

# SS Concordia

#IHeartChickenFarmers



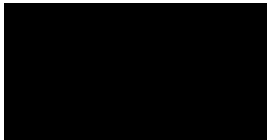
# Free Speech isn't Free, Unless you are a Bull

Peter A. Downard  
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May 2, 2016

VIA SERVICE

Mr. Mark Cohodes



Dear Mr. Cohodes:

**Re: *Thompson v. Cohodes***

I have been consulted by Mr. Mark Thompson, the Chairman and Chief Executive Officer of Concordia Healthcare Corp. ("Concordia"), regarding an interview given by you to the Broadcast News Network ("BNN") in Toronto, Ontario on Friday, April 29, 2016, broadcast by BNN on that date.

The interview is available on the Internet under the title, "Short seller takes aim at Concordia", at <http://www.bnn.ca/Video/player.aspx?vid=859434>.

In the interview you state the following about Mr. Thompson:

One of the things I always try to do is I bet the jockey and not the horse. And one thing I look at is I look at career failures. And the management of Concordia, their past gig was at something called Biovail which I was short a long time ago which was a complete and utter fraud. So Thompson has a history of nonsense when he was at Biovail.

Your allegations are seriously defamatory of Mr. Thompson. Your statements, in their plain and ordinary meaning including their implied meanings, meant and were understood to mean that Mr. Thompson is a dishonest executive and a "fraud" who has engaged in fraudulent conduct in the past and is engaged in the fraudulent management of Concordia today. Your defamatory statements are false, outrageous and grossly irresponsible.

Mr. Thompson demands that you immediately cease and desist from communicating to anyone statements defamatory of Mr. Thompson. In addition, in order to mitigate the damage to Mr. Thompson that your defamatory statements have already caused, you should immediately cause to be issued on the Canada News Wire Internet news service a media release under your name stating the following retraction and apology:

**Retraction and Apology by Mark Cohodes to Mark Thompson**

On April 29, 2016, in an interview with the Business News Network ("BNN") I made statements regarding the personal character of Mark Thompson, the Chairman and Chief Executive Officer of Concordia Healthcare Corp.

I wish retract those statements without reservation. I sincerely apologize to Mr. Thompson for having made the statements about him.

Mr. Thompson reserves all of his rights in this matter, including his rights to commence legal proceedings against you in the Ontario Superior Court of Justice for all appropriate relief, including substantial general, aggravated, special and punitive damages for libel.

This letter is notice to you pursuant to s. 5 (1) of the Ontario *Libel and Slander Act*.

May I please hear from you or your counsel within 24 hours.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

Peter A. Downard

# Network Associates / McAfee



## SEC Charges McAfee, Inc. with Accounting Fraud; McAfee Agrees to Settle and Pay a \$50 Million Penalty

Washington, D.C., Jan. 4, 2006 — The Securities and Exchange Commission today filed securities fraud charges against McAfee, Inc., formerly known as Network Associates, Inc., a Santa Clara, California-based manufacturer and supplier of computer security and antivirus tools. The Commission's complaint alleges that, from the second quarter of 1998 through 2000, McAfee misled investors when it engaged in a fraudulent scheme to overstate its revenue and earnings by hundreds of millions of dollars. The complaint specifically alleges that, during the period 1998 through 2000, McAfee inflated its cumulative net revenues by \$622 million and that, for 1998 alone, McAfee overstated revenues by \$562 million, a misstatement of 131 percent. When the scheme began to unravel and McAfee announced, in December 2000, that it would miss its quarterly revenue projection by \$190 million, the news slashed over \$1 billion from McAfee's market capitalization.

CONFIDENTIAL



Valeant and Concordia (Poor Man's  
Valeant).....Version 2.0

Updated as of October 1, 2016



HOME CAPITAL GROUP INC.

(HCG CN)



EQUITABLE  
BANK

(EQB CN)

*Intertain*

(IT CN)

Home Capital and Equitable Bank (Poor Man's HCG)

# HCG Mortgage Fraud



## July 10, 2015: Preannouncement ... “First Cockroach”

### Announced Q2 2015 origination numbers on July 10, 2015...

- Originated \$1.3bn in uninsured mortgages
  - Street expectations were \$2.0bn
- Originated \$280mm in insured mortgages
  - Street expectations were \$450mm
- Expected EPS of \$1.03 for Q2
  - Street expectations were \$1.11
- No mention of firing brokers
  - Only mentioned an “ongoing review of it business partners”

## July 29, 2015: Fraud Announcement... “Roach Infestation”

### **Ontario Securities Commission requested that HCG disclose Income Verification Fraud on July 29, 2015...**

- Management admitted to knowledge of Income Verification Fraud since September 2014
- However, management did not think it was material enough to disclose (this lack of “materiality” becomes a pattern later)
- HCG disclosed that it had suspended 45 brokers to date
  - These brokers originated \$960.4mm in loans for 2014 (~10.85% of all 2014 originations)
    - 6.5% of 2014 Uninsured originations
    - 32% of 2014 Insured originations
  - Management has not disclosed originations for these brokers for years prior to 2014 or for 2015



# Who Are These Fired Brokers?

**HCG President Martin Reid told *The Financial Post* on July 18, 2015 that Interfinance Mortgage Corp. had been fired**

- Interfinance is run by Kiran Kaushal
- Kaushal also runs the Shayam Kaushal Charitable Foundation (SKCF)
- HCG has been a benefactor of SKCF for several years



## HCG and Shayam Kaushal Charitable Foundation (cont'd)

**HCG President Martin Reid has been honored many times by SKCF**



Under the leadership of Martin Reid, Home Trust raised \$11,000 at the 2011 Scotiabank Toronto Waterfront Marathon which SKCF donated to The Easter Seals Foundation.

## HCG and Shayam Kaushal Charitable Foundation (cont'd)

**HCG VP of Residential Mortgage Lending, Pino Decina, has also been honored by SKCF**



Kiran Kaushal (right) presents a plaque of appreciation to Pino Decina of Home Trust (Gala 2012 Title Sponsor)

# HCG and Shayam Kaushal Charitable Foundation

## HCG has raised over \$100,000 for the SKCF...

### **2014- Oct 19**

Team SKCF proudly participated in our fourth annual Scotiabank Toronto Waterfront Marathon. Under the leadership of Martin Reid, President of Home Trust and Kiran Kaushal, an amazing \$30,000 was raised for the Shayam Kaushal Charitable Foundation

### **2013 - Oct 20**

Under the leadership of Kiran Kaushal and Martin Reid, President of Home Trust, an astounding \$50,000 was raised when Team SKCF participated in the Scotiabank Toronto Waterfront Marathon for the third year in a row

### **2012- Oct 14**

Team SKCF participated in the Scotiabank Toronto Waterfront Marathon. \$25,000 was raised for SKCF under the leadership of Martin Reid, president of Home Trust

### **2011 – October 16**

Team SKCF participated in the Scotiabank Toronto Waterfront Marathon. Through the initiative of Mr. Martin Reid, President of Home Trust, over \$11,000 was raised from this event

## HCG and Interfinance appear to have had a long and profitable relationship

- Relationship dates back at least to 2011
- HCG was Premium Title Sponsor of SKCF in 2012
- Kaushal said this to the Financial Post on July 18 (and then quickly ended the interview):
  - “I am a broker, I don’t work with Home Capital.”
- When we asked Martin Reid about Interfinance, he said:
  - “I can’t comment on the names.”

# With whom did the brokers work? And where is he now?

## Rizwan Qureshi

Business Development Manager at Equitable Bank

Toronto, Canada Area | Financial Services

Previous Equitable Bank, Home Trust Company, CIBC

Education Seneca College of Applied Arts and Technology



### Business Development Manager

Equitable Bank

February 2016 – Present (8 months) | GTA



### Mortgage Underwriter

Equitable Bank

November 2014 – February 2016 (1 year 4 months) | Toronto



Review the quality of residential mortgage applications from various channels including, direct clients, and Brokers.

Always take on a positive approach to all deals to ensure that all aspects of the file are understood. Have an open mind when dealing with more difficult deals in order to provide common sense solutions to broker/client partners.

