of 15.8%. The Company continues to operate with strong capital levels as shown by the Tier 1 capital ratio at 11.7%, also exceeding the Canadian bank average of 10.2%.

Table 1 – Key Performance Indicators

For the years ended December 31 (000's)	**2003**	2002	2001	2000	1999
FINANCIAL PERFORMANCE MEASURES					
Net income	**$ 29,507**	20,595	14,860	10,452	8,081
Basic earnings per share*	**$ 0.88**	0.62	0.49	0.35	0.27
Return on average shareholders' equity (ROE)	**27.4%**	24.3%	23.8%	23.2%	21.8%
Return on average total assets (ROA)	**1.8%**	1.6%	1.5%	1.3%	1.3%
Net investment margin (taxable equivalent basis)**	**3.8%**	3.9%	3.5%	3.2%	3.2%
Non-interest income to net revenue	**25.4%**	19.9%	19.1%	17.9%	16.8%
Productivity ratio (non-interest expense as a % of net revenue)	**40.5%**	44.8%	40.7%	40.9%	41.5%
FINANCIAL CONDITION MEASURES					
Total assets	**$ 1,897,176**	1,394,289	1,136,220	892,078	738,136
Cash and securities–to–total assets	**12.4%**	13.3%	13.2%	11.3%	12.4%
Tier 1 capital ratio	**11.7%**	11.7%	10.9%	9.5%	9.1%
Total capital ratio	**14.0%**	14.5%	14.3%	12.6%	11.6%
Credit quality					
Provision for loan losses as a % of total loans	**0.26%**	0.30%	0.25%	0.16%	0.09%
Net impaired loans as a % of total loans	**0.31%**	0.35%	0.52%	0.39%	0.21%
Allowances for loan losses as a % of gross impaired loans	**191.9%**	174.9%	109.0%	137.0%	210.1%

* After giving effect to the stock dividend described in Note 19 to the Consolidated Financial Statements.

** Refer to Table 2 on page 14 of the Annual Report.

Income Statement Highlights for 2003

- Earnings for the Company continued to reflect strong growth during the 2003 fiscal year, with net income increasing to $29.5 million ($0.88 per share) in 2003 from $20.6 million ($0.62 per share) in 2002, an increase of 43.3%. The return on average shareholders' equity was 27.4% for the 2003 fiscal period, up from a return of 24.3% in 2002.
- The loan portfolio increased by 37.3% to $1.61 billion in 2003 from $1.17 billion in 2002 (compared to 22.2% increase in 2002). This increase was before the $211.8 million securitized under the Mortgage-Backed Securities program which, if held, would have resulted in an additional increase in the portfolio of 8.1% ($94.9 million securitized in 2002 for an additional increase of 9.9%). There was also a corresponding increase of 36.9% in deposits and borrowings during the 2003 fiscal year (22.1% in 2002), from $1.22 billion in 2002 to $1.66 billion in 2003. The overall average spread between the loan and deposit portfolios remained the same at 3.7% for both 2003 and 2002.
- The Company is required for liquidity purposes to maintain a certain amount of its assets in short-term investments, namely cash, treasury bills, bankers' acceptances and government bonds. During the year, the Company maintained a higher average holding of liquid assets (excluding bonds) of $61.2 million compared to $31.0 million in 2002. As illustrated in Table 2, the average rate earned on cash and short-term investments increased from 2.5% in 2002 to 3.2% in 2003. The increased holdings and higher rates during the year resulted in other interest income increasing by $1.3 million over 2002.
- The Company continued to invest funds into securities consisting of investments in government guaranteed bonds, common shares and preferred shares with P1 and P2 ratings. The average balance on these portfolios increased by 30.5% from $114.6 million in 2002 to $149.5 million in 2003. Dividend income increased by only $0.1 million or 1.7% over 2002. The average stock portfolio (excluding government bonds) increased from $96.6 million to $111.9 million or 15.8%. In 2002, the Company received a deemed dividend on a preferred share issue in the amount of $2.6 million compared to $1.9 million in deemed dividends received in 2003. If these deemed dividends were excluded, the overall increase would have amounted to $0.8 million or 15.6%.
- The Company continued to securitize mortgages in 2003. A total of $211.8 million in residential mortgages were securitized and sold for gains totalling $9.9 million in 2003 as compared to $94.9 million and gains of $4.4 million realized in 2002.
- The provision for loan losses increased by $0.7 million to $4.3 million ($3.6 million in 2002), an increase of 19.5%. Of the total provision, the Company has allocated $2.7 million to the general provision ($2.0 million in 2002).
- Operating expenses increased by 25.4% during the year (55.8% in 2002). Increases in the Company's assets, staff and premises were required in 2002 and early 2003 to ensure continued service and to support the Company's growth expectations. This began producing positive benefits to the Company. The productivity ratio is defined as operating expenses as a percentage of net revenue. In the latter half of the year, the levelling off of growth in staff and premises, together with increasing revenue, improved the Company's productivity ratio to 40.5% in 2003 compared to 44.8% in 2002. The expense increases in 2003 were volume driven.
- The provision for income taxes amounted to $13.5 million, representing an effective tax rate of 31.5% in 2003 ($7.4 million or 26.4% in 2002). The increased rate is the result of the Ontario government tabling a bill that reverses previously proposed corporate tax rate reductions. Effective January 1, 2004 and going forward, the general rate in Ontario will increase from the current 12.5% to 14.0%. As a result of this legislative change, the Company recognized an increase of $0.8 million in future income tax provisions.

Balance Sheet Highlights for 2003

- During 2003, total assets increased by $502.9 million, or 36.1% over 2002 ($258.1 million in 2002), primarily due to the growth in the loan portfolio of $437.2 million ($212.5 million in 2002).
- Securities (consisting of stocks and bonds) increased by $39.5 million during the year ($30.3 million in 2002).
- Other assets increased by $14.9 million, or 39.2% over 2002 ($9.7 million in 2002). This increase was largely due to the increase in Mortgage-Backed Securities receivable of $11.2 million and $4.5 million in prepaid assets and deferred items.
- Deposits and borrowings increased by $448.9 million in 2003 or 36.9% ($220.1 million in 2002).
- Other liabilities increased by $28.0 million or 44.0% over 2002 ($16.6 million in 2002). This increase was largely due to the increase in accrued interest payable of $15.7 million, $2.1 million in future income taxes, $2.3 million in deferred commitment fees and $7.4 million in combined trade payables and income taxes payable.

- An increase in retained earnings of $26.7 million ($18.8 million in 2002) from current year earnings, net of dividends paid, helped to fund the increase in assets during the year.

EARNINGS REVIEW

Net Investment Income

An analysis of net investment income and net investment margin is presented in the following table. Net investment income is the difference between income earned on investments and the interest paid on deposits to fund those assets. The net investment margin is the net investment income divided by the Company's average total assets. The dividend income has been converted to a tax-equivalent basis for comparison purposes.

Table 2 – Net Investment Income

		2003			2002	
For the years ended December 31 (000's)	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
Assets						
Cash and cash resources	**$ 61,193**	**1,933**	**3.2%**	$ 52,768	1,327	2.5%
Securities	**149,514**	**9,606**	**5.0%**	114,609	8,787	5.2%
Loans	**1,389,701**	**112,842**	**8.1%**	1,064,833	91,077	8.6%
Taxable equivalent adjustment**	**–**	**3,374**	**–**	–	3,177	–
Total earning assets	**1,600,408**	**127,755**	**7.8%**	1,232,210	104,368	8.2%
Other assets	**45,324**	**–**	**–**	33,044	–	–
Total assets	**$ 1,645,732**	**127,755**	**7.6%**	$ 1,265,254	104,368	8.0%
Liabilities and shareholders' equity						
Senior and subordinated term loan	**$ 14,500**	**1,168**	**8.1%**	$ 14,000	1,200	8.6%
Deposits and borrowings	**1,439,641**	**63,936**	**4.4%**	1,105,150	54,129	4.9%
Total interest bearing liabilities	**1,454,141**	**65,104**	**4.5%**	1,119,150	55,329	4.9%
Other liabilities	**83,715**	**–**	**–**	61,210	–	–
Shareholders' equity	**107,876**	**–**	**–**	84,894	–	–
Total liabilities and shareholders' equity	**$ 1,645,732**	**65,104**	**4.0%**	$ 1,265,254	55,329	4.4%
Net investment income (taxable equivalent basis)		**$ 62,651**			$ 49,039	
Net investment margin (net investment income divided by average total assets)			**3.8%**			3.9%

** Taxable equivalent adjustment is defined as the dividend income received by the Company times the current tax rate of 36.62% for 2003 and 38.62% for 2002. Dividend income is non-taxable to the Company. However, this has been reduced for the year ended December 31, 2003 by the deemed dividend income for the sale of the Royal Bank Series K and the Desjardins Laurentian Financial preferred shares ($1.9 million). In 2002, the adjustment did not include the deemed dividend on the sale of the Conoco Canada Resources Series 1 preferred shares ($2.6 million).

As indicated in the preceding table, the net investment income, on a taxable equivalent basis, increased by $13.6 million in 2003 over 2002 ($13.1 million in 2002 over 2001).

The net investment margin remained relatively unchanged year over year decreasing only slightly from 3.9% in 2002 to 3.8% in 2003. The spread between the Company's loan and deposit portfolio remained the same at 3.7% for both 2003 and 2002.

The Bank of Canada prime lending rate moved only slightly during the year, from 3.0% at the end of 2002 to 3.5% in mid-2003 and back down to 3.0% at the end of December 2003. The spread on new funds advanced maintained a better than 3.5% average during 2003. The average net interest return was 3.7% for both 2003 (loans 8.1%, deposits 4.4%) and 2002 (loans 8.6%, deposits 4.9%). The interest spread being maintained, combined with the 37.3% increase in the loan portfolio, resulted in an overall improvement to net loan interest income over deposits and borrowings of $12.0 million ($10.9 million in 2002). At year-end, the average interest rate on mortgages was 7.5% (8.0% in 2002), with personal and credit card loans contributing 16.2% (18.0% in 2002), while the rate for deposits was 4.2% (4.7% in 2002).

As part of the Company's liquidity policy requirements, a minimum of 20% of the next 100-day maturities must be invested in a liquid-type investment. The Company both maintains a bank balance and invests excess cash in short-term investments and bonds to fulfill the liquidity policy requirement. As the Company continues to grow, the amount required to be in the form of liquid investments will also increase. During the year, the average bank balance was $4.6 million ($5.2 million in 2002) and the average short-term investment balance was $56.3 million ($30.9 million in 2002), resulting in an increase in the short-term investment income by $0.6 million at year-end ($0.1 million in 2002). As well, there was an increase in the average yield on the investments from 2.5% in 2002 to 3.2% in 2003.

The average holdings of bonds increased during the year from $30.9 million to $36.6 million. During the year, $27.2 million of bond holdings were sold, resulting in a gain of $0.2 million comparable to bond gains of $0.2 million realized in 2002. The average yield on the bond investments decreased during the year from 6.3% in 2002 to 5.0% in 2003. However, even though the average yield dropped, the increased holdings of bonds resulted in an increase in the bond income of $0.7 million.

The stock portfolio continued to increase during the year. The average holdings of common shares increased from $4.0 million to $6.4 million, and the average holdings of preferred shares increased from $91.2 million to $102.5 million. The average return, on a taxable equivalent basis, dropped slightly from 11.4% in 2002 to 10.9% in 2003. However, during the year the Company redeemed two issues of preferred shares, which resulted in deemed dividends of $1.9 million. In 2002 deemed dividends totalled $2.6 million. These were not taken into account in the calculation of the yield on the stock portfolio. Average holdings increased and, although the yields on the portfolios decreased, the investment income on a taxable equivalent basis increased by $1.0 million year over year.

Non-Interest Income

Fees and other income increased from $9.3 million in 2002 to $11.9 million in 2003, an increase of 28.3% (96.2% in 2002). In 2003, fees generated by $31.9 million of new credit cards and personal loan assets amounted to $3.8 million as compared to $26.7 million, which generated $3.3 million in fee income for 2002. The remaining fees generated are based on new mortgage activity. Total mortgages advanced during 2003 were $1.06 billion up from $647.4 million in 2002, an increase of 64.0%. The average terms of the mortgages were 2.6 years in 2003 and 2.8 years in 2002. Other fees are generated from the administration of the mortgage portfolio.

Securitization revenue on Mortgage-Backed Securities stood at $9.9 million in 2003, up from the $4.4 million recognized in 2002 as recorded under accounting principles described in Note 1H) of the Company's 2003 consolidated financial statements. This was due to the sale of 11 pools totalling $211.8 million of insured residential mortgages as compared to six pools totalling $94.9 million in 2002. This is a minimal risk (insured by the Canada Mortgage and Housing Corporation) stream of income for the Company. The Company intends to continue offering this product line. Securitization contributes to liquidity and to diversification of funding sources.

Provision for Credit Losses

The provision for credit losses was $4.3 million in 2003 or 0.3% of the average loan portfolio, as compared to $3.6 million or 0.3% in 2002.

This increase in the provision for credit losses was due to the following factors: 37.3% growth in the loan portfolio and the internal commitment of the Company to maintain conservative reserve levels. This is illustrated by maintaining the general allowance above the 100 basis points of risk-weighted assets (See Table 11 for risk-weighted assets). This increased from 100.1 basis points at the end of 2002 to 103.6 basis points at December 31, 2003.

