

CONFIDENTIAL



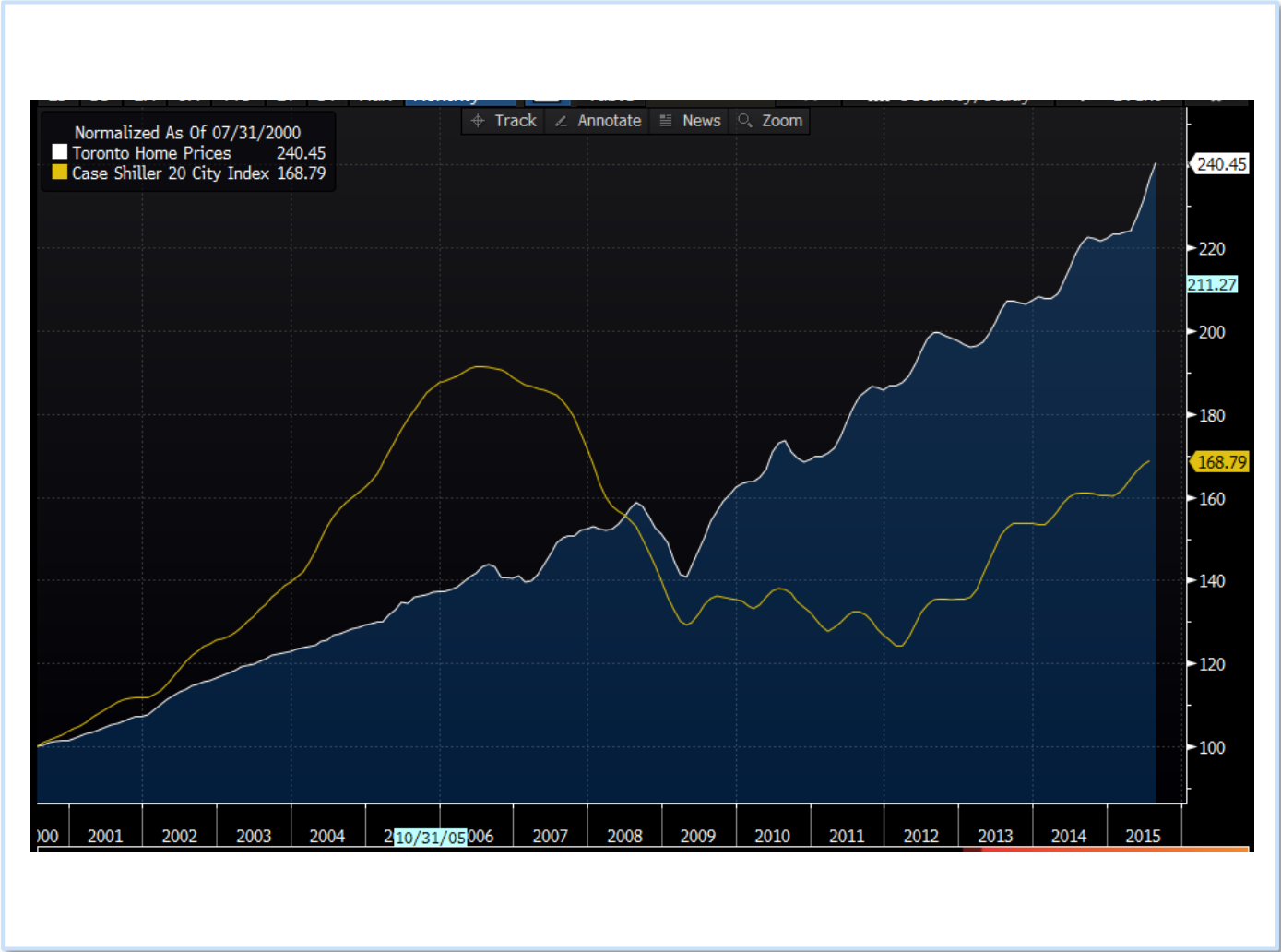
HCG Chronology

October 4, 2016

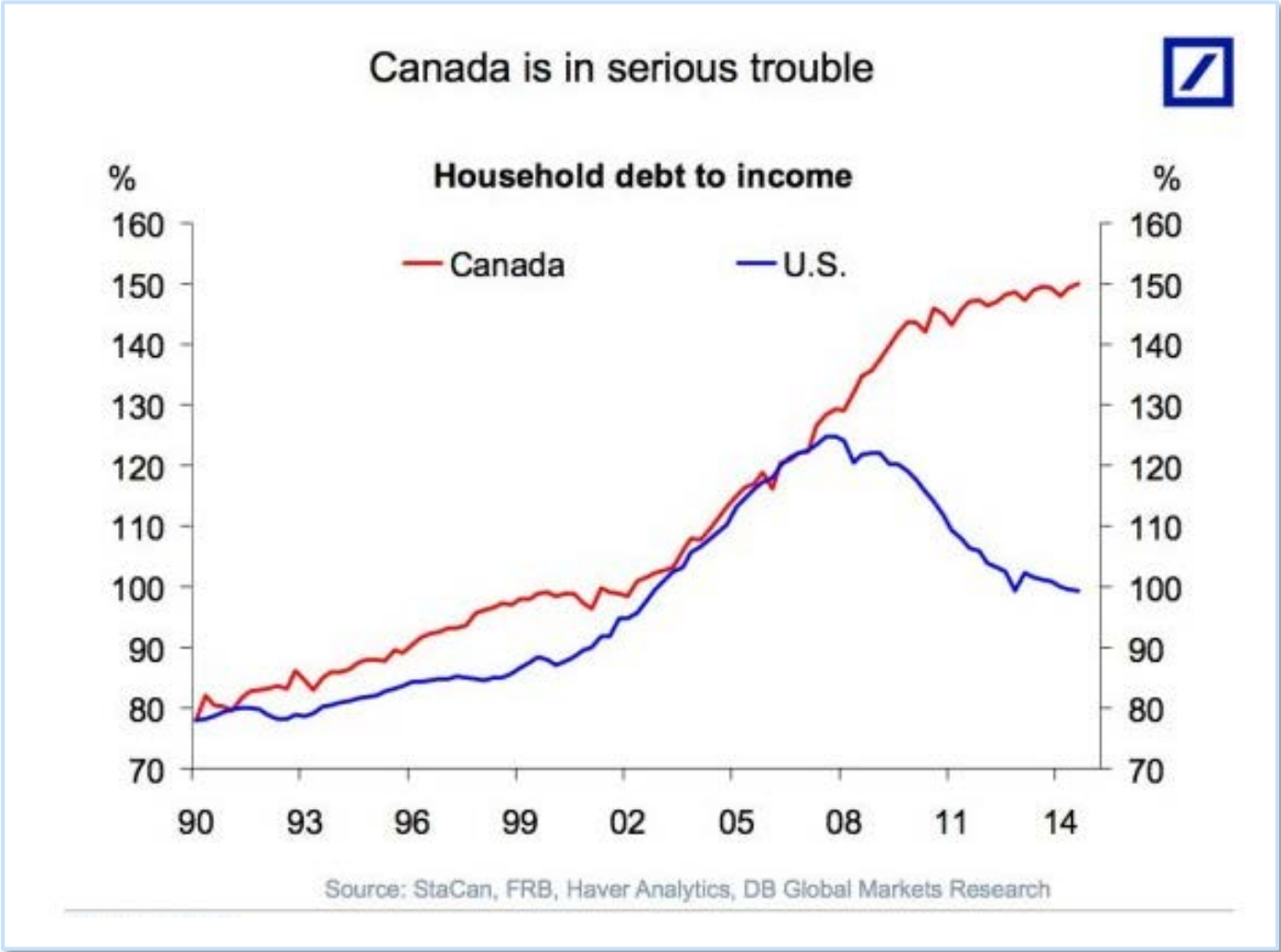
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HCG Background: Canadian Housing Market



HCG Background: Canadian Housing Market 1990-2014

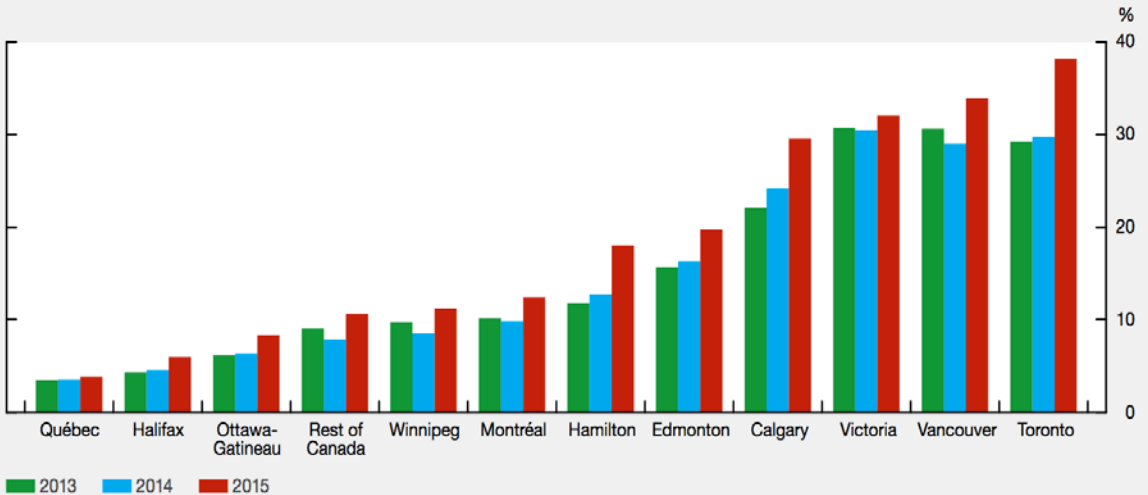


Canadian Housing Market

Box 1 (continued)

Chart 1-A: The proportion of insured mortgages with high loan-to-income ratios has been rising

Percentage of new mortgages (used to purchase) that have a loan-to-income ratio greater than 450 per cent



Source: Department of Finance Canada

Last observation: 2015

HCG Background: Canadian Housing Market Today



Suganthan @suganthant · 8h

Private 2nd mortgage available rate starts as low as 1% a month. call now 416.859.2564 #loan #mortgage #debt



2



1



Lathan Suthanthiran @Lathansays · Sep 25

Got #equity in your house ? What do you do with it .? #refinance take the equity out and re invest into another #property



1



1



Lathan Suthanthiran @Lathansays · Sep 25

Or lend it towards secured real property as #secondmortgage and let your money work for you . #torontomortgages



Daniel Vyner

@NewHavenMTG



Fol

Equity Lending Ontario-Wide. 1st, 2nd, & 3rd Mortgages.