Effectively maintain existing broker/client relationships and build new broker/client relationships to grow EQB's book of business and enhance EQB's marketplace presence.

Taking a sales approach while negotiating interest rates and fee terms in accordance with company guidelines, lending risk & the competitiveness of the environment/market.

Offering additional products to promote EQB's products and services.

### Senior Mortgage Underwriter

Home Trust Company

March 2010 – November 2014 (4 years 9 months) | Toronto, Canada Area



Review the quality of residential and commercial mortgage applications from various channels including, direct clients, renewals team, and Brokers.

Analyze personal and company credit reports to review "credit worthiness of borrower".

Negotiate interest rates and fee terms in accordance with company guidelines, lending risk & the competitiveness of the environment/market.

Order, reviewed and assessed property appraisals and environmental assessments to make sure property's adhere to company guidelines.

Obtain accurate & sufficient information to make valid lending decisions where information is not fully disclosed or vague.

Provide administrative support to the funding team as well as professional and personalized customer service to clients in a financially high-risk environment.

Met and exceeded sales targets on a monthly basis for 12 consecutive months.



# These seem quite similar except for one thing...

## He claims he was responsible for 35% of HCG earnings

### Senior Credit Analyst

à HOME Trust Company  
Canada

Review the quality of residential and commercial mortgage applications from various channels including, direct clients, renewals team, and Brokers.

Analyze personal and company credit reports to review "credit worthiness of borrower".

Negotiate interest rates and fee terms in accordance with company guidelines, lending risk & the competitiveness of the environment/market.

Order, reviewed and assessed property appraisals and environmental assessments to make sure property's adhere to company guidelines.

Obtain accurate & sufficient information to make valid lending decisions where information is not fully disclosed or vague.

Provide administrative support to the funding team as well as professional and personalized customer service to clients in a financially high-risk environment.

Met and exceeded sales targets on a monthly basis for 12 consecutive months.

Individually generate 11 million to 15 million per month of mortgages lent.

Work within a team of 12 individuals to meet and exceed company targets and we are able to contribute to 35% of the company's earnings.

### Senior Mortgage Underwriter

Home Trust Company

March 2010 – November 2014 (4 years 9 months) | Toronto, Canada Area



Review the quality of residential and commercial mortgage applications from various channels including, direct clients, renewals team, and Brokers.

Analyze personal and company credit reports to review "credit worthiness of borrower".

Negotiate interest rates and fee terms in accordance with company guidelines, lending risk & the competitiveness of the environment/market.

Order, reviewed and assessed property appraisals and environmental assessments to make sure property's adhere to company guidelines.

Obtain accurate & sufficient information to make valid lending decisions where information is not fully disclosed or vague.

□

Provide administrative support to the funding team as well as professional and personalized customer service to clients in a financially high-risk environment.

Met and exceeded sales targets on a monthly basis for 12 consecutive months.



# New Disclosures: Q1 2015 LTV Changes

As Reported Q2 2015				As Reported Q1 2015				Difference
	As at				As at			
	March 31				March 31			
	2015				2015			
	Percentage of Total Value of Outstanding Mortgages with Weighted-Average Current LTV less than or Equal to Current LTV (1)				Percentage of Total Value of Outstanding Mortgages with Weighted-Average Current LTV less than or Equal to			
	75% 65%				75% 65%			
British Columbia	64.4%	86.7%	48.8%	British Columbia	57.6%	90.2%	60.4%	-6.8%
Alberta	63.8%	82.7%	50.4%	Alberta	56.5%	89.1%	64.2%	-7.3%
Ontario	67.0%	73.6%	36.8%	Ontario	61.0%	79.7%	49.1%	-6.0%
Quebec	65.6%	89.0%	41.6%	Quebec	63.2%	89.2%	45.4%	-2.4%
Other	64.4%	84.3%	49.3%	Other	61.4%	85.9%	53.4%	-3.0%
Total	66.7%	75.1%	38.1%	Total	60.7%	81.0%	50.1%	-6.0%

(1) Weighted-average LTV is calculated by dividing the sum of the products of LTVs and loan balances by the sum of the loan balances.

- Management failed to correct what it described as a “non-material double counting” error in its Q1 2015 LTV calculations
  - This “error” made the LTVs in Q1 2015 look better than they actually were
- Management specifically commented on the LTV of oil-producing regions in its Q1 2015 earnings press release
  - Stated LTV of 55.7%, which is mathematically impossible based on actual LTVs for each region (all greater than 55.7%)

# HCG Earnings Surprise

They knew about the mortgage fraud in Q3 2014...

Home Capital Group Inc

Periodicity

Quarters

1) Earnings History & Price Reaction | EE SURP »

Measure

EPS, Adj+

Px Chg Window

One Day After

Earnings/Surprise Snapshot

Industry

Mortgage Finance

Exp. for Next Period

1.052

Next Announcement

(C) 11/02/2016

Average Surprise

1.29%

Prior Announcement

07/27/2016

Average Abs. Surp

3.64%

P/E Actual

7.38

Surp/Px Chg Corr.

0.46

5 Year Growth

10.52%

Average Abs. Px Chg

3.86%

Earnings Trend

-0.01

Implied 1 Day Move

1.22%

	Ann Date	Per	Per End	C	Reported	Comp	Estimate	%Surp
Average of Absolute Values								3.64%
11)	08/02/2017	Q2 17	06/17				1.100	
12)	05/02/2017	Q1 17	03/17				1.040	
13)	02/02/2017	Q4 16	12/16				1.051	
14)	11/02/2016	Q3 16	09/16				1.039	
15)	07/27/2016	Q2 16	06/16		0.990	0.990	1.065	-7.04%
16)	05/04/2016	Q1 16	03/16		0.965	0.960	1.023	-6.16%
17)	02/10/2016	Q4 15	12/15		0.978	1.020	1.052	-3.04%
18)	11/04/2015	Q3 15	09/15		1.030	1.030	1.032	-0.19%
19)	07/29/2015	Q2 15	06/15		1.030	1.030	1.030	0.00%
20)	05/06/2015	Q1 15	03/15		1.030	1.030	1.033	-0.29%
21)	02/11/2015	Q4 14	12/14		1.019	1.040	1.054	-1.33%
22)	11/05/2014	Q3 14	09/14		1.017	1.010	1.064	-5.08%
23)	07/30/2014	Q2 14	06/14		1.048	1.040	1.012	2.77%

...and haven't made a quarter since Q2 2014

## Key Resignations/Firings

- CFO resigned in November 2014 but he remains on the Board
- Chief Risk Officer left unannounced, with a replacement CRO appointed in January 2015
- Board Member William Davis resigned in May of 2015
- Board Member James Baillie resigned in July 2015
  - He was the former head of Ontario Securities Commission (SEC equivalent) and a part of the “Ad Hoc Committee”
  - Two days after his departure HCG admitted mortgage fraud
  - Management said it would replace him by the end of Q3 2015 but no one has been appointed yet

