Project Victoria

Due diligence report

—

November 13, 2022

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Important notice

This report is provided to Smith Financial Corporation ("Client") on a confidential basis pursuant to our engagement letter dated August 3, 2022 ("Engagement Letter") and is subject in all respects to the terms and conditions of the Engagement Letter, including restrictions on use of this report by third parties.

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Stephen Smith
Smith Financial Corporation
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November 13, 2022

Dear Mr. Smith,

We have completed our procedures to assist Smith Financial Corporation ("Client" or "you") in performing financial, credit, HR and tax due diligence in connection with your prospective acquisition (the "Transaction") of Home Capital Group Inc. ("HCG" or the "Target" or the "Company"), in accordance with the terms of our engagement letter dated August 3, 2022, including its Terms and Conditions for Advisory Services.

Objective

The objective of our engagement was to assist you with your assessment of the risks and opportunities of your prospective acquisition of Target. Our work in this report was based on publicly available information, data obtained in an electronic data room, discussions and written responses from Management. The primary scope of our engagement was to make perform analyses based on information available to us, directed toward those business activities and related financial data of interest to you.

Basis of Information

The engagement letter describes the procedures we were to perform and are attached herein in Appendix 1. Those procedures were selected by you and were limited in nature and extent to those that you determined best fit your needs. We make no representation regarding the sufficiency for your purposes of the procedures selected, and those procedures will not necessarily disclose all significant matters about Target or reveal errors in the underlying information, instances of fraud, or illegal acts, if any. This report was prepared by us on the basis that you provided us with all relevant information you received concerning Target.

The procedures we performed do not constitute an audit, examination or review in accordance with standards established by the Auditing and Assurance Standards Board ("AASB") in Canada, and we have not otherwise verified the information we obtained or presented in this report. We express no opinion or any other form of assurance on Target's internal control over financial reporting or on the information presented in our report, and make no representations concerning its accuracy or completeness.

We have not compiled, examined, or applied other procedures in accordance with the Assurance and Related Services Guidelines issued by the AASB to prospective information contained in this document and, accordingly, express no opinion or any other form of assurance or representations concerning the accuracy, completeness or presentation format of such prospective information. There will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

The data included in this report was obtained from publicly available sources and Management from August 3, 2022 to November 13, 2022, inclusive. Since many aspects of the transaction with Target have either not been finalized or are not yet documented, changes may occur that materially affect the financial and other information we received and reported to you. We have no obligation to update our report or to revise the information contained herein to reflect events and transactions occurring subsequent to November 13, 2022. We have not reviewed this report with Target Management for the purpose of confirming the factual accuracy of the information we presented.

Because of its special nature, this report is not suited for any purpose other than to assist Client in its evaluation of Target and, as such and as agreed in the engagement letter, is restricted for your internal use only. Accordingly, KPMG does not accept any liability or responsibility to any third party who may use or place reliance on our report.

Yours truly,

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Executive summary

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Basis of preparation and key sources of information

Basis of presentation	Key sources of information
■ This report has been produced to summarize our due diligence findings for the purpose of addressing our scope of work as set out in Appendix 1 of this report; ■ The books and records of the Company are kept in accordance with IFRS. All amounts in this report are presented in Canadian dollars; ■ The information presented in this report reflects the internal financial information of the Company provided by Management for Q3-22, as well as publicly available financial information for the periods ended FY20, FY21, Q1-22 and Q2-22. ■ This document highlights key financial issues and other risks to consider in your diligence of the Company.	■ Audited financial statements for FY20 and FY21, and unaudited financial statements for Q1-22 and Q2-22; ■ Period-to-date trial balance as at December 31, 2020 and 2021, and September 30, 2022; ■ Management discussion and analysis and supplementary financial information for the periods covered in the scope of this report.

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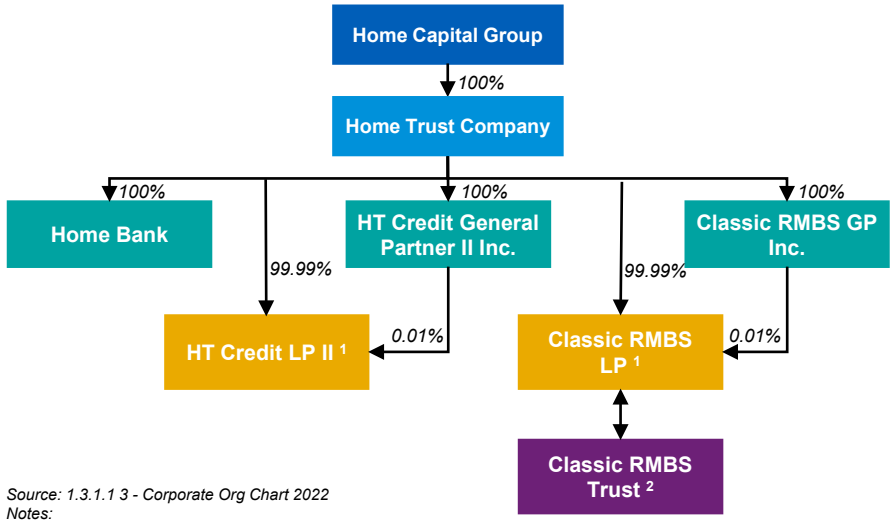
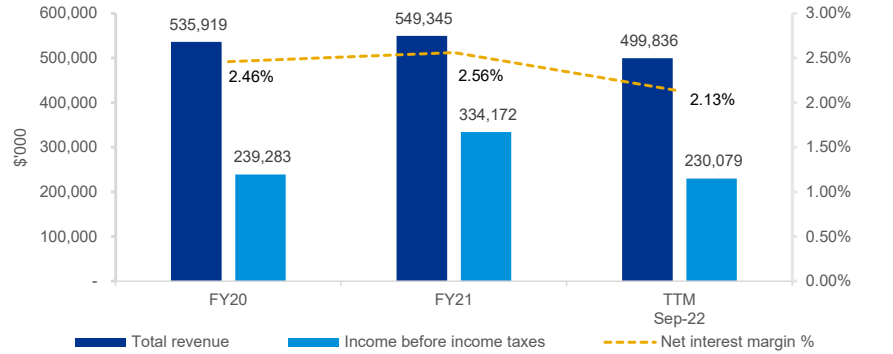
Business overview

Corporate structure



Source: 1.3.1.1 3 - Corporate Org Chart 2022
Notes:
1. *This entity was formed under the Limited Partnerships Act (Ontario)*
2. *Trust assets and liabilities are consolidated into HTC for accounting purposes.*

Financial summary, as reported



Source: Management provided information, KPMG analysis

Company snapshot

- Home Capital Group Inc. ("HCG", or the "Company") is a public company listed on the Toronto Stock Exchange under the ticker HCG. Its principal lines of businesses include residential and commercial mortgage lending, securitization mortgage products, consumer lending, credit card services, and deposits. Licensed to conduct business across Canada, the Company has offices in Ontario, Alberta, British Columbia, Nova Scotia, and Quebec.
- HCG provides lending services through its principal subsidiary, Home Trust Company ("Home Trust"), which is a federally regulated trust company. In addition, Home Trust offers deposits via brokers and financial planners, and through its direct-to-consumer brand, Oaken Financial. Home Trust also conducts business through its wholly owned subsidiary, Home Bank.
- The Company mainly operates the following business portfolios:
  - **Classic single-family residential lending:** Represents the Company's portfolio of single-family residential mortgages that do not qualify for insurance and have LTV ratios of 80% or less;
  - **Insurable residential lending:** Include both single-family Accelerator mortgages and multi-unit residential mortgages that qualify for insurance;
  - **Residential commercial lending:** Include commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builder's inventory. Insured multi-unit residential mortgages are also included in this portfolio until they are securitized;
  - **Non-residential commercial lending:** Include loans on office, industrial, retail and mixed-use properties as well as commercial mortgages on development projects;
  - **Credit card loans and lines of credit lending:** Mainly comprised of Equityline Visa ("ELV"), as well as cash-secured and unsecured credit card products;
  - **Other consumer retail lending:** Primarily relate to loans for fixtures and home improvements to residential properties; and
  - **Deposits:** Home Trust and Home Bank deposits are offered through both brokers and Oaken Financial, the Company's direct-to-consumer deposit brand.

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Headlines (1/2) - *Key metrics*

Loan book

- Total loan portfolio* of $20.6 billion at the end of Q3-22, consistent with $20.6 billion at the end of Q2-22.
- Loans under administration of $26.8 billion at the end of Q3-22, compared with $26.7 billion at the end of Q2-22.

Revenue

- Total revenue of $118.7 million in Q3-22, of which $107.0 million (90.1%) was derived from net interest income, $11.7 million (9.9%) was derived from non-interest income.
- Q3-22 total revenue decrease 1.9% as compared to $121.0 million in Q2-22.

Portfolio features

- At the end of Q3-22, 88.7% of the loan portfolio was single-family residential mortgages.
- 74.0% of the loans were in Ontario, with the remaining in British Columbia, Quebec, Alberta and other regions.

Net income and net interest margin

- Net income of $31.0 million in Q3-22, a decrease of 24.9% from $41.3 million in Q2-22, after one-off SAVVYY pre-tax impairment expenses of $9.4 million.
- Net interest margin continued to decrease to 1.92% in Q3-22, compared with 1.97% in Q2-22.

Originations

- Mortgage originations decreased 39.3% to $1.8 billion in Q3-22, compared with $3.0 billion in Q2-22 and $2.4 billion in Q3-21.
- Classic mortgage originations amounted to $1.2 billion in Q3-22.

Funding

- Total deposits of $15.5 billion at the end of Q3-22, of which Oaken deposits accounted for $4.8 billion.
- Off balance sheet funding, securitization and capital market funding accounted for the rest of the Company's funding sources.

** Total loan portfolio is presented gross of allowance for credit losses and excludes loans held for sale.*

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Headlines (2/2) - *Key metrics*

Credit quality

- Net non-performing loans as a percentage of gross loans remained low at 0.16% at the end of Q3-22, compared to 0.14% at the end of Q2-22 and 0.15% at the end of Q3-21.
- NPL allowance as a percentage of gross NPL was 12.4% at the end of Q3-22, compared to 12.5% at the end of Q2-22 and 22.1% at the end of Q3-21.

Other key ratios

- Efficiency ratio* for Q3-22 was 60.8% (52.9% if excluding SAVVYY impairment write off), compared with 50.3% for Q2-22.

** Efficiency Ratio is a measure of the Company's efficiency in generating revenue. This ratio represents non-interest expenses as a percentage of total revenue. A lower ratio indicates better efficiency.*

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Summary financial statements

The Company prepares annual financial statements in accordance with IFRS with a fiscal year end of December 31. The information presented for FY20 and FY21 have been audited by Ernst & Young LLP while TTM Sep-22 financials are extracted from the Company's unaudited monthly trial balance details. A reconciliation was performed to the FY20 and FY21 audited financial statements and no variances were noted for the respective periods.

Income statement

$'000	Audited FY20	Audited FY21	Unaudited TTM Sep-22	Unaudited YTD Sep-22
Interest from loans	781,708	698,864	715,629	548,622
Dividends from securities	1,032	772	908	708
Other interest	9,901	4,456	12,157	11,029
Gross interest income non-securitized assets	792,641	704,092	728,693	560,359
Interest on deposits	(328,427)	(230,259)	(305,292)	(249,937)
Interest and fees on credit facilities	(9,497)	(5,339)	(14,474)	(13,723)
Net interest income non-securitized assets	454,716	468,494	408,927	296,699
Interest income from securitized loans and assets	94,922	85,136	118,184	94,142
Interest expense on securitization liabilities	(74,803)	(59,878)	(78,862)	(63,589)
Net interest income securitized loans and assets	20,119	25,258	39,321	30,553
Net interest income	474,835	493,752	448,248	327,252
Fees and other income	42,223	41,439	46,273	35,547
Securitization income	18,700	9,179	9,789	7,733
Net realized and unrealized gains (losses) on securities and loans	(980)	5,127	568	80
Net realized and unrealized (losses) gains on derivatives	1,142	(152)	(5,042)	(5,166)
Non-interest income	61,084	55,593	51,588	38,195
Total revenue	535,919	549,345	499,836	365,447
Provision for credit losses	(34,066)	33,659	(9,969)	(8,976)
Salaries and benefits	(93,589)	(105,039)	(104,767)	(79,677)
Premises	(9,775)	(9,448)	(9,634)	(7,216)
Other operating expenses	(159,207)	(134,345)	(145,387)	(111,195)
Non-interest expenses	(262,571)	(248,832)	(259,788)	(198,088)
Income before income taxes	**239,283**	**334,172**	**230,079**	**158,384**
Current	(69,931)	(79,910)	(52,118)	(36,472)
Deferred	6,339	(9,529)	(8,358)	(4,973)
Income taxes	(63,593)	(89,439)	(60,476)	(41,445)
Net income	**175,690**	**244,734**	**169,603**	**116,939**

Source: Management provided information, KPMG analysis

Balance Sheet

$'000	Audited 31-Dec-20	Audited 31-Dec-21	Unaudited 30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Securitized mortgages	2,919,495	3,685,858	4,501,325
Non-securitized mortgages and loans	14,547,958	14,742,945	16,091,271
Gross Loans	17,467,453	18,428,803	20,592,596
Allowance for credit losses	(70,774)	(36,529)	(44,103)
Loans	17,396,679	18,392,273	20,548,493
Restricted assets	484,801	330,755	308,037
Derivative assets	103,209	41,149	95,585
Other assets	387,630	347,793	378,276
Deferred tax assets	8,582	9,340	11,093
Goodwill and intangible assets	69,323	65,642	65,647
Other assets	1,053,545	794,679	858,639
Total assets	**19,356,227**	**20,146,954**	**22,297,404**
Liabilities and shareholders' equity			
Deposits	(13,932,812)	(14,013,372)	(15,519,519)
CMHC-sponsored mortgage-backed security liabilities	(2,412,687)	(2,863,500)	(3,000,442)
CMHC-sponsored Canada mortgage bond liabilities	(604,048)	(134,124)	-
Other securitization liabilities	(203,272)	(817,043)	(1,391,889)
Securitization liabilities	(3,220,007)	(3,814,666)	(4,392,331)
Credit facilities	(100,000)	(388,000)	(174,000)
Obligations related to securities sold under repurchase agreement	-	-	(149,720)
Derivative liabilities	(4,322)	(38,462)	(206,764)
Other liabilities	(405,296)	(297,616)	(297,784)
Deferred tax liabilities	(13,309)	(23,597)	(30,324)
Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Capital stock	(151,085)	(129,103)	(116,945)
Contributed surplus	(16,676)	(18,624)	(19,033)
Retained earnings	(1,531,956)	(1,433,281)	(1,394,860)
Accumulated other comprehensive loss	19,237	9,766	3,874
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

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Financial key findings (1/3) - *Quality of earnings*

Issue	Summary observations	Key analysis
Quality of earnings *The Company's reported TTM Sep-22 income before income taxes of $230.1 million increases to $244.3 million after diligence and pro forma adjustments.*	■ The table below summarizes reported and adjusted income before income taxes for FY20, FY21 and TTM Sep-22:	Page 23 to 34

Quality of earnings | Summary

$'000	FY20	FY21	TTM Sep-22
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

- Significant diligence adjustments to TTM Sep-22 income before income taxes include the following:
  - **Loan Origination System (LOS) project impairment ($9.4 million increase to income before income taxes):** Removes the impairment loss of intangible assets in relation to the Company's LOS project as it is considered non-recurring. Refer to Page 13 for additional details.
  - **Share based compensation ($3.9 million increase to income before income taxes):** Represents equity-settled share-based compensation expense and therefore eliminated from income before income taxes for the respective periods. Although these plans are non-cash, you may wish to consider the potential replacement cost to make these employees whole, should these stock-based compensation plans discontinue.
  - **Income tax refunds ($1.9 million decrease to income before income taxes):** Removes the tax refunds received in Aug-22 that was related to tax year 2015, given it is out-of-period.
- Significant pro forma adjustments to TTM Sep-22 income before income taxes include the following:
  - **Public company costs ($3.8 million increase to income before income taxes):** Subsequent to the potential transaction, the Company will be taken private and therefore not require certain compliance and reporting procedures that is typically necessary of a public company going forward.
  - **Runoff of other consumer retail loans ($3.2 million decrease to income before income taxes):** The Company is not originating new loans in its other consumer retail loan portfolio and continues to undertake portfolio sales or early payouts whenever appropriate opportunities arise.

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Financial key findings (2/3) - *Quality of net assets*

Issue	Summary observations	Key analysis
Quality of net assets *The Company's reported and adjusted net asset position as at September 30, 2022 was $1.53 billion and $1.49 billion respectively.*	■ The table below summarizes reported and adjusted net assets as at September 30, 2022: **Quality of net assets** As at 30-Sep-22 $'000 Assets: 22,297,404 Liabilities: (20,770,441) **NAV, reported: 1,526,963** **Pro forma adjustments** 1 Runoff of other consumer retail loans: (20,541) 2 Deferred tax assets: (11,093) 3 Write-off of historical goodwill: (2,324) Pro forma adjustments: (33,958) **NAV, adjusted: 1,493,005** *Source: Management provided information, KPMG analysis* ■ Significant pro forma adjustments to 30-Sep-22 net assets include the following: – **Discontinuation of other consumer retail loan ($20.5 million decrease to net assets):** As of FY20, the Company no longer originates new loans in its other consumer retail loan portfolio and continues to undertake portfolio sales as available. As such, an adjustment is proposed to remove the carrying amount of these loan balances. – **Deferred tax assets ($11.1 million decrease to net assets):** Upon change of control, which will occur when Client acquires the shares of HCG, the deferred tax assets generated from prior year loss carryforwards would likely become unavailable for future use and therefore are removed from net assets. – **Write-off of historical goodwill ($2.3 million decrease to net assets):** Represents the write-off of historical goodwill generated as part of the establishment of the Company in 1977. Client will have to remove the historical goodwill and remeasure the goodwill of the transaction as part of the purchase price allocation. ■ There are additional considerations that may impact your valuation. See Page 41 to 43 for additional details.	Page 41 to 43

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Financial key findings (3/3) - *Ignite program*

Issue	Summary observations	Key analysis
Ignite program *As at September 30, 2022, Management has capitalized $50.3 million of costs as an intangible asset on the balance sheet and recorded an accumulated amortization of $7.8 million with respect to the Ignite program.*	**Overview** ■ The Company initiated Project Ignite in FY19 which encompasses several ongoing activities primarily related to: (i) SAP migration (specifically, deposits banking services), (ii) Power BI (to improve financial reporting), (iii) Loan Origination System (LOS) project (refer to further details below) and (iv) Digital Banking (loan servicing). ■ Based on Management's latest quarterly update (Q2-22), forecasted spend for Project Ignite is approximately $87 million which is higher than the original budget proposed of approximately $60 million. However, Management expects to realize a number of benefits / cost savings as they implement the respective activities (noted above) of approximately $108.9 million. The cost savings are largely related to: (i) Whole Loan Sale revenue, (ii) CRM resource benefits, (iii) productivity improvements, and (iv) other cost savings. **Loan Origination System (LOS) project impairment:** ■ The Company engaged a third party vendor (SAVVYY) in FY20 to build and implement a new LOS system for an initial budget of $6.4 million. However, SAVVYY experienced significant delays and was unable to implement the system within the timelines and budget initially proposed. As of Sep-22, the Company re-evaluated the process and decided to terminate the relationship. ■ As at Sep-22, the Company incurred $12.6 million in expenses which has been capitalized on the balance sheet. Management estimates that some of the modules prepared as part of this engagement will be usable by the Company ($4.0 million) and that the remaining balance would be written-off pursuant to IFRS guidelines ($8.6 million). ■ In addition, Management represents that: (i) there is an invoice under dispute of approximately $370,000, and (ii) they have accrued $338,000 of a potential termination fee as stipulated in their contract with SAVVYY. ■ As at the date of this report, it is our understanding that Management is evaluating its internal capabilities to upgrade the existing system. ■ It is recommended that Client discuss the timeline / budget of the various activities with Management and a third party specialist to ascertain the expected spend to complete these projects and to assess the estimated cost savings.	*n.a.*