Table 3 – Provision for Credit Losses

For the years ended December 31 (000's)		**2003**		2002		2001
Personal loans and credit cards	**$**	**1,608**	$	1,990	$	1,105
Residential mortgages		**2,528**		1,593		1,458
Other mortgages		**150**		5		(115)
Total provision for credit losses	**$**	**4,286**	$	3,588	$	2,448
Average loans	**$**	**1,389,701**	$	1,064,833	$	867,731
As a % of average loans		**0.3%**		0.3%		0.3%

Management's Discussion and Analysis

Non-Interest Expenses

Operating expenses increased from $25.6 million in 2002 to $32.2 million in 2003, an increase of $6.5 million, or 25.4%. This compares to an increase in operating expenses of $9.1 million or 55.8% from 2001 to 2002. The major components of the increase in operating expenses in 2003 are salaries and benefits, commissions on deposit certificates, finders fees paid on mortgage referrals and consulting services. During the year, the overall staff was increased from 164 to 191 people. Additions were made in loan administration positions to accommodate the Company's continued growth, additions to the VISA operation to support the Equity Plus VISA growth and in the last quarter additions were required for the administration of the Regency Trust second mortgage program. Some individuals were hired on a consulting basis for short-term assignments where required. Other factors contributing to the increase in operating expenses include increased premises rental requirements to accommodate the additional staffing, fees on new mortgages, outsourcing some of the VISA operations and increased commissions paid for additional deposits. Table 4 illustrates the changes in non-interest expenses from 2001 through 2003.

The increase in the operating expenditures enabled the Company to increase its total net revenue, resulting in the improvement of the productivity ratio to 40.5%, still well below the 67.3% average of the major Canadian banks. The increase of $6.5 million in operating expenses was offset by the $22.3 million increase in the Company's total net revenue. The productivity ratio for 2002 ended at 44.8% as compared to 40.7% in 2001.

Table 4 – Non-Interest Expenses

For the years ended December 31 (000's)	2003	2002	2001	Growth 2003/2002	Growth 2002/2001
Salaries and employee benefits	**$ 13,183**	$ 10,310	$ 7,535	**27.9%**	36.8%
Premises and equipment					
Rent – premises	**1,453**	1,032	762	**40.8%**	35.3%
Equipment rental and repairs	**319**	285	221	**11.9%**	29.3%
	1,772	1,317	983	**34.5%**	34.0%
General and administrative					
Advertising and business development	**576**	389	274	**48.1%**	42.2%
Computer services	**640**	618	1,180	**3.6%**	(47.7%)
Consulting and other professional services	**1,806**	1,252	747	**44.2%**	67.6%
Outsourcing	**2,587**	3,123	62	**(17.2%)**	4974.0%
Fees and commissions	**6,387**	3,771	2,216	**69.4%**	70.2%
Stationary and publications	**720**	595	486	**21.0%**	22.5%
Capital taxes and insurance	**1,206**	1,043	993	**15.6%**	5.0%
Communications and travel expenses	**667**	551	399	**21.1%**	37.9%
Depreciation and amortization	**1,400**	1,547	815	**(9.5%)**	89.8%
Other	**1,211**	1,124	763	**7.7%**	47.3%
	17,200	14,013	7,935	**22.7%**	76.6%
Total non-interest expenses	**$ 32,155**	$ 25,640	$ 16,453	**25.4%**	55.8%
Average assets	**$ 1,645,732**	$ 1,265,254	$ 1,014,149		
As a % of average assets	**2.0%**	2.0%	1.6%		
Productivity ratio					
Net interest income	**$ 59,277**	$ 45,862	$ 32,694		
Other income	**20,208**	11,366	7,741		
Total net revenue	**$ 79,485**	$ 57,228	$ 40,435		
As a % of total net revenue	**40.5%**	44.8%	40.7%		

Income Taxes

The provision for income taxes for the fiscal year 2003 amounted to $13.5 million, which has been adjusted for tax-exempt dividend income by $2.8 million. On November 24, 2003 the Ontario government tabled a bill that reverses the previously proposed corporate tax reductions. Effective January 1, 2004 and going forward the general corporate rate for Ontario will increase to 14.0% from the 2003 tax rate of 12.5%. The federal corporate tax rate reductions remain unchanged. As a result of this legislative change, the Company recognized an increase of $0.8 million in the future income tax provision for the Ontario changes, ending with a net increase of $0.4 million due to federal rate reductions. In 2002, total rate reductions of $0.3 million were recognized, which related to the impact of the federal and provincial corporate income tax rate reductions on future income tax assets.

Income taxes for the fiscal year 2002 amounted to $7.4 million, which have been adjusted for tax-exempt income by $2.9 million.

The provision for income taxes for 2003 represents an effective tax rate of 31.5% in 2003, compared to 26.4% in 2002 as described in Note 14 of the Consolidated Financial Statements.

BALANCE SHEET REVIEW

Balance Sheet Assets

The Company posted assets of $1.90 billion on December 31, 2003, compared with $1.39 billion on December 31, 2002. This increase of $502.9 million or 36.1% compared with last year is primarily attributable to the growth in the core mortgage business. This does not take into effect the securitization of the mortgages of $211.8 million during the year. Total loans before securitization increased by $611.7 million or 46.6% as compared to an increase of $249.7 million or 24.6% in 2002.

Table 5 presents additional information on changes in balance sheet assets.

Table 5 – Balance Sheet Assets

As at December 31 (000's)	2003	2002	2001	Growth 2003/2002	Growth 2002/2001
Cash resources and securities	**$ 236,118**	$ 185,295	$ 149,459	**27.4%**	24.0%
Personal loans	**11,147**	8,901	3,359	**25.2%**	165.0%
Credit cards	**35,472**	16,351	11,864	**116.9%**	37.8%
Residential mortgage loans	**1,511,311**	1,116,648	909,393	**35.3%**	22.8%
Other mortgage loans	**60,671**	36,758	39,465	**65.1%**	(6.9%)
General allowance	**(10,300)**	(7,556)	(5,517)	**36.3%**	37.0%
Total loans	**1,608,301**	1,171,102	958,564	**37.3%**	22.2%
Other assets	**52,757**	37,892	28,197	**39.2%**	34.4%
Balance sheet assets	**$ 1,897,176**	$ 1,394,289	$ 1,136,220	**36.1%**	22.7%
Cash resources and securities as a % of balance sheet assets	**12.4%**	13.3%	13.2%		
Loans as a % of balance sheet assets	**84.8%**	84.0%	84.4%		

Cash Resources and Securities

Total cash resources and securities amounted to $236.1 million at December 31, 2003, an increase of $50.8 million (27.4%) over 2002, and represented 12.4% of the Company's total assets at December 31, 2003 as compared to 13.3% at December 31, 2002.

Cash resources increased from $55.5 million to $66.9 million at December 31, 2003. These instruments, together with government bonds, are included as part of the Company's liquid assets. The securities portfolio which is made up of bonds (provincial and federal government and corporate), and common and preferred stocks, increased from $129.8 million to $169.3 million.

Bonds are purchased to form part of the Company's liquid assets, while securities are essentially the investment of the Company's shareholders' equity. The Investment Committee of the Board of Directors reviews and approves compliance of investment policies and transactions on a quarterly basis. The policies define the size and type of securities in which the Company is able to invest.

The average holdings of bonds increased during the year, from $30.9 million in 2002 to $36.6 million in 2003, and at year-end, bond holdings stood at $57.7 million, compared to $19.9 million in 2002. Bond holdings are made up of federal and provincial government bonds of $56.5 million ($18.7 million in 2002) and corporate bonds of $1.2 million ($1.2 million in 2002). Gains or losses when selling bonds are dependent on prevailing interest rates at the time of sale. They can be held to maturity and redeemed at face value, or they can be sold at any time, resulting in a gain or loss depending on the interest rate conditions at the time of disposal. During the year, $27.2 million of longer-term maturities were sold and $0.2 million was recognized into income ($42.0 million sold for $0.2 million in gains in 2002).

At December 3l, 2003, the preferred stock portfolio consisted of 85.8% of P1 and P2 rated stocks (85.8% in 2002). Preferred shares that are either retractable, convertible, exchangeable or have dividend rates that are fixed to a floating or resettable rate (in other words, the interest rate is not fixed) account for 91.5% of the preferred share holdings at year-end, the same as 2002.

In a period of rising interest rates, preferred shares will typically decrease in market value, and the reverse is true in a period of declining interest rates. During the year, the Bank of Canada prime lending rate started the year at 3.0% and increased to 3.5% in July, but, declined back to the 3.0% by the year-end. This low prime rate had the effect of maintaining a positive market value on the fixed-rate preferred stocks and mutual fund portfolios of $3.6 million at December 31, 2003, as compared to a surplus of $0.2 million at December 31, 2002. The floating rate preferred stock portfolio moved from a deficiency of $2.0 million on $12.9 million at December 31, 2002 to a deficiency of $0.3 million on $8.8 million at December 31, 2003.

The total securities portfolio grew by $39.5 million during 2003; however, the market value reversed from a deficiency of $2.0 million to a surplus at December 31, 2003 of $5.7 million. For further information refer to Note 3 in the Consolidated Financial Statements.

On August 6, 2003 the Company entered into an agreement with Regency Finance Corp. as trustee for QSPE-HCC Trust to be Regency's agent for recommending and servicing second mortgage loans. The Company will also provide a revolving line of credit for the funding of these loans. Once these loans are funded, the trustee securitizes these mortgage loans and sells them at par value with a committed interest rate and participation in any surplus funds after all expenses have been paid. Under this program, second mortgage loans of $3.7 million were advanced and the Company purchased $3.6 million in Notes Receivable from the trust. The Company undertakes all non-repayment risk on these mortgage loans through the Notes Receivable. These securities have an average yield to date of 6.24%.

Loan Portfolio

The Company's loan portfolio consists of personal and credit cards loans and residential and other mortgages. At year-end the loan portfolio stood at $1.61 billion, up from $1.17 billion at year-end 2002, an increase of 37.3%.

On December 31, 2003, the personal loan portfolio totalled $11.2 million or 0.7% of the total loan portfolio and the credit card portfolio totalled $35.5 million or 2.2% of the total loan portfolio. At December 31, 2002 the personal loan portfolio totalled $8.9 million or 0.8% of the total loan portfolio and the credit card portfolio totalled $16.4 million or 1.4% of the total loan portfolio. The personal loan line was established in April 2001 and the credit card operation was launched in the last quarter of 2000. At December 31, 2003 the personal loan portfolio had 7,739 accounts compared to 5,977 at December 31, 2002. The credit card operation ended the year with 23,872 accounts with contractual commitments of $16.3 million compared to 22,265 accounts and $9.6 million at December 31, 2002. The contractual commitments to extend credit to its clients for credit card products represents the maximum potential credit risk, assuming the contract amount is fully utilized and the client defaults and collections efforts are unsuccessful. However, the mix of this credit card portfolio has changed due to the discontinuation of the unsecured portfolio and the launch of the Equity Plus VISA product. At year-end, secured loans amounted to 85.6% of the credit card balances as compared to 60.2% at the end of December 2002.

The Company's core business is residential mortgage loans, representing 94.0% of the total loan portfolio, while other mortgage loans represented 3.8% of the total loan portfolio.

All mortgages are secured by real property and other types of collateral, where appropriate. The growth in the size of the mortgage portfolio is due to the continued lending within its existing service area (all of central and southern Ontario, eastern and western Canada). In addition, continued low interest rates make house purchases attractive. New housing starts in Canada increased from 200,700 in 2002 to 218,400 in 2003, an increase of 8.8%. The Company's primary strategy continues to be that of the alternative lender to major financial institutions in the residential first mortgage market.

At year-end 2003, residential mortgage loans totalled $1.51 billion (96.1% of the total mortgage loan portfolio), as compared to $1.12 billion in 2002 (96.8%). The remaining 3.9% in 2003 (3.2% in 2002) was made up of commercial and non-residential properties, the most significant being stores with combined apartments, which represent 2.7% of the total mortgage loan portfolio (2.6% in 2002). The mortgages on commercial and non-residential properties increased by $23.9 million to $60.7 million in 2003 ($2.7 million decrease in 2002). The increase in the commercial and non-residential portfolio this year was due to a $25.4 million mortgage portfolio purchased from the Bank of Nova Scotia. Of this portfolio, 94.1% was commercial and non-residential mortgages. The portfolio was well seasoned and provides a yield of 8.3% with an average duration of two years.

The security priority of the mortgage loan portfolio remained relatively unchanged at 99.6% of the portfolio being first mortgages in 2003, compared to 99.8% in 2002.

Canada Mortgage and Housing Corporation ("CMHC") mortgages amounted to $80.0 million at December 31, 2003 ($34.1 million at December 31, 2002), which represented 5.1% of the total mortgage loan portfolio in 2003 and 3.0% in 2002. This area of lending remains intensely competitive; however, due to the success of the Mortgage-Backed Securitization program, the Company will continue to lend in this area.

The Company's principal market is Ontario but it also lends in Alberta and British Columbia. In the fourth quarter of 2002, the Company opened a branch in Halifax, Nova Scotia, which provides access to the Nova Scotia and New Brunswick markets. The mortgage loan portfolio in the western provinces accounted for 9.9% of the 2003 volume, up from 9.0% in 2002. It is projected that provinces other than Ontario will account for 20%–25% of the new business in 2004. It is anticipated that the internal rate of growth in the mortgage portfolio experienced in Ontario over the past few years will continue through 2004.

Impaired Loans

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for, in possession (for the mortgage loan portfolio) or when it has been in arrears for 90 days. Any credit card loan that has a payment that is contractually 180 days past due is written off. The Company continues to apply prudent and responsive policies to the management of impaired loans. At the core of these policies is the early identification of problem loans, the sale of properties in possession as quickly as possible and the provision of adequate reserves against potential loan losses that are known and general reserves for those that are unknown.