HCG Background: Canadian Housing Market Today (cont'd)



CIBC Frank Barbaro
@FrankBarbaroWpg



+ Follow

International Student Mortgage. Now available with 35% down. No income required. Verification of down payment and full time student! Call me



MLFSCCanada
@MLFSCCanada



+ Follow

Good Morning all!!!
Low credit? No income?
Don't worry! Please call us now!
#mondaymotivation #mortgage
#mondaymorning #FinancialServices

HCG Key Facts

Potential of up to \$960mm in fraudulent mortgages originated in 2014 alone (and at least \$1bn originated in prior years)...

- Insufficient reserves for losses
- Increasing on and off Balance Sheet risk
- Increased reliance on Short Term funding
- Mortgage fraud
- Management credibility
- Key resignations
- Insider trading
- EPS games

Insufficient Reserves

Allowance for Credit Losses

Change in Allowance

<i>thousands of Canadian dollars (Unaudited)</i>	2015	2015	2014	2014	2014	2014
	Q2	Q1	Q4	Q3	Q2	Q1
Individual allowances						
Allowance on loan principal						
Balance at the beginning of the period	\$ 1,792	\$ 2,103	\$ 2,638	\$ 1,744	\$ 1,669	\$ 1,638
Provision for credit losses	1,437	1,720	2,761	2,889	2,440	2,664
Write-offs	(1,538)	(2,451)	(3,462)	(2,254)	(2,693)	(2,794)
Recoveries	462	420	166	259	328	161
	2,153	1,792	2,103	2,638	1,744	1,669
Allowance on accrued interest receivable						
Balance at the beginning of the period	703	620	795	773	781	840
Provision for credit losses	229	83	(175)	22	(8)	(59)
	932	703	620	795	773	781
Total individual allowance	3,085	2,495	2,723	3,433	2,517	2,450
Collective allowance						
Balance at the beginning of the period	34,700	34,100	33,500	32,900	32,100	31,500
Provision for credit losses	600	600	600	600	800	600
	35,300	34,700	34,100	33,500	32,900	32,100
Total allowance	\$ 38,385	\$ 37,195	\$ 36,823	\$ 36,933	\$ 35,417	\$ 34,550
Total provision	\$ 2,266	\$ 2,403	\$ 3,186	\$ 3,511	\$ 3,232	\$ 3,205

- \$38mm Allowance on ~\$18bn in loans, or ~0.20%

Provision for Credit Losses

(000s, except %)	2015 Q2		2015 Q1		2014 Q4		2014 Q3		2014 Q2		2014 Q1	
	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)
Provision (2)												
Single-family residential mortgages	\$ 1,131	0.03%	\$ 1,493	0.05%	\$ 2,263	0.07%	\$ 2,646	0.09%	\$ 2,184	0.07%	\$ 2,414	0.09%
Residential commercial mortgages (3)	(4)	(0.01)%	8	0.01%	24	0.04%	-	-	-	-	(25)	(0.05)%
Non-residential commercial mortgages	321	0.10%	202	0.07%	81	0.03%	92	0.03%	20	0.01%	77	0.03%
Credit card loans	198	0.23%	94	0.11%	128	0.15%	164	0.20%	170	0.22%	109	0.15%
Other consumer retail loans	20	0.03%	6	0.01%	90	0.19%	9	0.01%	58	0.06%	30	0.03%
Securitized single-family residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Total individual provision	1,666	0.04%	1,803	0.04%	2,586	0.06%	2,911	0.06%	2,432	0.05%	2,605	0.06%
Total collective provision	600	0.01%	600	0.01%	600	0.01%	600	0.01%	800	0.02%	600	0.01%
Total provision	\$ 2,266	0.05%	\$ 2,403	0.05%	\$ 3,186	0.07%	\$ 3,511	0.08%	\$ 3,232	0.07%	\$ 3,205	0.07%
Net Write-Offs (2)												
Single-family residential mortgages	\$ 882	0.03%	\$ 1,867	0.06%	\$ 3,054	0.10%	\$ 1,638	0.05%	\$ 2,031	0.07%	\$ 2,376	0.09%
Residential commercial mortgages (3)	(4)	(0.01)%	8	0.01%	24	0.04%	-	-	-	-	-	-
Non-residential commercial mortgages	(4)	(0.00)%	9	0.00%	56	0.02%	107	0.04%	12	0.00%	27	0.01%
Credit card loans	152	0.18%	152	0.18%	114	0.14%	179	0.22%	231	0.30%	168	0.22%
Other consumer retail loans	50	0.09%	(5)	(0.01)%	48	0.10%	71	0.07%	91	0.10%	62	0.07%
Securitized single-family residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-
Net write-offs	\$ 1,076	0.02%	\$ 2,031	0.04%	\$ 3,296	0.07%	\$ 1,995	0.04%	\$ 2,365	0.05%	\$ 2,633	0.06%

- Even with fraud exposed, the Provision hasn't increased
— It has actually decreased!
- Provisions of 0.05% of Gross Loans
- **Every 1% increase in provisions equals 7.9% decrease in equity**

Increasing On and Off Balance Sheet Risk

Uninsured Mortgages are now 76% of the portfolio

Credit Risk: Mortgage Portfolio On Balance Sheet

(000s, except %)	2015	2015	2014	2014	2014	2014
	Q2	Q1	Q4	Q3	Q2	Q1
Total mortgage portfolio balance (net of individual allowance)	\$ 17,387,281	\$ 17,589,031	\$ 17,746,378	\$ 17,725,745	\$ 17,305,488	\$ 17,119,866
Percentage of residential mortgages	92.4%	93.2%	93.8%	94.0%	94.1%	94.2%
Percentage of non-residential mortgages	7.6%	6.8%	6.2%	6.0%	5.9%	5.8%
Percentage of mortgage portfolio insured (1)	24.0%	25.7%	27.7%	29.6%	32.2%	34.6%
Percentage of mortgages current	98.0%	98.1%	97.9%	98.0%	97.9%	97.8%
Percentage of total mortgages over 90 days past due	0.28%	0.29%	0.34%	0.34%	0.38%	0.37%

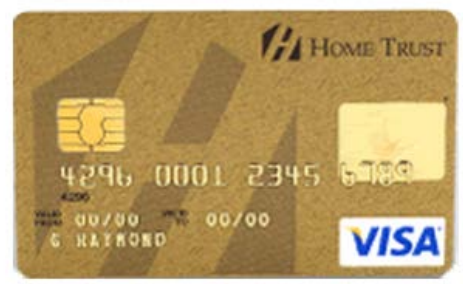
(1) Insured loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio.

- **HCG is taking more Balance Sheet risk**
 - Uninsured mortgages increased from 65% in Q1 2014 to 76% in Q2 2015

HELOC or Home Equity Credit Card?

- HCG offers a Visa card secured by the equity in your home (now you really can use your home as a credit card!)
- Unpaid Principal Balance is Only \$34mm

Home Trust Equityline®
Visa Card



If you own your home, use your home equity to secure a revolving line of credit of up to \$100,000 and a Visa Gold Card, with rates and payments probably lower than what you are paying right now[†]. Consolidate your debts and save, renovate your home, even just manage everyday expenses – it's up to you!