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Credit key findings (1/2) - *Loan book*

Issue	Summary observations	Key analysis
Loan portfolio	Total Portfolio Summary ■ Based on Q3-22 financial statements, total loans under administration are $26.80 billion. Based on the loan tape provided by the Company, loan amounts totaled to $26.86 billion, a variance of 0.3% or $67 million. ■ Based on the loan tape, excluding off-balance sheet loans, loans outstanding are approximately $20.7 billion. Off-balance sheet loans are approximately $6.1 billion, of which $5.5 billion are commercial mortgages (multi-unit residential). ■ Of the $20.7 billion, residential mortgages make up approximately 88.7%, commercial mortgages 8.7% and cards and retail together 2.6% ■ The total amount of the loan portfolio is relatively unchanged since Q2-22 and has increased 18% from $17.5 billion one year ago at Q3-21. ■ The portfolio average interest rate is 4.5% with mortgages at 4.4%, cards at 9.1% and retail at 6.1%. ■ Gross non-performing loans (Stage 3) are $37.6 million or 0.2% of total gross loans. Non-performing loan (Stage 3) allowance is $4.7 million or 12.4% of gross non-performing loans, compared with 12.5% in Q2-22. ■ Total provisions for credit loss decreased to $4.4 million from $4.7 million in Q2-22; net write-offs deceased to $431,000 from $506,000 in Q2-22. Mortgage Portfolio Summary ■ Based on the loan tape, total mortgages outstanding at Q3-22 are $20.1 billion (excluding off balance sheet). ■ The average loan size within the residential mortgage portfolio is $429,000 and average credit score is 730; within the commercial mortgage portfolio, average loan size is $1.53 million. The majority of the large commercial portfolio in the loan tape provided do not have credit scores. From the scores that are available, the average for commercial is 755. ■ Portfolio average credit scores and total debt service ratios (TDSR is 43% for both residential and commercial) have been relatively stable since 2020. ■ Mortgage originations decreased significantly in Q3-22 as the housing market weakened. Residential mortgage originations decreased by 49% from Q2-22, and commercial mortgage originations decreased by 48%. ■ The number of mortgages on the watchlist increased to 17 in Q3-22 and represents $59.8 million. ■ The Classic portfolio continues to have low delinquency rates and write-offs since June 2021. Delinquency rates have been below 0.25% since October 2021 and the annualized write-off rate was 0% as at Q3-22.	Page 51 to 60

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Credit key findings (2/2) - *Expected credit losses*

Issue	Summary observations	Key analysis
Allowances and Expected credit losses (ECL)	■ Total ECL increased to $44.1 million in Q3-22 from $40.2 million in Q2-22. Total ECL includes $34.1 million of Model ECL and $10.0 million of overlay (overlay is 22% of total ECL). ■ Model ECL for the residential and commercial mortgage portfolios is $29.2 million or 85% of the $34.1 million. The remaining Model ECL of $4.2 million is for the cards and consumer portfolio. The overlay amount of $10.0 million applies to residential and commercial mortgage portfolios only. ■ The Company's Model ECL estimates reflect deteriorating housing price forecasts, rising interest rates and higher weighting to the downside/pessimistic scenario. Model ECL increased by approximately $5.0 million for residential mortgages (all of which applies to Classic) and increased by $1.7 million for commercial mortgages. ■ The overlay for residential mortgages (all of which applies to Classic) decreased to $6.5 million in Q3-22. The methodology used for the overlay includes a 'PD overlay adjustment' which rose to $14.9 million in Q3-22. Management reduced this amount to $6.5 million using 'expert credit judgment' and other qualitative considerations of the portfolio. The auditor will be seeking further enhanced documentation to support the year end audit of the overlay. ■ For commercial mortgages, a $1.0 million overlay was implemented in Q3-22 to reflect elevated risks with the land and construction portfolio. The remaining $2.5 million in overlay is related to the Stores & Apartment portfolio and remained the same in Q3-22 from Q2-22. ■ To assess ECL, benchmarking of coverage ratio at peers was performed. Comparison to Equitable Bank Q3-22 financials is as follows: – The Company's Uninsured Classic coverage ratio is 18 bps compared to Equitable Bank Uninsured Personal Loans at 8 bps (bps represent Stage 1 and 2 allowances for Single Family Residential Alt A; including Stage 3 Allowance would result in 8.5 bps). – The Company's Uninsured Large and Small Commercial at 59 bps and 112 bps compared to Equitable Bank Uninsured Commercial at 30 bps (bps represent Stage 1 and 2 allowances; including Stage 3 Allowance would result in 32 bps). ■ To further assess the Company's ECL, industry benchmarks were independently sourced and used to estimate PD and LGD factors for each portfolio segment (uninsured/insured residential and commercial, cards, consumer). An estimated range for ECL was then calculated for each of the portfolios and aggregated. Based on the scope of our analysis and approach, the Company's total ECL of $44.1 million falls within the estimated range.	Page 61 to 71

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HR key findings

Issue	Summary Observations	Key analysis
Equity-based compensation *Management has indicated that all outstanding equity awards will vest upon Change of Control (CoC)*	■ The Company provides equity compensation in the form of restricted stock units (RSUs), performance stock units (PSUs) and stock options to executives and certain employees at the discretion of the Board. Management has indicated that upon close of the proposed transaction, all outstanding awards will accelerate to vest. ■ As of Oct-22 there were approximately 890,000 units of equity outstanding. Based on the stock price of $24.17, if all awards are cashed out upon a CoC the total intrinsic value would be approximately $9.2 million. Approximately 85% of the total estimated exposure represents the equity awards currently held by executives, of which the CEO's outstanding equity awards accounted for 36% of the intrinsic value. ■ Client may consider to use retention mechanisms, including condition-to-close provision in the purchase agreement to avoid loss of knowledge or relationship during the transition phase.	Page 78
Executive agreement – enhanced severance *If the transaction's rationale includes leadership synergy, Client may wish to treat potential severance of approximately $7.6 million as contingent debt-like in nature.*	■ The Company has entered into employment agreements with ten executives that provide for enhanced severance provision in the event of qualifying termination, defined as (i) involuntary termination without cause, or (ii) resignation due to "Good Reason" (4 executives). ■ The severance provisions include 6 - 24 months of base salary, 6 - 24 months of health and welfare benefits continuation and bonuses (employees). ■ All ten agreements indicate that outstanding equity awards will vest upon termination. The total potential severance associated with these agreements is approximately $7.6 million. ■ Management has indicated that in addition to the ten executives' agreements described above, 10 to 15 other employees have enhanced severance arrangements with notice period ranging from 3 to 12 months of base salary. Management has not provided details about those employees at this stage.	Page 76

Intrinsic value of outstanding equity-based compensation (at $24.17 per share)

Equity type	# of employees	Weight-Avg Exec. Price	# outstanding as of 10/17/2022			Intrinsic value ($m)		
			Vested	Unvested	Total	Vested	Unvested	Total
Options								
In-the-money		15.80	330,539	37,998	368,537	2.8	0.3	3.1
Out-of-the-money		33.29	61,009	204,424	265,433	-	-	-
Subtotal options	10	23.12	391,548	242,422	633,970	2.8	0.3	3.1
Restricted stock	103	*n.a.*	-	113,133	113,133	-	2.7	2.7
Performance share units	5	*n.a.*	-	142,736	142,736	-	3.4	3.4
Total			**391,548**	**498,291**	**889,839**	**2.8**	**6.4**	**9.2**

Source: Analysis of data room documents, VDR ref. 7.11.1 Equity-Based Awards

Notes

1. *Equity outstanding as of 10/17/2022.*
2. *Stock price as of 10/25/2022 - $24.17*
3. *Excludes Deferred Share units (DSUs) as they are offered to board of directors and not employees.*

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Tax key findings (1/4)

Issue	Summary observations	Key analysis
Deductibility of software development costs	■ The Canada Revenue Agency ("CRA") has challenged Home Trust Company's ("HTC") treatment of software development costs. This challenge arose as a result of an income tax audit of the FY17 tax return, which has been under audit since July 2021. A waiver to extend the normal reassessment period past the statute-barred date of August 10, 2022 has been executed by HTC. ■ HTC reported software development costs, and the amortization of such, as a "reserve" on Schedule 13 of its tax return. The CRA has proposed an audit adjustment denying the deduction of the closing reserve balance (on the basis that such costs are not an appropriate reserve for income tax purposes), while maintaining the add-back of the opening balance for FY17. Even if the CRA was looking to deny the deduction of a reserve, this proposed adjustment reverses more than just the amount deducted in the year, and is likely incorrect. ■ Management represented that a written response was sent to the CRA disagreeing with the proposed audit adjustment. Management believes that the manner in which software development costs were reported on the tax return led to confusion and that, ultimately, amendments will be made. HTC proposed to amend the FY17 income tax return to correct the presentation of software development costs, and signed a waiver of the statute of limitations in order to create enough time to so amend the returns, and have them processed by the CRA. According to Management, the CRA has agreed to review the amended tax return before any reassessment is issued. ■ Should the CRA proceed with a reassessment based on the proposed audit adjustment, Management indicated that they would submit a Notice of Objection, in respect of which they anticipate being successful. ■ In our view, these software development costs should have been treated either as costs eligible for the scientific and experimental development ("SRED") regime, or as additions to Class 12 (which can be deducted and amortized over a period of two (2) years). Accordingly, we ultimately believe that HTC should be able to deduct all of these costs, albeit only 50% in the year incurred, and 50% in the subsequent taxation year. ■ Management has calculated that there would be arrears interest of $7 million due if the costs incurred and reported in FY17 were treated in this fashion. Management has indicated that HTC has sufficient cash reserves set aside for this cost. ■ Management confirmed that HTC continued this reporting of software development costs in its tax returns for FY18-FY20. (Tax returns for FY21 changed the reporting to record the expenditures as being added to Class 12, which is appropriate). ■ If the CRA were to reassess taxation years FY18-FY20 for this same matter, and were to properly assess the company (i.e., permitting 50% of the deduction in the year incurred, and 50% in the subsequent year), Management estimates that there would be an additional $0.65 million of arrears interest due (which balance will continue to grow if amended tax returns are not filed).	Page 81

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Tax key findings (2/4)

Issue	Summary observations	Key analysis
Provincial income allocation (provincial income taxes)	▪ The CRA has also challenged the manner in which HTC apportioned taxable income to the provinces in its FY16 and FY17 returns, and the company has signed waivers to extend the normal reassessment period in connection with this issue. ▪ Pursuant to Regulation 405(1) of the *Income Tax Act* ("**ITA**"), the amount of taxable income to be allocated to particular provinces by a trust company is determined based on the "gross revenue" earned in respect of loans (and mortgages) attributable to particular provinces. ▪ In computing gross revenue, HTC included net gains from the sale of mortgages in the calculation, whereas the CRA has used gross proceeds from the sale of such mortgages. This increases the quantum of gross revenue but also, according to Management, tends to result in a greater allocation of taxable income to Ontario. ▪ The majority of HTC's gross revenue is already allocated to Ontario, which has a federal/provincial income tax rate of 26.5%. Additional allocations of taxable income to Ontario should only result in a greater income tax liability if income were to be reallocated from a province which has a lower income tax rate (which, of the provinces in which HTC carries on business, would be Alberta, and only in earlier years). Management indicated that their expected exposure for FY16 and FY17 (during which time Alberta had higher income tax rates than Ontario) is minimal, which we believe is reasonable. ▪ In order to quantify a potential exposure, we have undertaken a sensitivity analysis, assuming a 1% change in taxable income (which appears reasonable, given the magnitude of income already allocated to Ontario). Based on that analysis, the corporate income tax exposure, with arrears interest, should only amount to $0.1 million.	Page 81

Provincial Income Allocation

$'000	FY19	FY20	FY21	Total
Taxable income	159,425	153,080	198,532	511,037
Estimated allocation change	1%	1%	1%	
Taxable income reallocated	1,594	1,531	1,985	5,110
Tax rate				
Provincial tax rate - Ontario	*11.5%*	*11.5%*	*11.5%*	
Provincial tax rate - Alberta	*11.5%*	*9.0%*	*8.0%*	
Incremental tax rate	*0.0%*	*2.5%*	*3.5%*	
Estimated taxes	-	38	69	108
Interest (5%)	-	8	15	23
Total tax exposure	**-**	**47**	**84**	**131**

Source: HTC FY19-FY21 Tax Returns

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Tax key findings (3/4)

Issue	Summary observations	Key analysis
Provincial income allocation (GST/HST/QST)	■ HTC pays GST/HST/QST on its inputs/expenses, and is able to recover (obtain an input tax credit/input tax refund) of only a portion of those amounts (effectively based on the degree to which HTC is engaged in commercial activities, i.e. activities that are taxable for GST/HST/QST purposes). ■ The rate of GST/HST/QST payable is dependent on an apportionment to the provinces, which is based on the allocation of taxable income for income tax purposes. Accordingly, the challenge by the CRA for provincial income tax purposes (as described earlier in this report) could result in a change in allocation for purposes of the GST/HST/QST and, therefore, the rate of tax payable. Management has indicated that they do not expect that any change in provincial allocation will result in a material change in GST/HST/PST payable and the company has not, as a result, accrued any liability for such. ■ In order to quantify a potential exposure, we have undertaken a sensitivity analysis, assuming a 1% change in taxable income (which appears reasonable, given the magnitude of income already allocated to Ontario). Based on that analysis, the GST/HST/QST exposure, with arrears interest, should only amount to $0.1 million per year (or $0.4 million for the last four (4) taxation years).	Page 81
Computation of input tax credits	■ HTC charges its clients maintenance and administration fees with respect to its accounts and applies GST/HST to those fees. Management indicated that it has obtained advice form its tax advisors on this point and understands that this position could be challenged (i.e., that such fees are sufficiently tied to financial accounts and could, therefore, be supplies of exempt financial services). ■ Based on our experience, it is generally accepted that such fees are an exempt financial service and exempt of GST/HST, although that position is perhaps not entirely free from doubt. If the CRA were to successfully assert that such fees are exempt financial supplies, then any input tax credits ("**ITC**s") claimed by HTC with respect to taxable supplies acquired in rendering such services could be denied. Based on tax returns reviewed, aggregate ITCs claimed in FY19 through to FY21 amount to approximately $2.3 million. We have not reviewed FY18 returns, but similar issues would arise in that year. Accordingly, the total exposure is probably approximately $3 million. ■ In addition, a reporting error was made on the HTC annual GST/HST and QST Final Return for Selected Listed Financial Institutions, wherein a $0.1 million balance owed to Revenu Quebec was reporting as a refund in Box 217 of the return. The exposure is not material.	*n.a.*

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Tax key findings (4/4)

Issue	Summary observations	Key analysis
Referral fees	■ HTC receives a finder's fee from Manulife for referrals made in respect of mortgage insurance requested by borrowers. A finder's fee is typically viewed as a taxable supply (i.e., is subject to GST/HST/QST). Management confirmed that GST/HST/QST was not collected and remitted on such fees. The amounts are not significant (less than $5,000 for 2021) and are therefore not material.	*n.a.*

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Other tax considerations (1/2)

Issue	Summary observations	Key analysis
Incremental tax on banks	■ Draft legislation published on August 9, 2022 introduced a new income tax of 1.5% of taxable income in excess of $100 million that is earned by (i) a bank, and (ii) any financial institution (which has its own definition) that is related to a bank. ■ It is our understanding, based on correspondence with Client, that Client is not currently related to a bank and is not, therefore, subject to this incremental income tax. ■ Once Client acquires control of Home Capital Group Inc. ("**HCG**"), Client will become related to a bank (Home Bank, or "**HB**"). Accordingly, if Client is a financial institution as defined, or is related to other financial institutions, Client (or those related entities) would become subject to this incremental tax. ■ Financial institution, for this purpose, means a corporation that is: a) a bank, b) authorized under the laws of Canada or a province to carry on the business offering its services as a trustee to the public, c) authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real property or immovables or investing in indebtedness on the security of mortgages on real property or of hypothecs on immovables, d) a life insurance corporation that carries on business in Canada; or e) a corporation all or substantially all of the assets of which are shares or indebtedness of corporations described in any of paragraphs (a) to (d) above to which the corporation is related. ■ Based on correspondence with Client, Client is not a financial institution as defined, and is not related to any such entities and it is not, therefore, anticipated that the consummation of the acquisition of HCG would result in the application of this tax outside of the Home Capital Group. KPMG has not performed any detailed analysis in this regard.	*n.a.*

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Other tax considerations (2/2)

Issue	Summary observations	Key analysis
Impact of transaction on tax losses	■ HCG has approximately $19.4 million of non-capital losses ("NOLs") and $0.87 million of capital losses available to carryforward. ■ Capital losses cannot be used after an acquisition of control (or loss restriction event), which will occur when Client acquires the shares of HCG. Similarly, we have concerns that the NOLs of HCG would similarly be unavailable after the acquisition of control because we believe it would be difficult to substantiate that HCG, on a "standalone" basis, is carrying on a business. NOLs that result from the ownership of property (i.e., the holding of shares and indebtedness of subsidiaries) are not usable after an acquisition of control. ■ Paragraph 111(4)(e) of the ITA allows a corporation to designate in its final taxation year before an acquisition of control to deem a disposition of certain capital properties (such as, in this case, the shares of HTC). The purpose of this provision is to permit a corporation to realize a capital gain, and to increase the adjusted cost base ("ACB") or tax cost of that property. In short, the designation should permit HCG to "consume" these tax attributes to increase the ACB of the shares of HTC, and we recommend that such a designation be filed in connection with the acquisition.	*n.a.*

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Quality of earnings

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Quality of earnings (1/11) - Overview

The Company's TTM Sep-22 reported income before income taxes of $230.1 million increases to $244.3 million after diligence and pro forma adjustments identified.

Quality of earnings | Summary

$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments	1,209	(53)	(1,378)
Revenue, diligence adjusted	**537,128**	**549,292**	**498,458**
Pro forma adjustments	(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted	**526,621**	**545,218**	**496,420**
Net income, reported	**175,690**	**244,734**	**169,603**
Add/(deduct)			
Income tax expenses	63,593	89,439	60,476
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Basis of preparation

The Quality of Earnings schedule illustrates potential adjustments to reported income before income taxes which were identified for the fiscal years ended December 31, 2020 and 2021, and the twelve months ended September 30, 2022.
The potential adjustments identified are not deemed to be all-inclusive and additional procedures performed may uncover additional or different adjustments. The adjustments were reconciled to detailed sub-ledger and reported balances as detailed within each adjustment. Potential tax impacts on adjustments have not been assessed.

Overview

- The Quality of Earnings ("QofE") analysis presented herein is prepared based on the following sources of information:
  - The Company's annual audited financial statements;
  - The Company's quarterly financial reports;
  - Management discussion and analysis ("MD&A");
  - Monthly trial balance details by entity;
  - Additional supporting information provided by Management through the electronic dataroom; and
  - Discussions with Management, including written responses.
- The nature of adjustments included in the QofE analysis are as follows:
  - **Diligence adjustments:** Potential adjustments to eliminate the impact of non-recurring and non-operating items.
  - **Pro forma adjustments:** Includes additional run-rate adjustments to reflect the current state of the business.
  - **Other considerations:** Represents other qualitative items identified during due diligence that may impact historical and future income which are not reflected in the adjacent table. Refer to *Other considerations* for additional details.