# Home Capital Employee Departures 2016 - 33 Employees

Alan Sturrock – Team Leader, Underwriting – Left Jun 2016	David Fernandes – Credit Review Analyst – Left Feb 2016
Brittney Channer – Funding Specialist/Fulfillment Officer – Left Jun 2016	Kimberly Laidis – Commercial Lending Officer – Left Feb 2016
Sunny Grewal – Mortgage Underwriter – May 2016	Lynda Zerbe Lalonde – Independent HR Consultant – Left Feb 2016
Robert Michael Fiorini – Mortgage Underwriter – Left May 2016	Ryan Scott – Operations Analyst – Left Feb 2016
S. Alexander – Risk Analyst – Left May 2016	Shawn Lyons – Sr. VP Finance – Left Jan 2016
Danny Antoniazzi – Sr. Manager, Operations & Credit – Left May 2016	Gary Amores – Sr. Legal Specialist – Left Jan 2016
Karimulla Mohammad – QA Lead – Left May 2016	Jennifer O'Heron – Sr. Manager, Financial Operations – Left Jan 2016
Dan Van Horne – VP, Project Management Office – Left Apr 2016	David Montoya – Mortgage Underwriter – Left Jan 2016
Joe Rosati – VP National Sales – Left Apr 2016	Jillian Almeida – Bus Development Manager – Left Jan 2016
Praveen Monga – Sr. Business Analyst/System Analyst – Left Apr 2016	Cristina Nicolia – Mortgage Underwriter – Left Jan 2016
Niki Pan – Mortgage Officer – Left Mar 2016	Caspar Sinnige – VP, Strategy and Regulatory Affairs – Left Jan 2016
Sean Cameron – Director Corporate Compliance – Left Mar 2016	Julie Soragnese – Sr. Manager, Mortgage Lending – Left Jan 2016
Jessica Russell – Compliance Analyst – Left Mar 2016	Corbin Raison – Business Development Manager – Left 2016
Chrisina Russo – Mortgage Renewals Specialist – Left Mar 2016	Sadeq Safarini – Sr. Financial Analyst – FP&A – Left 2016
Maria Judylyn Letargo – Mortgage Underwriter – Left Mar 2016	Jonathan Palmer – Sr. Market Risk Analyst – Left 2016
Gerry Nazaro – Commercial Lending Underwriter – Left Mar 2016	Michael Dulepka – Director, Policy & Procedures – Left 2016
Sandy Pandolfi – Credit Manager/Quality Control Manager – Left Mar 2016	

# Insider Trading– Not Their First Rodeo

**Gerald Soloway (CEO) and John Marsh (Board member) have had similar insider trading dealings together in the past...**

- Fleet Corp tendered to repurchase 22% of its shares in 1987
  - Repurchase price was \$10.75 per share (50% above the then Fleet share price)
- Soloway and Marsh were Fleet Corp. Directors and/or Officers at the time, and Home Capital was a large shareholder
  - Fleet stated that no insiders would tender shares, but all three men as well as HCG sold into the tender
  - Soloway was banned from trading for one year by OSC
- Fleet Corp ended up selling for pennies in 1988

# Insider Trading on Top of Mortgage Fraud

- Mortgage fraud was known in September 2014
- The fraud was not disclosed though until July 29, 2015, but management personally sold stock before disclosure

Home Capital Group Inc CUSIP 43691310

1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options

Transaction Type Sell in the public market Range 10/05/10 - 10/05/15 9) Chart 10) Table

Shareholders All

	Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)	Close Price	Volume
11)	05/15/2015	1	HENDERSON DINAH	-5,000		43.5600	179,311
12)	03/11/2015	1	DECINA PINO G	-5,000		41.2200	436,616
13)	03/02/2015	1	MOSKO BRIAN ROBERT	-10,000		44.6500	356,020
14)	02/25/2015	2	HONG JOHN, BAILLIE JAMES	-7,132		44.6000	408,576
15)	02/18/2015	2	MARSH JOHN M, FALK WILL	-58,000		42.8100	502,091
16)	11/28/2014	1	SOLOWAY GERALD M	-37,000		52.1500	146,553
17)	11/27/2014	1	SOLOWAY GERALD M	-13,000		51.8800	71,216
18)	09/02/2014	1	MARSH JOHN M	-44,111		54.4600	220,802

# Management has shared false information on many occasions

## Management has repeatedly lied....

- Management shared with me that 12-24 brokers were cut off
  - press release stated 45
- Management said during a Q2 conference call that a “very small portion” of its \$960mm in mortgages (from fired brokers) had falsified documents
  - The following day, HCG issued a press release clarifying that the “*very small portion*” refers to its ***overall mortgage portfolio!***
- Management stated that the bulk of the fraudulent loans were originated in 2014 (was actually less than half)

***“When it becomes serious, you have to lie”*** ~Jean-Claude Juncker~

## Management has also publicly downplayed other material pieces of information...

- It blamed “weather” (i.e. snow in Canada) and a “conservative approach” for Q1 2015 originations shortfall
  - We have to believe that fired brokers contributed significantly to this shortfall



# Misstatements on Conference Calls

## On Q3 2014 call addressing question as to why insured originations were weak said:

- "Yeah, **no nothing happened.**" "But we see that as a good solid business that will continue to contribute to the bottom line on a quarter over quarter basis."

## On Q4 2014 call addressing question as to why HCG was lowering growth targets:

- "It's not for 2015, it's for the next three to five years. And part of that, as I mentioned earlier, we do acknowledge that there are greater downside risk, **we're not seeing anything in the marketplace at this point that is a cause for a concern**, but we do recognize our greater downside risks."
- They subsequently lowered growth and ROE targets again

## ROE Target Revision

- On December 7, 2015, HCG lowered its **Medium Term ROE target from 20% to 16%**
- In July 2015, Soloway said:

*“We at Home continue to expect that Home will meet its three to five year mid-term targets, reflecting the continued strength of the overall business, its diverse source of growth and the company's expectation of improving originating volumes for the remainder of the year and going forward.”*

# Soloway says that Insurers will cover losses from fraud

## Q2 2015 HCG Earnings Call on 7/30/2015

**<Q - Shubha Khan>**: Okay. Just following up on that point then, how, if at all, does the fact that there was falsified income information for specifically accelerated mortgage applications, so your insured product, how does that impact insurance coverage? I mean, do the mortgage insurers then put back the credit risk to Home Capital or do they...

**<A - Gerald M. Soloway>**: No. We spoke to them – we went and we chatted with them and we told them the whole story. They do – all the insurers do annual and semi-annual reviews of our portfolio and our arrears and compares with all the other companies that they insure. I might add, our performance has been at the top range of all the other companies that are doing insured product, including the major banks, including others.

They have internally – they expect a certain percentage across the country, they expect a certain percentage will be offside. So far, we have not had to make any claims. And it's – the performance on the group of files surprisingly enough is better than average. You might wonder about that, but the two big important factors is their Beacon score was exactly accurate because we pulled it ourselves and we control the appraisals and we know the value is good.

So, people – there may have been someone in the pipeline that adjusted the proof of income. But often, there are people when we look – go into the files carefully, there often are other people living in the houses, like another generation are living in the house and helping to support it. And that's why there's not been arrears. But we can't tolerate and will not tolerate any documentation that's not fully accurate. And we just put additional monitoring processes.

# Genworth Canada (MIC) Disagrees

## MIC CEO Stuart Levings on 8/05/2015

**<Q - Geoffrey Kwan>**: Okay. And maybe I'll ask one last question before I go back into the queue. But if you can kind of remind us what would be some examples, where you would be able to void mortgage insurance policy? In other words, what might – some people might view it as being a put back is it, employee involvement I think is one instance there, and then generally speaking, things that lenders should have caught, and it specifically would income verification count, as one of those things?

**<A - Stuart Levings>**: Yeah. Geoff, ultimately the lender is always responsible for the integrity of the information they send us during that underwriting process. And in the event of any claim, we follow a very thorough analysis to review all the factors related to that delinquency, before making any final decision on claim payment.

As a rule, and as a stance, we pay all claims and view claims certainty as a very important tenant of the MI industry in Canada. But having said that, we always retain the right to adjust a claim if there is evidence of what I would consider to be unmitigated recurring material deficiencies in the underwriting process or material misrepresentation causing delinquency. Outside of that, the industry as a whole continues to see a very high level of underwriting, and so this is a very rare occurrence, where we might see a situation where we need to adjust like that.