The improvement in the economy in Canada, the residential nature of the loan portfolio and the Company's strong focus on risk management have contributed to a slight decrease in net impaired loans as a percentage of gross loans in 2003 over 2002.

Impaired loans are summarized as follows:

Table 6 – Impaired Loans

As at December 31 (000's)	**2003**		2002		2001	
	Gross	Net	Gross	Net	Gross	Net
Personal loans	**$ 142**	**$ 8**	$ 44	$ –	$ 10	$ –
Credit card loans	**198**	**33**	326	–	246	–
Residential mortgage loans	**5,150**	**4,875**	4,168	4,155	5,297	5,017
Other mortgage loans	**178**	**178**	–	–	–	–
Impaired loans	**$ 5,668**	**$ 5,094**	$ 4,538	$ 4,155	$ 5,553	$ 5,017
Total gross loans		**$ 1,619,175**		$ 1,179,040		$ 964,082
Net impaired loans as a % of gross loans		**0.31%**		0.35%		0.52%
Total allowance for loan arrears		**$ 10,874**		$ 7,939		$ 6,054
Total allowance as a % of gross impaired loans		**191.8%**		174.9%		109.0%

Gross impaired loans totalled $5.7 million at December 31, 2003, an increase of $1.1 million from December 31, 2002. The specific and general allowance increased $2.9 million from December 31, 2002 to $10.9 million at December 31, 2003.

The purpose of the general allowance is to provide for potential future losses on currently performing loans. This general allowance increased from $7.6 million at December 31, 2002 to $10.3 million at December 31, 2003. The increase in the general allowance year over year represented 36.3%, which is slightly less than the growth in the loan portfolio of 37.3% and almost equal to the total assets growth of 36.1%. This illustrates the Company's prudent and positive approach to unforeseen credit risk. The general allowance stood at 103.6 basis points of the total risk-weighted assets (100.1 basis points in 2002). Further details can be found in Note 4 to the Consolidated Financial Statements.

Net impaired loans as a percentage of the total loan portfolio have decreased from 0.35% at December 31, 2002 to 0.31% at December 31, 2003. The Company experienced a net recovery in the mortgage loan portfolio in 2003 of $612.

Total losses realized on loans for the year amounted to $1.4 million, down from the $1.7 million realized in 2002. Most of the losses experienced over the last two years are related to the unsecured credit card portfolio. The Company discontinued offering the unsecured credit cards and introduced the Equity Plus VISA, a credit card secured by a borrower's equity in their home. This is illustrated by the increase of secured credit cards to 85.6% of the total credit card portfolio as compared to 60.2% at the end of 2002.

Other Assets

Other assets increased by 39.2% from $37.9 million at December 31, 2002 to $52.8 million at December 31, 2003. These assets consist of the Mortgage-Backed Securities receivable, capital assets, deferred development costs, accrued interest receivable, income taxes receivable, goodwill and deferred and prepaid assets. The items that contributed to the $14.9 million increase in other assets consist of the following:

- The Mortgage-Backed Securities receivable, which consists of the net present value of the future cash flows of the securities issued added $11.2 million. (For further information see Note 5 of the Consolidated Financial Statements.)
- Capital assets decreased $0.3 million, which was the result of the decrease in equipment purchases for the year from $1.0 million in 2002 to $0.4 million this year, less depreciation recorded during the year. (For further information see Note 6 of the Consolidated Financial Statements.)
- The deferred development costs related to the VISA operation decreased $0.6 million, which is the amortization that was recorded in 2003. (Refer to Note 7 of the Consolidated Financial Statements.)
- Accrued interest receivable contributed $1.9 million, due to the growth in the securities and loan portfolio.
- Deferred agent commission increased by $1.1 million and other prepaid and deferred items increased by $1.5 million, of which the largest contributor was finders fees which increased by $2.4 million ($7.1 million in 2003 versus $4.7 million in 2002) along with an offsetting decrease in prepaid assets, all resulting from the growth in the Company's loan assets and deposit liabilities.

Deposits and Borrowings

Deposits and other borrowings increased by $448.9 million (or 36.9%) in 2003, compared to an increase of $220.1 million (or 22.1%) in 2002. VISA card security deposits grew from $9.7 million in 2002 to $13.7 million in 2003. Short-term certificates grew $5.8 million and registered investments increased $23.5 million. The remaining $415.7 million increase was largely due to the increase in debenture investment certificates, which amounted to $413.9 million, and the remaining $1.8 million was for real estate tax accounts. These increases are illustrated in Table 7 opposite.

Table 7 – Deposits and Borrowings

For the years ended December 31 (000's)	2003	2002	2001	% Increase 2003 vs. 2002	% Increase 2002 vs. 2001
Payable on demand					
Savings	$ 351	$ 366	$ 46	(4.1)	695.7
Real estate tax accounts	13,629	11,841	10,347	15.1	14.4
	13,980	12,207	10,393	14.5	17.5
Payable on a fixed date					
Short-term certificates and savings	73,004	67,217	57,909	8.6	16.1
VISA card security deposits	13,660	9,720	6,101	40.5	59.3
Debenture investment certificates	1,402,955	989,066	791,184	41.8	25.0
Registered retirement savings plans	114,536	106,038	112,070	8.0	(5.4)
Registered retirement income funds	45,968	30,931	17,463	48.6	77.1
	1,650,123	1,202,972	984,727	37.2	22.2
Total	$ 1,664,103	$ 1,215,179	$ 995,120	36.9	22.1

The increase in deposits and borrowings ($448.9 million) funded all the net increase in the loan portfolio ($437.2 million) and contributed to the total asset increase of $502.9 million. The net change in shareholders' equity ($26.6 million), together with the increase in other liabilities ($28.4 million) less the $1.0 million net decrease in term loans, funded the difference.

Shareholders' Equity

Capital stock and contributed surplus decreased only slightly by $0.2 million, the result of $0.3 million received on the exercise of options less $0.5 million on the purchase of stock through the normal course issuer bid. During the year, the Company changed the accounting policy for stock-based compensation. This policy has the effect of recording a compensation expense for stock options with an offsetting credit to contributed surplus. As options are exercised the capital stock will be adjusted by the exercise price. (Refer to Note 2 of the Consolidated Financial Statements.) The change to the capital stock and contributed surplus combined with an increase in retained earnings of $26.7 million ($18.8 million in 2002) from the current year's net income ($29.5 million), net of dividends paid and declared ($2.8 million), contributed funds to increase the asset base during the year.

BUSINESS AND FINANCIAL PRACTICES

Home Trust is regulated under the Trust and Loan Companies Act (Canada) and is a member of Canada Deposit Insurance Corporation ("CDIC"). Since 1995, Home Trust has completed the self-assessment review and reporting program associated with the CDIC Standards of Sound Business and Financial Practices. These standards ensure that institutions are managed in a sound and prudent manner and refer to such subjects as liquidity management, capital management, credit risk management and internal control. The Board of Directors of Home Trust reviews compliance with these standards on a regular basis.

Liquidity

The objective of liquidity management and funding management is the ability of the Company to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its commitments (both on- and off-balance sheet) as they fall due.

The Company's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times, the composition of the type of liquid asset to be maintained, a daily monitoring of the liquidity position by senior management and quarterly reporting to the Audit and Risk Management Committee and the Board of Directors. Also, the Company has a set minimum requirement for liquid assets using two assumptions, the first being the "going concern" scenario and the second a specific company disruption. This requires the Company to make assumptions regarding the probable behaviour of the timing of cash flows for each type of asset and liability. These assumptions are made on a conservative basis, assigning later dates to cash inflows and earlier dates to cash outflows. The Company has set a policy limit of 120% under both scenarios and at year-end these amounted to 166% (182% for 2002) under the going concern and 237% (245% for 2002) under specific company disruption.

The Company holds sufficient liquid assets in the form of cash bank deposits, treasury bills, bankers' acceptance and government bonds and debentures. On December 31, 2003, liquid assets amounted to $117.7 million in Canadian dollars compared to $67.0 million at December 31, 2002. See Table 8 below for information on liquid assets.

Table 8 – Liquid Assets
(Based only on the subsidiary Home Trust Company)

For the years ended December 31 (000's)	2003	2002	Growth 2003/2002
Cash and deposits with regulated financial institutions	$ 23,514	$ 16,927	$ 6,587
Government of Canada treasury bills	36,751	30,955	5,796
Government of Canada and provincial bonds	57,453	19,142	38,311
Total liquid assets	$ 117,718	$ 67,024	$ 50,694
Total liabilities maturing within 100 days	$ 357,626	$ 202,718	$ 154,908
Total assets	1,891,654	1,378,149	513,505
Total liabilities	1,775,819	1,299,066	476,753
Liquid assets as a % of 100 day liabilities	32.9%	33.1%	
Liquid assets as a % of total assets	6.2%	4.8%	
Liquid assets as a % of total liabilities	6.6%	5.2%	

Interest Rate Risk

Interest rate risk is the sensitivity of earnings to sudden changes in interest rates. The Company actively manages rate risk by employing a number of techniques. These include the matching of asset and liability terms and modelling techniques that measure changes in the portfolios and the impact interest rate changes will have on the Company's earning capacity. The table following illustrates the interest rate sensitivity position as at December 31, 2003. However, this table represents only a position in time, and the gap represents the difference between assets and liabilities in each maturity category. This schedule reflects the contractual maturities of both assets and liabilities, adjusted for assumptions regarding the effective change in the maturity date as a result of a mortgage becoming impaired and for off-balance sheet hedging positions.

As illustrated by the schedule, the effective net interest rate spread between assets and liabilities is 3.4% (3.4% in 2002), after the adjustments as noted above. The cumulative dollar gap, including off-balance sheet items, at the end of 12 months was $285.7 million of liabilities exceeding assets, compared to a deficiency of $149.3 million in 2002. Within the one to three year term this deficiency is corrected to within approximately $14.3 million; the correction for 2002 amounted to a deficiency of $13.7 million. The Company's objective is to closely match interest-sensitive assets and liabilities. The cumulative gap in the three-plus year range is basically offset by shareholders' equity.

Table 9 – Interest Rate Sensitivity

As at December 31, 2003 (000's)	Floating Rate Carrying Value	Floating Rate Effective Interest Rate	0 to 3 Months Carrying Value	0 to 3 Months Effective Interest Rate	3 to 6 Months Carrying Value	3 to 6 Months Effective Interest Rate	6 to 12 Months Carrying Value	6 to 12 Months Effective Interest Rate
Assets								
Cash resources	$ 27,700	1.7%	39,151	2.6%	–		–	
Securities	8,784	4.4%	9,149	2.7%	3,472	5.8%	13,205	5.2%
Loans	–		85,648	10.9%	77,144	8.2%	218,226	8.0%
Other assets	–		–		–		–	
	$ 36,484	2.3%	133,948	7.9%	80,616	8.1%	231,431	7.8%
Liabilities								
Senior and subordinated term loans	$ 14,000	8.0%	–		–		–	
Deposits payable on demand	–		13,980	–	–		–	
Deposits payable on a fixed date	–		177,778	3.6%	177,294	3.9%	272,116	3.7%
Other liabilities	–		–		–		–	
Shareholders' equity	–		–		–		–	
	$ 14,000	8.0%	191,758	3.3%	177,294	3.9%	272,116	3.7%
Gap before off-balance sheet items	22,484		(57,810)		(96,678)		(40,685)	
Off-balance sheet items	–		(99,881)	7.1%	(9,272)	7.0%	(3,852)	7.0%
Gap after off-balance sheet items	$ 22,484		(157,691)		(105,950)		(44,537)	
Cumulative gap	$ 22,484		(135,207)		(241,157)		(285,694)	

As at December 31, 2002 (000's)	1 to 3 Years Carrying Value	1 to 3 Years Effective Interest Rate	3 Years + Carrying Value	3 Years + Effective Interest Rate	Non-interest Sensitive Carrying Value	Total Carrying Value	Total Effective Interest Rate
Assets							
Cash resources	$ –		–		–	$ 66,851	2.2%
Securities	36,079	5.0%	98,578	5.1%	–	169,267	4.9%
Loans	909,693	7.5%	322,796	7.3%	(5,206)	1,608,301	7.8%
Other assets	–		–		52,757	52,757	0.0%
	$ 945,772	7.4%	421,374	6.8%	47,551	$ 1,897,176	7.1%
Liabilities							
Senior and subordinated term loans	$ –		–		–	$ 14,000	8.0%
Deposits payable on demand	–		–		–	13,980	0.0%
Deposits payable on a fixed date	712,971	4.4%	309,964	4.5%	–	1,650,123	4.2%
Other liabilities	–		–		97,907	97,907	0.0%
Shareholders' equity	–		–		121,166	121,166	0.0%
	$ 712,971	4.4%	309,964	4.5%	219,073	$ 1,897,176	3.7%
Gap before off-balance sheet items	232,801		111,410		(171,522)		3.4%
Off-balance sheet items	38,584	7.2%	74,421	7.0%	–		
Gap after off-balance sheet items	$ 271,385		185,831		(171,522)		
Cumulative gap	$ (14,309)		171,522		–		

In addition to the above matching of assets and liabilities, the Company also employs an interest rate risk sensitivity model that measures the relationship between changes in interest rates and the present value of equity. Standards have been established whereby each major asset or liability decision must be assessed to determine standards compliance.