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Quality of earnings (2/11) - *Diligence adjustments*

Quality of earnings | Detail			
$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments			
3 Income tax refunds	-	-	(1,885)
5 Uncorrected misstatements	1,347	(53)	507
9 PsiGate discontinued operations	(138)	-	-
Diligence adjustments	1,209	(53)	(1,378)
Revenue, diligence adjusted	**537,128**	**549,292**	**498,458**
Pro forma adjustments	(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted	**526,621**	**545,218**	**496,420**
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments			
1 Loan Origination System (LOS) project impairment	-	-	9,356
2 Share based compensation	2,905	5,198	3,905
3 Income tax refunds	-	-	(1,885)
4 Staff recruitment costs	(548)	(187)	975
5 Uncorrected misstatements	2,747	(3,222)	568
6 FY22 bonus normalization	-	-	528
7 Transaction expenses	-	-	185
8 Legal settlements	18,950	-	-
9 PsiGate discontinued operations	(3,053)	-	-
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Diligence adjustments

The following are potential adjustments identified during the due diligence process:

1. **Loan Origination System (LOS) project impairment:** The Company engaged a third party vendor (SAVVYY) in FY20 to build and implement a new LOS system for an initial budget of $6.4 million. However, SAVVYY experienced significant delays and was unable to implement the system within the timelines and budget initially proposed. As of Sep-22, the Company re-evaluated the process and decided to terminate the relationship.

   As at Sep-22, the Company incurred $12.6 million in expenses which has been capitalized on the balance sheet. Management estimates that some of the modules prepared as part of this engagement will be usable by the Company (approximately $4.0 million) and that the remaining balance would be written-off pursuant to IFRS guidelines (approximately $8.6 million).

   In addition, Management represents that: (i) there is an invoice under dispute of approximately $370,000, and (ii) they have accrued $338,000 of a potential termination fee as stipulated in their contract with SAVVYY.

   A pre-tax impairment expense of $9.4 million was put through in Sep-22. However, note that this amount is considered non-recurring in nature and is therefore eliminated from normalized net income.

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Quality of earnings (3/11) - *Diligence adjustments*

Quality of earnings | Detail				
$'000		FY20	FY21	TTM Sep-22
Revenue, reported		**535,919**	**549,345**	**499,836**
Diligence adjustments				
3	Income tax refunds	-	-	(1,885)
5	Uncorrected misstatements	1,347	(53)	507
9	PsiGate discontinued operations	(138)	-	-
Diligence adjustments		1,209	(53)	(1,378)
Revenue, diligence adjusted		**537,128**	**549,292**	**498,458**
Pro forma adjustments		(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted		**526,621**	**545,218**	**496,420**
Income before income taxes, reported		**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported		*44.6%*	*60.8%*	*46.0%*
Diligence adjustments				
1	Loan Origination System (LOS) project impairment	-	-	9,356
2	Share based compensation	2,905	5,198	3,905
3	Income tax refunds	-	-	(1,885)
4	Staff recruitment costs	(548)	(187)	975
5	Uncorrected misstatements	2,747	(3,222)	568
6	FY22 bonus normalization	-	-	528
7	Transaction expenses	-	-	185
8	Legal settlements	18,950	-	-
9	PsiGate discontinued operations	(3,053)	-	-
Diligence adjustments		21,001	1,788	13,632
Income before income taxes, diligence adjusted		**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted		*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments		18,597	(4,988)	606
Income before income taxes, pro forma adjusted		**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted		*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Diligence adjustments (continued)

2. **Share based compensation:** Represents equity-settled share-based compensation expense and therefore eliminated from income before income taxes for the respective periods. Although these plans are non-cash, you may wish to consider the potential replacement cost to make these employees whole, should these stock-based compensation plans discontinue.

3. **Income tax refunds:** The Company received income tax refunds of approximately $1.9 million in Aug-22 that relates to 2015. As such, these amounts are eliminated from adjusted net income as they are non-operating in nature and relate to a prior period.

4. **Staff recruitment costs:** The Company incurred third party recruiting costs with respect to the hiring of EVPs and SVPs throughout FY20, FY21 and YTD Sep-22. As at the date of this report, Management was not able to provide the recruiting agency costs by position in the historical period. This adjustment therefore uses the 33-month average of recruitment costs (excluding Board of Director search fee) as proxy for the normal level of recruitment costs, given the senior positions are not expected to churn often in regular course of operations. Refer to *QofE pro forma adjustment #10* for additional details of Board of Directors search fee.

Staff recruitment costs			
$'000	FY20	FY21	TTM Sep-22
Recruitment costs, reported	(397)	(883)	(2,234)
Exclude: BoD recruitment costs (PF adj #10)	-	125	314
Recruitment costs, excl. BoD recruitment costs	(397)	(758)	(1,920)
Recruitment costs, adjusted (33-month average)	(945)	(945)	(945)
Adjustment, pre-tax	**(548)**	**(187)**	**975**

Source: Management provided information, KPMG analysis

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Quality of earnings (4/11) - *Diligence adjustments*

Quality of earnings | Detail			
$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments			
3 Income tax refunds	-	-	(1,885)
5 Uncorrected misstatements	1,347	(53)	507
9 PsiGate discontinued operations	(138)	-	-
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Diligence adjustments			
1 Loan Origination System (LOS) project impairment	-	-	9,356
2 Share based compensation	2,905	5,198	3,905
3 Income tax refunds	-	-	(1,885)
4 Staff recruitment costs	(548)	(187)	975
5 Uncorrected misstatements	2,747	(3,222)	568
6 FY22 bonus normalization	-	-	528
7 Transaction expenses	-	-	185
8 Legal settlements	18,950	-	-
9 PsiGate discontinued operations	(3,053)	-	-
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Diligence adjustments (continued)

5. **Uncorrected misstatements:** The Company's external auditor (EY) identified a number of uncorrected misstatements as part of their quarterly and annual review process over the historical period:

Uncorrected misstatements			
$'000	FY20	FY21	TTM Sep-22
FY20			
Interest income	1,400	-	-
Operating expenses	1,600	-	-
Salaries and benefits expense	(1,300)	-	-
Provision for expected credit losses	1,100	-	-
FY20 uncorrected audit misstatements	**2,800**	**-**	**-**
FY21			
Provision for expected credit losses	-	(1,100)	-
Salaries and benefits expense	-	(1,300)	-
FY21 uncorrected audit misstatements	**-**	**(2,400)**	**-**
	-	-	-
Q2-22			
Broker deposit commission clawback	-	-	(516)
Uncollectible AR	(53)	(53)	507
Capitalized expenses	-	(769)	577
Q2-22 uncorrected review misstatements	**(53)**	**(822)**	**568**
Revenue adjustment	**1,347**	**(53)**	**507**
Adjustment, pre-tax	**2,747**	**(3,222)**	**568**

Source: Management provided information, KPMG analysis

Note: The above schedule reflects all uncorrected misstatements proposed by the Company's external auditor, as Management was not able to provide confirmatory details about the subsequent correction of misstatements.

i. **FY20:**

- *Interest income ($1.4 million):* Renewal fee recognition understatement due to point-in-time recognition versus EIR method through NII. Therefore, the adjustment includes the incremental interest income for FY20.
- *Operating expenses ($1.6 million):* Overstatement of operating expenses due to the correction of HST liability recorded in FY20 related to HST on invoices related to prior periods based on HST self-assessment. Therefore, the adjustment removes the unfavorable impact of the correction as it relates to prior periods.

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Quality of earnings (5/11) - *Diligence adjustments*

Quality of earnings | Detail				
$'000		FY20	FY21	TTM Sep-22
Revenue, reported		**535,919**	**549,345**	**499,836**
Diligence adjustments				
3	Income tax refunds	-	-	(1,885)
5	Uncorrected misstatements	1,347	(53)	507
9	PsiGate discontinued operations	(138)	-	-
Diligence adjustments		1,209	(53)	(1,378)
Revenue, diligence adjusted		**537,128**	**549,292**	**498,458**
Pro forma adjustments		(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted		**526,621**	**545,218**	**496,420**
Income before income taxes, reported		**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported		*44.6%*	*60.8%*	*46.0%*
Diligence adjustments				
1	Loan Origination System (LOS) project impairment	-	-	9,356
2	Share based compensation	2,905	5,198	3,905
3	Income tax refunds	-	-	(1,885)
4	Staff recruitment costs	(548)	(187)	975
5	Uncorrected misstatements	2,747	(3,222)	568
6	FY22 bonus normalization	-	-	528
7	Transaction expenses	-	-	185
8	Legal settlements	18,950	-	-
9	PsiGate discontinued operations	(3,053)	-	-
Diligence adjustments		21,001	1,788	13,632
Income before income taxes, diligence adjusted		**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted		*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments		18,597	(4,988)	606
Income before income taxes, pro forma adjusted		**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted		*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Diligence adjustments (continued)

5. **Uncorrected misstatements (continued):**

   i. **FY20 (continued):**

   — *Salaries and benefits expense (-$1.3 million):* Payroll expenses are understated due to a correction of a prior period bonus over accrual recorded in FY20. As such, the proposed adjustment eliminates the accrual reversal from adjusted earnings.

   — *Provision for expected credit losses ($1.1 million):* Relates to an overstatement of a specific provision made for a Stage 3 loan. The adjustment reduces the provision which would have a favorable impact to earnings.

   ii. **FY21:**

   — *Provision for expected credit losses (-$1.1 million):* Management corrected the FY20 misstatement related to a specific provision made for a Stage 3 loan in Q1-21. Therefore, the adjustment reflects the correction to the appropriate period (i.e., the correction is eliminated from FY21 and included in FY20).

   — *Salaries and benefits expense (-$1.3 million):* Payroll expenses are understated due to a correction of a prior year bonus over accrual. Therefore, the adjustment includes an incremental expense to correct the understatement.

   iii. **Q2-22:**

   — *Broker deposit commission clawback (-$0.5 million):* Management incorrectly applied the commission clawbacks as an offset to interest expense instead of reducing the receivable outstanding. As such, the proposed adjustment removes the favorable income recorded.

   — *Uncollectible AR ($0.5 million):* Management determined $0.5 million of the broker deposit commission clawback receivable to be uncollectible as the balances were built up over the past ten years and wrote-off the receivable in Q2-22. The adjustment eliminates the unfavorable write-off made in Q2-22 and includes the expense on a pro-rated basis over a ten year period.

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Quality of earnings (6/11) - *Diligence adjustments*

Quality of earnings | Detail			
$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments			
3 Income tax refunds	-	-	(1,885)
5 Uncorrected misstatements	1,347	(53)	507
9 PsiGate discontinued operations	(138)	-	-
Diligence adjustments	1,209	(53)	(1,378)
Revenue, diligence adjusted	**537,128**	**549,292**	**498,458**
Pro forma adjustments	(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted	**526,621**	**545,218**	**496,420**
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments			
1 Loan Origination System (LOS) project impairment	-	-	9,356
2 Share based compensation	2,905	5,198	3,905
3 Income tax refunds	-	-	(1,885)
4 Staff recruitment costs	(548)	(187)	975
5 Uncorrected misstatements	2,747	(3,222)	568
6 FY22 bonus normalization	-	-	528
7 Transaction expenses	-	-	185
8 Legal settlements	18,950	-	-
9 PsiGate discontinued operations	(3,053)	-	-
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Diligence adjustments (continued)

5. **Uncorrected misstatements (continued):**

   iii. **Q2-22 (continued):**

   — *Capitalized expenses ($0.8 million):* Management identified certain costs that were inappropriately capitalized in FY21 to internally developed software intangible assets and expensed these items in Q2-22. The adjustment reallocates the correction from Q2-22 to FY21 and the expenses are reflected evenly across the period.

   There were no uncorrected misstatements identified by EY for Q1-22 and Q3-22.

6. **FY22 bonus normalization:** Based on the Company's recent financial performance, Management revised their full-year (FY22) target expectations and consequently reduced their estimate of the bonus expense to approximately $8.3 million for the year. The proposed adjustment reallocates the expected full year bonus on a straight-line basis for the YTD Sep-22 period (i.e., includes 9 months of the $8.3 million bonus expense expected for the full year).

FY22 bonus normalization					
$'000	FY20	FY21	TTM Sep-22	YTD Sep-22	
Bonus expense, reported	(13,204)	(14,619)	(9,479)	(6,753)	
Bonus expense, adjusted	(13,204)	(14,619)	(8,951)	(6,225)	C
Adjustment, pre-tax	**-**	**-**	**528**	**528**	
FY22 target bonus (**A**)				(8,300)	
Implied monthly bonus expense (**B=A/12**)				(692)	
YTD Sep-22 bonus expense (**C=B*9**)				(6,225)	

Source: Management provided information, KPMG analysis

7. **Transaction expenses**: Management represents that the Company recorded $185,000 legal fees in Q3-22 in relation to Project Victoria. This adjustment adds back the transaction expenses as it is considered non-recurring.

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Quality of earnings (7/11) - *Diligence adjustments*

Quality of earnings | Detail			
$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments			
3 Income tax refunds	-	-	(1,885)
5 Uncorrected misstatements	1,347	(53)	507
9 PsiGate discontinued operations	(138)	-	-
Diligence adjustments	1,209	(53)	(1,378)
Revenue, diligence adjusted	**537,128**	**549,292**	**498,458**
Pro forma adjustments	(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted	**526,621**	**545,218**	**496,420**
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments			
1 Loan Origination System (LOS) project impairment	-	-	9,356
2 Share based compensation	2,905	5,198	3,905
3 Income tax refunds	-	-	(1,885)
4 Staff recruitment costs	(548)	(187)	975
5 Uncorrected misstatements	2,747	(3,222)	568
6 FY22 bonus normalization	-	-	528
7 Transaction expenses	-	-	185
8 Legal settlements	18,950	-	-
9 PsiGate discontinued operations	(3,053)	-	-
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Diligence adjustments (continued)

8. **Legal settlements:** Primarily represents two non-recurring significant legal claims that the Company was involved with and subsequently settled in FY20:

   i. *Cullaton / HVAC ($12.5 million):* Relates to lease and maintenance agreements provided by Ontario Energy Group for household equipment which are alleged to have failed to comply with legal requirements. The Company was alleged to have purchased an interest in the lease agreements, collected money from class members under the lease agreements, and to have registered "liens" against consumers' homes.

   ii. *West Face ($6.5 million):* Relates to a lawsuit filed by West Face Capital Inc. on the basis that the Company's public disclosures were inaccurate and misleading which adversely impacted their large short position in the Company.

   Management represents that the legal fees incurred for the two legal cases amounted to approximately $3.8 million (Westface: $962,000; Cullaton: $2,800,000) but has not confirmed whether the legal expenses were accrued prior to FY20 (i.e. out-of-period). Therefore this adjustment has only considered the legal settlement amount but not the legal fees.

9. **PsiGate discontinued operations:** Historically, the Company provided prepaid credit card services reported as a separate division. This was later spun-off and a few entities remained which were not contemplated as part of the sale. Management recorded a temporary provision against the remaining entities and reversed this provision in FY20 once they were wound-down. Therefore, the adjustment eliminates the reversal as it is non-operating and non-recurring in nature.

   Management also indicates that some operating expenses (approximately $0.2 million in FY20) associated with the prepaid credit card business were co-mingled with HTC and were not separately tracked as they were not material in nature. Therefore, note that such operating expenses were not eliminated as part of this adjustment.

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Quality of earnings (8/11) - *Pro forma adjustments*

Quality of earnings | Detail			
$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments	1,209	(53)	(1,378)
Revenue, diligence adjusted	**537,128**	**549,292**	**498,458**
Pro forma adjustments			
11 Runoff of other consumer retail loans	(10,507)	(4,074)	(2,038)
Pro forma adjustments	(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted	**526,621**	**545,218**	**496,420**
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments			
10 Public company costs	2,798	2,840	3,842
11 Runoff of other consumer retail loans	15,799	(7,828)	(3,236)
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Pro forma adjustments

The following are run-rate adjustments identified during due diligence:

10. **Public company costs:** Subsequent to the potential transaction, the Company will be taken private and therefore not require certain compliance and reporting procedures that is typically necessary of a public company going forward. The adjustment represents the elimination of: (i) 50% of Directors' fees, (ii) legal and other professional fees incurred in relation to public reporting costs, (iii) direct expenses related to the Company's investor relations department, and (iv) recruiting fees for two board of directors. Management represents that the majority of the public company costs were separately tracked in the HCG entity, while recruiting fees, and expenses related to the Company's investor relations department were co-mingled with the Company's operating expenses. The table below summarizes the respective items:

Public company costs			
$'000	FY20	FY21	TTM Sep-22
Directors' fees	(1,494)	(1,465)	(1,584)
Other professional fees	(395)	(519)	(890)
General insurance	-	(216)	(436)
Legal fees [1]	(820)	(294)	(395)
BoD search fee	-	(125)	(314)
Filing fees	(38)	(20)	(148)
Memberships and licenses	(118)	(146)	(146)
Shareholders information	(169)	(117)	(96)
Transfer agent fees	(44)	(42)	(77)
Other G&A costs	(24)	(37)	(115)
Public company costs, reported	(3,102)	(2,981)	(4,200)
VP, Investor relations	(269)	(280)	(288)
Other professional fees	(129)	(188)	(83)
Shareholders information	(28)	(42)	(42)
Other G&A costs	(17)	(82)	(20)
Investors relations department costs, reported	(443)	(591)	(434)
Public company costs, adjusted	(747)	(732)	(792)
Adjustment, pre-tax	**2,798**	**2,840**	**3,842**

Source: 2.18.3 HCG Schedule of expenses, 2.24.1 Washington IR Expense Details, KPMG analysis
Note 1: FY20 legal fees presented herein has reflected legal settlements adjustment (Diligence adj #8) on a pro-rata basis.

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Quality of earnings (9/11) - *Pro forma adjustments*

Quality of earnings | Detail			
$'000	FY20	FY21	TTM Sep-22
Revenue, reported	**535,919**	**549,345**	**499,836**
Diligence adjustments	1,209	(53)	(1,378)
Revenue, diligence adjusted	**537,128**	**549,292**	**498,458**
Pro forma adjustments			
11 Runoff of other consumer retail loans	(10,507)	(4,074)	(2,038)
Pro forma adjustments	(10,507)	(4,074)	(2,038)
Revenue, pro forma adjusted	**526,621**	**545,218**	**496,420**
Income before income taxes, reported	**239,283**	**334,172**	**230,079**
Pre-tax income margin, reported	*44.6%*	*60.8%*	*46.0%*
Diligence adjustments	21,001	1,788	13,632
Income before income taxes, diligence adjusted	**260,284**	**335,960**	**243,712**
Pre-tax income margin, diligence adjusted	*48.5%*	*61.2%*	*48.9%*
Pro forma adjustments			
10 Public company costs	2,798	2,840	3,842
11 Runoff of other consumer retail loans	15,799	(7,828)	(3,236)
Pro forma adjustments	18,597	(4,988)	606
Income before income taxes, pro forma adjusted	**278,880**	**330,972**	**244,317**
Pre-tax income margin, pro forma adjusted	*53.0%*	*60.7%*	*49.2%*

Source: Management provided information, KPMG analysis

Pro forma adjustments (continued)

11. **Runoff of other consumer retail loans:** The Company is not originating new loans in its other consumer retail loan portfolio and continues to undertake portfolio sales or early payouts whenever appropriate opportunities arise. The adjustment eliminates the historical income and the expenses directly attributable with this product (including cost of funds, provision for credit losses, direct costs to originate and service), as they are not expected to continue going forward. General allocations of corporate overhead costs were not considered as part of this adjustment as those charges are fixed in nature.