# OSFI Capital Adequacy Update— 7-26-2016

- **Changed Stress Test Variables**
  - 50% decrease in Vancouver home prices
  - 40% decrease in Toronto home prices
  - 30% decrease in all other areas
- **OSFI Update indicates that OSFI see significant risk to housing market and mortgage lenders**
- **40% decrease in Toronto and Vancouver valuations leads to over \$1bn loss to HCG**
- **HCG has only \$1.6bn in Book Value of Equity**
- **Significant price declines in Vancouver and Toronto would likely lead to run on HCG deposits**

# Misstatements on Conference Calls

## On Q1 2015 call addressing question as to why HCG is losing market share:

*"And as I said in my prepared remarks, the cold weather was a factor. There were a lot of macroeconomic things that were a factor. We probably – and I don't apologize, we took our foot off the gas a little bit." "We've shown that we the ability to generate sales and volume. And I think you'll see a growth the rest of the year. So, sure, it was awesome. We just took a little more cautious view."*

## On Q1 2015 call addressing question about HCG meager 3% earnings growth:

*"You might beat me up about it, when we talk again in three months, but I think we – **at this point, we're still pretty optimistic for the year.**"*

# Management misspoke yet again

**In Q4, Soloway said that no succession planning action was imminent...**

**Gerald Soloway, Chief Executive Officer**

No. I've been always very open and the fact that everyone knows how old I'm, I'm 77, I'm in good health, but I think it's something that's a matter that the Board's talked about and they are thinking about it and they are not ready to make any announcement at this time, but sometime in the future couple of periods. Well, there will be some announcements forthcoming from the board, but there's nothing really at this point.

**... 18 days later HCG announces Martin Reid will succeed as CEO**

## **HOME CAPITAL GROUP ANNOUNCES CEO SUCCESSION**

***For Immediate Release***

TORONTO – February 29, 2016 – Home Capital Group Inc. (TSX: HCG) today announced the planned retirement of Chief Executive Officer Gerald M. Soloway, and the appointment of Martin K. Reid as Mr. Soloway's replacement.



# Dutch Tender announced on 2/11/2016 Stock was \$25.36

## HCG bought back \$150mm in stock at \$37.80 on 4/15/2016

Buyback Details			
Company	Home Capital Group Inc		Ticker
Industry	Mortgage Banks		HCG CN
Country	Canada		Price
Announced Date	03/08/16	Buyback Type	Dutch Auction
Commencement Date	03/08/16	Amount	150.000MLN
Completed	04/15/16	Time	17:00 Eastern
		Security Type	Common
		Status	Company completed the action
Currency	CAD	Price Per Share	37.60
Current Shares Out	69.978 Mln	Dutch Auction Max Price	38.00
Announced Total Value	150.000 Mln	Dutch Auction Min Price	34.00
Actual Number of Shares Purchased	3.98936 Mln		
Value Repurchased	150.00000 Mln		

HCG paid a 49% premium to unaffected price...but why?

## Martin Reid sells 30,000 shares of stock at \$34.30 on 5/26/2016

HOME CAPITAL GROUP INC							CUSIP
1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options							43691310
Transaction Type				Range		07/21/15 - 07/21/16	
Shareholders				All Open Market Buy/Sell		9) Chart 10) Table	
REID MARTIN K							
Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)	Close Price	Volume	
11) 05/26/2016	1	REID MARTIN K	-30,000		34.3000	339,827	

## John Marsh sells \$5mm in stock at \$28.74 from 9/08/16-9/12/16

Trade Date	No. Part	Participants	Net Sell (Shares)	Net Buy (Shares)	Close Price
11) 09/12/2016	1	MARSH JOHN M	-57,100		28.5500
12) 09/09/2016	1	MARSH JOHN M	-81,900		28.6500
13) 09/08/2016	1	MARSH JOHN M	-36,000		29.2600

## Dutch Tender continued

**HCG bought back \$150mm in stock at \$37.80 on 4/15/2016 ...**



**... HCG stock is now \$29.26**

**HCG reauthorizes share repurchase of up to \$3.25mm shares on 9/14/16**

– 2 days after John Marsh sells \$5mm in stock he votes to authorize more buybacks

# Equitable Bank HELOC Promotion

## Stack up to win

Equitable Bank's Home Equity Line of Credit Promotion

Your HELOC Combo deals could win you one of three travel prizes!

**March 1 to August 31, 2016**

From March to August, every Mortgage & HELOC combo you fund gives you an entry into the promotion. Stack up your HELOCs to qualify as a top producer!

**1<sup>st</sup> Prize: Trip for 2 to Mexico**

**2<sup>nd</sup> Prize: \$1000 travel credit**

**3<sup>rd</sup> Prize: \$500 travel credit**

**Special Pricing**

Gemstone	Beacon Score	HELOC*
Diamond	640+	Prime + 4.74%
Diamond	680+	Prime + 4.24%
Diamond	720+	Prime + 3.74%

\* Rates are subject to change without notice. Refers to the Equitable Prime Rate posted on our website.

**Register Now**

Download the registration form from [equitablebank.ca](http://equitablebank.ca) (Navigate to: Single Family Residential > What's New) and e-mail the completed form to: [brokerupdate@eqbank.ca](mailto:brokerupdate@eqbank.ca)

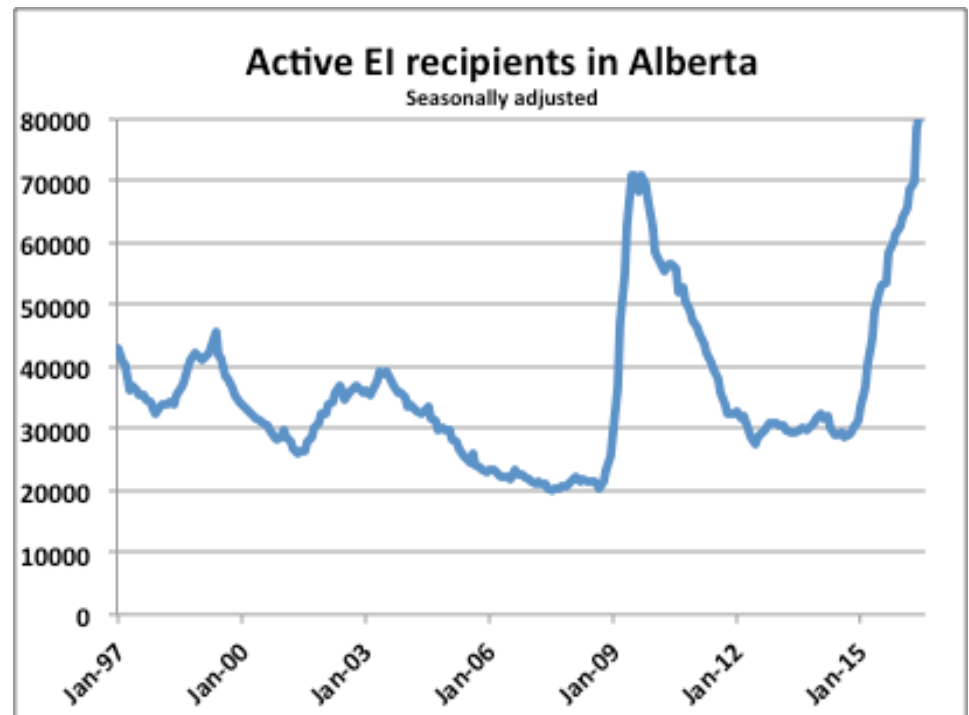
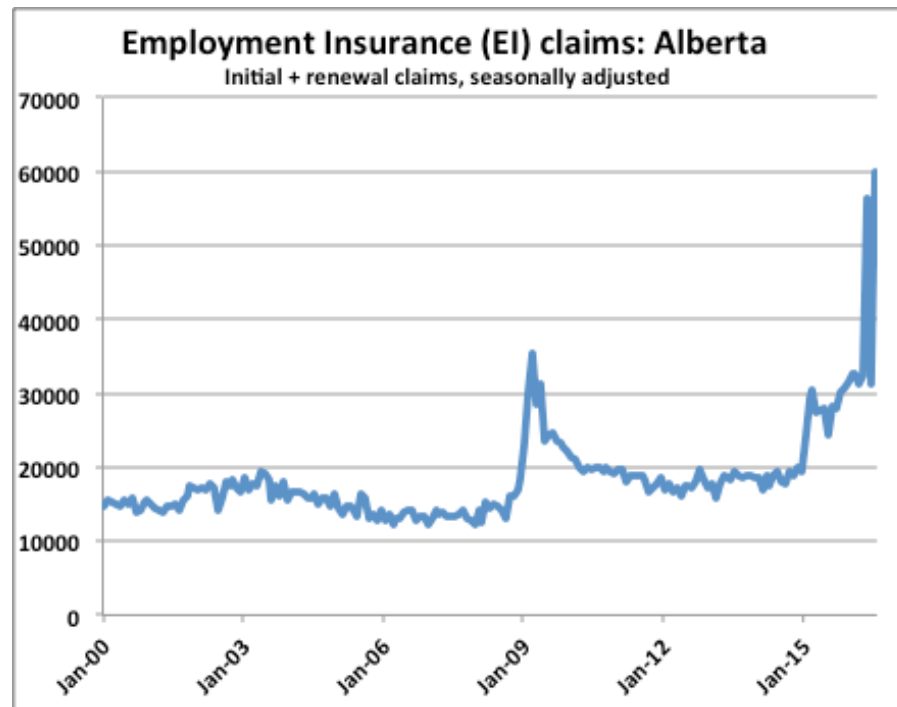
# Equitable Bank Alberta Exposure