<div>③</div> <div>reasons to offer an Equityline Visa</div> <div>Access up to 80% LTV*</div> <div>Click to learn more*</div> <div>HOME TRUST</div>	<div>③</div> <div>reasons to offer an Equityline Visa</div> <div>Avoid refinancing penalties</div> <div>Click to learn more*</div> <div>HOME TRUST</div>	<div>③</div> <div>reasons to offer an Equityline Visa</div> <div>Fully open credit line up to \$100,000</div> <div>Click to learn more*</div> <div>HOME TRUST</div>
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Potential Undisclosed Off Balance Sheet Liability

- Over the past 2.5 years, HCG originated \$3.6bn in Insured Loans
 - Insured Loans typically have a 5-year maturity
- 2014 Insured Originations were \$1.79bn
 - Fired brokers originated 32% of these 2014 Insured Loans
 - We don't know how much was originated in 2013 and 2015
- If these loans default, the insurer can put them back to HCG
- This risk is **undisclosed** and **unquantified**

Reliance on Short Term Funding

Increasing Reliance on Short Term Deposits












Quarter	Year	Floating	0-3 Months	3 Months - 1 Year	1 to 5 Years	5+ Years
Q1	2016	2,221,738	3,289,852	5,774,737	7,325,386	496
Q4	2015	1,819,881	2,385,079	6,646,785	7,585,441	0
Q3	2015	1,663,838	3,921,779	5,044,946	7,641,677	80,176
Q2	2015	1,515,564	4,472,913	4,866,542	7,601,287	80,997
Q1	2015	1,093,393	4,542,324	4,851,287	8,068,697	83,865
Q4	2014	898,909	3,934,508	5,853,264	7,051,045	494,757
Q3	2014	784,068	4,581,100	5,729,587	7,756,631	0
Q2	2014	577,053	4,830,956	5,817,828	7,599,114	0

% of Total

Quarter	Year	Floating	0-3 Months	3 Months - 1 Year	1 to 5 Years	5+ Years
Q1	2016	11.937%	17.676%	31.027%	39.358%	0.003%
Q4	2015	9.871%	12.936%	36.051%	41.142%	0.000%
Q3	2015	9.066%	21.369%	27.489%	41.639%	0.437%
Q2	2015	8.176%	24.129%	26.253%	41.005%	0.437%
Q1	2015	5.866%	24.369%	26.027%	43.288%	0.450%
Q4	2014	4.930%	21.580%	32.103%	38.673%	2.714%
Q3	2014	4.159%	24.301%	30.393%	41.146%	0.000%
Q2	2014	3.065%	25.663%	30.905%	40.367%	0.000%

- Floating liabilities now exceeds HCG's Book Value of Equity
 - Have more than doubled in the last year
- This increases the **risk of a bank run**

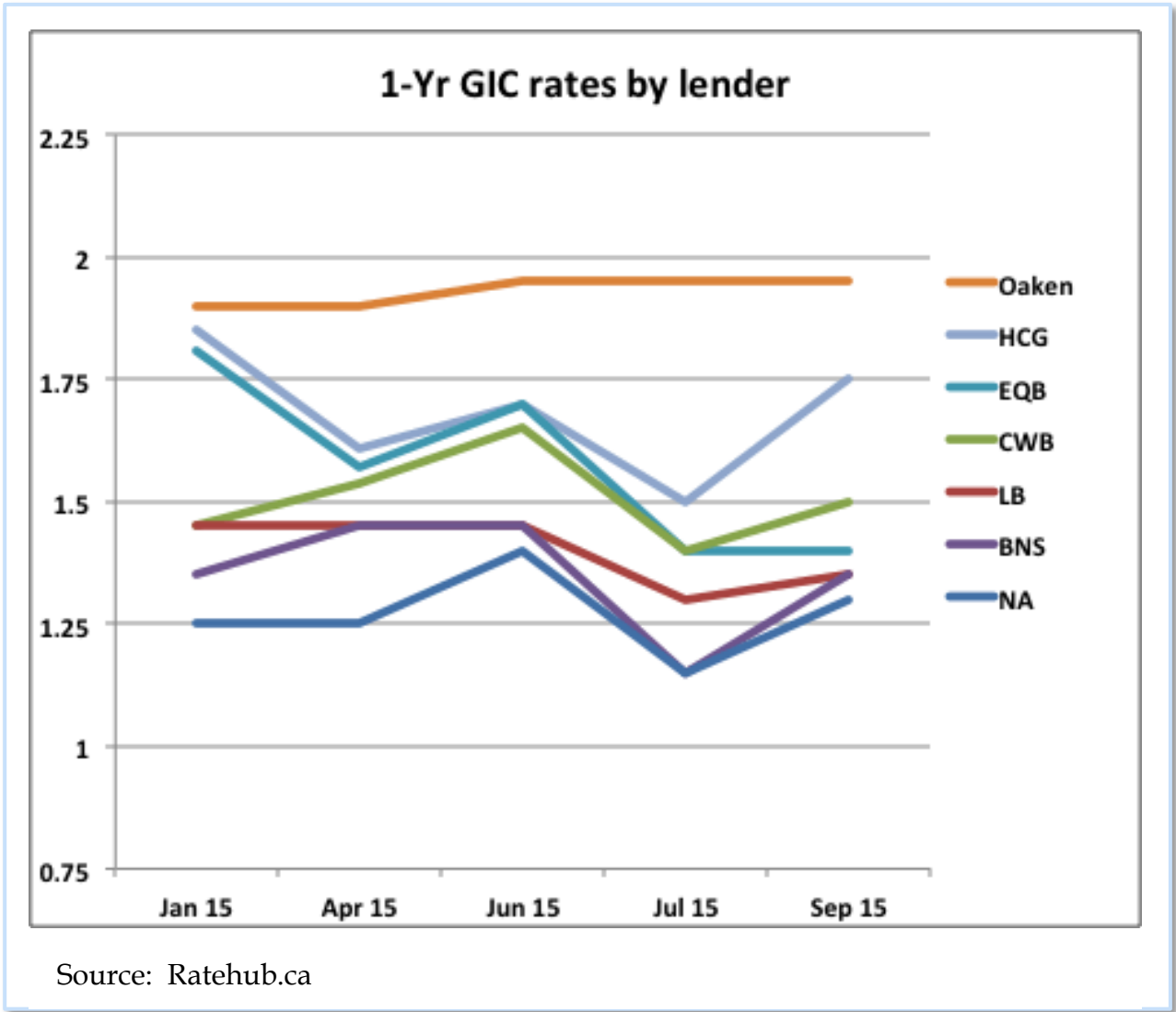
Which of These is Not Like the Others?

Rate	Provider		
1.15% <small>sponsored</small>	 Equitable Bank	0.35%	 RBC Royal Bank
1.80%	 Oaken Financial	0.35%	 HSBC
0.50%	 Tangerine	0.25%	 CIBC
0.50%	 Bank of Montreal	0.25%	 Scotiabank
0.35%	 National Bank	0.25%	 TD Bank
		0.25%	 Laurentian

Source: Ratehub.ca

- Why is Oaken (HCG Subsidiary) willing to pay significantly more than other institutions for 90 day deposits?

Historical GIC Rates - 2015



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 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

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 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 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.”

Gerry Soloway on Mortgage Fraud - 2010

BMO's decision to file a lawsuit (in a bid to recoup its money) is also seen as an oddity, with some suggesting that banks and other lending institutions are reluctant to talk about what is believed to be a relatively easy—and lucrative—crime to commit. “If you’re a bank with 1,200 branches, they would probably say that by talking about it, they’re going to educate people on how to pull off a fraud,” says Gerald Soloway, the chief executive of Home Capital Group, which sells mortgages in British Columbia, Alberta, Ontario and Nova Scotia. “I happen to feel that it is a big problem. And I, for one, would like to see more resources devoted to trying to stamp it out.”

<http://www.macleans.ca/economy/business/the-ideal-crime/>

Management Credibility

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

New Disclosures: Other Meeting Fees

Directors' Compensation for 2014 ⁽¹⁾									
Director	Board Annual Base Retainer	Board Chair Retainer	Committee Chair Retainer	Other Meeting Fees ⁽²⁾	Total Compensation	Portion of Fees taken in DSUs ⁽³⁾	Total Value of DSUs Received in 2014 ⁽⁴⁾	Total # of all DSUs Held ⁽⁵⁾	Total Value of All DSUs Held ⁽⁷⁾
James C. Baillie	\$ 100,000	\$ 0	\$ 0	\$ 3,000	\$ 103,000	0%	\$ 0	0	\$ 0
Jacqueline E. Beaurivage ⁽⁸⁾	\$ 75,000	\$ 0	\$ 0	\$ 0	\$ 75,000	100%	\$ 75,000	1,555	\$ 74,624
William G. Davis	\$ 100,000	\$ 45,000 ⁽⁹⁾	\$ 5,000 ⁽¹⁰⁾	\$ 2,083	\$ 152,083	0%	\$ 0	0	\$ 0
William F. Falk	\$ 100,000	\$ 0	\$ 0	\$ 0	\$ 100,000	100%	\$ 100,000	7,387	\$ 354,502
Diana L. Graham	\$ 100,000	\$ 0	\$ 0	\$ 0	\$ 100,000	100%	\$ 100,000	3,205	\$ 153,760
John M. Marsh	\$ 100,000	\$ 0	\$ 0	\$ 0	\$ 100,000	50%	\$ 55,000	8,626	\$ 413,962
Robert A. Mitchell	\$ 100,000	\$ 0	\$ 30,000 ⁽¹¹⁾	\$ 3,000	\$ 133,000	0%	\$ 0	10,579	\$ 507,686
Kevin P.D. Smith	\$ 100,000	\$ 125,000 ⁽¹²⁾	\$ 7,500 ⁽¹³⁾	\$ 2,250	\$ 234,750	50%	\$ 140,179	26,255	\$ 1,259,977
Bonita J. Then	\$ 100,000	\$ 0	\$ 35,000 ⁽¹⁴⁾	\$ 2,250	\$ 137,250	0%	\$ 0	0	\$ 0
F. Leslie Thompson ⁽¹⁵⁾	\$ 41,667 ⁽¹⁶⁾	\$ 0	\$ 0	\$ 0	\$ 41,667	25%	\$ 10,417	1,591	\$ 76,352

Notes:

⁽¹⁾ Board members do not currently receive option based awards or non-equity incentive plan compensation and have no pension or other compensation entitlements.

⁽²⁾ "Other Meeting Fees" reflects fees received for participation in meetings of ad hoc committees of the Board. These fees are paid as cash compensation only.

- Notice the "Other Meeting Fees" column (this was new for 2014)
- The "Ad Hoc Committee" cost HCG a total of \$12,583

New Disclosures: Other Meetings Fees (cont'd)

Unclear how much time and money has been spent on investigating fraud...