    Additionally, note that in FY20, the Company recorded a significant provision related to other consumer retail loans which resulted in large net losses. As such, this adjustment eliminates the losses incurred of $15.8 million in FY20.

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Quality of earnings (10/11) - *Other considerations*

The following are potential considerations identified during due diligence. These items relate to other issues and opportunities that should be considered in the overall evaluation of the business. In addition, these items may be subjective in nature and as a result, have not been included in the quality of earnings schedule.

Other considerations	
A	Duplicate system costs
B	Capitalized payroll
C	Vacant positions
D	Insourcing recruiting process
E	NHA MBS and CMB securitization programs
F	Project Ignite
G	GST/HST recovery
H	COVID-19 impact

Source: Management provided information, KPMG analysis

A. **Duplicate system costs:** It is our understanding that Management is currently developing a more standardized financial reporting process utilizing a new data and analytics tool (i.e., Power BI). Management expects to complete this by early FY23 and will only discontinue the current system (COGNOS) once the new tool is fully tested and operational. As such, the Company may incur non-recurring duplicate system / license costs as they transition to utilizing Power BI before future cost savings can be realized.

B. **Capitalized payroll:** Management capitalized $2.5 million and $2.4 million of payroll costs in FY21 and TTM Sep-22 respectively for several development projects currently undertaken by the Company (primarily Project Ignite). Based on our discussions with Management, once Project Ignite is completed the individuals will be redeployed to other strategic initiatives. As such, Client should consider the recurring payroll / cash expense related to these individuals in the valuation model.

C. **Vacant positions:** Several key vacant positions were identified as at Oct-22. Refer to the table below for an estimate of the annual compensation expense by position. A list of all open positions can be found in *Appendix 17*.

Open positions as of October 18, 2022

Level	# of open roles	# of key roles	Median Salary ($)	Target Bonus ($)	Fringe benefit (%)	Fringe ($)	Total FLC
L02	1	0	52,000	3,120	22%	12,126	67,246
L03	7	0	52,000	3,120	22%	12,126	67,246
L04	9	0	62,000	4,960	22%	14,731	81,691
L05	5	1	76,000	7,600	22%	18,392	101,992
L06	6	2	93,000	11,160	22%	22,915	127,075
L07	3	2	110,000	16,500	22%	27,830	154,330
L08	3	3	131,000	22,270	22%	33,719	186,989
Total	**34**	**8**	**576,000**	**68,730**	**22%**	**141,841**	**786,571**

Source: 7.13.2.2; 7.7.3.1; KPMG analysis

D. **Insourcing recruiting process:** The Company incurred approximately $2.2 million in recruiting expenses for the TTM Sep-22 period (inclusive of non-recurring items). Management indicated that they plan to insource the recruiting process going forward. As such, Client should consider the net impact of expanding the current HR function to perform these duties (i.e., incremental headcount and training costs) versus incurring third party costs going forward.

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Quality of earnings (11/11) - *Other considerations (continued)*

E. **NHA MBS and CMB securitization programs:** These programs contributed net interest income of $20.1 million in TTM. Potential dis-synergy going forward if allotment from CMHC is changed post transaction considering Client's existing ownership in First National and other financial institutions participated in the programs.

F. **Project Ignite:** The Company initiated Project Ignite in FY19 which encompasses several ongoing activities primarily related to: (i) SAP migration (specifically, deposits banking services), (ii) Power BI (to improve financial reporting), (iii) Loan Origination System project (SAVVYY – as discussed in the quality of earnings, this arrangement with SAVVYY is now terminated and Management recognized the associated impairment in Sep-22), and (iv) Digital Banking (loan servicing).

Based on Management's latest quarterly update (Q2-22), forecasted spend for Project Ignite is approximately $87 million which is higher than the original budget proposed of approximately $60 million. However, Management expects to realize a number of benefits / cost savings as they implement the respective activities (noted above) of approximately $108.9 million. The cost savings are largely related to: (i) Whole Loan Sale revenue, (ii) CRM resource benefits, (iii) productivity improvements, and (iv) other cost savings.

As at Sep-22, Management has capitalized $50.3 million of costs as an intangible asset on the balance sheet and recorded an accumulated amortization of $7.8 million.

It is recommended that Client discuss the timeline / budget of the various activities with Management and a third party specialist to ascertain the expected spend to complete these projects and to assess the estimated cost savings.

G. **GST/HST recovery:** The Company typically receives and records GST/HST refunds in the subsequent year with respect to GST/HST filed during the current year. This results in a natural timing delay whereby refunds related to FY20 are recorded in FY21 and so on. The table below illustrates the impact to earnings should the refunds be recorded in the appropriate period. Note that the refunds the Company would expect to receive in FY23 are not reflected in the FY22 period below:

GST/HST recovery

$'000	FY20	FY21	TTM Sep-22
GST/HST expense recovery, reported	-	537	827
GST/HST expense recovery, adjusted	537	831	208
Adjustment, pre-tax	**537**	**294**	**(620)**

Source: Management provided information, KPMG analysis

H. **COVID-19 impact:** Due to the inherent uncertainty associated with COVID-19, we have not sought to quantify the overall net income impact in our QofE analysis. However, Management commented that there was limited adverse impact to revenue during this period as any relief programs may have deferred revenue which was eventually caught up in subsequent periods. The Company incurred several one-time expenses (e.g. work-from-home compensation benefits, additional IT equipment purchase to facilitate remote work, sanitization stations, etc.) with respect to COVID-19 although certain operating expenses (primarily office-related) may have decreased as a result of COVID-19 which would offset the impact.

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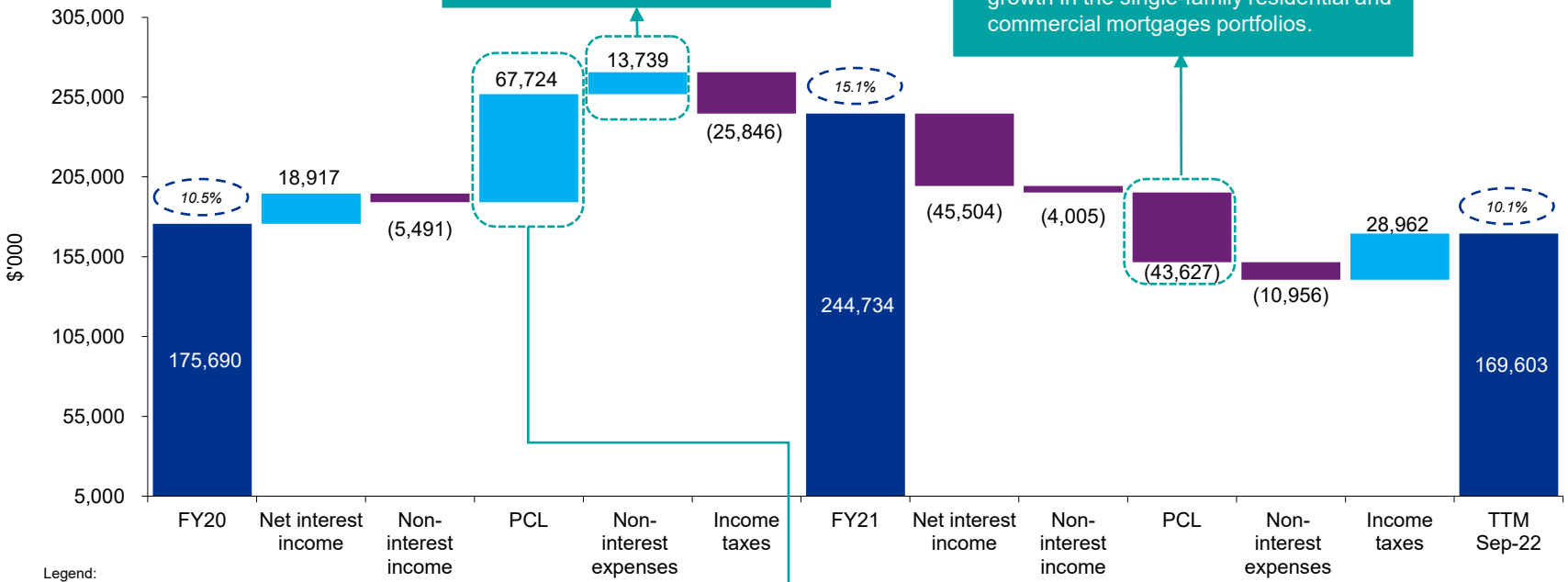
Income statement

Income statement (1/5) - *Net income bridge*

Net income bridge

Refer to Page 40 for commentaries on non-interest expense trends.

The increase of provision for credit losses in TTM Sep-22 was primarily driven by the growth in the single-family residential and commercial mortgages portfolios.



Legend:

Return on equity %

Note: Annualized YTD Sep-22 return on equity is used as proxy for TTM Sep-22.

Source: Management provided information, KPMG analysis

The reversal of provision for credit losses in FY21 can be attributed to a reduction in Stage 3 loan balances, and the improvements in the forward-looking macroeconomic data used in the estimation of Expected Credit Losses ("ECL").

The declining loan balance in the Company's other consumer retail portfolio also contributed to the release of provision for credit losses in FY21. In FY20, HCG sold the point-of-sale retail lending component within its other consumer retail loan portfolio. To date, the other consumer retail loan portfolio continues to wind down, as the Company no longer originates new loans in this portfolio.

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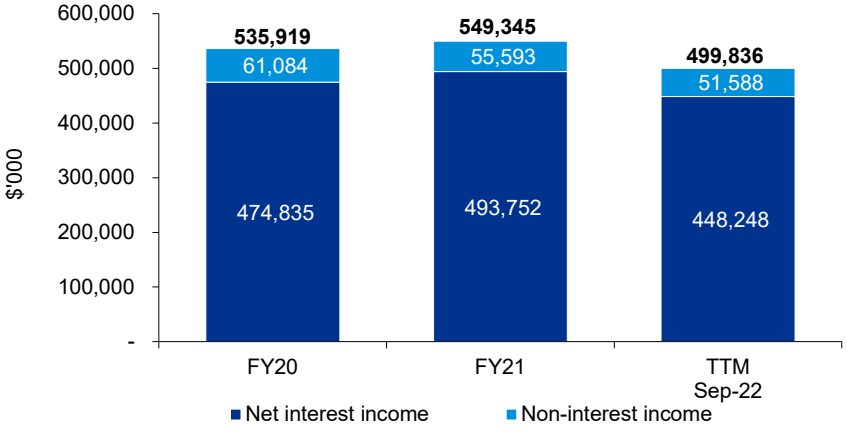
Income statement (2/5) - *Revenue*

In TTM Sep-22, reported revenue totaled $499.8 million. This was comprised of net interest income of $448.2 million (89.7%) and non-interest income of $51.6 million (10.3%).

Revenue



Source: Management provided information, KPMG analysis

Revenue

- Total revenue increased by $13.4 million from FY20 to $549.3 million in FY21.
  - While the outbreak of COVID-19 in FY20 has led to decreases in interest rates, the decrease in the average rate of interest income earned on loans has been less than the decrease in the average rate of interest expense, resulting in an improvement of net interest income in FY21 in comparison to FY20.
  - Beginning Q4-21, the Company experienced margin compression in net interest income as mortgages were renewed at lower rates.
- Total revenue decreased by $49.5 million to $499.8 million in TTM Sep-22.
  - The decline of net interest margin in Q4-21 is further exacerbated by the rapid increase of overnight interest rates by the Bank of Canada ("BoC") in FY22, totaling an increase of 300 basis points from March 2022 to September 2022.
  - In anticipation of further rate hikes by BoC in the upcoming months, the Company has increased 30 bps on its classic mortgages interest rate in Oct-22. Management expects an improvement of the Company's net interest margin over time.

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Income statement (3/5) - *Revenue*

Revenue			
$'000	FY20	FY21	TTM Sep-22
Net interest income on non-securitized assets	454,716	468,494	408,927
Net interest income on securitized loans and assets	20,119	25,258	39,321
Net interest income	474,835	493,752	448,248
Fees and other income	42,223	41,439	46,273
Securitization income	18,700	9,179	9,789
Net realized and unrealized gains (losses) on securities and loans	(980)	5,127	568
Net realized and unrealized gains (losses) on derivatives	1,142	(152)	(5,042)
Non-interest income	61,084	55,593	51,588
Total revenue	**535,919**	**549,345**	**499,836**
As a % of total revenue			
Net interest income	*88.6%*	*89.9%*	*89.7%*
Fees and other income	*7.9%*	*7.5%*	*9.3%*
Securitization income	*3.5%*	*1.7%*	*2.0%*
Net realized and unrealized gains (losses) on securities and loans	*(0.2%)*	*0.9%*	*0.1%*
Net realized and unrealized (losses) gains on derivatives	*0.2%*	*(0.0%)*	*(1.0%)*
Non-interest income	*11.4%*	*10.1%*	*10.3%*

Source: Management provided information, KPMG analysis

Revenue (continued)

- **Net interest income:** Represents the interest income earned on the Company's residential and commercial mortgage portfolio, net of interest expense from deposits. Specifically:
  - **Net interest income on non-securitized assets**: Represents interest income generated on the Company's non-securitized loan portfolio.
    a. The increase from FY20 to FY21 reflects an improvement in net interest margin of 10 bps as a result of the hedging strategies in place prior to the interest rate cuts made by the BoC in early FY20.
    b. The decrease from FY21 to TTM Sep-22 reflects the increase in interest expenses on credit facilities outpacing the growth of interest income.
  - **Net interest income on securitized loans and assets**: Represents interest income generated from the CMHC-sponsored and other securitized loans.
    a. The increase from FY20 to FY21 is primarily driven by the net interest income earned on the $765 million private placement of RMBS with accredited investors in FY21, along with the increase of 15 bps in net interest margin on the CMHC-sponsored securitized assets.
    b. The increase from FY21 to TTM Sep-22 is due to the net interest income earned on the placement of RMBS since late Q2-21 and the Company's participation in the bank-sponsored securitization conduits.

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Income statement (4/5) - *Revenue*

Revenue			
$'000	FY20	FY21	TTM Sep-22
Net interest income on non-securitized assets	454,716	468,494	408,927
Net interest income on securitized loans and assets	20,119	25,258	39,321
Net interest income	474,835	493,752	448,248
Fees and other income	42,223	41,439	46,273
Securitization income	18,700	9,179	9,789
Net realized and unrealized gains (losses) on securities and loans	(980)	5,127	568
Net realized and unrealized gains (losses) on derivatives	1,142	(152)	(5,042)
Non-interest income	61,084	55,593	51,588
Total revenue	**535,919**	**549,345**	**499,836**
As a % of total revenue			
Net interest income	*88.6%*	*89.9%*	*89.7%*
Fees and other income	*7.9%*	*7.5%*	*9.3%*
Securitization income	*3.5%*	*1.7%*	*2.0%*
Net realized and unrealized gains (losses) on securities and loans	*(0.2%)*	*0.9%*	*0.1%*
Net realized and unrealized (losses) gains on derivatives	*0.2%*	*(0.0%)*	*(1.0%)*
Non-interest income	*11.4%*	*10.1%*	*10.3%*

Source: Management provided information, KPMG analysis

Revenue (continued)

- **Non-interest income**
  - **Fees and other income***:* Primarily relates to loan servicing and administration, credit card fees, and sundry income, with revenue recognized as the associated services are rendered.
  - **Securitization income**: Comprised of two components: (i) securitization gains (losses) on Canadian mortgage bonds; and (ii) securitization gains (losses) on mortgage-backed securities.

    The decrease of securitization income from FY20 to FY21 is the result of lower volume of sales of insured multi-unit residential mortgages. The increase from FY21 to TTM Sep-22 can be attributed to the gains from bond forwards.
  - **Net realized and unrealized gains (losses) on securities and loans**: Represents the gains and losses on sale of residential mortgages. The Company recognized substantial gains on sale of mortgages in FY21 under its whole loan sales program. The decline from FY21 to TTM Sep-22 reflects the Company's lack of mortgage sale activity in the YTD Sep-22 period.
  - **Net realized and unrealized gains (losses) on derivatives***:* In order to hedge interest rate exposure resulting from outstanding loans held for sale and the fixed-rate securitization liabilities and deposits, the Company enters into over-the-counter ("OTC") derivative transactions and apply hedge accounting to minimize volatility in reported earnings due to interest rate changes. The gains (losses) on derivatives reflect the fair value hedging ineffectiveness and the mark-to-market gains or losses.

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Income statement (5/5) - *Non-interest expense*

Non-interest expense was $259.8 million in TTM Sep-22, an increase from $248.8 million in FY21. Non-interest expense in TTM Sep-22 was comprised of salaries and benefits (40.3%), premises (3.7%) and other operating expenses (56.0%).

Non-interest expense			
$'000	FY20	FY21	TTM Sep-22
Salaries and benefits	(93,589)	(105,039)	(104,767)
Premises	(9,775)	(9,448)	(9,634)
Other operating expenses	(159,207)	(134,345)	(145,387)
Non-interest expense, reported	**(262,571)**	**(248,832)**	**(259,788)**
As a % of total non-interest expense			
Salaries and benefits	*35.6%*	*42.2%*	*40.3%*
Premises	*3.7%*	*3.8%*	*3.7%*
Other operating expenses	*60.6%*	*54.0%*	*56.0%*

Source: Management provided information, KPMG analysis

Non-interest expense

- Non-interest expense decreased by $13.8 million from $262.6 million in FY20 to $248.8 million in FY21.
  - Salaries and benefits increased by $11.5 million year-over-year, reflecting the growth in the average number of active employees and the higher stock-based compensation.
  - The elevated level of other operating expenses in FY20 was primarily driven by the higher technology costs, accrual for legal provision and other expenses.
    a. Management noted that the incremental amortization in connection with the Company's Ignite Program was $14.8 million in FY20, compared to $6.2 million in FY21.
    b. Amortization of a number of assets were accelerated on a prospective basis in FY20 and FY21, as Management determined that the remaining effective useful lives of such assets were shorter than originally estimated. The incremental amortization arising from the change of estimated useful lives was $10.8 million in FY20, and $4.9 million in FY21.
- Non-interest expense increased by $11.0 million from $248.8 million in FY21 to $259.8 million in TTM Sep-22.
  - Other operating expenses increased in TTM Sep-22 compared to FY21 as a result of the impairment loss of intangible assets in relation to the Company's Loan Origination System ("LOS") program ($9.4 million), higher technology costs, and an increase of variable expenses driven by business volumes.

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Quality of net assets

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Quality of net assets (1/2) - *Pro forma adjustments*

As at September 30, 2022, the Company has reported net assets of $1.53 billion, and adjusted net asset of $1.49 billion.

Quality of net assets	
	As at
$'000	30-Sep-22
Assets	22,297,404
Liabilities	(20,770,441)
NAV, reported	**1,526,963**
Pro forma adjustments	
1 Runoff of other consumer retail loans	(20,541)
2 Deferred tax assets	(11,093)
3 Write-off of historical goodwill	(2,324)
Pro forma adjustments	(33,958)
NAV, adjusted	**1,493,005**

Other considerations
A Potential dis-synergy of NHA MBS and CMB programs
B Transaction expenses
C Legal accrual
D Change of control payments
E Enhanced severance for executives
F Post-retirement benefits
G Deductibility of software development costs

Source: Management provided information, KPMG analysis

Basis of presentation

The Quality of Net Assets schedule illustrates the Company's net assets position as at September 30, 2022. The reported balances are prepared from the Company's trial balances. Adjustment values are sourced from ancillary schedules uploaded to the virtual data room, and may not be all-inclusive. As such, the quality of net assets analysis is presented on an indicative basis. The validity of these adjustments and other factors raised for your consideration may require further investigation to understand the potential impact on your valuation model.