Management's Discussion and Analysis

The interest rate sensitivity model includes assessing the impact of a 100 basis point (1%) change in interest rates and the effect this has on shareholders' equity. At December 31, 2003, an immediate and sustained 100 basis point increase in rates would decrease the economic value of shareholders' equity by $5.3 million ($1.2 million at December 31, 2002). However, should the interest rates rise 1.0%, the economic loss will not appear in the income statement in year one. It will be realized during years two through five as deposits roll over since the mortgages that these deposits are funding are locked in for two to five years.

Securities Portfolio Management

It is the practice of management to manage the securities portfolio and exposure to position risk.

The Investment Committee meets on a quarterly basis to review the status of the portfolio, review transactions during the past quarter, ensure compliance under the Trust and Loan Companies Act (Canada) and determine compliance with the Company's Investment Strategy and Policy.

The Company has set out four criteria that must be met in the Investment Policy. The first criterion is that at least 80% of the total dollar value of the portfolio must be invested in P1 and P2 preferred stock and cash. As at December 31, 2003, this was maintained at 85.8% of the total portfolio (85.8% in 2002). The second criterion is that at least 60% of the total dollar amount of the portfolio must be shares that are either retractable, exchangeable or have a dividend rate that is determined by reference to a floating rate or is resettable. In other words, the interest rate is not permanently fixed. As at December 31, 2003, these types of investments accounted for 91.5% of the portfolio (91.5% in 2002). The third criterion is that the common share portfolio will not be more than 10% of the total portfolio. At year-end, common shares accounted for 4.5% of total investments (3.3% in 2002). The final criterion is that concentration in any individual company cannot be more than 15% or $1.0 million, whichever is greater, unless approved by the Investment Committee. At year-end, the maximum holding of any one company was 7.5% (8.5% in 2002).

Credit Risk Management

Credit risk management is the management of the credit risk associated with the total loan portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour the financial or contractual obligations to the Company. Senior management and the Audit and Risk Management Committee undertake extensive reviews of credit policies and lending practices. The Company's policy is that credit is approved by different levels of senior management based on the amount of the loan. In addition, all mortgages that exceed $500,000 must be approved by the Chairman of the Audit and Risk Management Committee. The Audit and Risk Management Committee and the Board of Directors review compliance with credit risk requirements quarterly.

Residential mortgage loans represent the largest component of the total loan portfolio, comprising 94.0% at December 31, 2003, compared to 94.7% at December 31, 2002. These loans are secured primarily by single family dwellings, which are owner occupied. Under the lending criteria, all mortgage loans are considered individually under a rating process and the level of risk is determined.

Properly qualified independent third-party appraisers appraise all properties. These appraisals are reviewed by both the underwriter and credit manager for completion, content and accuracy. In addition, either in-house personnel or a person designated by the Company inspects each property to confirm value and marketability.

The Company's industrial, commercial and other non-residential property types represented 3.8% of the total loan portfolio at December 31, 2003 (3.1% in 2002), and management continues to monitor these properties on a regular basis. The non-residential portfolio increased in this year due to the purchase of a $25.4 million portfolio from the Bank of Nova Scotia. Of this portfolio, 94.1% was non-residential. It is the Company's intention to continue to concentrate its core business of lending on residential properties.

Personal loans and credit cards represented 2.9% of the total loan portfolio at December 31, 2003 (2.2% in 2002), and $30.6 million or 85.6% of the credit cards are secured by either deposits held by the Company or equity in residential property ($9.9 million or 60.2% in 2002). The Company discontinued offering an unsecured credit card product and intends to continue to only offer credit cards secured by deposits and residential equity.

Capital Management

Capital is a key factor in assessing the safety and soundness of a financial institution. Capital assists in promoting confidence among depositors, creditors, regulators and shareholders. The Company maintains a capital management policy to govern the quantity and quality of capital held. The objective of the policy is to ensure that the regulatory capital requirements are met while providing a sufficient return to investors. Compliance with the policy is reviewed quarterly by the Audit and Risk Management Committee and the Board of Directors.

Two capital standards are addressed in the Company policy: asset to capital multiple and the risk-based capital ratio (BIS ratio). Both ratios are reported quarterly to the Board of Directors.

Asset to Capital Ratio

As Home Trust is regulated under the Trust and Loan Companies Act (Canada), its ability to accept deposits is limited by Home Trust's permitted asset to capital multiple. This is defined as the ratio of regulatory capital to the total assets of Home Trust. Home Trust's maximum asset to regulatory capital ratio is currently authorized at 17.5 times its capital and reserves. Table 10 below shows the asset to capital ratio.

On November 23, 2001, Home Trust was given approval to include its general allowance in the calculation of regulatory capital to the extent of 0.875% of risk-weighted assets in Tier 2 capital. This inclusion of the allowance amounts to $8.6 million in the Tier 2 capital ($6.5 million in 2002), which has the effect of improving the capital ratio to 13.63 from 14.46 without the general allowance.

Risk-Based Capital Ratio (BIS Ratio)

Capital adequacy for Canadian banks and trust companies is governed by the requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI"). These requirements are consistent with the published framework to measure the adequacy of capital for international banks issued by the Bank for International Settlements ("BIS"), referred to as the BIS ratio. Under these standards there are two components of capital. Tier 1 consists primarily of shareholders' equity and non-cumulative preferred shares. Tier 2 consists primarily of subordinated debentures, cumulative preferred shares and the general allowance.

Home Trust's total BIS ratio decreased to 14.0% in 2003 from 14.5% in 2002. The Tier 1 capital remained unchanged at 11.7% for 2003 and 2002. This was attributable to the income generated by Home Trust for the year of $27.8 million. The majority of the increase in the risk-weighted assets was due to the increase in owner-occupied residences rated at a 50% risk. The Tier 2 capital increased by $2.1 million due to the increase in the allowable portion of the general allowance from $6.5 million in 2002 to $8.6 million at the end of 2003. The inclusion of the general allowance improved the total capital from 13.27% to the 14.0% reported in 2003. Both ratios are well in excess of the levels defined by OSFI, 10% for total capital and 7% for Tier 1 capital.

Table 10 – Capital Structure and Regulatory Ratios at Year-End
(Based only on the subsidiary Home Trust Company)

As at December 31 (000's)

Capital	**2003**	2002	**Growth 2003/2002**
Tier 1 capital			
Capital stock	**$ 20,497**	$ 20,497	**$ –**
Contributed surplus	**951**	951	**–**
Retained earnings	**94,387**	66,635	**27,752**
Total tier 1	**115,835**	88,083	**27,752**
Tier 2 capital			
General allowance for credit loss (limited to 0.875% of RWA)	**8,627**	6,549	**2,078**
Subordinated debentures	**15,000**	15,000	**–**
Total tier 2	**23,627**	21,549	**2,078**
Total regulatory capital	**$ 139,462**	$ 109,632	**29,830**
Assets to regulatory capital multiple	**13.6**	12.7	
Regulatory capital to risk-weighted assets			
Tier 1 capital	**11.7%**	11.7%	
Tier 2 capital	**2.3%**	2.8%	
Total regulatory capital ratio	**14.0%**	14.5%	

Table 11 – Risk-Weighted Assets (RWA)
(Based only on the subsidiary Home Trust Company)

As at December 31 (000's)	2003 Balance Sheet Amount	2003 Risk Weighted	2003 Risk Weighted Amount	2002 Balance Sheet Amount	2002 Risk Weighted	2002 Risk Weighted Amount
Cash and claims on or guaranteed by Canadian and provincial governments (including CMHC - insured mortgages)	$ 173,558	0%	$ –	$ 84,055	0%	$ –
Claims on banks and municipal governments	29,712	20%	**5,942**	22,747	20%	4,549
Conventional mortgages on owner-occupied residences	1,416,875	50%	**708,438**	1,072,849	50%	536,425
Other assets	271,509	100%	**271,509**	207,498	100%	207,498
General allowance (limited to 0.875% of RWA)	8,627	100%	**8,627**	6,549	100%	6,549
Total assets	$ 1,900,281		$ **994,516**	$ 1,393,698		$ 755,021
Off-balance sheet financial instruments						
Loan commitments	118,157	0%	–	98,991	0%	–
Financial instruments	–	100%	–	164	100%	164
Total	$ 2,018,438		$ **994,516**	$ 1,492,853		$ 755,185

Internal Control

The Company maintains a governance and control framework so that its operations are efficient and effective, the financial reporting is reliable and the Company complies with all applicable laws and regulations. To this end, written policies and procedures relating to the Company's business activities are in place and are reviewed no less than annually by the Board of Directors. In addition, external auditors and government regulators review the internal controls.

The Company has an internal auditor accountable directly to the Chairman of the Audit and Risk Management Committee who examines and reports on the effectiveness of internal controls and related matters. The internal auditor's role complements the external audit functions and, to this end, the internal auditor communicates throughout the year with both the external auditors and government regulators.

The Company has established a compliance function responsible for business and employee conduct and legislative compliance that reports to the Company's Audit and Risk Management Committee and Corporate Governance and Nominating Committee.

OUTLOOK

Current Economic Outlook

The unemployment rate ended the year at 7.4%, a slight decrease from the 7.5% experienced at December 31, 2002. The Bank of Canada has reduced interest rates and they are expected to react to the strong dollar, slower job growth and reduced exports. These rates should remain at levels that will ensure the Canadian housing market can continue to expand in the regions of the country targeted by the Company, specifically in Ontario, central Alberta, southwestern British Columbia and the Atlantic provinces.

The housing market and related residential mortgage market in Ontario have remained strong throughout 2003 into 2004, which is a result of the above-average economic growth rates experienced over the past few years and affordable mortgage carrying costs.

The Alberta economy and housing market continues to expand as the province benefits from diversified industry and low unemployment rates. Home Trust expects continued strong mortgage demand in Alberta in 2004.

In British Columbia the housing market remains relatively stable and the Company expects to have more opportunity to expand there in 2004.

Lending in the Atlantic provinces will continue to grow as the Company's presence becomes more established.

The Company is experiencing positive early growth in all lending areas in 2004 and expects this trend to continue.

Future Outlook

It is the Company's goal to achieve 20% growth in combined total assets and securitized mortgages for 2004. This will be achieved through growth primarily in Ontario with western and eastern Canada contributing a smaller portion. The Company is confident of achieving this goal.

The Company's term of its mortgages is being maintained with an average maturity remaining just below the three-year mark at 2.6 years in 2003 (2.8 years in 2002). The Company will continue to match assets and liabilities to ensure that interest rate fluctuations will have little impact on future earnings.

The operation of VISA card services, with special attention to the Equity Plus VISA product which grew from $4.0 million of receivables at December 31, 2002 to $21.8 million at December 31, 2003, is expected to expand. Also the Mortgage-Backed Securities operations and the new second mortgage operations are expected to create more opportunities for increased revenue and profit for 2004 and beyond.

Growth

The Company's balance sheet was further strengthened during 2003 as a result of internal expansion through the achievement of record growth in assets and profitability.

During 2003, the Company completed the sale of 11 pools of Mortgage-Backed Securities, which have provided additional revenue and profit beyond the core mortgage business. We will continue to pursue this area of operations in 2004 and beyond to further the growth objectives of the Company with minimum capital requirements.

Late in 2002, the Company began offering the Equity Plus VISA, which is a credit card secured by equity in residential property. This product has been positively accepted in the marketplace, as shown by the growth in receivables from $4.0 million at the end of 2002 to $21.8 million at December 31, 2003. The Company anticipates that the VISA operation will continue to make positive contributions to earnings in 2004.

The Company will continue to entertain offers to purchase mortgage portfolios, since the $25.4 million purchased in 2003 has provided a well-seasoned and attractive yield portfolio for at least the next two years of operations.

The Company will continue to explore related opportunities in the Canadian financial services marketplace that complement its existing core competencies.

Return

It is the Company's goal to maintain a return on equity of 20% per annum. Return on equity for fiscal 2003 was 27.4% compared to 24.3% in 2002.

Risk

The BIS ratio remained well in excess of the 10% during the year at 14.0%, generated largely as a result of Home Trust's profits. The Company's core business, which is single family residential first mortgage loans, carries a lower risk weighting. At December 31, 2003, first mortgages represented 99.6% (99.8% in 2002) of the portfolio, and residential mortgage loans decreased only slightly to 94.0% from 94.7% in 2002.

The Company, based on growth initiatives undertaken to date, is confident of the continued growth of its asset base and earnings.

Consolidated Financial Statements

Management's Responsibility for Financial Information

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. The accounting policies used to prepare these financial statements, including the accounting requirements specified by the Office of the Superintendent of Financial Institutions Canada that apply to its subsidiary Home Trust Company were prepared in accordance with Canadian generally accepted accounting principles. The financial statements reflect amounts, which must, of necessity, be based on the best estimates and judgment of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for ensuring the fairness and integrity of the financial information. It is also responsible for the implementation of the supporting accounting systems. In discharging its responsibilities, management maintains the necessary internal control system designed to provide assurance that the transactions are properly authorized, assets are safeguarded and proper accounting records are held. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.

The internal control systems are further supported by a compliance function, which ensures that the Company and its employees comply with all regulatory requirements, as well as by a risk integration function and an operating risk management function that ensures proper risk control, related documentation and the measurement of the financial impact of risks. In addition, the internal auditor periodically evaluates various aspects of the Company's operations and makes recommendations to management for, among other things, improvements to the control systems.

Every year, the Office of the Superintendent of Financial Institutions Canada makes such examinations and inquiries as deemed necessary to satisfy itself that Home Trust Company is in a sound financial position and that it complies with the provisions of the Trust and Loan Companies Act (Canada) as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

Ernst & Young LLP, independent auditors, appointed by the shareholders, perform an audit of the Company's consolidated financial statements and their report follows.