- **Management has not said who they hired, and how much time and money they have spent on the fraud investigation**
- Total Board meetings increased from 21 in 2013 to 26 in 2014
- Meetings attended by the CEO (i.e. traditional Board meetings, not committee meetings) also increased by 5
 - 10 meetings in 2013 and 15 meetings in 2014
- This implies that none of the additional Board meetings were for the Ad Hoc Committee
- Paid time spent by Board member James Baillie (lawyer and member of the Ad Hoc Committee) on investigation of fraud appears to be less than 8 hours
 - Assuming top lawyer hourly rate of \$400+ and Ad Hoc Committee expense for Baillie of \$3,000

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 Current LTV (1)			
	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%)

Key Resignations

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 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

Insider Trading

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
1) Current 2) Historical 3) Matrix 4) Ownership 5) Transactions 6) Options							43691310
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	

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

EPS Games

Hiding Losses in AOCI?



- HCG is not recognizing Mark-to-Market Losses on the Income Statement
 - This is allowable per IFRS
- HCG says this is due to their Preferred Stock holdings declining in value
- How much worse do the losses need to be for HCG to recognize an impairment charge?

Relying on Securitization Income

Securitization Income

<i>thousands of Canadian dollars (unaudited)</i>	2015	2015	2014	2014	2014	2014
	Q2	Q1	Q4	Q3	Q2	Q1
Net gain on sale of mortgages or residual interest	\$ 7,804	\$ 4,427	\$ 4,362	\$ 4,448	\$ 6,971	\$ 7,930
Net change in unrealized gain or loss on hedging activities	200	(242)	(591)	311	(115)	219
Servicing income	1,247	1,224	1,185	906	638	581
Total securitization income	\$ 9,251	\$ 5,409	\$ 4,956	\$ 5,665	\$ 7,494	\$ 8,730

- Q2 2015 Securitization Income was up 23% YoY
 - This was ~10% of Pretax Income
- Excluding this increase, EPS would have been \$0.02 lower than reported
- Securitization gains should decrease going forward as the volume of Insured Mortgages has decreased

Addendum

Updated as of December 18, 2015

Fired Broker Exposure: New Disclosures

- **\$960mm** originated in **2014** (according to management)
- Now claiming it had **\$1.9bn** on its Balance Sheet in **Q2 2015**
- **Q3 2015** Balance Sheet exposure is now **\$1.7bn**
- **How were these numbers not disclosed in Q2 2015?**
- **Did Management not know them in July?**
 - **It's been more than a year since the fraud was discovered**
 - **Does HCG have the systems to track originations by broker?**
- **Is HCG deliberately dragging its feet hoping to dribble out bad news over longer period of time?**

HCG's Portfolio is Riskier Than it Wants to Admit

- HCG hasn't written down the mortgages from fired brokers that it said it wouldn't renew (~10%)
- HCG relies on LTV as the primary factor in determining write-downs
- HCG doesn't know the source of down payments (e.g., 2nd/3rd mortgages)

Q3 2015 Uninsured Mortgages now 76.5% of Portfolio

The Balance Sheet continues to get riskier...

Credit Risk: Mortgage Portfolio On Balance Sheet

(000s, except %)	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Total mortgage portfolio balance (net of individual allowance)	\$ 17,563,776	\$ 17,387,281	\$ 17,589,031	\$ 17,746,378	\$ 17,725,745	\$ 17,305,488	\$ 17,119,866
Percentage of residential mortgages	91.7%	92.4%	93.2%	93.8%	94.0%	94.1%	94.2%
Percentage of non-residential mortgages	8.3%	7.6%	6.8%	6.2%	6.0%	5.9%	5.8%
Percentage of mortgage portfolio insured (1)	23.5%	24.0%	25.7%	27.7%	29.6%	32.2%	34.6%
Percentage of mortgages current	98.2%	98.0%	98.1%	97.9%	98.0%	97.9%	97.8%
Percentage of total mortgages over 90 days past due	0.32%	0.28%	0.29%	0.34%	0.34%	0.38%	0.37%

(1) Insured loans are loans insured against default by CMHC or another approved insurer either individually at origination or by portfolio.

Provision for Credit Losses in Q3 2015

Provision for Credit Losses and Net Write-Offs as a Percent of Gross Loans on an Annualized Basis

(000s, except %)	2015		2015		2015		2014		2014		2014		2014	
	Q3		Q2		Q1		Q4		Q3		Q2		Q1	
	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)	Amount	% of Gross Loans (1)
Provision (2)														
Single-family residential mortgages	\$ 1,805	0.06%	\$ 1,131	0.03%	\$ 1,493	0.05%	\$ 2,263	0.07%	\$ 2,646	0.09%	\$ 2,184	0.07%	\$ 2,414	0.09%
Residential commercial mortgages (3)	-	-	(4)	(0.01)%	8	0.01%	24	0.04%	-	-	-	-	(25)	(0.05)%
Non-residential commercial mortgages	237	0.06%	321	0.10%	202	0.07%	81	0.03%	92	0.03%	20	0.01%	77	0.03%
Credit card loans	163	0.19%	198	0.23%	94	0.11%	128	0.15%	164	0.20%	170	0.22%	109	0.15%
Other consumer retail loans	44	0.07%	20	0.03%	6	0.01%	90	0.19%	9	0.01%	58	0.06%	30	0.03%
Securitized single-family residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total individual provision	2,249	0.05%	1,666	0.04%	1,803	0.04%	2,586	0.06%	2,911	0.06%	2,432	0.05%	2,605	0.06%
Total collective provision	600	0.01%	600	0.01%	600	0.01%	600	0.01%	600	0.01%	800	0.02%	600	0.01%
Total provision	\$ 2,849	0.06%	\$ 2,266	0.05%	\$ 2,403	0.05%	\$ 3,186	0.07%	\$ 3,511	0.08%	\$ 3,232	0.07%	\$ 3,205	0.07%

- Even with more than double the amount of questionable mortgages, the Provision **increased by 1 basis point**
- Provisions of **0.06% of Gross Loans**
 - Still lower than Q3 2014

Allowance for Credit Losses in Q3 2015

Change in Allowance

<i>thousands of Canadian dollars (Unaudited)</i>	2015	2015	2015	2014	2014	2014	2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Individual allowances							
Allowance on loan principal							
Balance at the beginning of the period	\$ 2,153	\$ 1,792	\$ 2,103	\$ 2,638	\$ 1,744	\$ 1,669	\$ 1,638
Provision for credit losses	2,050	1,437	1,720	2,761	2,889	2,440	2,664
Write-offs	(1,970)	(1,538)	(2,451)	(3,462)	(2,254)	(2,693)	(2,794)
Recoveries	347	462	420	166	259	328	161
	2,580	2,153	1,792	2,103	2,638	1,744	1,669
Allowance on accrued interest receivable							
Balance at the beginning of the period	932	703	620	795	773	781	840
Provision for credit losses	199	229	83	(175)	22	(8)	(59)
	1,131	932	703	620	795	773	781
Total individual allowance	3,711	3,085	2,495	2,723	3,433	2,517	2,450
Collective allowance							
Balance at the beginning of the period	35,300	34,700	34,100	33,500	32,900	32,100	31,500
Provision for credit losses	600	600	600	600	600	800	600
	35,900	35,300	34,700	34,100	33,500	32,900	32,100
Total allowance	\$ 39,611	\$ 38,385	\$ 37,195	\$ 36,823	\$ 36,933	\$ 35,417	\$ 34,550
Total provision	\$ 2,849	\$ 2,266	\$ 2,403	\$ 3,186	\$ 3,511	\$ 3,232	\$ 3,205

\$39mm Allowance on ~\$18bn in loans, or ~0.21%

AOCI Update



- **Unrealized losses increased 50%** to \$68mm in Q3 2015, from \$47.5mm in Q2 2015
- **AOCI continues to deteriorate** as mark to market losses are not realized and run through the income statement
- **When will HCG recognize the impairment?**

Fitch Maintains Rating, Downgrades HCG Outlook

- Fitch was unable to quantify **Insured Mortgage Put Back risk**
- Fitch Analyst had minimal contact with management
 - When there was contact, Management did not answer Fitch's questions to its satisfaction
- We believe the **Audit Committee should speak with the Fitch Analyst**

Martin Reid on BNN 12/07/2015

“Come Q2 [2016], we will be back on track with our growth” ...

- Soloway on Q2 2015 call:

*“Looking ahead, our focus remains on generating future growth that is sustainable and prudent, and are making the investments in our business that will help us achieve that goal. So to long suffering shareholders I say stick with us because **we are committed to delivering and over the next few quarters, we will demonstrate that.**”*

Why the return to growth in Q2 2016? What has changed?

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.

Genworth Canada (MIC) Commentary on HCG

- MIC management has suggested the following during private meetings:
 - MIC **will not insure** any new HCG mortgages
 - HCG's **systems are not adequate** for vetting and tracking mortgage originations
 - MIC **likely would not pay** an HCG claim
 - MIC **does not understand why** HCG loan review is taking so long

Loan Review: Why Is It Taking So Long?

- Reid says it will be finished by the end of 2016 ... but why will it take this long?
- Average loan balance is **\$300,000**
 - Implies **~5,600 mortgages** (based on \$1.7bn loan exposure)
 - Assume one person makes **30 calls per day**
 - **12 people making calls** would result in 360 calls per day (which would mean all employers would be called within 15 days!)