Pro forma adjustments

The following are potential adjustments identified during due diligence:

1. **Runoff of other consumer retail loan:** As of FY20, the Company no longer originates new loans in its other consumer retail loan portfolio and continues to undertake portfolio sales as available. As such, we have removed the carrying amount of these loans balance.
2. **Deferred tax assets**: The Company recognized $11.1 million deferred tax asset ("DTA") on the balance sheet as at September 30, 2022. DTA is primarily comprised of loss carryforwards. Management represented that a cost plus 10% intercompany management fee structure was put in place to try to utilize the loss carryforwards before it expires in 2038. Upon change of control, which will occur when Client acquires the shares of HCG, the loss carryforwards would likely be unavailable for future use. Refer to Tax other considerations for additional details.
3. **Write-off of historical goodwill**: Represents the write off of historical goodwill generated as part of establishment of the Company in 1977. Client will have to remove the historical goodwill and remeasure the goodwill of the transaction as part of the purchase price allocation.

Other considerations

The following includes potential net assets considerations identified during due diligence. These items relate to other potential business issues that should be considered in the overall evaluation of the business. In addition, these items may be subjective in nature and as a result, have not been included in the Quality of Net Assets table.

A. **Potential dis-synergy of NHA MBS and CMB**: Considering the Client's existing ownership in First National and other financial institutions that have participated in the NHA MBS and CMB programs, there may be potential dis-synergies if allotment from CMHC is modified post transaction. As at Q3-22 the NAV of NHA MBS and CMB was $23.7 million.

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Quality of net assets (2/2) - *Other considerations*

Other considerations (continued)

B. **Transaction expenses:** Management represented that approximately $185,000 legal fees were accrued in Q3-22 in relation to transaction expenses incurred with respect to Project Victoria. Consideration should be given to the extent that there are any unaccrued or unpaid advisor fees, legal fees, or other cost related to the proposed transaction.

C. **Legal accrual:** As of September 30, 2022, the Company has a number of open litigation claims which have not yet been accrued for as they have not met Management's evaluation criteria for likelihood of loss. Consideration should be made to the progression of these claims into eventual legal expense accruals.

D. **Change of control payments:** It is our understanding that share options held by the employees or directors of the Company would vest upon a change on control, which would result in a one-time payment of approximately $9 to $10 million depending on the Company's stock price on the closing date.

E. **Enhanced severance for executives**: The Company has entered into agreements with ten executives that provide for enhanced severance in the event of 'qualifying termination'. The total potential severance associated with these agreements is estimated to be $7.6 million. If the transaction's rationale includes leadership synergy, Client may wish to treat potential severance as a contingent debt-like item. Refer to *HR key findings* for further details.

F. **Post-retirement benefits:** Management has indicated that 7 retirees are receiving post-retirement benefits as a special arrangement. As of the date of this report, we have not received further information to quantify the liability associated with these benefits although Management represented that the financial impact is immaterial. Refer to the *HR matters* section for further details.

Other considerations (continued)

G. **Deductibility of software development costs:** The Canada Revenue Agency ("CRA") has challenged Home Trust Company's ("HTC") treatment of software development costs. HTC reported software development costs, and the amortization of such, as a "reserve" on Schedule 13 of its tax return. The CRA has proposed an audit adjustment denying the deduction of the closing reserve balance (on the basis that such costs are not an appropriate reserve for income tax purposes), while maintaining the add-back of the opening balance for FY17. Refer to *Tax key findings* for additional details.

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Balance sheet

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Balance sheet (1/6) - Overview

The Company's net assets totaled $1.5 billion as at September 30, 2022. This was comprised of $22.3 billion in assets and $20.8 billion in liabilities.

Balance Sheet			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Loans	17,396,679	18,392,273	20,548,493
Other assets	1,053,545	794,679	858,639
Total assets	**19,356,227**	**20,146,954**	**22,297,404**
Liabilities and shareholders' equity			
Deposits	(13,932,812)	(14,013,372)	(15,519,519)
Securitization liabilities	(3,220,007)	(3,814,666)	(4,392,331)
Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

Overview

- **Cash and cash equivalents**: Represents the Company operating cash balances within its bank accounts.
- **Securities:** The Company's securities can be categorized as follows:

Securities			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
a. Debt securities measured at FVOCI	359,501	358,591	359,075
b. Equity securities designated at FVOCI	16,362	23,772	22,148
Total securities	**375,863**	**382,363**	**381,223**

Source: Company financial report, KPMG analysis

a. **Debt securities measured at FVOCI:** Included bonds issued by the Government of Canada and are classified as Stage 1 under IFRS 9. Out of the $359.1 million of debt securities as at September 30, 2022, the Company has pledged $149.5 million as collateral for obligations related to securities sold under repurchase agreement. In case of default, the counterparty is entitled to dispose of the purchased securities without having to give any notice or grace periods to the Company.

b. **Equity securities designated at FVOCI:** Consist of common and preferred shares. Net unrealized gains and losses associated with such equity securities are recognized into accumulated other comprehensive income ("AOCI").

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Balance sheet (2/6) - Overview

Balance Sheet			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Loans	17,396,679	18,392,273	20,548,493
Other assets	1,053,545	794,679	858,639
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Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

Overview (continued)

- **Loans held for sales:** The loans for which the Company intends to secure through the National Housing Act Mortgage-Backed Securities ("NHA MBS") programs and derecognize from the balance sheet in the near term are classified as held for sale for accounting purposes and measured at fair value through profit or loss ("FVTPL") on the balance sheet. The fair value of loans held for sale is determined by discounting the expected future cash flows of the loans at current market rates imputed by the realized sale of loans with similar terms and credit risks.
- **Loans:** Include the Company's securitized and non-securitized mortgages, net of allowance for credit losses. Refer to *Appendix 3* for the Company's mortgage continuity schedule.

Loans			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
a. Securitized mortgages	2,919,495	3,685,858	4,501,325
b. Non-securitized mortgages and loans	14,547,958	14,742,945	16,091,271
c. Allowance for credit losses	(70,774)	(36,529)	(44,103)
Total loans	**17,396,679**	**18,392,273**	**20,548,493**

Source: Management provided information, KPMG analysis

a. **Securitized mortgages:** Consist of securitized single-family residential mortgages, including both Canada Mortgage and Housing Corporation ("CMHC")-sponsored securitized insured mortgages and uninsured mortgages securitized through other programs, and securitized multi-unit residential mortgages.

b. **Non-securitized mortgages and loans:** Include single-family residential mortgages, residential and non-residential commercial mortgages, credit card loans, lines of credit, and other consumer retail loans.

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Balance sheet (3/6) - Overview

Balance Sheet			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Loans	17,396,679	18,392,273	20,548,493
Other assets	1,053,545	794,679	858,639
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Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

Overview (continued)

- **Loans (continued):**
  - c. **Allowance for credit losses:** Represents Management's estimation of expected credit losses ("ECL") in accordance with IFRS 9 and is reviewed on a quarterly basis at a minimum. Management has determined that unemployment rates, housing price index and interest rates are the key driving macroeconomics factors to the credit losses. The forward-looking macroeconomic variables and their respective probability weightings have been incorporated into the models used in the Company's ECL estimation process.
- **Other assets:** Includes the following components:

Other assets			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
a. Restricted assets	484,801	330,755	308,037
b. Derivative assets	103,209	41,149	95,585
c. Other assets	387,630	347,793	378,276
d. Deferred tax assets	8,582	9,340	11,093
e. Goodwill and intangible assets	69,323	65,642	65,647
Other assets	**1,053,545**	**794,679**	**858,639**

Source: Management provided information, KPMG analysis

  - a. **Restricted assets:** Represents the restricted cash held by counterparties as collateral for the Company's swap and bond forward transactions, and acceptable securities designated as Canada Mortgage Bond ("CMB") replacement assets which the balance decreased to nil since March 2022 in connection with the maturity of the remaining CMB liabilities.
  - b. **Derivative assets:** Includes interest rate swaps and bond forward contracts that are used to hedge interest rate exposure and minimize volatility in earnings.

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Balance sheet (4/6) - Overview

Balance Sheet			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Loans	17,396,679	18,392,273	20,548,493
Other assets	1,053,545	794,679	858,639
Total assets	**19,356,227**	**20,146,954**	**22,297,404**
Liabilities and shareholders' equity			
Deposits	(13,932,812)	(14,013,372)	(15,519,519)
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Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

Overview (continued)

- **Other assets (continued):**
  - c. **Other assets:** Consists of accrued interest receivable, securitization receivable and retained interest, right-of-use ("ROU") lease assets, capital assets, income taxes recoverable, and other prepaid assets and deferred items.
  - d. **Deferred tax assets:** Primarily comprised of loss carryforwards. Management represents that the deferred tax assets are only recognized for deductible temporary differences, carryforward of unused tax credits and losses to the extent that it is probable that taxable profit will be available and the carryforward of unused tax credits and losses can be utilized. The measurement of deferred tax assets are based on enacted or substantively enacted tax rates applicable to taxable income in the period in which those temporary differences are expected to be recovered or settled.
  - e. **Goodwill and intangible assets:**
    - i. **Goodwill:** The goodwill recognized by the Company relates entirely to Home Trust. According to the Company's accounting policy, goodwill is measured at cost less accumulated impairment losses following the initial recognition, and is evaluated for impairment annually or more frequently if there is indication of impairment. There were no additions, disposals or impairments of goodwill in the YTD Sep-22 period and for the years ended December 31, 2021 and 2020.
    - ii. **Intangible assets:** The net carrying amounts of the Company's intangible assets relate primarily to internally developed software costs arising from Project Ignite. While there were no impairment losses on intangible assets in FY20 or FY21, the Company recorded an impairment loss of $9.4 million in Q3-22 associated with Project Ignite for LOS developed with SAVVYY.

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Balance sheet (5/6) - Overview

Balance Sheet			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Loans	17,396,679	18,392,273	20,548,493
Other assets	1,053,545	794,679	858,639
Total assets	**19,356,227**	**20,146,954**	**22,297,404**
Liabilities and shareholders' equity			
Deposits	(13,932,812)	(14,013,372)	(15,519,519)
Securitization liabilities	(3,220,007)	(3,814,666)	(4,392,331)
Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

Overview (continued)

- **Deposits:** The Company's deposit portfolio serves as the primary source of funding for the non-securitized loans. The deposits are predominantly on fixed terms varying from 30 days to 5 years and carry fixed interest rates over the entire term. The Company intentionally limits demand deposits to a level that is aligned with the Company's liquidity and funding needs, thereby reducing the risk of untimely withdrawal of funds by retail clients. Deposits are measured at amortized cost. A detailed breakdown of deposits is as follows:

Deposits			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
High-interest savings accounts [1]	(142,017)	(148,043)	(368,946)
Oaken savings account [1]	(759,589)	(1,040,671)	(1,137,487)
Other deposits payable on demand	(93,426)	(94,657)	(61,983)
Deposits payable on demand	(995,032)	(1,283,371)	(1,568,416)
Brokered GICs	(9,729,658)	(9,382,334)	(10,096,198)
Oaken GICs	(3,208,122)	(3,347,667)	(3,657,846)
GICs [2]	(12,937,780)	(12,730,001)	(13,754,044)
Institutional deposit notes	-	-	(197,059)
Deposits payable on fixed dates	(12,937,780)	(12,730,001)	(13,951,102)
Deposits	**(13,932,812)**	**(14,013,372)**	**(15,519,519)**

Source: Management provided information, KPMG analysis

Notes

1. *The high-interest savings accounts and Oaken savings accounts add to liquidity risk as depositors can withdraw deposits without notice in the absence of fixed contractual terms.*
2. *Included in Brokered and Oaken GICs presented above as payable on fixed dates are cashable GICs that have reached the required number of days to be payable on demand. In the absence of such demand, the GICs have a remaining contractual term to maturity of within one year.*

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Balance sheet (6/6) - Overview

Balance Sheet			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Assets			
Cash and cash equivalents	524,969	507,713	441,213
Securities	375,863	382,363	381,223
Loans held for sale	5,172	69,925	67,837
Loans	17,396,679	18,392,273	20,548,493
Other assets	1,053,545	794,679	858,639
Total assets	**19,356,227**	**20,146,954**	**22,297,404**
Liabilities and shareholders' equity			
Deposits	(13,932,812)	(14,013,372)	(15,519,519)
Securitization liabilities	(3,220,007)	(3,814,666)	(4,392,331)
Other liabilities	(522,927)	(747,674)	(858,592)
Liabilities	(17,675,746)	(18,575,713)	(20,770,441)
Shareholders' equity	(1,680,481)	(1,571,241)	(1,526,963)
Total liabilities and shareholders' equity	**(19,356,227)**	**(20,146,954)**	**(22,297,404)**

Source: Management provided information, KPMG analysis

Overview (continued)

- **Securitization liabilities:** Consists of CMHC-sponsored mortgage-backed security liabilities, CMHC-sponsored Canada Mortgage Bond liabilities, and other securitization liabilities. A detailed breakdown of securitization liabilities is as follows:

Securitization liabilities			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
CMHC-sponsored mortgage-backed security liabilities	(2,412,687)	(2,863,500)	(3,000,442)
CMHC-sponsored Canada mortgage bond liabilities	(604,048)	(134,124)	-
Other securitization liabilities	(203,272)	(817,043)	(1,391,889)
Securitization liabilities	**(3,220,007)**	**(3,814,666)**	**(4,392,331)**

Source: Management provided information, KPMG analysis

- **Other liabilities:** Primarily comprised of the outstanding balance of the Company's warehouse credit facility, derivative liabilities, accrued interest payable on deposits, other accounts payable and accrued liabilities, deferred tax liabilities, and obligations related to securities sold under repurchase agreement. A detailed breakdown of other liabilities is as follows:

Other liabilities			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Credit facilities	(100,000)	(388,000)	(174,000)
Obligations related to securities sold under repo agreement	-	-	(149,720)
Derivative liabilities	(4,322)	(38,462)	(206,764)
Other liabilities	(405,296)	(297,616)	(297,784)
Deferred tax liabilities	(13,309)	(23,597)	(30,324)
Other liabilities	**(522,927)**	**(747,674)**	**(858,592)**

Source: Management provided information, KPMG analysis

- **Shareholder's equity:** Includes the Company's capital stock, contribution surplus, retained earnings, accumulated other comprehensive loss.

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Loan portfolio analysis

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Key portfolio characteristics (by product)

Single-family residential mortgages account for over 88% of outstanding balance as at Q3-22. The average loan size is $429,000 for single-family residential mortgage and $1.53 million for commercial mortgages based on Q3-22 loan tape.

Portfolio summary by product

	Q3-22		Q2-22		Q1-22		Q4-21		Q3-21		Q2-21	
$'000	**Outstanding balance**	**As a % of total**	**Outstanding balance**	**As a % of total**	**Outstanding balance**	**As a % of total**	**Outstanding balance**	**As a % of total**	**Outstanding balance**	**As a % of total**	**Outstanding balance**	**As a % of total**
Single-family residential mortgages	18,257,905	*88.7%*	18,084,551	*87.8%*	17,216,628	*88.4%*	16,173,153	*87.8%*	15,348,315	*87.5%*	14,771,266	*86.1%*
Commercial mortgages	1,784,663	*8.7%*	2,001,964	*9.7%*	1,773,274	*9.1%*	1,802,115	*9.8%*	1,755,449	*10.0%*	1,929,065	*11.2%*
Credit card loans and lines of credit	528,477	*2.6%*	488,033	*2.4%*	447,010	*2.3%*	421,460	*2.3%*	408,088	*2.3%*	415,123	*2.4%*
Other consumer retail loans	21,551	*0.1%*	23,654	*0.1%*	29,634	*0.2%*	32,074	*0.2%*	36,826	*0.2%*	40,200	*0.2%*
Total	**20,592,596**	***100.0%***	**20,598,202**	***100.0%***	**19,466,546**	***100.0%***	**18,428,802**	***100.0%***	**17,548,678**	***100.0%***	**17,155,654**	***100.0%***
QoQ growth	*(0.0%)*		*5.8%*		*5.6%*		*5.0%*		*2.3%*			
Average growth rate (over last 5 quarters)	*3.7%*											

Source: Q3 data is from VDR 2.21.3 HCG Q3 2022 Quarterly Report, and other quarters are from published financials.
Note: Loans held for sale are excluded from loan portfolio to align with reported financials.

Portfolio Average Loan Size

$'000		**Q3-22**	
Product type	**Outstanding balance**	**# of loans**	**Average loan size**
Single family residential mortgages	18,315,342	42,670	429
Commercial mortgages	1,804,489	1,176	1,534
Total	**20,119,831**	**43,846**	

Source: Q3-22 data is from loan tape; KPMG analysis

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Key portfolio characteristics (by region)

As at Q3-22, Ontario represents 74.0% of the portfolio.

Ontario and British Columbia saw a 0.7% and 2.0% decrease in outstanding balances from Q2-22, respectively. Loan balances in the "Other" region category increased 9.3%.

Portfolio summary by province

	Q3-22			Q2-22			Q4-21			Q3-21		
$'000	Outstanding balance	As a % of total	QoQ growth	Outstanding balance	As a % of total	QoQ growth	Outstanding balance	As a % of total	QoQ growth	Outstanding balance	As a % of total	QoQ growth
British Columbia	1,970,010	*9.6%*	*(2.0%)*	2,009,447	*9.8%*	*5.7%*	1,800,262	*9.8%*	*3.6%*	1,677,486	*9.6%*	*17.4%*
Alberta	1,026,983	*5.0%*	*2.3%*	1,003,734	*4.9%*	*4.5%*	919,919	*5.0%*	*(0.8%)*	934,822	*5.3%*	*9.9%*
Ontario	15,240,796	*74.0%*	*(0.7%)*	15,355,892	*74.5%*	*5.1%*	13,900,200	*75.4%*	*2.4%*	13,266,560	*75.6%*	*14.9%*
Quebec	938,145	*4.6%*	*0.5%*	933,560	*4.5%*	*13.8%*	720,448	*3.9%*	*5.6%*	646,288	*3.7%*	*45.2%*
Other	1,416,662	*6.9%*	*9.3%*	1,295,569	*6.3%*	*9.1%*	1,087,973	*5.9%*	*3.1%*	1,023,522	*5.8%*	*38.4%*
Total loans	**20,592,596**	***100.0%***	***(0.0%)***	**20,598,202**	***100.0%***	***5.7%***	**18,428,802**	***100.0%***	***2.5%***	**17,548,678**	***100.0%***	***17.3%***

Source: Q3 data is from VDR 2.21.3 HCG Q3 2022 Quarterly Report, and other quarters are from published financials.
Note: Loans held for sale are excluded from loan portfolio to align with reported financials.

The total number of loans has been decreasing each year since 2020.

Portfolio summary by province

	2022 YTD		2021 YE		2020 YE
# / %	# of loans	Annualized growth	# of loans	Annualized growth	# of loans
British Columbia	21,232	*3.4%*	20,710	*(4.0%)*	21,572
Alberta	13,497	*0.2%*	13,478	*(6.1%)*	14,355
Ontario	97,356	*(5.8%)*	101,828	*(27.0%)*	139,584
Quebec	2,947	*17.1%*	2,618	*5.4%*	2,485
Other	13,913	*8.8%*	13,058	*(1.1%)*	13,198
Total	**148,945**	***(2.4%)***	**151,692**	***(20.7%)***	**191,194**

Source: All data is from loan tape; KPMG analysis
Note: Loans held for sale are included for our analysis.