The internal auditor, the external auditors and the Office of the Superintendent of Financial Institutions of Canada meet periodically with the Audit and Risk Management Committee, with management either present or absent, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial statements and management's discussion and analysis of results of operations and financial condition appearing in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management, as well as the assessment of significant transactions and related party transactions through its Audit and Risk Management Committee. This committee is composed solely of external directors.

(signed) Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer
Toronto, Canada
February 6, 2004

(signed) Cathy A. Sutherland

Cathy A. Sutherland, CA
Treasurer

Auditors' Report

To the Shareholders of Home Capital Group Inc.

We have audited the consolidated balance sheets of Home Capital Group Inc. as at December 31, 2003 and 2002 and the consolidated statements of shareholders' equity, income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
February 6, 2004

(signed) Ernst & Young LLP
Ernst & Young LLP
Chartered Accountants

Consolidated Balance Sheet

As at December 31	2003	2002
ASSETS		
Cash Resources		
Deposits with Regulated Financial Institutions	$ 30,099,947	$ 24,580,055
Treasury Bills Guaranteed by Canada	36,751,090	30,954,941
	66,851,037	55,534,996
Securities (Note 3)		
Issued or Guaranteed by Canada	55,685,216	12,559,449
Issued or Guaranteed by Provinces	798,298	6,197,648
Other Securities	112,783,745	111,002,945
	169,267,259	129,760,042
Loans (Note 4)		
Personal and Credit Card Loans	46,618,674	25,251,930
Residential Mortgages	1,511,311,393	1,116,647,294
Other Mortgages	60,670,932	36,758,286
General Allowance for Credit Losses	(10,299,600)	(7,555,880)
	1,608,301,399	1,171,101,630
Other		
Mortgage-Backed Securities Receivable (Note 5)	21,583,484	10,375,022
Capital Assets (Note 6)	1,892,784	2,194,806
Deferred Development Costs (Note 7)	2,167,067	2,767,067
Other Assets (Note 8)	27,113,075	22,555,007
	52,756,410	37,891,902
	$ 1,897,176,105	$ 1,394,288,570
LIABILITIES		
Term Loan (Note 9)	$ 10,000,000	$ 10,000,000
Subordinated Term Loan (Note 10)	4,000,000	–
Subordinated Secured Loan	–	5,000,000
Deposits and Borrowings (Note 11)		
Payable on Demand	13,979,959	12,207,188
Payable on a Fixed Date	1,650,123,198	1,202,971,991
	1,678,103,157	1,230,179,179
Other		
Cheques and Other Items in Transit	6,195,194	5,825,939
Other Liabilities (Note 12)	91,712,040	63,697,117
	97,907,234	69,523,056
	1,776,010,391	1,299,702,235
SHAREHOLDERS' EQUITY		
Capital Stock (Note 13)	31,733,465	31,930,215
Contributed Surplus	33,296	–
Retained Earnings	89,398,953	62,656,120
	121,165,714	94,586,335
	$ 1,897,176,105	$ 1,394,288,570

See accompanying notes to the Consolidated Financial Statements.

On behalf of the Board:

(signed) Gerald M. Soloway

Gerald M. Soloway
President and Chief Executive Officer

(signed) William A. Dimma

William A. Dimma
Chairman of the Board

Consolidated Statement of Income

For the year ended December 31	2003	2002
Income		
Interest from Loans	$ 112,842,234	$ 91,076,601
Dividends from Securities	7,759,952	7,630,864
Other Interest	3,778,543	2,483,169
	124,380,729	101,190,634
Interest Expense		
Interest on Deposits and Borrowings	63,936,078	54,133,211
Interest on Term and Subordinated Term Loans	1,167,709	1,195,522
	65,103,787	55,328,733
Net Interest Income	59,276,942	45,861,901
Provision for Credit Losses (Note 4)	4,286,000	3,588,000
	54,990,942	42,273,901
Non-interest Income		
Fees and Other Income	11,917,077	9,286,335
Securitization Gains on Mortgage-Backed Securities (Note 5)	9,949,184	4,389,222
Loss on Sale of Securities	(1,658,198)	(2,309,770)
	20,208,063	11,365,787
	75,199,005	53,639,688
Non-interest Expenses		
Salaries and Staff Benefits	13,183,265	10,310,219
Premises	1,771,416	1,317,454
General and Administration	17,199,898	14,013,055
	32,154,579	25,640,728
INCOME BEFORE INCOME TAXES	43,044,426	27,998,960
Income Taxes (Note 14)		
Current	11,415,777	5,781,804
Future	2,121,883	1,622,299
	13,537,660	7,404,103
NET INCOME FOR THE YEAR	$ 29,506,766	$ 20,594,857
AVERAGE NUMBER OF CLASS A AND CLASS B SHARES OUTSTANDING		
Basic (Note 13)	33,523,960	33,020,706
Fully Diluted (Note 13)	34,446,220	34,623,906
NET INCOME PER CLASS A AND CLASS B SHARE		
Basic (Note 13)	$ 0.88	$ 0.62
Fully Diluted (Note 13)	$ 0.86	$ 0.59
DIVIDENDS PER CLASS A AND CLASS B SHARE		
Dividend	$ 0.08	$ 0.06

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31		2003		2002
Capital Stock				
Convertible Class A Shares				
Balance at the Beginning of the Year	$	**576,295**	$	1,390,000
Conversion to Class B Subordinated Voting Shares		**(576,295)**		(813,705)
Balance at the End of the Year		**–**		576,295
Class B Subordinated Voting Shares				
Balance at the Beginning of the Year		**31,353,920**		29,906,523
Conversion from Convertible Class A Shares		**576,295**		813,705
Proceeds of Options Exercised		**283,650**		1,505,177
Repurchase of Shares		**(480,400)**		(871,485)
Balance at the End of the Year		**31,733,465**		31,353,920
Total Capital Stock	$	**31,733,465**	$	31,930,215
Contributed Surplus				
Balance at the Beginning of the Year	$	**–**	$	–
Amortization of Fair Value of Employees Stock Options (Note 13)		**33,296**		–
Balance at the End of the Year	$	**33,296**	$	–
Retained Earnings				
Balance at the Beginning of the Year	$	**62,656,120**	$	43,906,002
Dividends Paid During the Year		**(1,757,601)**		(1,341,972)
Dividends Declared During the Year		**(1,006,332)**		(502,767)
Net Income for the Year		**29,506,766**		20,594,857
Balance at the End of the Year	$	**89,398,953**	$	62,656,120

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended December 31	2003	2002
OPERATING ACTIVITIES		
Net Income for the Year	$ 29,506,766	$ 20,594,857
Adjustments to Determine Net Cash Flows Relating to Operating Activities:		
Future Income Taxes	2,121,883	1,622,299
Amortization of Capital Assets	743,257	950,595
Amortization of Securities	61,451	24,680
Amortization of Deferred Financing Costs	56,800	122,812
Amortization of Deferred Development Costs	600,000	596,648
Provision for Credit Losses	4,286,000	3,588,000
Change in Accrued Interest Receivable	(1,905,919)	(715,088)
Change in Accrued Interest Payable	15,724,301	10,572,062
Loss on Sale of Securities	1,658,198	2,309,770
Gain on Sale of Mortgage-Backed Securities	(9,949,184)	(4,389,222)
Change in Mortgage-Backed Securities Receivable	4,972,846	2,230,705
Change in Other Assets	(2,641,987)	(4,358,677)
Change in Cheques and Other Items in Transit	369,255	1,167,520
Change in Other Liabilities	9,665,174	3,244,585
Amortization of Fair Value of Employee Stock Options (Note 13)	33,296	–
Cash Provided by Operating Activities	55,302,137	37,561,546
FINANCING ACTIVITIES		
Repayment of Subordinated Secured Loan	(5,000,000)	–
Issuance of Subordinated Term Loan	5,000,000	–
Repayment of Subordiated Term Loan	(1,000,000)	–
Repayment of Senior Term Loans	–	(8,000,000)
Issuance of Term Loan	–	10,000,000
Deferred Financing Costs	(66,962)	(208,837)
Net Increase in Deposits and Borrowings	448,923,978	220,058,505
Issuance of Capital Stock	283,650	1,505,177
Repurchase of Shares	(480,400)	(871,485)
Dividends Paid	(2,260,368)	(1,825,172)
Cash Provided by Financing Activities	445,399,898	220,658,188
INVESTING ACTIVITIES		
Activity in Securities		
Purchases	(117,742,714)	(92,102,746)
Proceeds on Sales	52,060,027	44,733,312
Proceeds on Maturities	24,455,822	14,733,435
Activity in Mortgages		
Net Increase	(605,609,245)	(298,722,531)
Proceeds from Securitization of Mortgage-Backed Securities	205,584,663	91,903,930
Purchased Mortgages	(25,387,669)	
Net Increase in Personal and Credit Card Loans	(22,305,643)	(12,253,664)
Purchases of Capital Assets	(441,235)	(977,229)
Cash Used in Investing Activities	(489,385,994)	(252,685,493)
Net Increase in Cash and Cash Equivalents	11,316,041	5,534,241
Cash and Cash Equivalents at the Beginning of the Year	55,534,996	50,000,755
Cash and Cash Equivalents at the End of the Year	$ 66,851,037	$ 55,534,996
Supplementary Disclosure of Cash Flow Information		
Amount of Interest Paid During the Year	$ 49,379,486	$ 44,756,671
Amount of Income Taxes Paid During the Year	$ 10,853,672	$ 5,926,745

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The significant accounting policies followed by Home Capital Group Inc. (the "Company") are as follows:

A) Measurement Uncertainty

In preparing these consolidated financial statements management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the consolidated balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

B) Principles of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as the corporations whose operations are controlled by the Company and are corporations in which the Company owns more than 50% of the voting shares. The subsidiaries included in the consolidated financial statements are Home Trust Company ("Home Trust"), Home Capital Investment Management Incorporated, 964864 & 964865 Ontario Limited and 757902 & 757903 Ontario Inc., all of which are wholly owned.

C) Cash Resources

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition, including cash and deposits with regulated financial institutions, treasury bills and other eligible deposits. Cash and deposits are carried at amortized cost. Interest income is recognized on an accrual basis.

D) Cheques and Other Items in Transit

Cheques and other items in transit represent uncleared settlements with other regulated financial institutions and are recorded at cost.

E) Securities

Securities are purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive and are included in the securities account. Bonds and debentures are stated at amortized cost. Common and preferred shares are stated at cost, except for retractable and convertible preferred shares, which are stated at amortized cost. If the value of securities held in the securities account has an impairment that is other than temporary, the carrying value is appropriately reduced to the net realizable value.

The full amount of gains and losses on disposal of securities and any adjustments to record an impairment in value that is other than temporary are included in gains or losses on securities.

F) Loans

Loans are carried net of the allowance for credit losses and any unearned income

Interest income is accrued as earned until such time as the loan is recognized as impaired. At that time, interest ceases to accrue and all previously accrued interest is reversed.

A loan is recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. As a matter of practice, a loan is deemed to be impaired at the earlier of the date it has been specifically provided for or has been in arrears for 90 days. Any credit card that has a payment that is contractually 180 days in arrears is written off.

Impaired loans are accounted for on a basis under which a discounted cash flow approach or the fair value of any security underlying the loan, net of any costs of realization, is used to measure losses with respect to such loans.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management is reasonably assured as to the recoverability of the loan.

Loan commitment fees and origination fees are deferred and amortized to Fees and Other Income over the term of the loan.

G) Allowance for Credit Losses

An allowance for credit losses is maintained at an amount that, in management's opinion, is considered adequate to absorb all credit-related losses in its portfolio of both on- and off-balance sheet items. The allowance consists of accumulated specific and general provisions, each of which is reviewed on a regular basis. The allowance is increased by these provisions, which are charged to income, and reduced by write-offs, net of recoveries. The allowance is deducted from the loans on the consolidated balance sheet.

Specific provisions, except those related to credit card loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be reasonably estimated, impairment is measured with respect to the fair market value of the underlying security. The allowance is the difference between the loan's carrying value and its estimated realizable amount. For credit card loans, specific provisions are determined using a formula method, taking into account recent loss experience.

General provisions are established to absorb probable credit losses on the aggregate exposures in each of the Company's business lines, for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon statistical analysis of past performance, level of allowance already in place and management's judgement

The amount of the Provision for Credit Losses that is charged to the consolidated statement of income is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that the Company's management considers adequate to absorb all credit-related losses in its portfolio of on- and off-balance sheet items, after charging amounts written off during the year, net of any recoveries, to the allowance for credit losses account.

H) Transfer of Receivables (Mortgage-Backed Securities Receivable)

The Company periodically sells loans receivable to special purpose entities or trusts that issue securities to investors, at which time it surrenders control of the transferred assets and receives consideration other than beneficial interests in the transferred assets. The securitization trust has no recourse to the Company's other assets. When such sales occur, the Company retains interest-only strips and servicing responsibilities for the assets sold. Gains or losses on these transactions are recognized as income and are dependent in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Retained interests are stated at the original carrying amount plus interest accretion less cash received and write-down other than a temporary impairment in value. The fair value of the retained interests is estimated using discounted cash flow methodology and management's best estimates of key assumptions such as prepayment rates, average term of assets sold and other factors that influence the value of the retained interests.

Retained interests are revalued monthly to assess for other than temporary impairment.

I) Capital Assets

Capital assets, which are comprised of office furniture and equipment, computer equipment and signs, are recorded at cost and amortized over their estimated useful lives on a declining balance basis at the following annual rates:

Office Furniture and Equipment	20%
Computer Equipment	30%
Signs	20%

Leasehold improvements are amortized on a straight-line basis over the remaining term of the leases.