Continued Insider Selling and Lack of Insider Buying

- **Soloway exercised 40,000 options and then immediately sold them**
 - He could have sold a portion to pay taxes and held the rest...
Why did he sell them all?
 - Soloway knew about the fraud and sold anyway in
November of 2014
- **If the company is buying back shares, why won't executives do the same?**
 - Reid claims he bought stock, but he actually exercised options with an ~\$8 strike price

Regulatory Reserves Likely to Increase

Jeremy Rudin – Superintendent OSFI:

"It has come to light that institutions have been, I would say inadvertently, making mortgages to people whose income has been falsified," said Jeremy Rudin, superintendent of financial institutions.

"One of things we've been doing is encouraging sound risk management. And as we set out in our guideline on mortgage underwriting, income verification – checking to make sure the borrower has the ability to carry the loan – is an important part of sound underwriting."

However, Mr. Rudin pointed out that the insurance company is not obliged to pay claims if there has been negligence on the part of the lender – say, by turning a blind eye toward detecting fraud related to the borrower's income.

"That's a problem for our capital regime as it stands now, because the capital is in the wrong place," Mr. Rudin said. "The capital requirement is on the insurer, who doesn't have to pay; and there is low or zero capital requirement on the lender, whose insurance is no longer valid."

"We want to adapt the capital requirement so that the capital will be in the right place."

Source: <http://www.theglobeandmail.com/report-on-business/economy/housing/mortgage-fraud-poses-key-threat-in-canadian-housing-market-osfi/article27750486/>

Addendum

Updated as of February 29, 2016

Fired Broker Mortgage Update - Q4 2015

- **Quality of the loans is deteriorating**
 - Only 86% of loans reviewed in Q4 are eligible for renewal
- **Approximately 40% through with review**
 - Now state that ~90% are eligible for renewal (vs. 92-93% as stated on Q3 call)
- **Total Value now \$1.55bn vs. \$1.72bn in Q3**

	% Reviewed	% Eligible for Renewal	Wtd Average
Q3 2015	25.00%	92.50%	23.13%
Q4 2015	15.00%	85.83%	12.88%
Total	40.00%	90.00%	36.00%

Increasing Balance Sheet Risk: Record Low Provisions

HCG Provisions are a paltry 0.03% ...

Provision for Credit Losses and Net Write-offs as a Percentage of Gross Loans on an Annualized Basis

(000s, except %)	For the three months ended					
	December 31, 2015		September 30, 2015		December 31, 2014	
	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹
Provision²						
Single-family residential mortgages	\$ 986	0.03%	\$ 1,805	0.06%	\$ 2,203	0.07%
Residential commercial mortgages	-	-	-	-	24	0.04%
Non-residential commercial mortgages	(40)	(0.01)%	237	0.06%	81	0.03%
Credit card loans and lines of credit	343	0.37%	163	0.19%	128	0.15%
Other consumer retail loans	101	0.14%	44	0.07%	90	0.19%
Securitized single-family residential mortgages	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-
Total individual provision	1,390	0.03%	2,249	0.05%	2,586	0.06%
Total collective provision	25	0.00%	600	0.01%	600	0.01%
Total provision	\$ 1,415	0.03%	\$ 2,849	0.06%	\$ 3,186	0.07%
Net Write-Offs²						
Single-family residential mortgages	\$ 1,415	0.04%	\$ 1,128	0.03%	\$ 3,054	0.10%
Residential commercial mortgages	-	-	-	-	24	0.04%
Non-residential commercial mortgages	127	0.03%	303	0.08%	56	0.02%
Credit card loans and lines of credit	502	0.54%	163	0.19%	114	0.14%
Other consumer retail loans	94	0.13%	29	0.04%	48	0.10%
Securitized single-family residential mortgages	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-
Net write-offs	\$ 2,138	0.05%	\$ 1,623	0.04%	\$ 3,296	0.07%

... even after more suspect loans would *not be refinanced*

Increasing Balance Sheet Risk: Commercial Mortgages

Writing riskier Commercial Mortgages

Loans by Geographic Region and Type (net of individual allowances for credit losses)

(000s, except %)

As at December 31, 2015

	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	\$ 125,239	\$ 114,807	\$ 1,559,536	\$ 81,262	\$ 67,266	\$ 1,948,110
Securitized multi-unit residential mortgages	94,676	46,848	372,141	51,309	161,391	726,365
Total securitized mortgages	219,915	161,655	1,931,677	132,571	228,657	2,674,475
Single-family residential mortgages	706,555	525,984	11,060,894	419,075	266,910	12,979,418
Residential commercial mortgages ¹	21,128	14,215	216,407	27,265	42,427	321,442
Non-residential commercial mortgages	25,157	59,861	1,358,295	14,505	32,830	1,490,648
Credit card loans and lines of credit	9,598	22,709	330,188	1,489	6,841	370,825
Other consumer retail loans	783	11,090	284,231	-	753	296,857
Total non-securitized mortgages and loans ²	763,221	633,859	13,250,015	462,334	349,761	15,459,190
	\$ 983,136	\$ 795,514	\$ 15,181,692	\$ 594,905	\$ 578,418	\$ 18,133,665
As a % of portfolio	5.4%	4.4%	83.7%	3.3%	3.2%	100.0%

(000s, except %)

As at September 30, 2015

	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	\$ 136,396	\$ 108,656	\$ 1,676,375	\$ 90,839	\$ 60,867	\$ 2,073,133
Securitized multi-unit residential mortgages	103,608	61,846	396,139	71,204	194,656	827,453
Total securitized mortgages	240,004	170,502	2,072,514	162,043	255,523	2,900,586
Single-family residential mortgages	694,241	485,077	11,052,127	415,887	254,769	12,902,101
Residential commercial mortgages ¹	24,530	24,242	198,956	23,989	24,174	295,891
Non-residential commercial mortgages	26,060	62,397	1,327,687	12,860	36,194	1,465,198
Credit card loans and lines of credit	5,280	15,020	316,965	1,532	3,988	342,785
Other consumer retail loans	754	6,716	259,570	-	703	267,743
Total non-securitized mortgages and loans ²	750,865	593,452	13,155,305	454,268	319,828	15,273,718
	\$ 990,869	\$ 763,954	\$ 15,227,819	\$ 616,311	\$ 575,351	\$ 18,174,304
As a % of portfolio	5.4%	4.2%	83.8%	3.4%	3.2%	100.0%

Increasing Balance Sheet Risk: Other Loans

Other Loans up 11% sequentially to hit origination targets

Loans by Geographic Region and Type (net of individual allowances for credit losses)

(000s, except %)

As at December 31, 2015

	British Columbia	Alberta	Ontario	Quebec	Other	Total
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Other consumer retail loans	754	6,716	259,570	-	703	267,743
Total non-securitized mortgages and loans ²	750,865	593,452	13,155,305	454,268	319,828	15,273,718
	\$ 990,869	\$ 763,954	\$ 15,227,819	\$ 616,311	\$ 575,351	\$ 18,174,304
As a % of portfolio	5.4%	4.2%	83.8%	3.4%	3.2%	100.0%

Increasing Balance Sheet Risk: Increased Alberta exposure

HCG actually increased its Alberta loan exposure 20 bps

Loans by Geographic Region and Type (net of individual allowances for credit losses)

(000s, except %)

As at December 31, 2015

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As a % of portfolio	5.4%	4.2%	83.8%	3.4%	3.2%	100.0%

Q4 15 Mortgage Originations declined, contrary to Q3 call

Soloway misled investors on the Q3 call

<Q - Shubha Khan>: Okay. Final question just on the origination outlook. I appreciate all the color you gave us in the call so far. But, I guess what I'm trying to get a sense of is, whether despite the efforts that you have made in I guess according to new brokers and on-boarding new brokers and other measures you've taken to boost the pipeline, it still sounds like originations will be down in the final quarter growth it to last year at least. And whether you think...

<A - Gerald M. Soloway>: I wouldn't agree.