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Key portfolio characteristics (by rate) (1/2)

At Q3-22 and on a total portfolio basis, weighted average interest rate is 4.5%. The majority of loans, 73.5%, have an interest rate between 2% to 6%.

Weighted average interest rate for the mortgage portfolio is 4.4%. Approximately 50% of loans have a rate between 2% to 4%, and 26.6% of loans have a rate between 4% to 6%.

Weighted average interest rate for credit cards is 9.1%. Over 78% of loans have an interest rate greater than 6%.

For retail loans, the weighted average rate is 6.1%. Over 97% of loans have an interest rate between 6% to 8%.

Loan Portfolio

$'000	Q3-22	
Interest range	**Spot balance**	**% of Total**
0%-2%	885,029	*4.3%*
2%-4%	10,100,935	*48.9%*
4%-6%	5,458,598	*26.4%*
6%-8%	3,069,479	*14.8%*
>8%	1,156,300	*5.6%*
Total	**20,670,341**	***100.0%***
Average rate		*4.5%*

Mortgage Portfolio

$'000	Q3-22	
Interest range	**Spot balance**	**% of Total**
0%-2%	884,850	*4.4%*
2%-4%	10,100,935	*50.2%*
4%-6%	5,346,332	*26.6%*
6%-8%	2,882,809	*14.3%*
>8%	904,904	*4.5%*
Total	**20,119,831**	***100.0%***
Average rate		*4.4%*

Visa Portfolio

$'000	Q3-22	
Interest range	**Spot balance**	**% of Total**
0%-2%	179	*0.0%*
2%-4%	-	-
4%-6%	112,266	*21.2%*
6%-8%	165,675	*31.3%*
>8%	250,836	*47.4%*
Total	**528,956**	***100.0%***
Average rate		*9.1%*

Retail Credit Portfolio

$'000	Q3-22	
Interest range	**Spot balance**	**% of Total**
0%-2%	-	-
2%-4%	-	-
4%-6%	-	-
6%-8%	20,994	*97.4%*
>8%	560	*2.6%*
Total	**21,554**	***100.0%***
Average rate		*6.1%*

Source: Q3 data is from loan tape using spot (outstanding) balance; KPMG analysis

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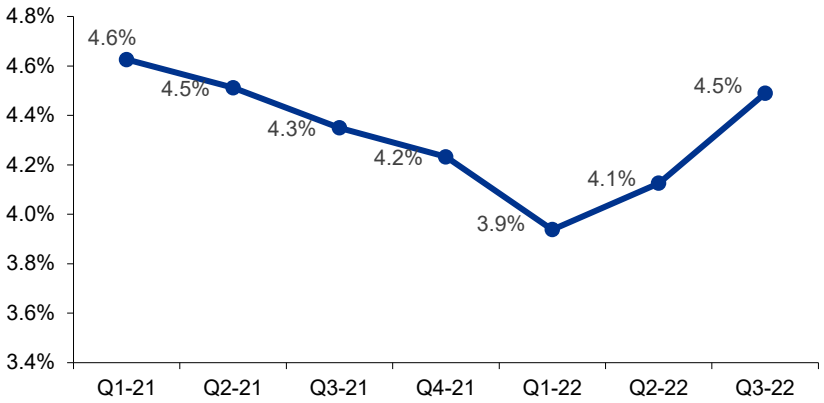
Key portfolio characteristics (by rate) (2/2)

The historical average rate of the portfolio has been fluctuating since last year, decreasing to a low of 3.9% in Q1-22, and then recently rising to its present level at 4.5%.

Portfolio average rate



Source: Management provided information, KPMG analysis

Portfolio summary by interest rate

	Q1-21		Q2-21		Q3-21		Q4-21		Q1-22		Q2-22	
Interest range	**Average balance ($'000)**	**As a % of total**	**Average balance ($'000)**	**As a % of total**	**Average balance ($'000)**	**As a % of total**	**Average balance ($'000)**	**As a % of total**	**Average balance ($'000)**	**As a % of total**	**Average balance ($'000)**	**As a % of total**
0%-2%	275,874	*1.6%*	186,622	*1.1%*	221,122	*1.3%*	911,264	*5.0%*	798,519	*4.2%*	-	-
2%-4%	3,736,646	*21.1%*	3,630,623	*20.9%*	3,506,038	*19.9%*	2,705,598	*15.0%*	4,462,401	*23.3%*	5,313,088	*26.3%*
4%-6%	11,639,248	*65.6%*	11,660,490	*67.1%*	12,016,448	*68.1%*	12,583,126	*69.7%*	12,070,807	*62.9%*	12,961,234	*64.1%*
6%-8%	1,549,543	*8.7%*	1,485,964	*8.5%*	1,491,603	*8.5%*	1,409,316	*7.8%*	1,428,657	*7.4%*	1,475,989	*7.3%*
>8%	534,612	*3.0%*	420,096	*2.4%*	408,791	*2.3%*	449,220	*2.5%*	430,447	*2.2%*	466,530	*2.3%*
Total	**17,735,923**	***100.0%***	**17,383,795**	***100.0%***	**17,644,002**	***100.0%***	**18,058,524**	***100.0%***	**19,190,831**	***100.0%***	**20,216,841**	***100.0%***
Average rate	*4.6%*		*4.5%*		*4.3%*		*4.2%*		*3.9%*		*4.1%*	

Source: Quarterly results are from published financials using average balances
Note: The ratios are weighed by portfolio average outstanding balance.

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Key portfolio characteristics (by credit score & TDSR)

17.8% of loans from the Q3-22 loan tape initially provided did not have credit scores. Management subsequently provided scores for a number of these which lowered the rate of missing credit scores from 17.8% to 6.9%. Management explained that credit scores are refreshed on a quarterly basis from the credit bureaus. For the 5,416 loans that were missing credit scores for Q3-22, Management provided the previous available score. The remaining loans with missing scores are commercial mortgages (and would not necessarily have a credit score).

The average credit score for single-family residential mortgages is 730. The average credit score for commercial mortgages of 755 reflects only those loans with credit scores (as noted above). Loans with missing credit scores (primarily the uninsured commercial portfolio) were not included in the analysis.

Higher credit scores are associated with lower interest rates and lower TDSR as would be expected.

While TDSR varies by region, single family residential mortgages and commercial mortgages have similar average TDSR.

The average credit score and TDSR of the total mortgage portfolio has been stable since 2020.

Portfolio summary by credit score & TDSR*

	Q3-22	
Region	Weighted average credit score	Weighted average TDSR
British Columbia	732	46
Alberta	742	34
Ontario	728	44
Quebec	727	35
Other	746	33

Portfolio summary by credit score & TDSR*

	Q3-22	
Interest range	Weighted average credit score	Weighted average TDSR
0%-2%	772	31
2%-4%	740	41
4%-6%	711	47
6%-8%	714	49
>8%	699	43

Portfolio summary by credit score & TDSR*

	Q3-22	
Product type	Weighted average credit score	Weighted average TDSR
Single-family residential mortgages	730	43
Commercial mortgages	755	43

Portfolio summary by credit score & TDSR*

	Q3-22	
Fiscal period	Weighted average credit score	Weighted average TDSR
2022 YTD	731	43
2021 YE	733	43
2020 YE	730	42

Source: Q3 data is from loan tape; KPMG analysis
Note: Loans held for sale are included and off-balance sheet items are excluded for analysis. Only mortgage portfolio is represented due to data availability.
** TDSR has been calculated by excluding items over 1000 (0.6% of total loan balance). Credit score of zero has been excluded (7% of total loan balance).*

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Key portfolio characteristics (by origination)

Overall, mortgage originations decreased significantly by 39.3% in Q3-22 from Q2-22 as the housing market weakened.

Single-family residential mortgages accounted for more than 78% of originations in Q3 2022.

Portfolio summary by mortgage originations

	Q3-22		Q2-22		Q1-22		Q4-21		Q3-21		Q2-21		Q1-21	
Mortgage type	**Balance ($'000)**	**As a % of total**	**Balance ($'000)**	**As a % of total**	**Balance ($'000)**	**As a % of total**	**Balance ($'000)**	**As a % of total**	**Balance ($'000)**	**As a % of total**	**Balance ($'000)**	**As a % of total**	**Balance ($'000)**	**As a % of total**
Single-family residential mortgages	**1,443,748**	***78.2%***	**2,271,044**	***74.7%***	**2,297,895**	***83.2%***	**2,273,322**	***83.5%***	**2,011,408**	***83.5%***	**1,840,597**	***86.4%***	**1,327,988**	***83.0%***
Classic	1,173,470	*63.6%*	1,968,408	*64.7%*	1,968,408	*71.3%*	1,968,408	*72.3%*	1,968,408	*81.7%*	1,968,408	*92.4%*	1,968,408	*123.0%*
Accelerator	270,278	*14.6%*	302,636	*10.0%*	302,636	*11.0%*	302,636	*11.1%*	302,636	*12.6%*	302,636	*14.2%*	302,636	*18.9%*
Multi-unit uninsured residential mortgages	56,440	*3.1%*	148,705	*4.9%*	148,705	*5.4%*	148,705	*5.5%*	148,705	*6.2%*	148,705	*7.0%*	148,705	*9.3%*
Multi-unit insured residential mortgages	202,471	*11.0%*	338,453	*11.1%*	338,453	*12.3%*	338,453	*12.4%*	338,453	*14.1%*	338,453	*15.9%*	338,453	*21.1%*
Other[2]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial mortgages	**401,860**	***21.8%***	**770,071**	***25.3%***	**462,924**	***16.8%***	**448,757**	***16.5%***	**396,484**	***16.5%***	**289,509**	***13.6%***	**272,430**	***17.0%***
Stores and apartments	17,670	*1.0%*	26,215	*0.9%*	39,905	*1.4%*	22,468	*0.8%*	9,017	*0.4%*	6,902	*0.3%*	8,882	*0.6%*
Commercial	125,279	*6.8%*	256,698	*8.4%*	107,408	*3.9%*	176,857	*6.5%*	120,327	*5.0%*	118,687	*5.6%*	76,136	*4.8%*
Total mortgage originations	**1,845,608**	***100.0%***	**3,041,115**	***100.0%***	**2,760,819**	***100.0%***	**2,722,079**	***100.0%***	**2,407,892**	***100.0%***	**2,130,106**	***100.0%***	**1,600,418**	***100.0%***
QoQ growth	*(39.3%)*		*10.2%*		*1.4%*		*13.0%*		*13.0%*		*33.1%*		*n.a.*	
Average QoQ growth	*2.4%*													

Source: Q3 data is from VDR 2.21.3 HCG Q3 2022 Quarterly Report and other quarters are from published financials
Note: Loans held for sale are excluded from loan portfolio to align with reported financials

Portfolio summary by mortgage originations | Q3-22

$'000	**Jul-22**	**Aug-22**	**Sep-22**	**Q3-22**
Single-family residential mortgages	516,305	494,365	433,078	1,443,748
Commercial mortgages	162,828	139,704	99,328	401,860
Total	**679,133**	**634,069**	**532,406**	**1,845,608**

Source: Q3 data is from Q3 Mortgage Continuity provided from management
Note: Loans held for sale are excluded from loan portfolio to align with reported financials

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Key portfolio characteristics (by PCL & write-offs)

Provisions decreased to $4.4 million in Q3-22 from $4.7 million.

Provisions for single-family residential mortgage decreased to $0.6 million from $2.2 million. Commercial mortgages have the largest dollar amount provision at $2.7 million. With the increase in gross loan balance of commercial mortgages, the ratio of provisions to gross loans (percentage) has decreased to 0.2% from 0.4%.

Credit card loans and lines of credit have the largest ratio of provisions to gross loans (percentage).

Net write-offs decreased slightly to $0.4 million from $0.5 million.

Single-family residential mortgages and credit card loans and lines of credit represent the majority of total net write-offs as at Q3-22.

Portfolio summary by provision & write-offs

	Q3-22		Q2-22	
$'000	**Amount**	**As a % of gross loans**	**Amount**	**As a % of gross loans**
Provision (reversal of provision)				
Single-family residential mortgages	615	*0.0%*	2,217	*0.1%*
Commercial mortgages	2,735	*0.2%*	2,221	*0.4%*
Credit card loans and lines of credit	1,205	*0.9%*	633	*0.5%*
Other consumer retail loans	(185)	*(3.4%)*	(327)	*(5.5%)*
Total provision (reversal of provision)	**4,370**	***0.1%***	**4,744**	***0.1%***
Net write-offs (recoveries)				
Single-family residential mortgages	131	-	111	-
Commercial mortgages	7	-	11	-
Credit card loans and lines of credit	297	*0.2%*	246	*0.2%*
Other consumer retail loans	(4)	*(0.1%)*	138	*2.3%*
Net write-offs (recoveries)	**431**	***0.0%***	**506**	***0.0%***

Source: Q3 data is from VDR 2.21.3 HCG Q3 2022 Quarterly Report and other quarters are from published financials

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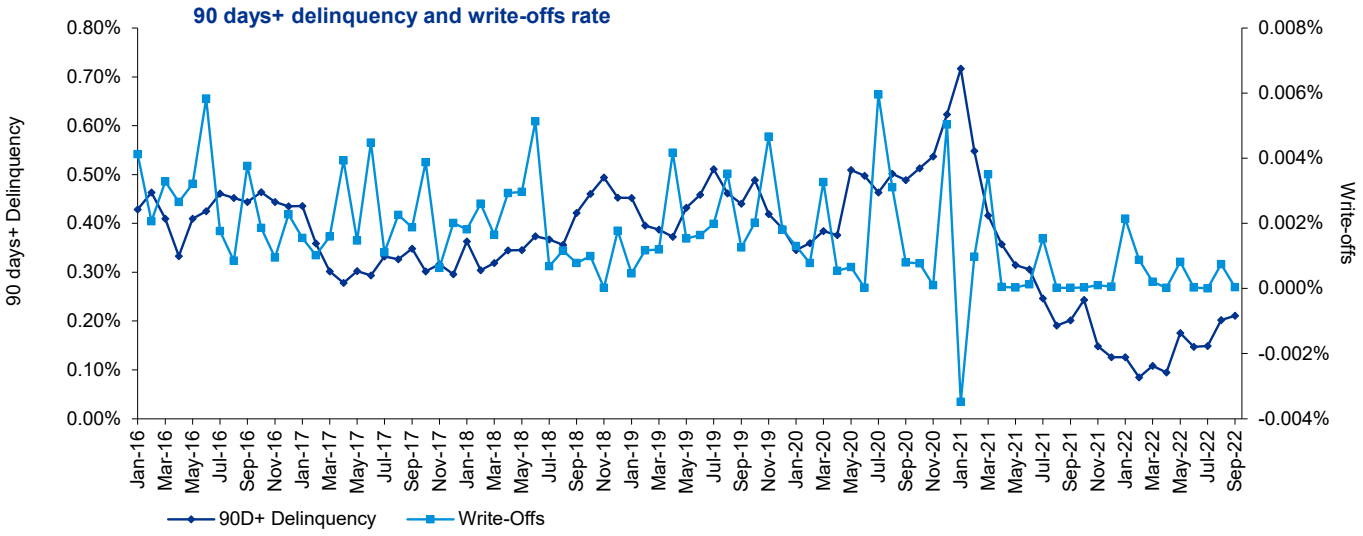
Key portfolio characteristics (by delinquency)

Specific to Classic, the uninsured single family residential portfolio, there has been low delinquency rates and write-offs since June 2021 with delinquency rates below 0.25% since October 2021. The write-off rate has been stable and close to zero since June 2021.

For Classic, 90 days past due delinquency rate was 0.21% and the annualized write-off rate was close to zero as at Q3-22.



Source: VDR 2.23.3 Single-family delinquency and write-off data

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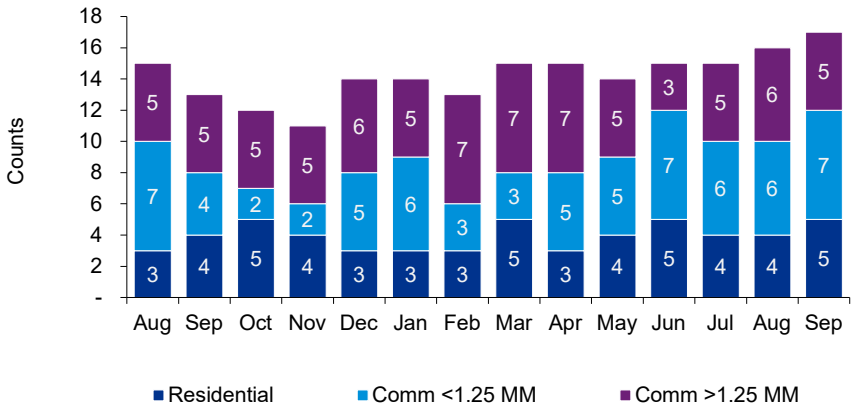
Key portfolio characteristics (by Watchlist)

Total number of accounts on the Watchlist increased to 17 in September 2022. Total commercial mortgage loans remained the same at 12 loans, while residential mortgage loans increased by 1 loan to 5 loans in September 2022.

Total outstanding principal on the watchlist decreased by $6.5 million to $59.8 million in September 2022.

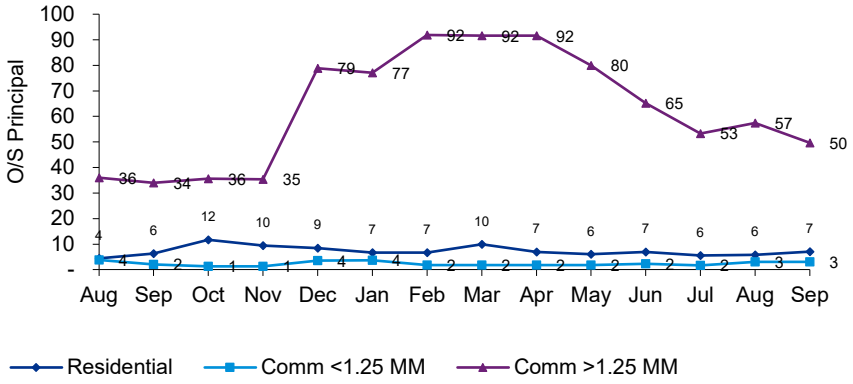
Commercial mortgage loans decreased by $7.8 million to $52.7 million in in September 2022 and residential mortgage loans increased by $1.3 million to $7.1 million.

Loan Count Distribution



Source: Watchlist Report Sep 2022

Outstanding Principal Distribution



Source: Watchlist Report Sep 2022

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Loan loss analysis (1/11) - *Overview*

Expected Credit Loss – Overview

The Company is adopting new IFRS-9 accounting standard to meet the regulatory requirements of OSC and of OSFI. The International Accounting Standards Board (IASB) introduced IFRS-9 as a forward-looking Expected Credit Loss (ECL) impairment standard that requires all Banks and Financial Institutions to provide more recognition of ECL based on future expectations. The existing accounting standard IAS 39 measures losses that have already been incurred in the portfolio. In order to fulfill this mandate, ERM has developed IFRS-9 credit models for measuring forward looking ECL for its portfolios i.e., Residential, and VISA in order to be in compliance with IFRS-9 accounting policy commencing on January 1, 2018.