J) Deferred Development Costs

As at December 31, 2001, Home Trust completed the development stage of its VISA operations and, therefore, costs incurred to develop this line of business are being amortized over a period of four years from January 1, 2002 on a basis that will follow the maturing nature of the business.

K) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the consolidated balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency transactions are included in Other Income in the consolidated statement of income.

L) Amortization of Goodwill

The Canadian Institute of Chartered Accountants ("CICA") approved an accounting standard in 2002 that introduced an annual assessment of the recognition of goodwill and indefinite life intangible asset impairment, if any.

Goodwill is tested annually for impairment to ensure that its fair value is greater than or equal to book value. Any excess of book value over fair value must be charged to income in the period in which the impairment is determined. It is management's belief that there is no impairment of goodwill.

M) Financial Instruments

The Company has entered into short positions and forward foreign exchange contracts to manage the interest rate, prepayment and foreign exchange exposures arising from the Company's on-balance sheet positions. These instruments are accounted for as hedges as there is reasonable assurance that they will offset the applicable exposures arising from the Company's investments in loan receivables and securities.

If the hedge relationship is found to be no longer effective or if the designated hedged item matures or is sold, extinguished or terminated, the derivative is reclassified as trading. Realized and unrealized gains and losses on hedges are recorded at this time in Other Income on the consolidated statement of income.

N) Income Taxes

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Future tax liabilities are included in Other Liabilities on the consolidated balance sheet.

O) Employee Future Benefits

The Company accrues its obligations under employee benefit plans, which include post-retirement plans (health costs) available only to executives of the Company. The Company has adopted the following policy: the cost of these post-retirement benefits earned by the affected employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected health care costs.

P) Stock-Based Compensation Plans

The Company has two stock-based compensation plans which are described in Notes 13 and 15.

Under the Company's Stock Option Plan, options granted after January 1, 2003 are accounted for using the fair value method as described in Note 2. With respect to options granted prior to January 1, 2003, the Company continues to apply the previous standards under which no compensation expense is recognized when stock options are granted to employees and directors and the consideration paid by the employees or directors who exercise their stock options is credited to common equity.

Under the Employee Share Purchase Plan as described in Note 15, the Company's contribution is expensed when paid.

2. CHANGE IN ACCOUNTING POLICY

Stock-Based Compensation

During the quarter ended December 31, 2003, the Company adopted the requirements of the CICA accounting standard for stock-based compensation as described in Note 13 d) on a prospective basis. For stock options granted after January 1, 2003, the fair value of these options is charged to salary expense over the option vesting period. The value of the options granted is determined using the Black-Scholes option-pricing model using management's best estimate.

As at December 31, 2003, $33,296 (2002 – nil) was charged to salary expense with an offsetting credit to contributed surplus. This is related to the estimated fair value of the 170,000 stock options granted to employees during the year.

3. SECURITIES

An analysis of securities at carrying value by type and maturity is as follows:

	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	2003 Total Book Value	2002 Total Book Value
Securities Issued or Guaranteed by:						
Canada	$ –	$ 15,552,157	$ 40,133,059	$ –	**$ 55,685,216**	$ 12,559,449
Provinces	–	499,882	298,416	–	**798,298**	6,197,648
Other Debt Securities	–	–	1,193,160	–	**1,193,160**	1,191,107
Equity Securities						
Common	6,415,968	–	–	–	**6,415,968**	6,307,772
Fixed Rate Preferred	19,410,347	20,027,310	32,858,558	20,484,296	**92,780,511**	87,893,159
Floating Rate Preferred	2,975,200	4,678,607	1,130,000	–	**8,783,807**	12,856,647
Mutual Funds	–	–	–	–	**–**	2,754,260
Note Receivable – QSPE-HCC Trust	–	–	2,334,713	1,275,586	**3,610,299**	–
	$ 28,801,515	$ 40,757,956	$ 77,947,906	$ 21,759,882	**$169,267,259**	$ 129,760,042

At December 31, 2003, all investments were held in Canadian funds.

On August 6, 2003, Home Trust entered into an agreement with Regency Finance Corp. as trustee for QSPE-HCC Trust to be Regency's agent to recommend and service second mortgage loans. Once these loans have been funded, the trustee securitizes these mortgage loans and sells them as a securitized pool at par value with a committed interest rate of 6.0% with participation in any surplus proceeds after all expenses are paid. Under this program, second mortgage loans of $3.7 million were advanced and Home Trust purchased $3.6 million in Notes Receivable of these securitized pools. Home Trust undertakes all non-repayment risk on these loans through the Notes Receivable. These securities have an average duration of 2.4 years with an average yield of 6.24%.

At December 31, 2002, fixed rate preferred shares included $5.0 million of a Canadian security payable in United States currency that was translated to $8.4 million at December 31, 2002 in Canadian currency. Refer to Note 18 for forward exchange contract to hedge this security.

An analysis of securities at fair value and weighted-average yields is as follows:

2003	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-Average Yield
Securities Issued or Guaranteed by:				
Canada	**$ 55,685,216**	**$ 754,874**	**$ 56,440,090**	**4.2%**
Provinces	**798,298**	**29,672**	**827,970**	**5.6%**
Other Debt Securities	**1,193,160**	**(52,760)**	**1,140,400**	**5.3%**
Equity Securities				
Common	**6,415,968**	**1,527,064**	**7,943,032**	**1.7%**
Fixed Rate Preferred	**92,780,511**	**3,603,680**	**96,384,191**	**5.5%**
Floating Rate Preferred	**8,783,807**	**(302,489)**	**8,481,318**	**4.4%**
Note Receivable – QSPE-HCC Trust	**3,610,299**	**–**	**3,610,299**	**6.2%**
	$169,267,259	**$ 5,560,041**	**$174,827,300**	

				2002
	Book Value	Unrealized Gain (Loss)	Estimated Market Value	Weighted-Average Yield
Securities Issued or Guaranteed by:				
Canada	$ 12,559,449	$ 222,683	$ 12,782,132	4.5%
Provinces	6,197,648	103,477	6,301,125	5.4%
Other Debt Securities	1,191,107	(122,107)	1,069,000	5.3%
Equity Securities				
Common	6,307,772	(410,110)	5,897,662	1.5%
Fixed Rate Preferred	87,893,159	278,579	88,171,738	5.7%
Floating Rate Preferred	12,856,647	(2,005,872)	10,850,775	4.5%
Mutual Funds	2,754,260	(89,932)	2,664,328	4.6%
	$ 129,760,042	$ (2,023,282)	$ 127,736,760	

4. LOANS

a) Loan maturities:

					2003	2002
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Book Value	Book Value
Personal and Credit Card Loans	$ 41,740,737	$ 3,454,439	$ 1,423,498	$ –	**$ 46,618,674**	$ 25,251,930
Residential Mortgages	328,196,975	872,831,827	294,200,008	16,082,583	**1,511,311,393**	1,116,647,294
Other Mortgages	14,774,465	34,806,415	11,090,052	–	**60,670,932**	36,758,286
	384,712,177	911,092,681	306,713,558	16,082,583	**1,618,600,999**	1,178,657,510
General Allowance					**(10,299,600)**	(7,555,880)
Total	$ 384,712,177	$ 911,092,681	$ 306,713,558	$ 16,082,583	**$ 1,608,301,399**	$ 1,171,101,630

b) Impaired loans and the related allowance for specific credit losses are as follows:

	2003			2002		
	Gross Amount	Specific Provisions	Carrying Amount	Gross Amount	Specific Provisions	Carrying Amount
Personal and Credit Card Loans	**$ 340,060**	**$ 299,003**	**$ 41,057**	$ 369,920	$ 369,920	$ –
Residential Mortgages	**5,149,864**	**275,000**	**4,874,864**	4,168,213	13,000	4,155,213
Other Mortgages	**177,639**	**–**	**177,639**	–	–	–
	$ 5,667,563	**$ 574,003**	**$ 5,093,560**	$ 4,538,133	$ 382,920	$ 4,155,213

c) The following table shows the changes in the allowance for credit losses during the year:

	2003			2002		
	Specific Allowance	General Allowance for Credit Risk	Total	Specific Allowance	General Allowance for Credit Risk	Total
Balance at the Beginning of the Year	**$ 382,920**	**$ 7,555,880**	**$ 7,938,800**	$ 536,155	$ 5,517,376	$ 6,053,531
Provisions for Credit Losses	**1,542,280**	**2,743,720**	**4,286,000**	1,549,496	2,038,504	3,588,000
Write-offs	**(1,554,223)**	**–**	**(1,554,223)**	(1,898,625)	–	(1,898,625)
Recoveries	**203,026**	**–**	**203,026**	195,894	–	195,894
Balance at the End of the Year	**$ 574,003**	**$ 10,299,600**	**$ 10,873,603**	$ 382,920	$ 7,555,880	$ 7,938,800

5. MORTGAGE-BACKED SECURITIES RECEIVABLE

During the year, Home Trust securitized residential mortgage loans, and in all the securitizations, Home Trust retained servicing responsibilities and subordinated interests. Home Trust does not receive an explicit servicing fee for its servicing responsibilities. The subordinated interests consist of Home Trust's rights to future cash flows arising after the investors in the special purpose entity have received the return for which they contracted. The investors and the special purpose entity have no recourse to Home Trust's other assets for failure of debtors to pay when due. During the year, Home Trust sold $211.8 million (2002 – $94.9 million) of mortgages receivable in securitization transactions. In these transactions, Home Trust retained servicing responsibilities and the interest-only strip. Their value is subject to prepayment and interest rate risks on the transferred receivables. The retained interest in the securitization trust recorded on the consolidated balance sheet for securitization transactions is $20.4 million (2002 – $9.7 million). Home Trust has a servicing liability of $0.6 million (2002 – $0.2 million) included on the consolidated balance sheet. Mortgage payments that have been collected and are payable to the National Housing Act ("NHA") trusts as at December 31, 2003 are $6.9 million (2002 – $2.7 million). There are no expected credit losses as the mortgages are guaranteed by Canada Mortgage and Housing Corporation, an agency of the federal government.

The impact of securitizations on the consolidated statement of income for the years ended December 31 is as follows:

	2003	2002
Gains on Sales of Mortgages	**$ 9,062,555**	$ 3,705,807
Reduction in Value to Reflect Increase in Prepayment Rate Assumption	**(546,299)**	–
Amortization of Retained Interest	**1,078,252**	617,555
Other Securitization Revenues	**354,676**	65,860
Total	**$ 9,949,184**	$ 4,389,222

The following table provides quantitative information about key assumptions in measuring retained interests at the date of securitization of residential mortgages during the years ended December 31:

	2003	2002
Prepayment Rate	**8.24%**	7.00%
Discount Rate	**4.09%**	4.78%
Expected Credit Losses	**N/A***	N/A*
Weighted Average Life in Years	**3.6**	3.5

* Not applicable as these mortgages are all government guaranteed.

At December 31, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions for fixed rate mortgages are as follows:

		2003		2002
Carrying Amount of Retained Interest	$	**21,583,484**	$	10,375,022
Weighted Average Life in Years		**3.6**		3.5
Prepayment Rate		**8.24%**		7.00%
Impact on Fair Value of 10% Adverse Change	$	**(206,000)**	$	(18,000)
Impact on Fair Value of 20% Adverse Change	$	**(570,000)**	$	(25,700)
Residual Cash Flows Discount Rate		**4.09%**		4.78%
Impact on Fair Value of 10% Adverse Change	$	**(198,000)**	$	(14,000)
Impact on Fair Value of 20% Adverse Change	$	**(620,000)**	$	(56,000)
Expected Credit Losses		**N/A***		N/A*

*Not applicable as these mortgages are all government guaranteed.

The table below summarizes certain cash flows received from the securitization trusts:

		2003		2002
Net Proceeds From New Securitizations	$	**207,566,058**	$	90,852,564
Cash Flows Received on Retained Interests	$	**5,781,326**	$	2,955,670

The table below summarizes quantitative information about the Company's loan assets:

		Total Principal Amount		Principal Amount of Loans 61 or More Days Past Due
2003				
Total Loans Managed or Securitized	$	**1,933,731,631**	$	7,068,564
Less Mortgages Securitized		**315,130,632**		386,496
Total Gross Loans Reported on the Consolidated Balance Sheet	$	**1,618,600,999**	$	6,682,068
2002				
Total Loans Managed or Securitized	$	1,319,298,196	$	5,669,907
Less Mortgages Securitized		140,640,686		104,458
Total Gross Loans Reported on the Consolidated Balance Sheet	$	1,178,657,510	$	5,565,449

6. CAPITAL ASSETS

						2003		2002
		Cost		Accumulated Amortization		Net Book Value		Net Book Value
Computer Equipment	$	**3,247,069**	$	**2,492,227**	$	**754,842**	$	883,963
Office Furniture and Equipment		**2,307,786**		**1,489,396**		**818,390**		970,437
Signs		**28,422**		**25,659**		**2,763**		3,454
Leasehold Improvements		**759,289**		**442,500**		**316,789**		336,952
	$	**6,342,566**	$	**4,449,782**	$	**1,892,784**	$	2,194,806

Amortization in respect of the above-noted capital assets for the year amounted to $743,257 (2002 – $950,595).

7. DEFERRED DEVELOPMENT COSTS

In May 2000, Home Trust was approved to offer VISA cards in Canada. Home Trust entered into agreements to process the credit cards, statements and collections. As at December 31, 2001, the VISA project was completed and effective January 1, 2002, the Company began amortizing the deferred costs to the consolidated statement of income.