Originations were down sequentially and YoY in Q4

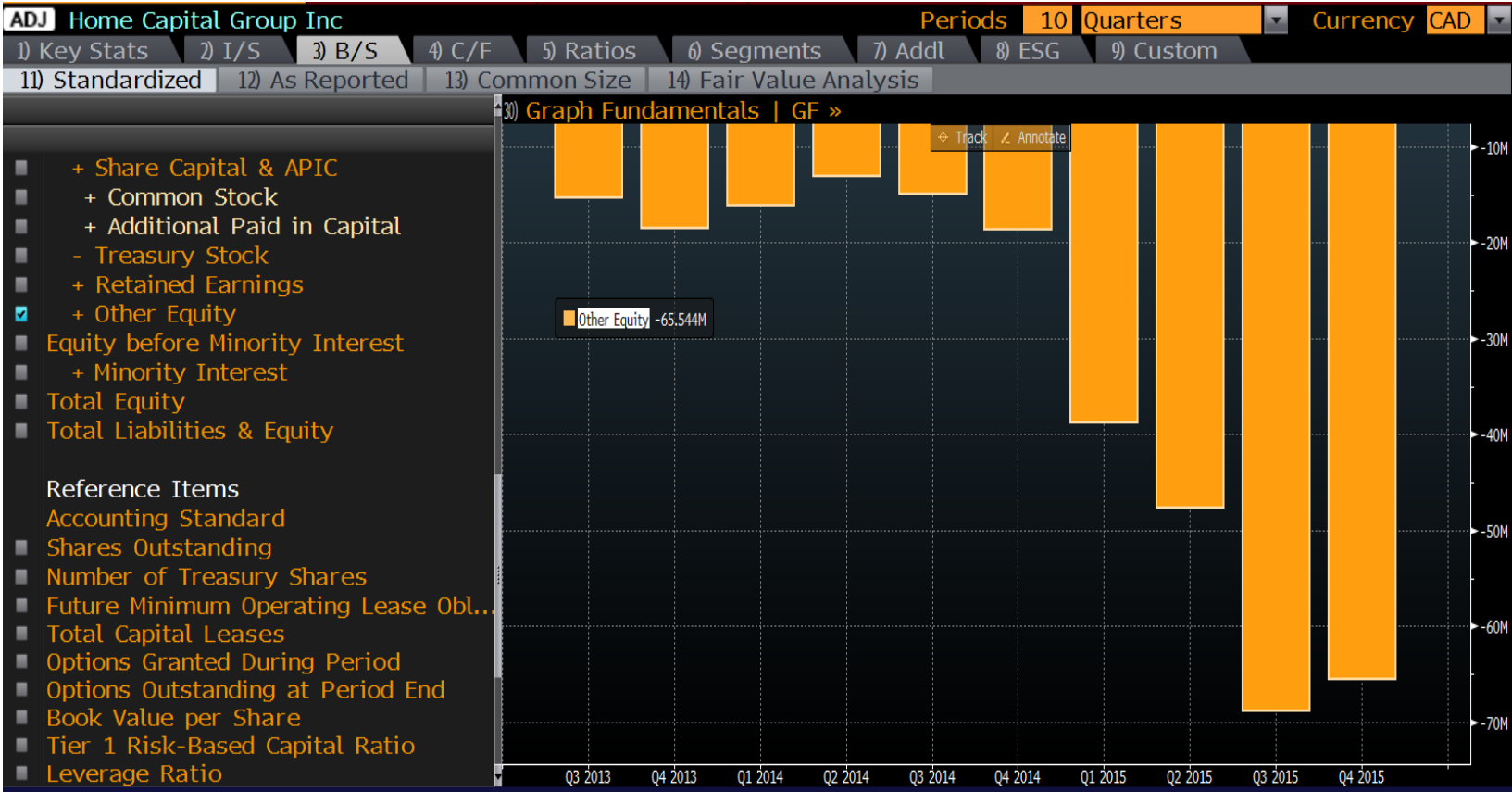
HCG	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
(\$MM)	2013	2014	2014	2014	2014	2015	2015	2015	2015
Uninsured Gross Originations	\$1,230.0	\$1,480.0	\$1,530.0	\$1,780.0	\$1,480.0	\$960.0	\$1,290.0	\$1,510.0	\$1,304.3
Insured Gross Originations	\$357.1	\$353.0	\$619.6	\$522.9	\$353.0	\$180.0	\$279.5	\$416.3	\$515.9
Total Originations	\$1,587.1	\$1,833.0	\$2,149.6	\$2,302.9	\$1,833.0	\$1,140.0	\$1,569.5	\$1,926.3	\$1,820.2
YoY Change									
Uninsured Gross Originations	6.03%	49.49%	23.39%	35.88%	20.33%	-35.14%	-15.69%	-15.17%	-11.87%
Insured Gross Originations	104.99%	59.66%	138.03%	91.82%	-1.15%	-49.01%	-54.89%	-20.39%	46.15%
Total Originations	18.96%	51.35%	43.28%	45.51%	15.49%	-37.81%	-26.99%	-16.35%	-0.70%

HCG recognized gain from acquisition accounting

- **Non-Cash Gain from Deferred Tax Assets was recognized from the acquisition of CFF Bank**
 - DTA increased by \$15mm for Q4
 - DTA increased by \$13.7mm in December alone
- **CFF Retained Earnings increased by ~\$13mm in Q4**
 - HCG recognized this gain in their income statement

On October 1, 2015, the Company acquired CFF Bank. On the date of acquisition, the Company recognized a deferred tax asset relating to losses generated in CFF Bank in the amount of \$13.5 million. At December 31, 2015 the losses generated in CFF Bank increased the deferred tax asset to \$15.0 million. The losses generated in CFF Bank expire after 2029. The Company plans to be able to generate sufficient income in CFF Bank to be able to utilize the losses recognized as a deferred tax asset.

HCG continues to hide losses in AOCI



AOCI Update: HCG's Preferred Portfolio is under water

Soloway stated that all Preferreds are Investment Grade...

Stephen Boland, Analyst

Okay. Just on -- I know you answered a question on the pref, obviously all the financial are getting hurt with pref portfolios. Is there any -- are they mostly financial services preferreds or is there any energy preferreds in there?

Gerald Soloway, Chief Executive Officer

There was mapping in the portfolio that's been shaky. We've looked at the Mall, they are all investment grade. We --

... this was a lie... less than half are actually Investment Grade

The securities portfolio consists of bonds, residual interests of underlying securitized insured fixed-rate residential mortgages, and common and preferred shares. At December 31, 2015, the preferred share portfolio was \$190.7 million or 42.0% of the Company's securities compared to \$248.0 million or 42.6% in 2014. Investment-grade preferred shares represent 40.4% of the preferred share portfolio (51.4% in 2014). Corporate and government bonds represent 55.9% of the securities portfolio compared to 55.0% in 2014. The entire bond portfolio of \$253.2 million (\$320.7 million in 2014) is investment grade. Residual interests represent 2.1% (2014 - 2.4%) of the securities portfolio and common shares represent less than 0.1% of the securities portfolio compared to 0.1% in 2014.

AOCI Update: HCG refuses to recognize loss on Preferreds

Why hasn't HCG impaired its Preferreds?

Martin Reid says only a **credit event** would make them impaired...

Dylan Stewart, Analyst

One final question, just on the preferred share exposure, not unique that you've taken realized loss given the state of the markets. But just wondering what the nature of your exposure is in that preferred shares. And then what would it take for to realize an impairment in the income?

Martin K. Reid, President

Yes. It's Martin here. For an impairment, it would need a credit event to trigger that. And we analyze that portfolio on a regular basis, each of the names is in that portfolio and it's a variety of names and variety of sectors. And we don't see anything at this stage of the game that would trigger a credit event.

... only 40.4% are investment grade vs. 51.4% in 2014 and 55.7% in 2013

How is this not evidence of a credit event?

AOCI Update: HCG refuses to recognize loss on Preferreds

HCG will not identify their Preferred Stock Holdings

Question from Q1 2016 earnings call

<Q - Brian Thomas Horey>: Okay. And then just to follow-up. I noticed that the preferred securities marking the OCI account had increased again in the quarter. And, you know, given that it's now approaching C\$1.50 a share, I wondered if you could give us a more transparency on what's your net, what's your net bucket of holdings and what's generating the marks?

<A - Martin K. Reid>: Yeah, it's almost entirely made up of preferred shares, you know which is a heavily retail market, maybe, you know, one of the more efficient markets, strong yields, there's no credit issues. You know, particularly on an after-tax basis, you know very healthy returns.

<Q - Brian Thomas Horey>: But you can't give us any more transparency and who the issuers are for the...

<A - Martin K. Reid>: Oh, yeah it largely financials.

<A - Gerald M. Soloway>: Their predominately A to AAA, almost very little in the BBB+ category.

<A - Robert Morton>: Yeah. And just they're not all financials, there's also some resource-based [indiscernible] (51:20).

<A - Gerald M. Soloway>: No, they're all good – they just went down in value. There's nothing wrong with the price.

<Q - Brian Thomas Horey>: What fraction would be resource based?

<A - Robert Morton>: I don't know, off the top of my head.

If “very little are in BBB+” how can only 40.4% be investment grade?

S&P lowered its Credit Outlook on HCG to Negative

- **Potential credit downgrade if capital levels fall**
 - Payoff of debt and buyback of stock would lower capital ratios
- **HCG hasn't "fired" S&P**
 - It claimed Fitch outlook downgrade didn't matter because Fitch was fired by HCG

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.

Addendum

Updated as of July 21, 2016

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	HCG CN
Industry	Mortgage Banks			Price	CAD 30.6
Country	Canada				
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 43691310	
1) Current		2) Historical		3) Matrix		4) Ownership		5) Transactions		6) Options	
Transaction Type		All Open Market Buy/Sell				Range		07/21/15		- 07/21/16	
Shareholders		REID MARTIN K						9) Chart		10) Table	
	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

Home Capital Employee Departures 2015 - 23 Employees

Shaun Goruk – Sr. Mortgage Underwriter – Left Dec 2015
Matt Laferriere – Mortgage Underwriter – Left Dec 2015
Lu Timdale – Solutions Architect – Left Dec 2015
Lucy Proteau – Program Director, Advancing Risk & Compliance Culture – Left Dec 2015
John Alexander – Market Risk Analyst – ERM – Left Dec 2015
Brenda McFadyen – Mortgage Underwriter – Left Nov 2015
Thomas Campbell – Mortgage Underwriter – Left Nov 2015
Sati Singh – Sr. Business Analyst – Left Nov 2015
Tannis Brissett – Bus Development Manager – Left Nov 2015
Dhruve Khanna – Sr. Business Risk Analyst – Left Nov 2015
Julie Kraemer – Mortgage Underwriter – Left Oct 2015
Trevor Johnston – Underwriter – Left Oct 2015
Andy Alexandru – Mortgage Officer – Left Oct 2015
Christine and Tandy De Angelis– Business Development Manager – Left Oct 2015
Mohammad Musharaf – AVP Finance – Left Sept 2015
Yasaswini Ikkurthi – Sr. Java Consultant – Left Sept 2015
Andrea Iskandar – Jr. Compliance Analyst – Left Sept 2015
Natalie Weber – Customer Service Specialist – Left Sept 2015
Pierre Taschereau – Credit Manager – Left Sept 2015
Vijay Batavia – Manager – Left Aug 2015
Cassandra Printzios – Compliance Analyst – Left Aug 2015
Marissa Lauder – Sr. VP Finance – Left Jun 2015
Anthony H Park – Sr. Market Risk Analyst, ERM – Left 2015