- **\$1.2bn Uninsured loan exposure**
  - \$900mm single family
  - \$300mm commercial
- **This assumes that no securitized loans are fraudulent**
- **That is 130% of EQB equity exposed to Alberta**

**So how strong is Alberta these days?**

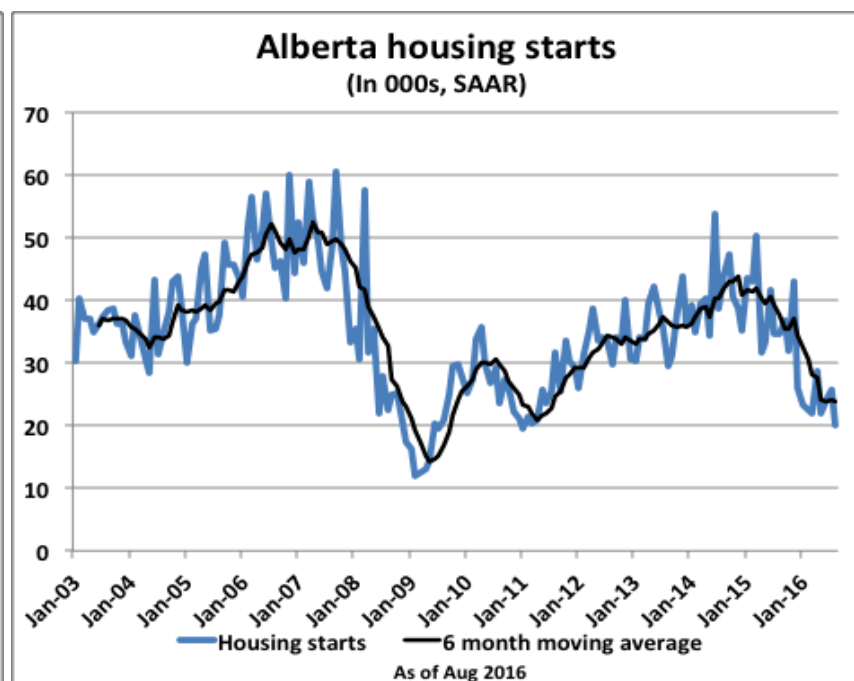
# Alberta Residents are Struggling

## Alberta Employment Insurance Claims highest in a generation



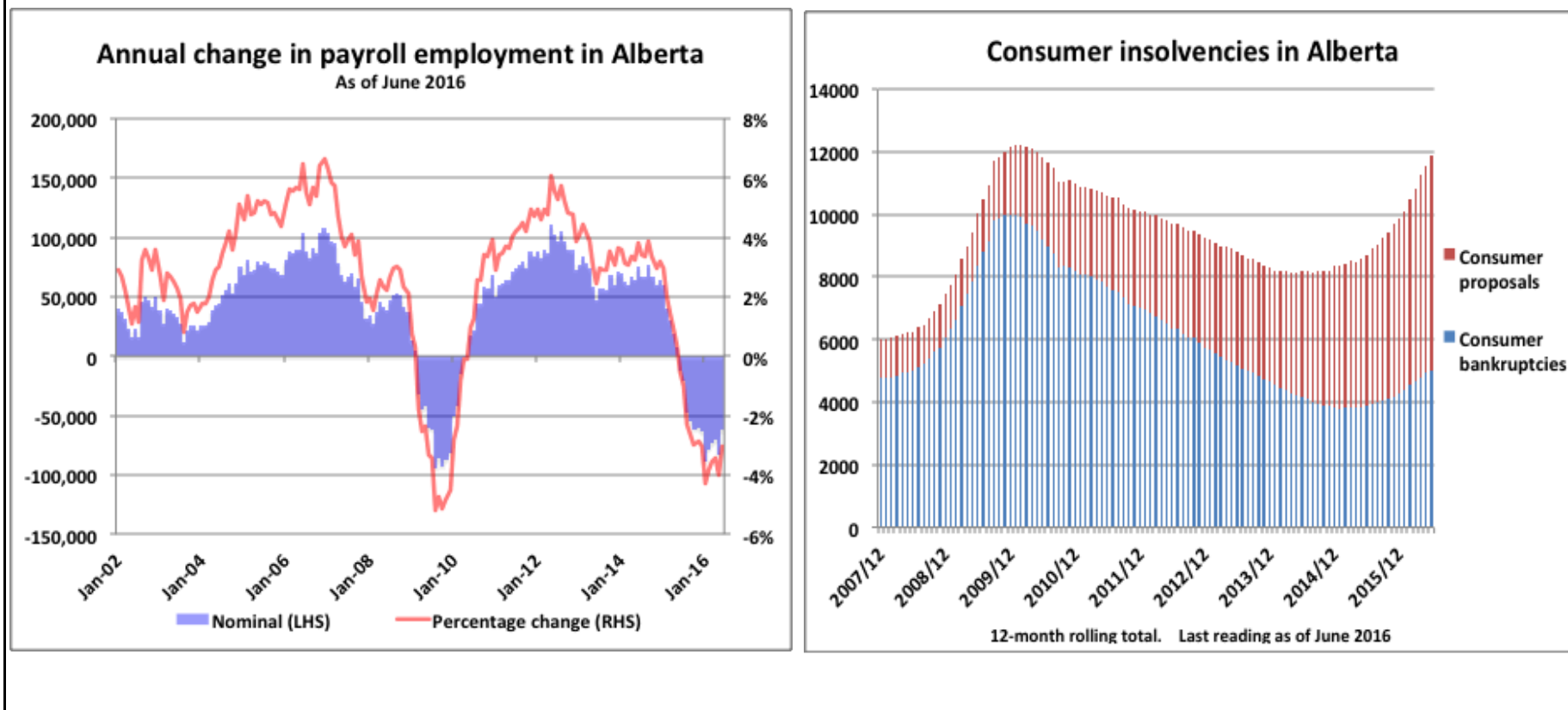
# Alberta Housing Glut

## Housing Inventory and Housing Starts back to GFC Levels



# Alberta Consumers Under Pressure

## Fewer Jobs and more Consumer Insolvencies





# Alberta Real Estate Market has seen Better Days

## Calgary Condo Prices down 7% YoY

Calgary condo prices fall to levels similar to 2013, with sales at 13-year low



IAN BICKIS, THE CANADIAN PRESS | September 1, 2016 5:27 PM ET  
[More from The Canadian Press](#)



CMHC-insured mortgage arrears in Alberta increase by more than 50 per cent

CALGARY — The Canadian Press  
Published Monday, Aug. 29, 2016 3:28PM EDT  
Last updated Monday, Aug. 29, 2016 3:31PM EDT

## Dream Office REIT writes down Alberta Offices by 42%

Calgary's office vacancy rate hit a 30-year high (22% vacancy rate). CAPREIT “strategically reduced” rental rates by 15%-17% in Alberta in 2Q and offered first month free rent. Dream Office REIT took a 42% reduction in fair market value of their Alberta office properties.