Costs incurred for development VISA operations	2003	2002
Balance at the Beginning of the Year	**$ 3,363,715**	$ 3,363,715
Accumulated Amortization	**(1,196,648)**	(596,648)
Balance at the End of the Year	**$ 2,167,067**	$ 2,767,067

8. OTHER ASSETS

	2003	2002
Accrued Interest Receivable	**$ 9,587,257**	$ 7,681,338
Goodwill	**2,323,914**	2,323,914
Deferred Agent Commissions	**6,290,486**	5,162,462
Other Prepaid Assets and Deferred Items	**8,911,418**	7,387,293
	$ 27,113,075	$ 22,555,007

9. TERM LOAN

On June 18, 2002, the Company entered into an agreement with Canadian Western Bank ("Canadian Western") whereby Canadian Western provided a term loan of $10,000,000 for a period of five years. The proceeds of this term loan were received on July 10, 2002, and used to repay the $8,000,000 senior term loan with Penfund Capital (No. 1) Limited ("Penfund"); the remaining $2,000,000 was used to purchase 1,000,000 common shares in the subsidiary, Home Trust.

The terms of the loan are as follows:

i) the outstanding principal shall be repaid in yearly installments of $1,000,000 commencing on July 10, 2003 for a period of four years. The balance of the loan, together with all accrued and unpaid interest, is due and payable in full on July 10, 2007;

ii) interest is payable per annum equal to the bank's prime lending rate plus 3%;

iii) as collateral for the term loan, the Company has provided a demand note, a general security agreement, a pledge of all the issued and outstanding shares in the capital of Home Trust and an assignment of $10,000,000 of the subordinated notes issued by Home Trust.

On July 30, 2003, the Loan Agreement with Canadian Western dated July 10, 2002 was amended. Canadian Western acknowledged and agreed that the annual principal installments of $1,000,000 will be applied to reduce the principal of the subordinated term loan rather than the term loan as noted in i) above.

On February 11, 2004, Canadian Western approved a reduction in the interest rate. Effective March 1, 2004, the interest rate payable on the term loan will be reduced to the bank's prime lending rate plus 2.0%.

10. SUBORDINATED TERM LOAN

On December 12, 2002, the Company entered into an agreement with Canadian Western whereby Canadian Western provided a subordinated secured loan of $5,000,000 for a period of five years. The proceeds of this subordinated secured loan was received on January 23, 2003 and used to repay the $5,000,000 subordinated secured loan owed to Surrey Metro Savings Credit Union.

The terms of the subordinated secured loan are as follows:

i) the principal of the subordinated secured loan, together with all accrued and unpaid interest is due and payable in full on July 10, 2007;

ii) interest is payable per annum equal to the bank's prime lending rate plus 4%;

iii) as collateral for the subordinated secured loan, the Company has provided a promissory note, a general security agreement, subject only to permitted encumbrances not exceeding $10,000,000 and security granted by the Company in favour of the first security to Canadian Western, a secondary pledge of all the issued and outstanding shares in the capital of Home Trust, and an assignment of $5,000,000 in subordinated notes issued by Home Trust.

On July 30, 2003, the Loan Agreement with Canadian Western dated July 10, 2002 was amended. Canadian Western acknowledged and agreed that the annual principal installments of $1,000,000 will be applied to reduce the principal of this subordinated term loan rather than the term loan as described in Note 9.

On February 11, 2004, Canadian Western approved a reduction in the interest rate. Effective March 1, 2004, the interest rate payable on the subordinated term loan will be reduced to the bank's prime lending rate plus 2.0%.

11. DEPOSITS AND BORROWINGS

	Payable on Demand	Payable on a Fixed Date: Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	2003 Total	2002 Total
Individuals	$ 13,979,959	$ 617,949,483	$ 705,053,479	$ 306,292,296	**$ 1,643,275,217**	$ 1,199,727,255
Businesses	–	9,239,155	7,917,023	3,671,762	**20,827,940**	15,451,924
	$ 13,979,959	$ 627,188,638	$ 712,970,502	$ 309,964,058	**$ 1,664,103,157**	$ 1,215,179,179

All deposits are held in Canadian funds.

12. OTHER LIABILITIES

	2003	2002
Accrued Interest Payable	**$ 62,930,199**	$ 47,205,898
Income Taxes Payable	**1,907,798**	437,624
Dividends Payable	**1,006,332**	502,767
Deferred Commitment Fees	**4,570,978**	2,309,699
Future Income Taxes (Note 14)	**9,006,403**	6,884,520
Other, Including Accounts Payable and Accrued Liabilities	**12,290,330**	6,356,609
	$ 91,712,040	$ 63,697,117

The Company has recognized a liability on the consolidated balance sheet in the amount of $98,628 (2002 – $91,500) for the employee future benefits.

13. CAPITAL STOCK

a) Authorized

An unlimited number of convertible Class A shares.
An unlimited number of Class B subordinated voting shares.
An unlimited number of Class C non-voting shares.
An unlimited number of preferred shares, issuable in series, to be designated as senior preferred shares.
An unlimited number of preferred shares, issuable in series, to be designated as junior preferred shares.

The convertible Class A shares have five votes each. These shares are convertible at any time into Class B subordinated voting shares on the basis of one Class B subordinated voting share for each convertible Class A share. In all other respects, these Class A shares rank pari-passu with Class B subordinated voting shares.

b) Issued

	Number of Shares	**2003**	Number of Shares	2002
Convertible Class A shares				
Balance at the Beginning of the Year	**2,508,334**	**$ 576,295**	6,050,000	$ 1,390,000
Conversion to Class B Subordinated Voting Shares	**(2,508,334)**	**(576,295)**	(3,541,666)	(813,705)
Balance at the End of the Year	**–**	**$ –**	2,508,334	$ 576,295
Class B Subordinated Voting Shares				
Balance at the Beginning of the Year	**31,009,456**	**$ 31,353,920**	26,645,220	$ 29,906,523
Conversion From Convertible Class A Shares	**2,508,334**	**576,295**	3,541,666	813,705
Options Exercised	**79,000**	**283,650**	952,570	1,505,177
Normal Course Issuer Bid	**(62,400)**	**(480,400)**	(130,000)	(871,485)
Balance at the End of the Year	**33,534,390**	**$ 31,733,465**	31,009,456	$ 31,353,920
Total Capital Stock		**$ 31,733,465**		$ 31,930,215

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 (refer to Note 19). Under the requirements of the CICA accounting standards for capital stock, all stock has been restated to reflect the stock dividend for the current and prior year.

On May 27, 2003, a share conversion took place that eliminated the issued balance of the convertible Class A shares. The holders of the Company's convertible Class A shares converted the remaining 2,508,334 of Class A shares into the same number of single-vote Class B subordinated voting shares.

On January 25, 2002, a share conversion took place that reduced the issued balance of the convertible Class A shares. The holders of the Company's convertible Class A shares converted 3,541,666 of this class into the same number of single-vote Class B subordinated voting shares.

c) Normal Course Issuer Bid

On October 19, 1998, the Company filed a Normal Course Issuer Bid, which allows it to purchase over a twelve-month period up to the greater of (i) 5% of the issued and outstanding shares on October 19, 1998, or (ii) 10% of the public float outstanding on October 19, 1998. This was renewed on October 27, 2003, for a further twelve-month period. This renewal allows the Company to purchase up to 5% (or 1,675,960 shares) of the outstanding Class B subordinated voting shares outstanding on October 31, 2003, over this twelve-month period.

During the year, 62,400 shares were purchased (2002 – 130,000). The cost of the shares was reduced by the average per share amount on the transaction date, which amounted to $480,400 (2002 – $871,485).

d) Stock Options

The details and changes in the issued and outstanding options are as follows:

	2003		2002	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at the Beginning of the Year	**1,427,000**	**$ 5.69**	1,469,570	$ 2.04
Issued	**170,000**	**10.56**	990,000	6.95
Exercised	**(79,000)**	**3.59**	(952,570)	1.58
Cancelled	**(17,500)**	**8.93**	(80,000)	3.12
Outstanding at the End of the Year	**1,500,500**	**$ 6.31**	1,427,000	$ 5.69
Exercisable at the End of the Year	**650,500**	**$ 4.61**	243,500	$ 3.30

The Company's stock option plan (the "Plan") was approved by the shareholders of the Company on December 31, 1986. The Plan was amended effective May 29, 2002, to conform the Plan to the Toronto Stock Exchange's Revised Policy on Listed Company Share Incentive Arrangements. Under the amended Plan, the maximum number of Class B subordinated voting shares that may be issued under the Plan as amended is 2,936,668, representing approximately 8.9% of the aggregate number of Class A shares and Class B subordinated voting shares, which were issued and outstanding on April 19, 2002. The exercise price of the options shall be fixed by the Board of Directors (the "Board") at the time of issuance at the "market price" of such shares subject to all applicable regulatory requirements. The market price per share shall not be less than the weighted-average price at which the Class B shares of the Company have traded on the Toronto Stock Exchange during the two trading days immediately preceding the date on which the option is approved by the Board. The period of exercise of any option will not extend beyond a period of 10 years from the date of grant of the option. The period within which an option or portion thereof may be exercised by a participant will be determined in each case by the Board.

The Company amended and restated the Plan effective as of the record date of the stock dividend on January 21, 2004. The maximum aggregate number of Class B shares reserved for issuance for all purposes under the Plan shall be increased to 5,356,198 Class B shares. The number of Class B shares subject to each unexercised option under the Plan shall be increased twofold and the exercise price shall be decreased by 50%.

As at December 31, 2003, stock options outstanding to acquire Class B subordinated voting shares were as follows:

	Stock Options Outstanding	Stock Options Exercisable	Exercise Price Per Share		Expiry Date
Options Granted to:					
Directors	25,000	25,000	$ 2.17		04/21/2004
	30,000	30,000	1.97		05/26/2004
	28,000	28,000	2.00		10/20/2004
	20,000	20,000	1.90		03/23/2005
	40,000	40,000	4.69		07/25/2006
	200,000	50,000	6.76		03/06/2007
	30,000	30,000	7.75	**	06/18/2007
	265,000	66,250	7.15	**	12/05/2009
	638,000	289,250			
Employees	25,000	25,000	$ 2.17		04/21/2004
	149,000	149,000	2.88		10/20/2005
	26,000	26,000	3.03		12/04/2005
	50,000	50,000	4.69		07/25/2006
	322,500	78,750	6.76	**	03/06/2007
	130,000	32,500	7.15	**	12/05/2009
	160,000	–	10.56	*	07/23/2010
	862,500	361,250			
Total	1,500,500	650,500	$ 4.61		

* The Company granted certain employees the right to receive stock options of 170,000 if certain performance criteria were met. As at December 31, 2003, the performance criteria had not been met. As a result, the contingently assumable options have not been included in the computation of diluted earnings per share.

** In 2002 the Company granted certain employees and directors the right to receive stock options of 545,000 and 395,000 if certain performance criteria were met. As of March 31, 2003, the first level of the performance criteria had been met. As a result, 25% of these contingently assumable options have been included in the computation of diluted earnings per share.

Fair Value Compensation of Stock Options

The Company has determined the fair value of options granted using the Black-Scholes option-pricing model. The weighted-average fair value of the options granted during the years ended December 31, 2003 and 2002 was $3.57 for the July 2003 issue, $2.67 for the March 2002 issue and $3.71 for the December 2002 issue.

The following weighted-average assumptions were used to determine the fair value of the options on the date of grant.

	July 2003	March 2002	December 2002
Expected Dividend Yield	**3.85%**	3.85%	3.85%
Expected Share Price Volatility	**28.80%**	28.70%	34.40%
Risk-free Rate of Return	**3.50%**	4.38%	4.25%
Expected Period Until Exercise	**4.3 years**	4.0 years	7.0 years

During the quarter ended December 31, 2003, the Company changed the accounting for stock options granted on or after that date. Under the new policy, the Company determined the fair value of stock options on their grant date and recorded this amount as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When these stock options are exercised, the Company records the amount of proceeds, together with the amount recorded in contributed surplus, in share capital. Employee compensation expense increased by $33,296 and net income decreased by $21,103 in fiscal 2003 as a result of this change in accounting policy.

The Company will not record any compensation expense for stock options granted in prior years. When these stock options are exercised, the Company will include the amount of proceeds in share capital.

The restatement on net income and earnings per share if the compensation expense had been recorded in the current and prior year based on the fair value of 2002 outstanding options is as follows:

	2003	2002
Pro-forma Net Income (in Thousands)	$ **29,278**	$ 20,411
Pro-forma Earnings per Share – Basic	$ **0.87**	$ 0.62
Pro-forma Earnings per Share – Diluted	$ **0.85**	$ 0.59

e) Net Income per Share

Net income per share is determined as net income for the year divided by the average number of convertible Class A and Class B subordinated voting shares outstanding.

14. INCOME TAXES

Components of income tax expense:

	2003	2002
Current Income Taxes		
Federal	$ **7,204,598**	$ 3,924,020
Provincial	**4,211,179**	1,857,784
	11,415,777	5,781,804
Future Income Taxes		
Federal	**1,027,294**	1,132,284
Provincial	**1,094,589**	490,015
	2,121,883	1,622,299
	$ **13,537,660**	$ 7,404,103

Reconciliation of income taxes:

	2003	2002
Income Before Income Taxes	$ **43,044,426**	$ 27,998,960
Income Taxes at Statutory Combined Federal and Provincial Tax Rate	$ **15,762,869**	$ 10,813,199
Increase (Decrease) from Statutory Income Tax Rate Resulting from:		
Tax-exempt Income	**(2,841,563)**	(2,946,908)
Non-deductible Expenses	**26,641**	23,834
Future Tax Rate Changes	**472,019**	(327,138)
Other	**117,694**	(158,884)
	$ **13,537,660**	$ 7,404,103

The combined federal and provincial income tax rate varies each year according to changes in the statutory rates imposed by the federal and provincial governments. The effective rates of income tax in the consolidated statement of income are different from the combined federal and provincial income tax rate of 36.62% (2002 – 38.62%).