Home Capital Employee Departures 2016 - 33 Employees

Alan Sturrock - Team Leader, Underwriting - Left Jun 2016
Brittney Channer - Funding Specialist/Fulfillment Officer - Left Jun 2016
Sunny Grewal - Mortgage Underwriter - May 2016
Robert Michael Fiorini - Mortgage Underwriter - Left May 2016
S. Alexander - Risk Analyst - Left May 2016
Danny Antoniazzi - Sr. Manager, Operations & Credit - Left May 2016
Karimulla Mohammad - QA Lead - Left May 2016
Dan Van Horne - VP, Project Management Office - Left Apr 2016
Joe Rosati - VP National Sales - Left Apr 2016
Praveen Monga - Sr. Business Analyst/System Analyst - Left Apr 2016
Niki Pan - Mortgage Officer - Left Mar 2016
Sean Cameron - Director Corporate Compliance - Left Mar 2016
Jessica Russell - Compliance Analyst - Left Mar 2016
Chrisina Russo - Mortgage Renewals Specialist - Left Mar 2016
Maria Judylyn Letargo - Mortgage Underwriter - Left Mar 2016
Gerry Nazaro - Commercial Lending Underwriter - Left Mar 2016
Sandy Pandolfi - Credit Manager/Quality Control Manager - Left Mar 2016

David Fernandes - Credit Review Analyst - Left Feb 2016
Kimberly Laidis - Commercial Lending Officer - Left Feb 2016
Lynda Zerbe Lalonde - Independent HR Consultant - Left Feb 2016
Ryan Scott - Operations Analyst - Left Feb 2016
Shawn Lyons - Sr. VP Finance - Left Jan 2016
Gary Amores - Sr. Legal Specialist - Left Jan 2016
Jennifer O'Heron - Sr. Manager, Financial Operations - Left Jan 2016
David Montoya - Mortgage Underwriter - Left Jan 2016
Jillian Almeida - Bus Development Manager - Left Jan 2016
Cristina Nicolia - Mortgage Underwriter - Left Jan 2016
Caspar Sinnige - VP, Strategy and Regulatory Affairs - Left Jan 2016
Julie Soragnese - Sr. Manager, Mortgage Lending - Left Jan 2016
Corbin Raison - Business Development Manager - Left 2016
Sadeq Safarini - Sr. Financial Analyst - FP&A - Left 2016
Jonathan Palmer - Sr. Market Risk Analyst - Left 2016
Michael Dulepka - Director, Policy & Procedures - Left 2016

Increasing Balance Sheet Risk: Record Low Provisions

HCG Provisions are a paltry 0.03% ...

Table 6: Provision for Credit Losses and Net Write-Offs as a Percent of Gross Loans on an Annualized Basis

(000s, except %)	March 31, 2016		For the three months ended			
			December 31, 2015		March 31, 2015	
	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹	Amount	% of Gross Loans ¹
Provision²						
Single-family residential mortgages	\$ 667	0.02%	\$ 986	0.03%	\$ 1,493	0.05%
Residential commercial mortgages	-	-	-	-	8	0.01%
Non-residential commercial mortgages	(55)	(0.01)%	(40)	(0.01)%	202	0.07%
Credit card loans and lines of credit	416	0.44%	343	0.37%	94	0.11%
Other consumer retail loans	152	0.19%	101	0.14%	6	0.01%
Securitized single-family residential mortgages	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-
Total individual provision	1,180	0.03%	1,390	0.03%	1,803	0.04%
Total collective provision	214	0.00%	25	0.00%	600	0.01%
Total provision	\$ 1,394	0.03%	\$ 1,415	0.03%	\$ 2,403	0.05%
Net Write-Offs²						
Single-family residential mortgages	\$ 1,149	0.04%	\$ 1,415	0.04%	\$ 1,867	0.06%
Residential commercial mortgages	-	-	-	-	8	0.01%
Non-residential commercial mortgages	(2)	(0.00)%	127	0.03%	9	0.00%
Credit card loans and lines of credit	337	0.36%	502	0.54%	152	0.18%
Other consumer retail loans	81	0.10%	94	0.13%	(5)	(0.01)%
Securitized single-family residential mortgages	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-
Net write-offs	\$ 1,565	0.04%	\$ 2,138	0.05%	\$ 2,031	0.04%

Increasing Balance Sheet Risk: Commercial Mortgages

Writing riskier Commercial Mortgages

(A) Loans by Geographic Region and Type (net of individual allowances for credit losses)

thousands of Canadian dollars, except % (Unaudited) As at March 31, 2016

	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	\$ 155,555	\$ 161,669	\$ 1,368,855	\$ 67,152	\$ 80,946	\$ 1,834,177
Securitized multi-unit residential mortgages	94,246	46,606	331,428	49,812	160,675	682,767
Total securitized mortgages	249,801	208,275	1,700,283	116,964	241,621	2,516,944
Single-family residential mortgages	683,892	472,153	11,015,075	392,627	247,042	12,810,789
Residential commercial mortgages ¹	6,053	6,437	227,539	28,454	14,605	283,088
Non-residential commercial mortgages	25,152	64,771	1,448,205	14,799	19,585	1,572,512
Credit card loans and lines of credit	9,678	22,709	333,921	1,349	7,001	374,658
Other consumer retail loans	801	13,053	307,167	-	716	321,737
Total non-securitized mortgages and loans ²	725,576	579,123	13,331,907	437,229	288,949	15,362,784
	\$ 975,377	\$ 787,398	\$ 15,032,190	\$ 554,193	\$ 530,570	\$ 17,879,728
As a % of portfolio	5.5%	4.4%	84.0%	3.1%	3.0%	100.0%

thousands of Canadian dollars, except % (Unaudited) As at December 31, 2015

	British Columbia	Alberta	Ontario	Quebec	Other	Total
Securitized single-family residential mortgages	\$ 125,239	\$ 114,807	\$ 1,559,536	\$ 81,262	\$ 67,266	\$ 1,948,110
Securitized multi-unit residential mortgages	94,676	46,848	372,141	51,309	161,391	726,365
Total securitized mortgages	219,915	161,655	1,931,677	132,571	228,657	2,674,475
Single-family residential mortgages	706,555	525,984	11,060,894	419,075	266,910	12,979,418
Residential commercial mortgages ¹	21,128	14,215	216,407	27,265	42,427	321,442
Non-residential commercial mortgages	25,157	59,861	1,358,295	14,505	32,830	1,490,648
Credit card loans and lines of credit	9,598	22,709	330,188	1,489	6,841	370,825
Other consumer retail loans	783	11,090	284,231	-	753	296,857
Total non-securitized mortgages and loans ²	763,221	633,859	13,250,015	462,334	349,761	15,459,190
	\$ 983,136	\$ 795,514	\$ 15,181,692	\$ 594,905	\$ 578,418	\$ 18,133,665
As a % of portfolio	5.4%	4.4%	83.7%	3.3%	3.2%	100.0%

¹Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

²Loans exclude mortgages held for sale.

Increasing Balance Sheet Risk: Other Loans

Other Loans up 8% sequentially to hit origination targets

(A) Loans by Geographic Region and Type (net of individual allowances for credit losses)

thousands of Canadian dollars, except % (Unaudited)							As at March 31, 2016
	British Columbia	Alberta	Ontario	Quebec	Other	Total	
Securitized single-family residential mortgages	\$ 155,555	\$ 161,669	\$ 1,368,855	\$ 67,152	\$ 80,946	\$ 1,834,177	
Securitized multi-unit residential mortgages	94,246	46,606	331,428	49,812	160,675	682,767	
Total securitized mortgages	249,801	208,275	1,700,283	116,964	241,621	2,516,944	
Single-family residential mortgages	683,892	472,153	11,015,075	392,627	247,042	12,810,789	
Residential commercial mortgages ¹	6,053	6,437	227,539	28,454	14,605	283,088	
Non-residential commercial mortgages	25,152	64,771	1,448,205	14,799	19,585	1,572,512	
Credit card loans and lines of credit	9,678	22,709	333,921	1,349	7,001	374,658	
Other consumer retail loans	801	13,053	307,167	-	716	321,737	
Total non-securitized mortgages and loans ²	725,576	579,123	13,331,907	437,229	288,949	15,362,784	
	\$ 975,377	\$ 787,398	\$ 15,032,190	\$ 554,193	\$ 530,570	\$ 17,879,728	
As a % of portfolio	5.5%	4.4%	84.0%	3.1%	3.0%	100.0%	

thousands of Canadian dollars, except % (Unaudited)							As at December 31, 2015
	British Columbia	Alberta	Ontario	Quebec	Other	Total	
Securitized single-family residential mortgages	\$ 125,239	\$ 114,807	\$ 1,559,536	\$ 81,262	\$ 67,266	\$ 1,948,110	
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Total securitized mortgages	219,915	161,655	1,931,677	132,571	228,657	2,674,475	
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Residential commercial mortgages ¹	21,128	14,215	216,407	27,265	42,427	321,442	
Non-residential commercial mortgages	25,157	59,861	1,358,295	14,505	32,830	1,490,648	
Credit card loans and lines of credit	9,598	22,709	330,188	1,489	6,841	370,825	
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Total non-securitized mortgages and loans ²	763,221	633,859	13,250,015	462,334	349,761	15,459,190	
	\$ 983,136	\$ 795,514	\$ 15,181,692	\$ 594,905	\$ 578,418	\$ 18,133,665	
As a % of portfolio	5.4%	4.4%	83.7%	3.3%	3.2%	100.0%	

¹Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential property types.