Definition of Default (Classic Residential Mortgage)

Under IFRS 9, there is a rebuttable presumption that a loan that is 90 DPD or worse is in default (which impacts whether or not a loan is assigned to stage 3). Several banks have rebutted this presumption for certain products, for example credit cards, where the standard practice at many banks is to consider a cardholder defaulted after 180 days. Home Trust defined default to its classic residential mortgage portfolio as considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place. The bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realizing security (if held). The obligor is past due more than 90 days on any material credit obligation to the banking group.

Stage Assignment

ECLs are calculated either for the 12 months period or for the life of the loan depending on the risk state. Loans are required to be put under 3 different stages. Stage 1: 12-month loss realization period. As soon as a loan is originated or purchased, 12 month expected credit losses (ECL) is estimated. For existing loans, Credit risk has not increased significantly since initial recognition. Stage 2: lifetime loss realization period. When credit risk has increased (or credit quality deteriorated) significantly since origination, a Lifetime ECL is calculated. And Stage 3: lifetime loss realization period. Credit risk has increased to a point when they are considered Credit Impaired. All 90 days or more past due loans or assessed as non-performing, a Lifetime ECL is calculated.

Forward-looking Information (FLI)

IFRS 9 requires incorporating FLI through multiple probability weighted scenarios. The standard in the Canadian market is to use a minimum of three scenarios. In the current loss estimation framework, Home has established 3 forward looking economic scenarios and the associated probabilities of those scenarios. Home uses economic Scenarios provided by Moody's Analytics. These scenarios and probability weights are reviewed and approved by Allowance Committee, chaired by CFO, at least every quarter or when necessary.

Management Overlay

Management overlay amount is assessed to account for: events not captured by model, economic forecast uncertainty, changes in lending policy and approval criteria, changes in portfolio composition, changes in collection practices, peer group analysis.

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Loan loss analysis (2/11) - *ECL*

Total ECL increased by 9.8% to $44.1 million in Q3-22 from $40.2 million. Model ECL increased close to $5.0 million for residential mortgages and $1.7 million for commercial mortgages. Increases reflect worsening forward looking probability weighted scenarios in the Model ECL estimates which includes deteriorating housing price forecasts, rising interest rates and higher weighting to the downside/pessimistic scenario.

Overlays for residential mortgages decreased $4.5 million to $6.5 million in Q3-22 (all related to the Classic portfolio). The methodology for the overlay includes a 'PD overlay adjustment' which rose to $14.9 million in Q3-22. Management reduced this amount to $6.5 million using 'expert credit judgment' and other qualitative considerations of the portfolio. The auditor will be seeking further enhanced documentation to support the year end audit of the overlay.

For commercial mortgages, a $1.0 million overlay was implemented to reflect elevated risks with the land and construction portfolio. The remaining $2.5 million in overlay is related to the Stores & Apartment portfolio and remained the same in Q3-22.

Overlay ECL is approximately 22% of total ECL.

Portfolio summary by allowance for credit losses

	Q3-22			Q2-22					Q4-21	Q3-21			Q2-21	Q1-21
$'000	**Model**	**Overlay**	**Total**	**Model**	**Overlay**	**Total**	**QoQ**	**% QoQ**	**Total**	**Total**	**YoY**	**% YoY**	**Total**	**Total**
Single-family residential mortgages	19,765	6,459	26,224	14,812	10,928	25,740	484	*1.9%*	20,038	20,197	6,027	*29.8%*	20,650	26,763
Commercial mortgages	10,138	3,509	13,647	8,408	2,509	10,917	2,730	*25.0%*	13,018	11,341	2,306	*20.3%*	14,788	21,665
Credit card loans and lines of credit	3,220	*n.a.*	3,220	2,312	*n.a.*	2,312	908	*39.3%*	1,492	1,536	1,684	*109.6%*	2,102	2,704
Other consumer retail loans	1,012	*n.a.*	1,012	1,193	*n.a.*	1,193	(181)	*(15.2%)*	1,981	2,601	(1,589)	*(61.1%)*	2,137	7,166
Total	**34,135**	**9,968**	**44,103**	**26,725**	**13,437**	**40,162**	**3,941**	***9.8%***	**36,529**	**35,675**	**8,428**	***23.6%***	**39,677**	**58,298**
Model ECL			34,135			26,725	7,410	*27.7%*						
Model Overlay			9,968			13,437	(3,469)	*(25.8%)*						
Total			**44,103**			**40,162**	**3,941**	***9.8%***						

Source: Data is from Q3 Allowance Committee meeting deck: KPMG analysis

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Loan loss analysis (3/11) - ECL

Single-family residential mortgages and commercial mortgages account for over 90% of the total ECL at Q3-22.

A key variable within the ECL scenario analysis is the housing price index which has been declining. The decrease for Q3-22 is 12.0% compared to 10.4% decrease in Q2-22.

Allowance for credit losses by product

	Q3-22		Q2-22	
$'000	Amount	As a % of total	Amount	As a % of total
Single-family residential mortgages	26,224	*59.5%*	25,740	*64.1%*
Commercial mortgages	13,647	*30.9%*	10,917	*27.2%*
Credit card loans and lines of credit	3,220	*7.3%*	2,312	*5.8%*
Other consumer retail loans	1,012	*2.3%*	1,193	*3.0%*
Total	**44,103**	***100.0%***	**40,162**	***100.0%***

Source: Data is from Q3 Allowance Committee meeting deck; KPMG analysis

ECL scenario analysis

	Q3-22			Q2-22					
ECL parameters	**Base**	**Optimistic**	**Pessimistic**	**Base**	**Optimistic**	**Pessimistic**	**Q3 Weighted**	**Q2 Weighted**	**Products**
Economic factor	50	5	45	50	10	40			
Unemployment rate: 12-month average	*5.8%*	*5.0%*	*8.0%*	*5.6%*	*4.8%*	*7.9%*	*6.6%*	*6.4%*	All
Housing price index: annual change	*(8.6%)*	*(2.3%)*	*(18.6%)*	*(7.0%)*	*(0.5%)*	*(17.1%)*	*(12.0%)*	*(10.4%)*	Classic, S&A, ELV, Commercial
One year mortgage rate: 12-month average	*4.9%*	*4.8%*	*4.7%*	*4.1%*	*4.0%*	*3.8%*	*4.8%*	*4.0%*	Reference
GDP: annual change	*1.7%*	*4.4%*	*(1.9%)*	*1.9%*	*4.8%*	*(2.0%)*	*0.5%*	*0.6%*	Classic
Debt service ratio: 12-month average	*7.0%*	*7.0%*	*6.7%*	*6.8%*	*6.8%*	*6.5%*	*6.9%*	*6.7%*	Classic
Personal bankruptcy: annual change	*27.9%*	*0.8%*	*245.8%*	*(18.9%)*	*(36.3%)*	*120.1%*	*112.4%*	*35.0%*	Classic

Source: Data is from Q3 Allowance Committee meeting deck: KPMG analysis

- Scenario analysis is used to derive Forward Looking PD and LGD ("FLI PD" and "FLI LGD") for ECL purposes.
- The Classic FLI PD model (regression analysis) uses macro economic factors of UE, DSR, Bankruptcy and GDP. There are 3 FLI PD models based on regional differences – GTA, GVA and ROC. The GTA FLI PD model includes UE, GDP and Bankruptcy; The GVA model includes UE; The ROC model includes UE, DSR and Bankruptcy.
- HPI is a factor used to determine FLI LGD for Classic.
- The One-year mortgage rate does not appear to be directly used in the models (as per 2021 documentation) although can be used to further adjust LGD.
- Economic Factors were sourced from Moody's economic forecasts. Note the DSR factor is "DSR - Interest Only" and is a factor published by StatsCan.
- Weighting of scenarios: A comparable peer weighting: Base 50%; More pessimistic 35%; More optimistic 15%.

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Loan loss analysis (4/11) - ECL

Portfolio segment							
$'000	Balance	ECL (allowance)	ECL coverage	Credit score	LTV	Int rate	TDSR
Accelerator	4,494,891	669	0.01%	766	73.8%	2.8%	31.7%
Classic	85,801	96	0.11%	717	51.5%	4.8%	35.1%
Large commercial	102,173	7	0.01%	n.a.	67.1%	3.9%	122.0%
Large commercial - insured and off BS	5,481,976	-					
Insured	10,164,840	772	0.01%				
Accelerator (2 loans)	172	0	0.00%	882	36.6%	2.4%	15.1%
Classic	14,387,647	25,459	0.18%	719	67.4%	4.6%	45.9%
Large commercial	1,147,924	6,800	0.59%	724	51.4%	7.1%	50.9%
Small commercial	612,137	6,839	1.12%	753			
Uninsured	16,147,880	39,098	0.24%				
Mortgages Total	**26,312,721**	**39,870**	**0.15%**				
Credit cards loans and lines of credit	528,956	3,220	0.00%				
Other consumer retail loans	21,554	1,012	0.00%				
Total	**26,863,231**	**44,102**	**0.21%**				
Loans under administration per FS	*26,795,576*						
Variance ($'000)	*(67,655)*						
Variance (%)	*(0.3%)*						

Source: Loan Tape Sep-22

- For purposes of assessing ECL, an overview of the risk profile of the insured and uninsured loan segments is noted above. The Large Commercial Insured and off Balance sheet amount of $5.5 billion is also shown for information.
- The majority of Uninsured Large Commercial do not have assigned credit scores or risk ratings. There are 5 loans ($52 million) in the portfolio with credit scores and the weighted average score is 724. The remaining 89 loans (approximately $1.1 billion) are not risk rated.
- Credit scores are also not available for the retail consumer portfolio (cards and retail loans).
- The Uninsured Small Commercial has relatively high ECL coverage.

EQB: Stage 1 and 2 Allowance for credit losses by lending business					
$'000	30-Sep-22	30-Jun-22	Change	30-Sep-21	Change
Uninsured personal loans - stage 1 and 2 allowances	13,239	11,450	16.0%	12,250	8.0%
As a % of uninsured personal loans (bps)	*8*	*7*	*1*	*10*	*(2)*
Uninsured commercial loans - stage 1 and 2 allowances	19,412	20,080	(3.0%)	21,742	(11.0%)
As a % of uninsured commercial loans (bps)	*30*	*34*	*(4)*	*43*	*(13)*
Equipment leases - stage 1 and 2 allowances	18,879	17,069	11.0%	15,446	22.0%
As a % of equipment lease (bps)	*200*	*194*	*6*	*235*	*(35)*
Insured personal and commercial loans - stage 1 and 2	128	86	49.0%	55	133.0%
As a % of insured personal and commercial loans (bps)	*0.10*	*0.06*	*0.04*	*0.04*	*0.06*
Total loan - stage 1 and 2 allowances	51,658	48,685	6.0%	49,493	4.0%
As a % of total loans (bps)	*14*	*13*	*1*	*16*	*(2)*

Source: EQB FS and MD&A Q3 2022

- Uninsured Classic coverage at 18 bps is higher than Equitable Bank Uninsured Personal Loans (all Single Family Residential Alt) at 8 bps (including Stage 3 Allowance would be closer to 8.5 bps).
- Uninsured Large and Small Commercial at 59 bps and 112 bps is higher than Equitable Bank Uninsured Commercial at 30 bps (including Stage 3 Allowance would be closer to 32 bps).

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Loan loss analysis (5/11) - *ECL*

Segment			
$'000	Principal Balance	Current ECL	Shortfall (excl insurance)
Accelerator	4,494,891	669	290
Classic	85,801	96	107
Large Commercial	102,173	7	-
Large Commercial - Insured and off BS	5,481,976	-	-
Insured	10,164,840	772	397
Accelerator (2 files)	172	0	-
Classic	14,387,647	25,459	8,953
Large Commercial	1,147,924	6,800	627
Small Commercial	612,137	6,839	13,902
Uninsured	16,147,880	39,098	23,482
Total	**26,312,721**	**39,870**	**23,879**

Source: Loan Tape Sep-22, KPMG analysis

- As a further look into potential risks in the portfolio, a straight comparison was made between the outstanding loan balance and the current value of security, to observe any shortfalls in security coverage at the individual loan level. This shortfall calculation ignored ECL amounts assigned to each loan.
- Much of the calculated shortfall is within Small Commercial. $8.3 million (of the $13.9 million) shortfall is attributed to loans currently in Stage 2.
- Of the $8.3 million in Small Commercial Stage 2, $6.5 million is from loans secured by Retail Stores. This represents 4 loans out of 176 loans which have an average LTV close to 190%. The overall portfolio for Retail Stores has an average LTV of 59%.

4 Loans		
Loan number	Outstanding principal ($'000)	Current LTV
10543380 [1]	8,153	314
10542556	558	108
10535778	877	199
10404472	1,571	136
Total	**11,160**	**Average 189**

Source: Loan Tape Sep-22, KPMG analysis

Note 1: Based on loan file review, this loan is secured by six properties and only one of the six was input as the overall value (15208 Yonge St.). The full appraisal from 2021 is $11.1 million (approximately at 73% LTV). Despite classified within Small Commercial, it may likely have come through the residential broker network and therefore called "Small", but adjudication would have gone through the "Large" channel as the annual review was done on the large loan template.

- In terms of the maturity profile, over 55% of the mortgage portfolio will mature within the next 12 months and approximately 78% within the next 24 months.
- Loans carrying higher interest rates appear to mature sooner, leaving the lower priced loans in the portfolio.

Maturity Profile									
$'000	Before Oct-22	Oct-22 to Sep-23	Oct-23 to Sep-24	Oct-24 to Sep-25	Oct-25 to Sep-26	Oct-26 to Sep-27	Oct-27 to Sep-28	After Oct-28	Total
Maturity	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Balance
Single-family residential mortgages	3,944	10,618,792	3,470,769	1,970,220	1,067,379	1,135,794	48,444	-	18,315,343
Commercial mortgages	61	1,172,852	528,056	84,522	2,930	4,654	30,760	38,401	1,862,234
Total	**4,005**	**11,791,643**	**3,998,825**	**2,054,742**	**1,070,309**	**1,140,448**	**79,204**	**38,401**	**20,177,577**
% of total	*0.0%*	*58.4%*	*19.8%*	*10.2%*	*5.3%*	*5.7%*	*0.4%*	*0.2%*	*100.0%*
Average rate	*6.3%*	*4.9%*	*4.6%*	*3.6%*	*2.3%*	*3.2%*	*4.2%*	*3.9%*	*4.5%*

Source: Loan Tape Sep-22, KPMG analysis

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Loan loss analysis (6/11) - ECL

Portfolio segment										
$'000	Balance	Allowance	ECL Estim (Lower)	ECL Estim (Upper)	Score	PD Estim	LGD Estim (Lower)	ECL Rate (bps)	LGD Estim (Upper)	ECL Rate (bps)
Accelerator	4,494,891	669	3,061	3,061	766	*2.6%*	*2.6%*	7	*2.6%*	7
Classic	85,801	96	71	71	717	*3.2%*	*2.6%*	8	*2.6%*	8
Large commercial	102,173	7	112	112	-	*4.2%*	*2.6%*	11	*2.6%*	11
Large commercial - insured and off BS	5,481,976	-	-		-	-				
Insured	10,164,840	772	3,244	3,244						
Accelerator (2 loans)	172	0	0	0	882	*1.2%*	*6.5%*	8	*8.0%*	10
Classic	14,387,647	25,459	24,706	30,408	719	*2.6%*	*6.5%*	17	*8.0%*	21
Large commercial	1,147,924	6,800	7,492	7,492	724	*4.4%*	*15.0%*	65	*15.0%*	65
Small commercial	612,137	6,839	2,136	4,983	753	*2.3%*	*15.0%*	35	*35.0%*	81
Uninsured	16,147,880	39,098	34,334	42,883						
Mortgages Total	**26,312,721**	**39,870**	**37,578**	**46,127**						
Credit cards loans and lines of credit	528,956	3,220	3,174	5,078		*1.2%*	*50.0%*		*80.0%*	
Other consumer retail loans	21,554	1,012	129	207		*1.2%*	*50.0%*		*80.0%*	
Total	**26,863,231**	**44,102**	**40,881**	**51,412**						
Loans under administration per FS	*26,795,576*									
Variance ($'000)	*(67,655)*									
Variance (%)	*(0.3%)*									

Source: Loan Tape Sep-22, KPMG analysis

- To assess ECL, industry benchmarks were used to estimate PD and LGD factors for key portfolio segments.
- For the PD estimates, available credit scores of individual residential and commercial mortgages were mapped to PD scales used by comparable Alt A lenders and peers. In cases where scores were missing, certain assumptions were made. For example, missing ratings/scores in Large Commercial were assigned PD estimates equivalent to credit scores in the range of 500, which is a PD of 4-5%. Over 60% of Large Commercial loans are in Stage 2.
- For LGD in relation to residential mortgages, publicly available information from the large banks for insured and uninsured loan segments was considered, with further research at medium sized Alt A peer lenders for reasonableness. While actual losses relative to total portfolio balances in Alt A uninsured portfolios are low across the sector, we observe LGDs for ECL purposes at levels of 5 - 8% being used.
- For LGD of commercial mortgages, public information from the large banks was considered with further research at select Alt A peer lenders. We observe LGDs for ECL purposes at levels of 8 – 25% (depending on risk rating) at these lenders. We stressed LGD further at the upper range to 35% for Small Commercial.
- For credit cards and consumer loans, Q2 2022 consumer/card delinquency rates from CMHC was used as a proxy for PD (1.2%). For LGD, information from the card and consumer segments at large banks was considered and LGD levels of 50 - 80% applied.

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Loan loss analysis (7/11) - *ECL*

Total Stage 1&2 ECL increased by 9.3% to $39.5 million from $36.1 million in Q2-22. Over 91% of ECL for Stage 1&2 is attributed to single-family residential and commercial mortgages at Q3-22.

Commercial mortgage coverage ratio for Stage 1&2 grew from 0.5% in Q2-22 to 0.8% in Q3-22.

Allowance for credit losses | Stage 1&2

	Q3-22		Q2-22	Q1-22	Q4-21	Q3-21
$'000	**Amount**	**As a % of total**	**Amount**	**Amount**	**Amount**	**Amount**
Single-family residential mortgages	22,696	*57.5%*	23,193	19,876	14,915	13,666
Commercial mortgages	13,433	*34.0%*	10,269	7,878	11,702	11,089
Credit card loans and lines of credit	2,336	*5.9%*	1,472	1,031	876	952
Other consumer retail loans	990	*2.5%*	1,167	1,617	1,921	2,520
Total	**39,455**	***100.0%***	**36,101**	**30,402**	**29,414**	**28,227**
QoQ change	*9.3%*					

Source: Data is from Q3 Allowance Committee meeting deck, Q3 number updated from Q3-22 Quarterly Disclosure; KPMG analysis

Coverage ratios | Stage 1&2

%	**Q3-22**	**Q2-22**	**Q1-22**	**Q4-21**	**Q3-21**
Single-family residential mortgages	*0.2%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
Commercial mortgages	*0.8%*	*0.5%*	*0.4%*	*0.6%*	*0.6%*
Credit card loans and lines of credit	*0.4%*	*0.3%*	*0.2%*	*0.2%*	*0.2%*
Other consumer retail loans	*4.7%*	*5.0%*	*5.6%*	*6.2%*	*7.1%*
Total	***0.2%***	***0.2%***	***0.2%***	***0.2%***	***0.2%***

Source: Data is from Q3 Allowance Committee meeting deck, Q3 number updated from Q3-22 Quarterly Disclosure; KPMG analysis

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Loan loss analysis (8/11) - ECL

Stage 3 ECL increased by 14.3% to $4.6 million in Q3-22 from $4.1 million in Q2-22. Over 94% of Stage 3 ECL can be attributed to single-family residential mortgages and credit card loans and lines of credit. Total Stage 3 coverage ratio remains relatively steady compared to Q2-22.