On November 24, 2003, the Ontario government tabled a bill that reverses the previously proposed corporate tax rate reductions. Effective January 1, 2004, and going forward, the general rate of Ontario corporate tax will increase to 14.0% from the 2003 tax rate of 12.5%. The federal income tax rate reductions remain unchanged. As a result of this legislative change, the Company recognized an increase of $761,227 in the future income tax provision.

Sources of future income tax balances:

	2003	2002
Future Income Tax Liabilities		
Deferred Agent Commissions and Other Charges	$ **4,853,868**	$ 3,209,014
Market-to-Market Adjustments on Securities	**–**	680,984
Mortgage-Backed Securities Receivable	**6,943,829**	3,108,218
Deferred Development Costs	**782,745**	934,900
	12,580,442	7,933,116
Future Income Tax Assets		
Allowance for Credit Losses	**392,754**	268,226
Market-to-Market Adjustments on Securities	**1,530,247**	–
Deferred Commitment Fees	**1,651,038**	780,370
	3,574,039	1,048,596
Net Future Income Tax Liability	$ **9,006,403**	$ 6,884,520

15. EMPLOYEE SHARE PURCHASE PLAN

Effective January 1, 2001, qualifying employees of Home Trust have the ability to purchase shares in the Company. Under the Employee Share Purchase Plan, qualifying employees can choose each year to have up to 10% of their annual base earnings withheld to purchase Class B subordinated voting shares. Home Trust matches 50% of the employee's contribution amount. All contributions are used by the Plan's trustee to purchase the Class B subordinated voting shares during each pay period in the open market. Home Trust's contributions are fully vested immediately. Home Trust's contributions are expensed as paid and totalled $185,009 for 2003 (2002 – $137,889).

16. LEASE COMMITMENTS

Contractual obligations in respect of operating leases as at December 31, 2003, are as follows:

2004	$ 1,140,830
2005	941,194
2006	515,803
2007	464,167
2008	461,824
2009 and thereafter	77,940
	$ 3,601,758

	2003	2002
Rent Paid During the Year	$ **1,452,466**	$ 1,031,779

17. CREDIT COMMITMENTS

Outstanding commitments for future advances on mortgages with terms of one to five years amounted to $116,792,110 as at December 31, 2003 (2002 – $98,910,816). The commitments remain open until April 2005 for 2003 and November 2003 for 2002. The average rate on mortgage commitments is 7.16% (2002 – 7.57%).

The Company has contractual commitments to extend credit to its clients for its credit card products. The contractual commitment for this product represents the maximum potential credit risk, assuming the contractual amount is fully utilized and the client defaults and collections efforts are unsuccessful. At December 31, 2003, these contractual commitments in aggregate were $51,975,261 (2002 – $26,447,619). These amounts are not fully drawn by the Company's customers; and therefore, these amounts in aggregate are not indicative of future cash requirements. Management does not expect any material adverse consequence to the Company's financial position to result from these commitments. Since secured credit cards have spending limits restricted by collateral held by the Company, unused credit availability is not included in the foregoing contractual commitments.

The Company indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their being, or having been, directors and officers at the request of the Company. The nature of this indemnification prevents the Company from making a reasonable estimate of the maximum potential amount the Company could be required to pay to third parties. Management believes that the likelihood that the Company would incur a significant liability under these indemnifications is remote. The Company has purchased directors and officers liability insurance.

18. FINANCIAL INSTRUMENTS

The table below provides an analysis of the Company's derivative portfolio and related credit exposure:

2003

	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-Weighted Balance	Fair Market Value
Over-the-Counter Contract					
Interest Rate Contracts					
Option Written					
Due Within One Year	**$ 40,728,499**	**$ 406,750**	**$ 406,750**	**$ –**	**$ 41,135,249**

2002

	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-Weighted Balance	Fair Market Value
Foreign Exchange Contract					
Forward Contract					
Due Within One Year	$ 8,284,000	$ 245,000	$ 328,000	$ 164,000	$ 8,529,000

The following terms are used in the derivatives table above: *notional amount* represents the amount to which a rate or price is applied in order to calculate the amount of cash that must be exchanged under the contract; *replacement cost* represents the cost of replacing the contract which has a positive fair value using current market rates; *credit risk equivalent* represents the total replacement cost and the potential future credit exposure, if the counterparty defaults; *risk-weighted balance* represents the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by the Office of the Superintendent of Financial Institutions Canada, and *fair market value* represents the notional amount plus the current replacement cost at December 31, 2003 and 2002.

19. SUBSEQUENT EVENT

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

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

The following table illustrates the pre-stock dividend information for the earnings per share and book value for the years ended December 31, 2003 and 2002.

	2003	2002
Net Income	**$ 29,506,766**	$ 20,594,857
Net Income per Class A and Class B shares		
Basic	**$ 1.76**	$ 1.25
Fully Diluted	**$ 1.71**	$ 1.19
Average Number of Class A and Class B Shares Outstanding		
Basic	**16,761,980**	16,510,353
Fully Diluted	**17,223,110**	17,311,953
Total Number of Class A and Class B Shares	**16,767,195**	16,758,895
Book Value per Share	**$ 7.23**	$ 5.64

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the following table represent the fair values of the Company's financial instruments, both on- and off-balance sheet, of which the valuation methods and assumptions are described below. The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act. However, many of the Company's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Because of the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	2003			2002		
($ thousands)	Book Value	Fair Value	Fair Value Over/(Under) Book Value	Book Value	Fair Value	Fair Value Over/(Under) Book Value
Assets						
Cash Resources	**$ 66,851**	**$ 66,851**	**$ –**	$ 55,535	$ 55,535	$ –
Securities	**169,267**	**174,827**	**5,560**	129,760	127,737	(2,023)
Loans	**1,608,301**	**1,670,480**	**62,179**	1,171,102	1,229,149	58,047
Other	**52,756**	**53,905**	**1,149**	37,892	38,370	478
Liabilities						
Term Loan	**10,000**	**10,000**	**–**	10,000	10,000	–
Subordinated Term Loan	**4,000**	**4,000**	**–**	5,000	5,000	–
Deposits and Borrowings	**1,664,103**	**1,708,192**	**44,089**	1,215,179	1,238,694	23,515
Other	**97,907**	**97,907**	**–**	69,523	69,523	–
Off-Balance Sheet Financial Instruments						
Credit Commitments	**$ 133,043**	**$ 136,452**	**$ 3,409**	$ 108,493	$ 112,456	$ 3,963
Financial Instrument Liability	**40,728**	**41,135**	**407**	8,284	8,529	245

The following methods and assumptions were used to estimate the fair values of both on- and off-balance sheet financial instruments:

- cash resources, other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature
- securities are assumed to approximate to their market values as provided in Note 3
- fair value of loans is determined by discounting the expected future cash flows of the loans at market rates for loans with similar terms and credit risks
- other assets have been adjusted for the fair value of the Mortgage-Backed Securities
- book value of the term loan approximates its fair value
- book value of the subordinated term loan approximates its fair value
- fair value of deposits payable on demand approximates their carrying values, fixed rate deposits are determined by discounting the contractual cash flows using the market interest rates currently offered for deposits with similar terms and risks
- fair value of credit commitments is determined by discounting the expected future cash flows of the credit commitments at market rates for loans with similar terms and credit risks
- financial instruments are assumed to approximate to the market value as provided in Note 18

21. RISK MANAGEMENT

As part of the Company's risk management practices, the risks that are significant to the business are identified, monitored and controlled. These risks include credit risk, liquidity risk, market risk and operational risk. The nature of these risks and how they are managed is provided in the commentary on pages 21 to 26 of Management's Discussion and Analysis of operations and financial condition.

Information on specific measures of risk, including the allowance for credit losses, derivative financial instruments, interest rate sensitivity and fair value of financial instruments, are included in the notes to the consolidated financial statements.

22. EARNINGS BY BUSINESS SEGMENT

The following charts detail the earnings of the Company by business segment:

				2003
	Mortgage Business	Consumer Lending Retail Services and Credit Cards	Other**	Total
Net Interest Income	**$ 43,888,675**	**$ 5,017,481**	**$ 10,370,786**	**$ 59,276,942**
Provisions for Credit Losses	**(3,020,270)**	**(1,265,730)**	**–**	**(4,286,000)**
Fees and Other Income	**8,072,230**	**3,844,458**	**389**	**11,917,077**
(Loss) Gain on Sale of Securities and Mortgage-Backed Securities	**9,949,184**	**–**	**(1,658,198)**	**8,290,986**
Non-Interest Expense	**(21,126,773)**	**(5,742,030)**	**(5,285,776)**	**(32,154,579)**
Net Income (Loss) Before Provison for Income Taxes	**37,763,046**	**1,854,179**	**3,427,201**	**43,044,426**
Provision for Income Taxes	**11,603,761**	**679,000**	**1,254,899**	**13,537,660**
Net Income (Loss)	**$ 26,159,285**	**$ 1,175,179**	**$ 2,172,302**	**$ 29,506,766**

				2002
	Mortgage Business	Consumer Lending Retail Services and Credit Cards	Other**	Total
Net Interest Income	$ 33,295,180	$ 3,653,045	$ 8,913,676	$ 45,861,901
Provisions for Credit Losses	(1,660,910)	(1,927,090)	–	(3,588,000)
Fees and Other Income	5,990,209	3,296,126	–	9,286,335
(Loss) Gain on Sale of Securities and Mortgage-Backed Securities	4,389,222	–	(2,309,770)	2,079,452
Non-Interest Expense	(15,812,751)	(5,442,591)	(4,385,386)	(25,640,728)
Net Income (Loss) Before Provison for Income Taxes	26,200,950	(420,510)	2,218,520	27,998,960
Provision for Income Taxes	6,709,712	(162,401)	856,792	7,404,103
Net Income (Loss)	19,491,238	(258,109)	1,361,728	20,594,857

** Other – includes other investments and corporate activities.

Corporate Directory

Home Capital Group Inc.

Directors

William A. Dimma [1,3,4,5]
Chairman of the Board and Corporate Director
Toronto, Ontario

John M. Christodoulou [1,2]
Chairman and Chief Executive Officer
Guardian Capital Group Ltd.
Toronto, Ontario

Hon. William G. Davis [1,3,4,5]
P.C., C.C., Q.C.
Counsel
Torys LLP
Toronto, Ontario

Harvey F. Kolodny [1,2,4,5]
Professor Emeritus
Rotman School of Management
University of Toronto
Toronto, Ontario

John M. E. Marsh [3,4]
Corporate Director
Port Colborne, Ontario

Robert A. Mitchell [1,5]
Corporate Director
Oakville, Ontario

Sheila L. Ross [3]
Partner
Highland Partners
Toronto, Ontario

Gerald M. Soloway [2,4]
President and Chief Executive Officer
Home Capital Group Inc.
Toronto, Ontario

(1) Member of the Audit and Risk Management Committee
(2) Member of the Investment Committee
(3) Member of the Human Resources and Compensation Committee
(4) Member of the Executive Committee
(5) Member of the Corporate Governance and Nominating Committee

Committees

Audit and Risk Management Committee
Robert A. Mitchell
Chairman

Investment Committee
Harvey F. Kolodny
Chairman

Human Resources and Compensation Committee
Sheila L. Ross
Chairman

Executive Committee
William A. Dimma
Chairman

Corporate Governance and Nominating Committee
William A. Dimma
Chairman

Officers

Gerald M. Soloway
President and Chief Executive Officer

W. Roy Vincent
Senior Vice President and Chief Operating Officer

Nick Kyprianou
Senior Vice President

Cathy A. Sutherland, C.A.
Treasurer

Sharron I. Hatton
Corporate Secretary

Annual Meeting Notice

The Annual and Special 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 12, 2004, 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 Trust Company

Directors

Hon. William G. Davis
P.C., C.C., Q.C.
Chairman of the Board

William A. Dimma
Harvey F. Kolodny

John M.E. Marsh
Robert A. Mitchell
Sheila L. Ross

Gerald M. Soloway
W. Roy Vincent

Officers

Gerald M. Soloway
President and Chief Executive Officer

W. Roy Vincent
Senior Vice President and Chief Operating Officer

Nick Kyprianou
Senior Vice President

Cathy A. Sutherland, C.A.
Treasurer

Sharron I. Hatton
Corporate Secretary

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Assistant Vice President, Hamilton Office

Brad Hamilton
Manager, Mortgages

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Senior Director, VISA Credit Card Services

Laurie Chalabardo
Pierre Lafleur
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Scott Congdon
Jeff Ayer
Regional Managers, Mortgage Lending

Memberships

Canada Deposit Insurance Corporation

Charter General Member VISA Canada Association

Trust Companies Association of Canada

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Home Capital Group Inc.
Home Trust Company
Ernst & Young LLP
Chartered Accountants
Toronto, Ontario

Banker
Home Capital Group Inc.
Home Trust Company
Bank of Montreal,
St. Catharines, Ontario

Corporate Counsel
Home Capital Group Inc.
Home Trust Company
Torys LLP *and*
Gowling Lafleur Henderson LLP

Transfer Agent
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Stock Listing
Toronto Stock Exchange
Ticker Symbol: HCG.B

Capital Stock
As at December 31, 2003, there were 33,534,390 Class B shares outstanding

For shareholder information, please contact:

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Corporate Secretary

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