²Loans exclude mortgages held for sale.

OSFI Mortgage Underwriting Update – 7-07-2016

- **Income Verification Fraud**
 - OSFI is aware of income verification fraud
 - Lenders shouldn't rely on LTV as replacement for income verification
- **Non-Conforming Loans**
 - OSFI has seen poorer underwriting standards for loans above 65% LTV
 - Character and capacity to repay is more important than collateral value
- **Debt Service Ratios**
 - Lenders should plan for impact of higher interest rates
- **Appraisals and LTV Calculation**
 - Appraisals may be less reliable
- **Risk Appetite**
 - Newer loans are riskier

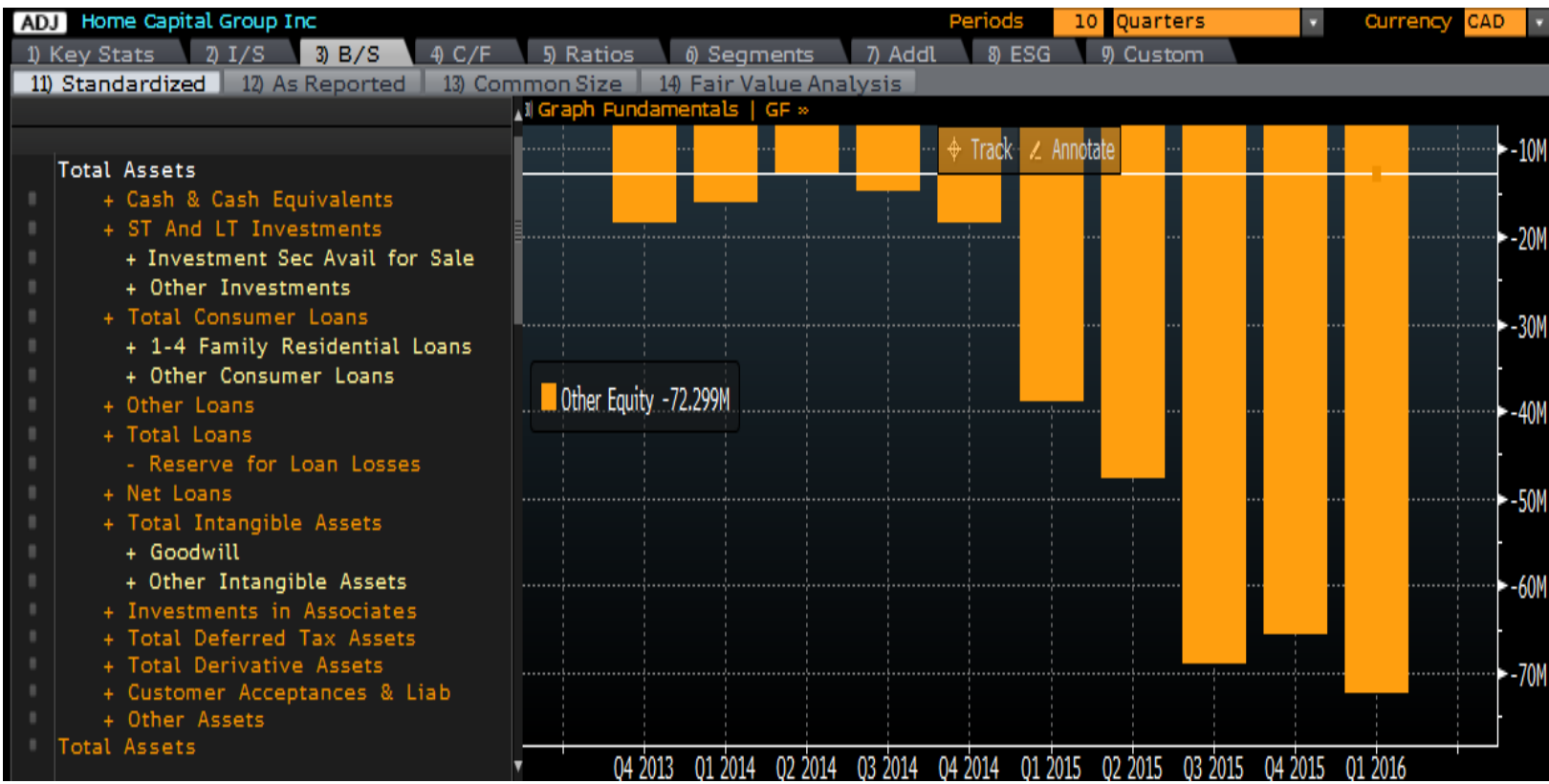
OSFI Capital Adequacy Update- 7-26-2016

- **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**

Commercial Construction Market Risk is Growing

- **Urbancorp**
 - Issued \$60mm in bonds and 5 months later went bankrupt
 - 1,058 homes under construction
- **Recently Failed/Restructured Construction Projects**
 - Collier Centre
 - Brookdale at Avenue Road
 - SkyCity Winnipeg
 - Capital Pointe Regina
 - Port Place St. Catherines

HCG continues to hide losses in AOCI



Addendum

Updated as of July 29, 2016

Increasing Balance Sheet Risk: Miniscule Provisions

HCG Provisions 0.06% ...

Table 6: Provision for Credit Losses and Net Write-Offs as a Percentage of Gross Loans on an Annualized Basis

(000s, except %)	For the three months ended						For the six months ended			
	June 30, 2016		March 31, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
	% of Gross		% of Gross		% of Gross		% of Gross		% of Gross	
	Amount	Loans ¹	Amount	Loans ¹	Amount	Loans ¹	Amount	Loans ¹	Amount	Loans ¹
Provision²										
Single-family residential mortgages	\$ 1,215	0.04%	\$ 667	0.02%	\$ 1,131	0.03%	\$ 1,882	0.03%	\$ 2,624	0.04%
Residential commercial mortgages	128	0.16%	-	-	(4)	(0.01)%	128	0.08%	4	0.00%
Non-residential commercial mortgages	293	0.07%	(55)	(0.01)%	321	0.10%	238	0.03%	523	0.08%
Credit card loans and lines of credit	519	0.56%	416	0.44%	198	0.23%	935	0.50%	292	0.17%
Other consumer retail loans	5	0.01%	152	0.19%	20	0.03%	157	0.09%	26	0.02%
Securitized single-family residential mortgages	-	-	-	-	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-	-	-	-	-
Total individual provision	2,160	0.05%	1,180	0.03%	1,666	0.04%	3,340	0.04%	3,469	0.04%
Total collective provision	600	0.01%	214	0.00%	600	0.01%	814	0.01%	1,200	0.01%
Total provision	\$ 2,760	0.06%	\$ 1,394	0.03%	\$ 2,266	0.05%	\$ 4,154	0.05%	\$ 4,669	0.05%
Net Write-Offs²										
Single-family residential mortgages	\$ 834	0.03%	\$ 1,149	0.04%	\$ 882	0.03%	\$ 1,983	0.03%	\$ 2,749	0.04%
Residential commercial mortgages	-	-	-	-	(4)	(0.01)%	-	-	4	0.00%
Non-residential commercial mortgages	422	0.10%	(2)	(0.00)%	(4)	(0.00)%	420	0.05%	5	0.00%
Credit card loans and lines of credit	725	0.78%	337	0.36%	152	0.18%	1,062	0.57%	304	0.18%
Other consumer retail loans	69	0.08%	81	0.10%	50	0.09%	150	0.09%	45	0.04%
Securitized single-family residential mortgages	-	-	-	-	-	-	-	-	-	-
Securitized multi-unit residential mortgages	-	-	-	-	-	-	-	-	-	-
Net Write-Offs	\$ 2,050	0.05%	\$ 1,565	0.04%	\$ 1,076	0.02%	\$ 3,615	0.04%	\$ 3,107	0.03%

¹Gross loans used in the calculation of total Company ratio include securitized on-balance sheet loans.

²There were no individual provisions, allowances or net write-offs on securitized mortgages.

- **Toronto Home Prices +15% Yoy**
 - HCG Ontario LTV is now 65.4% vs 67.5% a year ago
 - The LTV should have gone down more given the increase in home prices
 - Does this imply owners are taking cash out of their homes?
- **HCG provisions only 0.06% of loans**
- **HCG Allowance is 0.21% of Loans**

Q2 2016 Conference Call

- **CFO Robert Morton was not on the call**
 - He had a prior commitment
 - Did he not know when the call was scheduled?
- **HCG says moving to a more digital process**
 - HCG has had SAP systems for at least 4 years
 - See YouTube Videos of HCG's testimonials
- **Martin Reid says Ace+ customers have verifiable incomes**
 - This implies that Traditional customers do not
- Fees are being reduced
 - Reid specifically calls out Late Fees
 - How often are these customers late with their payments?

Conclusion

- Book Value is grossly overstated
- Management lacks any credibility
- HCG will need to hold more regulatory capital
- Loan quality from fired brokers is deteriorating
- Record low provisions
- Increasing loans to Alberta
- Increasing Other Loans and Commercial Mortgages
- Management Turnover
- Preferreds credit quality deteriorating
- S&P lowers outlook
- HCG can't pass the new OSFI stress test