# **Equitable Bank OSFI Stress Test – 78% of Equity at Risk**

- **EQB would lose over \$661mm in equity**
- **EQB has \$840mm in Equity**
- **We Use Similar LTV breakdown as HCG**
- **40% decline in Ontario, 50% Decline in BC, 30% Elsewhere**
- **Applied to both uninsured Residential and Commercial loans**

# Equitable Bank Reserves

## EQB reserved 0.00% of loans in Q2 2016 Allowance for Credit Losses at 20bps

(\$ THOUSANDS)	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Provision for credit losses	\$ 105	\$ 227	\$ 1,064	\$ 930	\$ 830	\$ 814	\$ 842	\$ 733
Provision for credit losses-rate <sup>(1)</sup>	0.00%	0.01%	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Gross impaired mortgage assets <sup>(2)</sup>	33,531	36,048	34,183	33,241	27,566	39,436	41,254	40,521
Net impaired mortgage assets <sup>(2)(3)</sup>	32,181	34,783	32,857	29,622	24,382	35,742	37,315	36,904
Net impaired mortgage assets as a % of total mortgage assets <sup>(2)(3)</sup>	0.20%	0.22%	0.22%	0.21%	0.18%	0.28%	0.30%	0.32%
Allowance for credit losses	33,240	33,155	33,216	34,911	34,007	33,772	33,447	32,928
Allowance for credit losses as a % of total mortgage assets	0.20%	0.21%	0.23%	0.25%	0.26%	0.26%	0.27%	0.28%
Allowances for credit losses as a % of gross impaired mortgage assets	99%	92%	97%	105%	123%	86%	81%	81%

- **EQB ROA of 80 bps**
- **Half of loans are uninsured**  
160 bps of provisions wipes out 1 year of earnings
- **This assumes that no securitized loans are fraudulent**
- **Texas banks NPLs % Assets got to over 6% in the 1980s**

# Equitable Bank Reserves

**“Management determined that this amount of provision would maintain our allowances at an appropriate level.” That amount is Nil.**

## PROVISION FOR CREDIT LOSSES

The credit quality of our mortgage portfolio continued to be strong. Our provision for credit losses during the quarter was \$0.1 million, \$0.7 million lower than in the same quarter of last year and \$0.1 million lower than in Q1 2016. The provision for credit losses as an annualized percentage of the average mortgage portfolio outstanding was less than 1 bp, down 3 bps from Q2 2015 and 1 bp from Q1 2016.

This low level of provision for credit losses reflects the health of our mortgage assets and low loss expectations on newly impaired loans (consistent with our past experience). Management determined that this amount of provision would maintain our allowances at an appropriate level.

Based on our normal extensive review of mortgage assets and credit allowances, management concluded that additions to our collective allowance were not necessary during the quarter. The provision for credit losses in Q1 2016 and Q2 2015 included nil and \$0.7 million, respectively, of additions to the collective allowance.

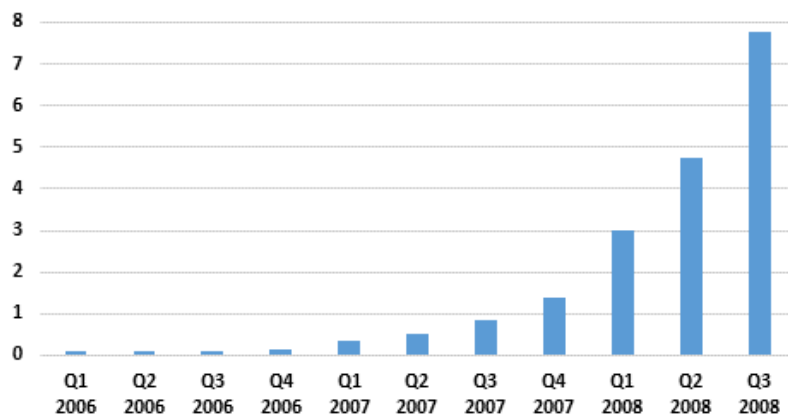
## History doesn't Repeat, but it Rhymes – Texas 1980s

The result of high loan exposures to risky economic sectors can be seen in the trend in Texas banks' nonperforming assets (see Figure 10B, Appendix A). Nonperforming asset data are not available prior to 1982. Nonperforming assets increased from 1.75 percent of Texas bank assets in 1982 to 4.2 percent in 1986 and 6.58 percent in 1987. Among failed Texas banks, nonperforming assets remained extremely high between 1984 and 1988, averaging 10.4 percent of failed-bank assets. As a result of these trends, Texas commercial banks have experienced losses since 1986. The return on assets for the Texas banking industry reached a low of -1.40 percent in 1987 and remains poor at -0.31 percent in 1989. The reduction in losses in 1989 was due to increases in noninterest income and reduced loan loss provisioning.

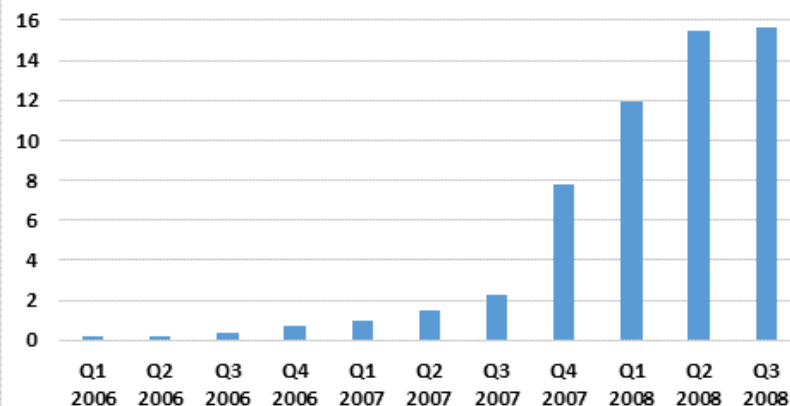
the sample appeared to react slowly to changes in commercial real estate markets. Over the past decade all four metropolitan areas experienced large increases in office vacancy rates. Concentrations of construction and land development loans grew among failed banks in the four areas long after the decline in commercial real estate markets. This last result is due, in part, to the inertia created by banks fulfilling loan commitments in earlier periods, as development projects moved toward completion. Recent declines in construction loans among this group of banks appear to be due, in part, to a shifting (within the banks) of these loans from short-term development loans to long-term commercial property financing. In recent years, the combined 30 percent office vacancy rate in these four metropolitan areas help to explain why banks have been unable to shift the financing of completed commercial properties to nonbank financiers.

# History doesn't Repeat, but it Rhymes

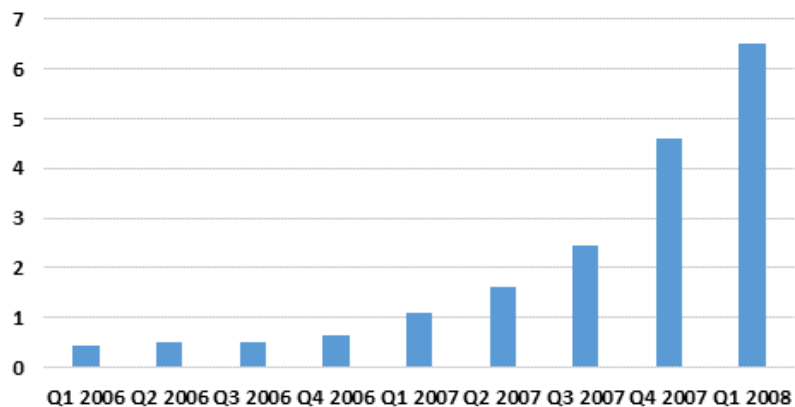
**BankUnited - NPA % Total Assets**



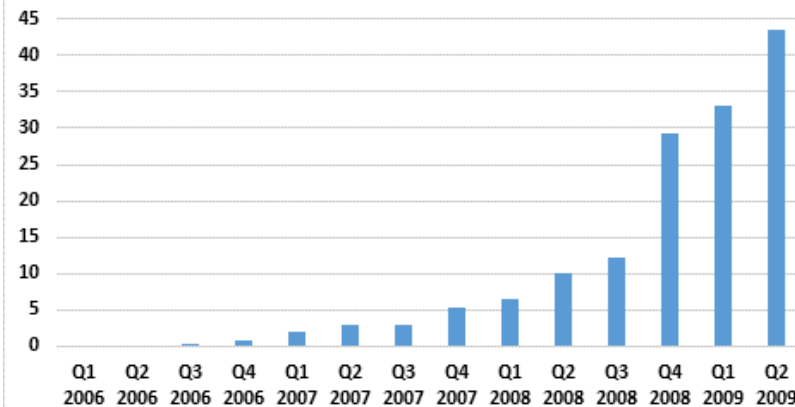
**Downey Financial - NPA % Total Assets**



**IndyMac Bancorp - NPA % Total Assets**



**Corus Bankshares - NPA % Total Assets**





# Equitable Bank Delinquencies

## Alberta and Saskatchewan delinquencies up 87% YoY Early stage delinquencies up 122%

### Alberta and Saskatchewan Delinquencies

(\$ THOUSANDS)	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Early stage delinquencies <sup>(1)</sup>	\$ 16,573	\$ 19,030	\$ 9,666	\$ 8,602	\$ 7,461	\$ 14,946	\$ 7,413	\$ 8,564
Impaired mortgages <sup>(2)</sup>	8,911	9,066	7,103	7,765	6,126	6,060	5,390	3,089
Total Delinquencies	\$ 25,484	\$ 28,096	\$ 16,769	\$ 16,367	\$ 13,587	\$ 21,006	\$ 12,803	\$ 11,653
Delinquencies as a % of total mortgage principal	0.16%	0.18%	0.11%	0.12%	0.10%	0.16%	0.10%	0.10%
Impaired mortgages as a % of total mortgage principal	0.06%	0.06%	0.05%	0.06%	0.05%	0.05%	0.04%	0.03%

<sup>(1)</sup> Early stage delinquencies consist of principal of both uninsured mortgages in arrears between 30 and 89 days and insured mortgage in arrears between 30 and 365 days.

<sup>(2)</sup> Impaired mortgages include principal of both uninsured mortgages in arrears greater than 89 days and insured mortgage in arrears 365 days or more.

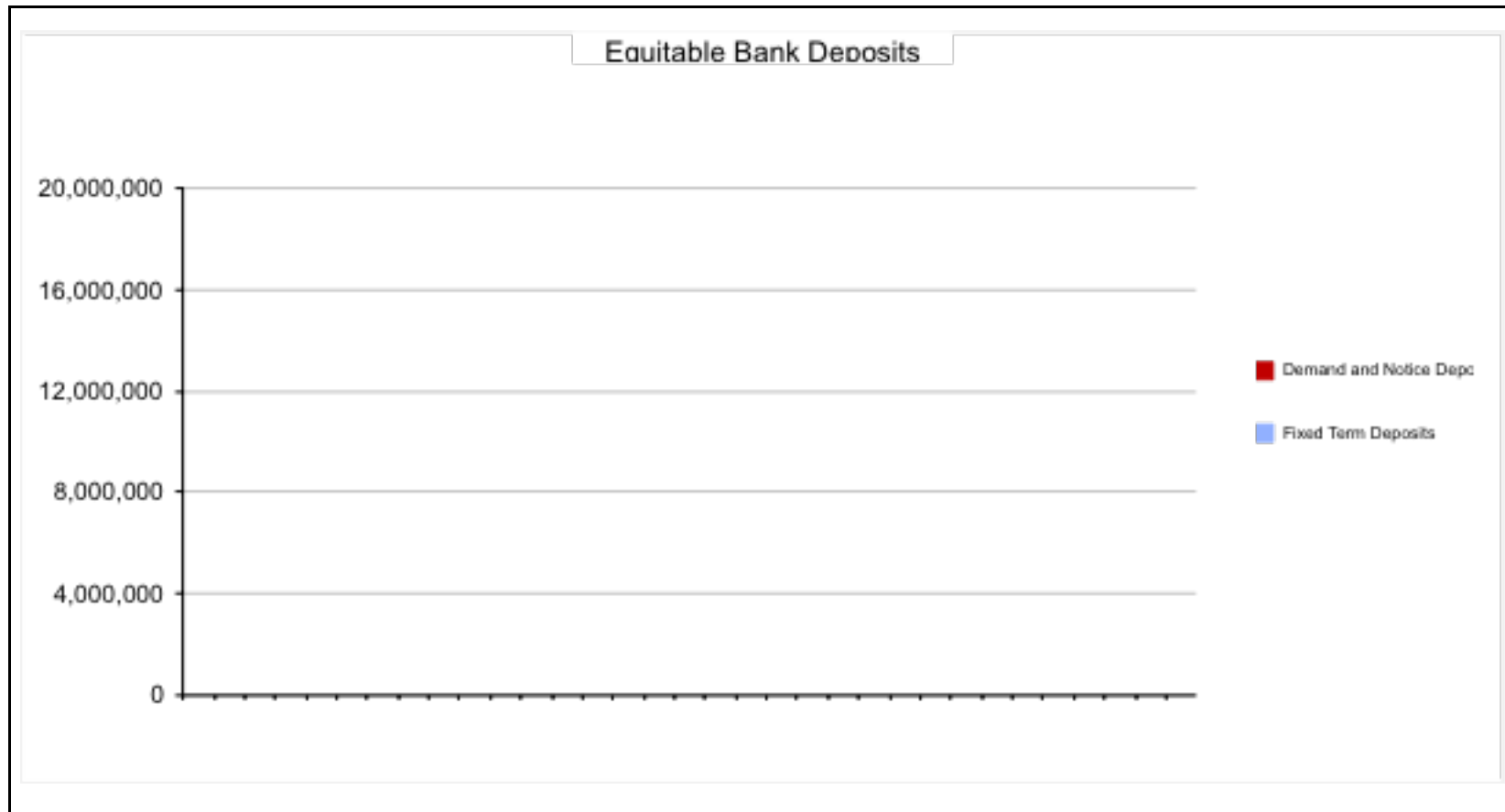
- Yet provisions for loan losses are 0.00%



# Equitable Bank Deposits

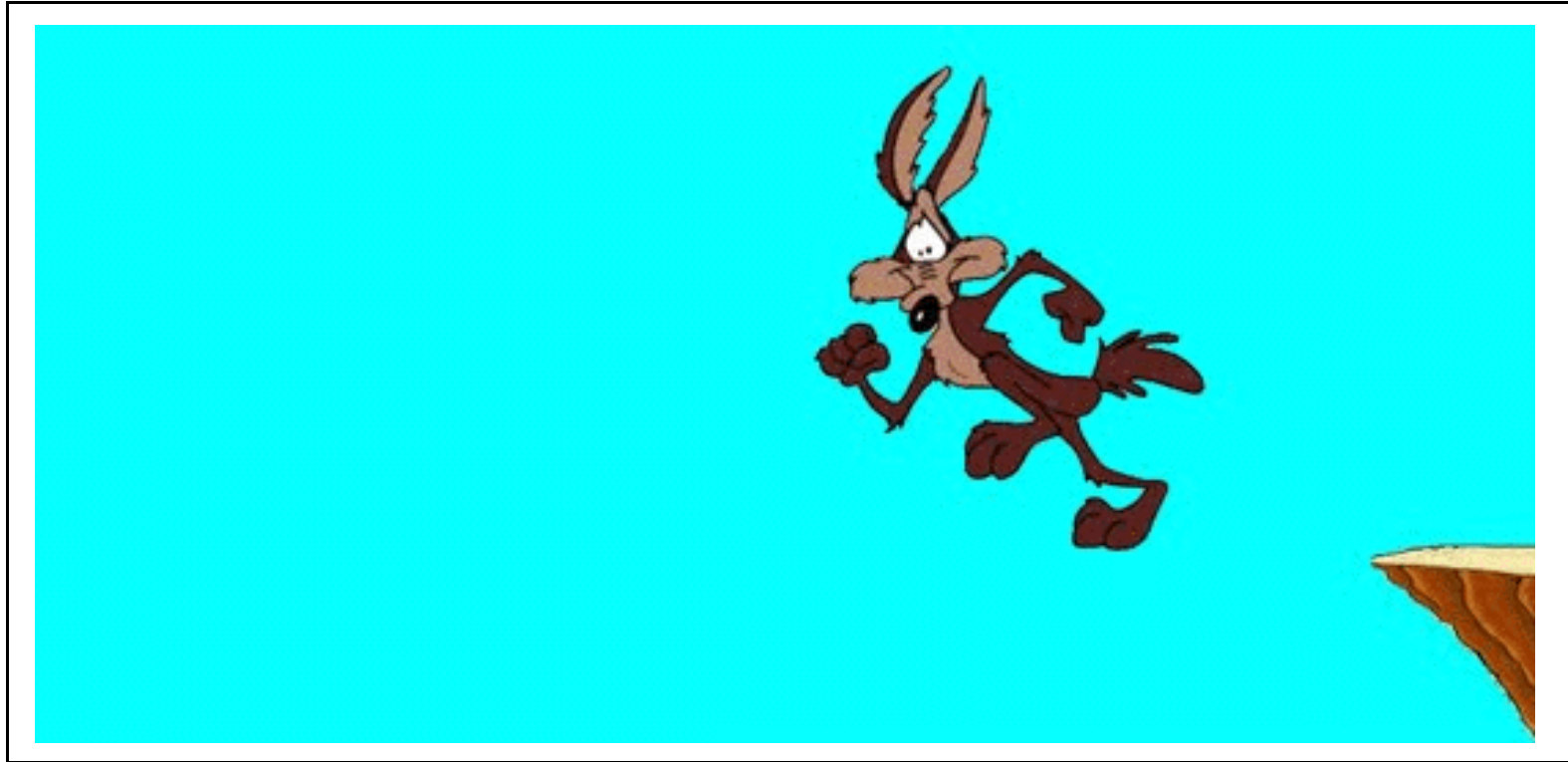
- **Demand and Notice Deposits are now \$2.0bn up from \$30mm in 2014**
- **Short Term deposits make up 230% of Equity**

# Equitable Bank Deposits



- **Demand and Notice Deposits are now 24% of EQB deposit base up from 0.50% in 2014**
- **Increased reliance on short term funding can lead to a run on the bank**

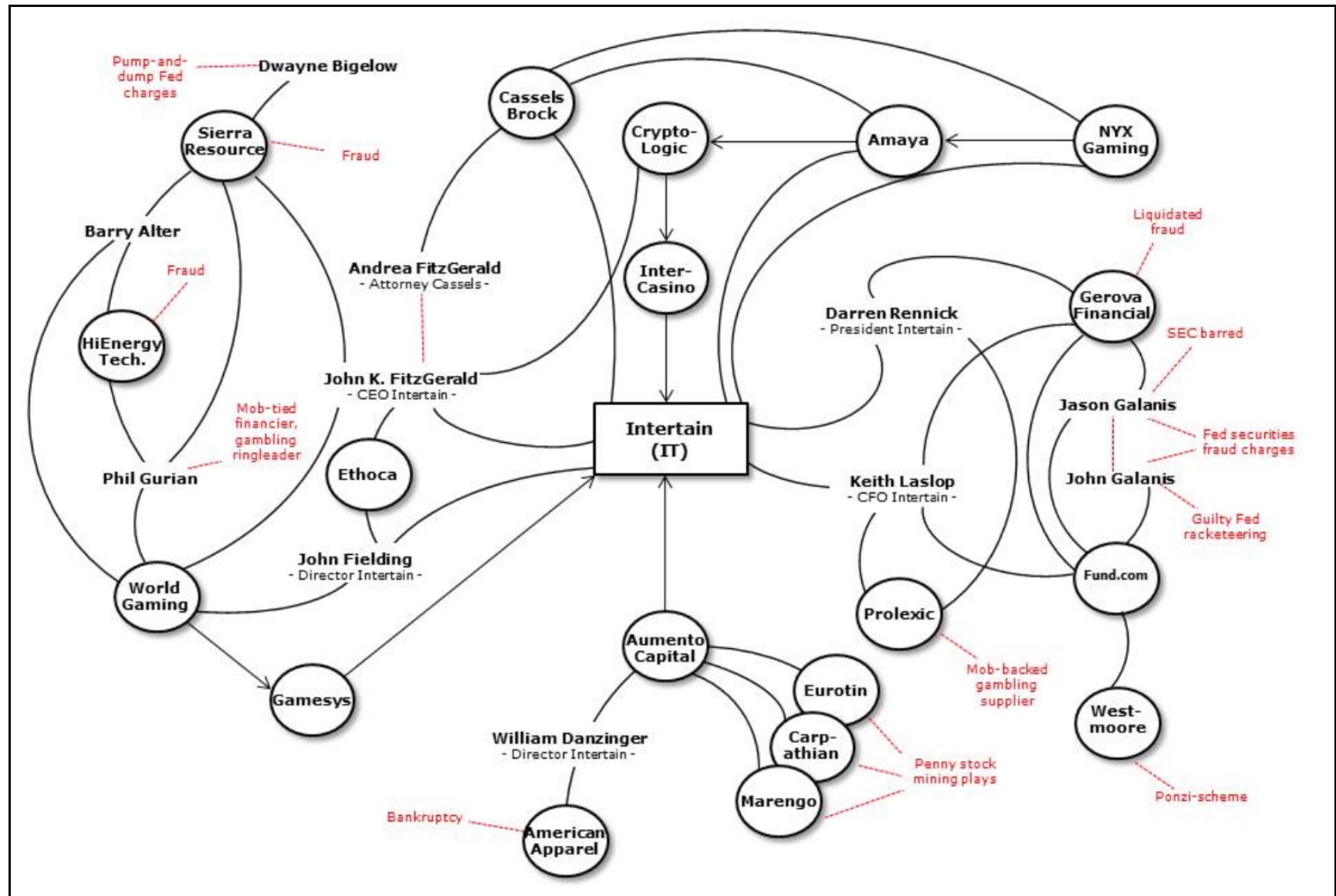
**Don't look down...**



**Seriously, don't look down...**



# Intertain Web of Evil



## Intertain Web of Evil (cont'd)

- **Keith Laslop (CFO):** listed in Panama filings; one of few C-levels who skated away from Gerova Financial Ponzi scheme and had direct involvement; noted in Fatal System Error book in relation to connections to Prolexic/mob; connected to Jason Galanis (racketeering, fraud charges); was based out of Bahamas during Prolexic days and has now moved back there
- **Darren Rennick (Pres of Intertain Bahamas):** also involved in Prolexic scam and more extensively described in the Fatal System Error book; he was President of Bahamas entity for Intertain and though he signed off on a Intertain Bahamas document in the last few weeks, he is no longer discussed by the company (since Spruce Point report)
- **John Fitzgerald:** used private jet in Intertain colours for months; connections to mob/penny stock promoters; doesn't appear to have his law license any more; was involved in Cryptologic in the early 2000s which is likely how he was roped into Intertain in the first place
- **Amaya:** CEO alleged to be involved in largest/broadest insider trading scheme in Canadian history; started as a shell; various bad actors in management; roll up strategy; bought crown jewel Pokerstars and have screwed up execution plus industry in decline; potential to be playing accounting games to keep numbers up

## Intertain Web of Evil (cont'd)

- **Cryptologic:** one of first players in online casino market; have been lapped over; previously owned by Amaya and spun off to Intertain as Intertain's first asset; was marketed as the next big thing but recently written off as an asset off the balance sheet of Intertain
- **Aumento Capital:** is a set of shells that David Danziger (and Intertain director); all of the shells that became companies are down over 40%
- **Gamesys and Noel Hayden:** Gamesys was a solid asset and Hayden a genius, no question of that – that is why they struck such a great deal with John Fitzgerald and Keith Laslop whereby removing any value to equity holders of Intertain and basically continuing to own/control the key Gamesys assets; Noel has left Gamesys day-to-day operations and Intertain's board
- **Cassels Brock:** Intertain's lawyer, John Fitzgerald's wife worked there, though doesn't seem like she was involved in advisory so not a big deal
- **Ethoca:** Another entity that connects John Fitzgerald and John Fielding (director of Intertain). John Fielding was also involved Amaya insider trading issue.
- **World Gaming:** connects John Fitzgerald, Phil Gurian (mob connections in Florida) and Barry Alter (penny stock promoter). John Fitzgerald was sued for scamming investors.