Commercial mortgage Stage 3 coverage ratio increased to 68.1% in Q3-22 from 14.0% in Q2-22 due to a significant decrease in gross loan balances.

Allowance for credit losses | Stage 3

	Q3-22		Q2-22	Q1-22	Q4-21	Q3-21
$'000	**Amount**	**As a % of total**	**Amount**	**Amount**	**Amount**	**Amount**
Single-family residential mortgages	3,528	*75.9%*	2,548	3,759	5,124	6,531
Commercial mortgages	211	*4.5%*	647	828	1,316	252
Credit card loans and lines of credit	884	*19.0%*	841	895	614	584
Other consumer retail loans	23	*0.5%*	27	42	61	81
Total	**4,646**	***100.0%***	**4,063**	**5,524**	**7,115**	**7,448**
QoQ change	*14.3%*					

Source: Data is from Q3 Allowance Committee meeting deck, Q3 number updated from Q3-22 Quarterly Disclosure; KPMG analysis

Coverage ratios | Stage 3

%	**Q3-22**	**Q2-22**	**Q1-22**	**Q4-21**	**Q3-21**
Single-family residential mortgages	*10.1%*	*10.2%*	*18.3%*	*23.7%*	*21.7%*
Commercial mortgages	*68.1%*	*14.0%*	*25.8%*	*18.7%*	*22.0%*
Credit card loans and lines of credit	*43.2%*	*33.9%*	*43.2%*	*37.7%*	*45.4%*
Other consumer retail loans	*4.7%*	*5.0%*	*5.5%*	*6.6%*	*7.4%*
Total	***12.3%***	***12.4%***	***20.8%***	***22.8%***	***22.1%***

Source: Source: Data is from Q3 Allowance Committee meeting deck, Q3 number updated from Q3-22 Quarterly Disclosure; KPMG analysis
Note: Ratios re-calculated above could be slightly different from the Company's financial statements due to rounding.

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Loan loss analysis (9/11) - *ECL*

Single-family residential mortgages had transfers of $1.8 million in allowance from Stage 2 to Stage 1 in Q3-22. Similarly, there were transfers out of Stage 3 to Stage 1 and 2 of $887,000.

Commercial mortgages had transfers of $44,000 from Stage 3 to Stage 2 although transfers from Stage 1 to Stage 2 were $1.6 million and higher than Q2-22.

Credit card loans and lines of credit showed slightly more transfers between Stage 1 and 2 in Q3-22 compared to Q2-22.

Other consumer retail loans show minimal migrations.

Single-family residential mortgages

	Q3-22			Q2-22		
$'000	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer from Stage 1	(2,969)	2,969	-	(2,416)	2,416	-
Transfer from Stage 2	1,776	(2,702)	926	655	(1,529)	874
Transfer from Stage 3	151	736	(887)	469	1,183	(1,652)

Commercial mortgages

	Q3-22			Q2-22		
$'000	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer from Stage 1	(1,630)	1,630	-	(1,106)	1,106	-
Transfer from Stage 2	252	(293)	41	556	(657)	101
Transfer from Stage 3	-	44	(44)	-	-	-

Credit card loans and lines of credit

	Q3-22			Q2-22		
$'000	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer from Stage 1	(116)	114	2	(103)	91	12
Transfer from Stage 2	287	(568)	281	239	(433)	194
Transfer from Stage 3	10	53	(63)	2	66	(68)

Other consumer retail loans

	Q3-22			Q2-22		
$'000	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Transfer from Stage 1	-	-	-	-	-	-
Transfer from Stage 2	-	(2)	2	-	(3)	3
Transfer from Stage 3	-	-	-	-	-	-

Source: HCG Q3 2022 Quarterly Report

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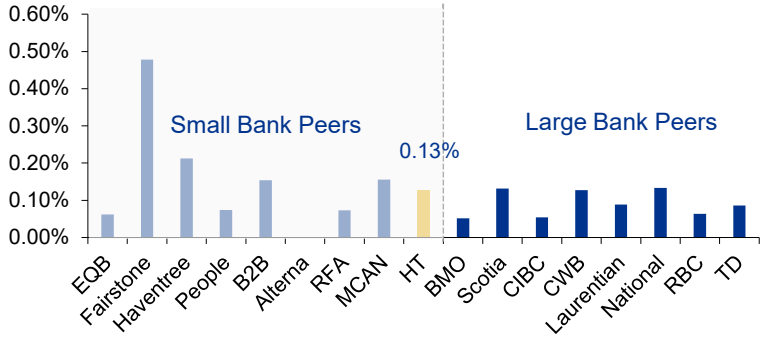
Loan loss analysis (10/11) - *ECL*

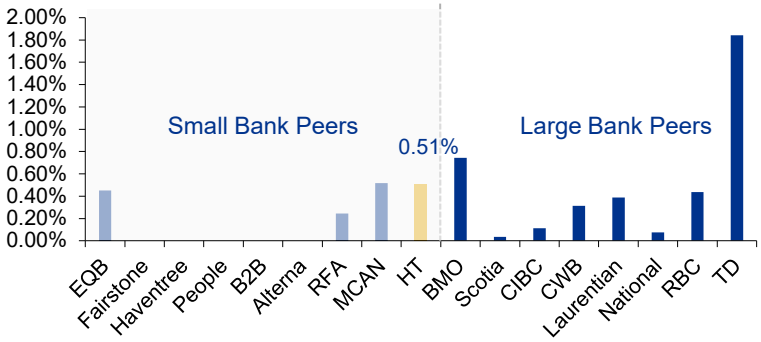
The Company's Q2-22 Stage 1&2 ECL coverage ratio for residential mortgages (13 bps) is in the middle range peers (0-48 bps). Commercial mortgage Stage 1&2 ECL coverage ratio (51 bps) for Q2 is also in the middle range of peers (0-184 bps).

Credit card Stage 1&2 ECL coverage ratio (30 bps) is the lowest compared to peers with credit card portfolio (30-964 bps). Other loan Stage 1&2 ECL coverage ratio (505 bps) is the second highest among peers (4-724 bps).

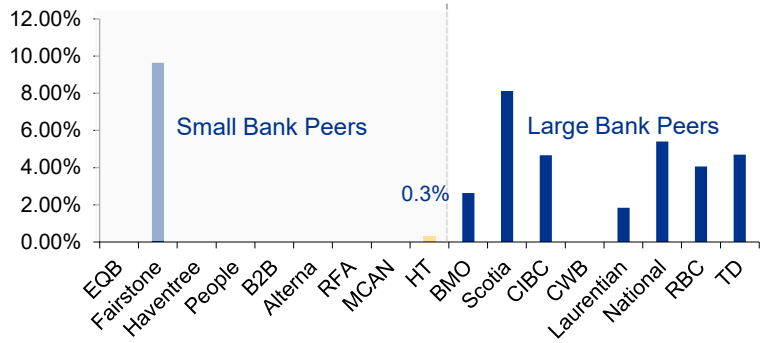
Stage 1&2 ECL - Residential mortgage



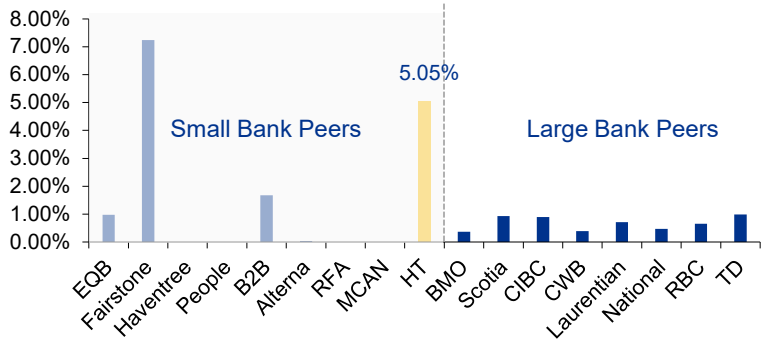
Stage 1&2 ECL - Commercial mortgage



Stage 1&2 ECL - Credit cards



Stage 1&2 ECL - Other retail loans



Source: Q2-22 Data is from OSFI site; KPMG analysis
Note: Coverage ratio is calculated using Stage 1&2 allowances divided by Stage 1&2 gross loan.

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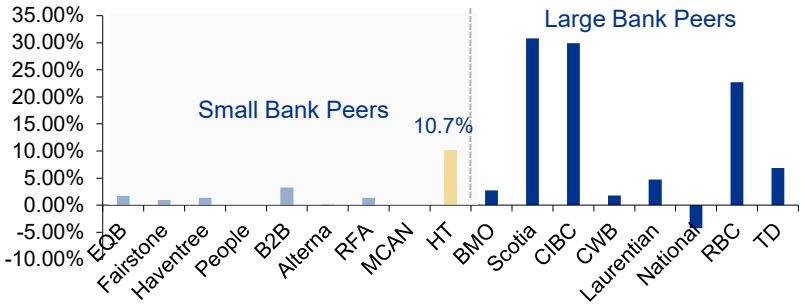
Loan loss analysis (11/11) - *ECL*

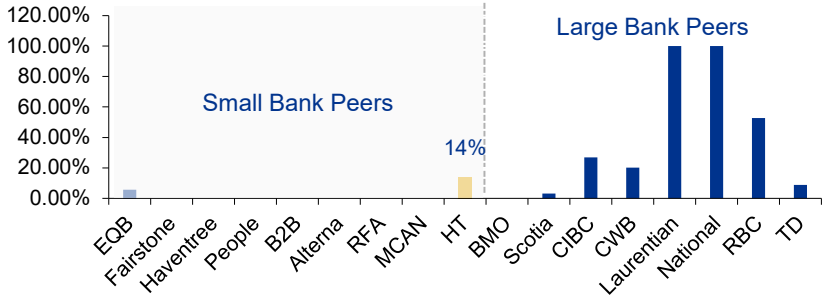
The Company's Q2-22 Stage 3 ECL coverage ratio for residential mortgages (10.7%) is in the middle range of large bank peers (-4.3% - 30.8%) and high range of smaller bank peers (0% - 3.3%). Commercial mortgage Stage 3 ECL coverage ratio (14.0%) for Q2-22 is in the low range of peers (0%-100%).

Credit card Stage 3 ECL coverage ratio (33.9%) is in the middle range compared to peers with credit card portfolio (3.7% - 100%). Other loan Stage 3 ECL coverage ratio (5.0%) is in the low range among peers (1.6% - 57.8%).

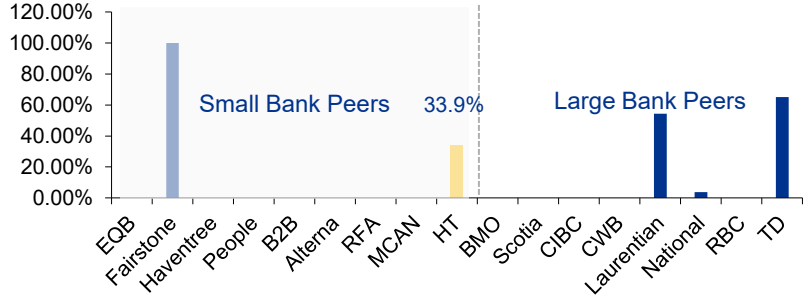
Stage 3 ECL - Residential mortgage



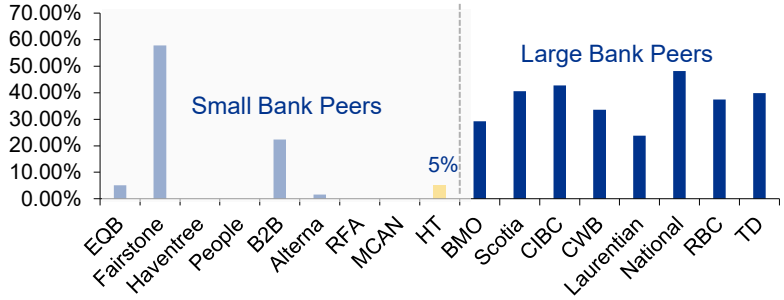
Stage 3 ECL - Commercial mortgage



Stage 3 ECL - Credit cards



Stage 3 ECL - Other retail loans



Source: Q2-22 Data is from OSFI site; KPMG analysis
Note: Coverage ratio is calculated using Stage 3 allowances divided by Stage 3 gross loan

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HR matters

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Workforce overview

Employee Demographics

- As of October 2022 the Company has 857 employees of which the majority are located in Toronto (799) with the remainder in Montreal (18), Calgary (17), Vancouver (15), and Halifax (8). In addition to the above-mentioned active headcount, there are 39 employees on leave of absence.
- The table below demonstrates the employees distribution by Business Unit.
- Refer to *the Appendix of the report* for further workforce breakdown.

Employee demographics as of October 6, 2022

		Total ($'m)	Per employee average	
Business unit name	**Headcount (active)**	**Base pay**	**Base pay ($'000)**	**Years of service**
Underwriting	198	15.2	76	6.1
Finance	173	15.6	90	7.2
Information Technology	144	17.3	121	5.6
Digital And Strategy, Deposits	134	10.2	76	3.0
Residential Lending	99	7.9	79	6.7
Corporate Compliance	42	4.0	94	7.2
Enterprise Risk Management	27	3.7	137	6.8
Human Resources	17	1.8	106	4.8
Internal Audit	13	1.7	128	4.5
Commercial Lending	9	1.2	133	3.0
Corporate	1	0.7	700	5.2
Total / Wtd. Avg.	**857**	**79.3**	**92**	**5.8**

Source: Analysis of data room documents. VDR reference 7.13.6.1

Turnover

- The Company engaged with Mercer to evaluate the employee attrition. The report demonstrated that the Company's turnover rate is aligned with market at 14.1% and 17.2% for 2021 and 2022 (September 2022). Management indicated that the reasons for resignation vary, but have indicated a plan to reevaluate the benefits plan as retention mechanism.

Consultants

- In addition to the employee workforce, the Company engaged with third parties to provide IT, administrative, and consulting services. In October 2022 there were 407 individuals of which the vast majority were contracted through large enterprises to support the Company's operations.
- 9 of those individuals are planned to be hired as employees.
- Although management has indicated that there is no risk of employment misclassification, Client should establish via the purchase agreement mechanisms that triggers the Seller's responsibility in case of any future labor claims exposure.

Open Positions

- As of October 2022 there were 34 open positions. From those, 8 were considered key roles by management, including Director of Marketing and Director of Oaken Stores.
- The illustrative cost for the open positions was approximately $787,000 considering the median salary of the job levels and the corresponding target bonus. Please refer to *page 33* for breakdown.

Age Summary

- The majority of the employees are aged 31-40 years with (293 employees), followed by those aged 41-50 years (233 employees). There are 52 employees aged 61-70 years & 70+, who are assumed to be close to retirement.
- An additional pool of 155 employees are aged 51-60 and may wish to retire early, taking the total assumed population close to retirement to 207 employees. The risk of these employees retiring highlights a potential loss of business knowledge and experience.

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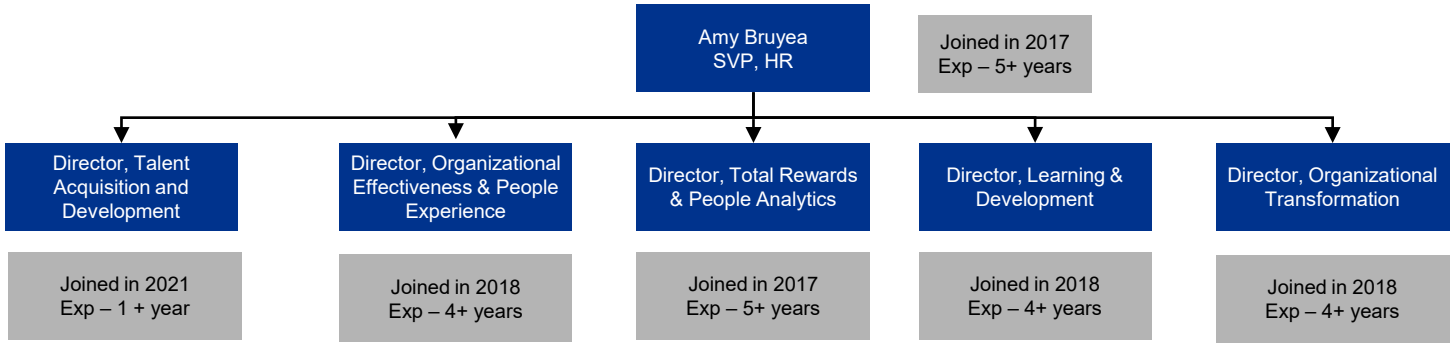
Human resource function (1/2)

HR Leadership Team



Source: Management provided information, KPMG analysis

Overview HR Department:

HR Structure:

- HR function comprised of 15 employees who are part of the Human Resources department. The HR leadership team consists of one (1) SVP and five (5) directors, all the directors report to the SVP and all are located in Toronto.
- In addition to the HR function the SVP of HR is also leading the Workplace Services Experience with current 4 FTEs.
- There are currently 2 people on leave in the HR/Workplace Service Experience departments. (Director, Organizational Effectiveness and Talent Management and HR Business Partner).

HR Systems:

- The Company utilizes SuccessFactors, which is a cloud-based HRIS system. The contract is valid until September 30, 2023, and the overall annual cost is $110,000.
- In addition, the Company utilizes ADP for payroll and benefit administration services.

HR Third-Party support:

- The Company engaged with third-party vendors to provide the following HR services:
  - Mercer for compensation benchmarking services.
  - Si Systems Partnership for digital & video training services.
  - Toni DiMello for DEI consulting/training services.
  - Ontario Inc for leadership consulting services on organizational effectiveness.

Please see *Appendix section* for more details on HR function employees and associated people costs.

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Human resource function (2/2)

COVID-19 Measures

- Return to the office - clear targets were established to support the adoption of the a new hybrid model, and were consistently exceeded, with over 90% of employees returning to the office in a hybrid model in the latter half of 2021.
- As employees balanced personal and professional responsibilities, the Company enhanced its mental health and wellness benefits coverage by $500 per employee.
- In addition, regular communication touchpoints were a key focus, with town halls, fireside chats, events, and surveys to build support for its safe return to work initiatives and to keep employees engaged.
- The Company is particularly proud of achieving the Great Place to Work® Best Hybrid Workplaces certification in February 2022 and maintaining high employee engagement results, demonstrating support for its hybrid model.
- As of October 2021, 96% of all employees are fully vaccinated (0.5% partial, 2% LOA, & 1.5% granted accommodation).

Organizational Culture

- Employee Engagement results demonstrate an 83% trust index average (an increase by 2% YOY). The Company was recognized as one of the Best Workplaces in Financial Services and Insurance in September 2022 and was recognized as one of the Best Hybrid Workplaces in February 2022.

Board and Executive Diversity

- The Diversity Policy was amended in March 2021 to establish new targets for gender representation as well as representation of individuals who identify as black, indigenous and people of color (BIPOC) on both the Board and within the Corporation's executive leadership (vice president level and above).

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Executives employment agreements

Executive Agreements

- The Company made available employment agreements signed with 10 executives which provide for customary annual compensation and establish enhanced severance in the event of involuntary termination without cause, or for 4 executives, resignation due to "Good Reason".
- ***Enhanced severance*** provisions include a 6-24 months of base salary and benefits continuation, as well as a pro-rata bonus for certain individuals (8 executives). The agreement also provide for the acceleration of outstanding equity awards.
- The agreements define "Good Reason" as any reason resulting in constructive dismissal by the competent court.
- The total potential severance associated with these agreements is approximately $7.6 million if taking into consideration a termination by November 1, 2022.
- **Executive compensation**: The executive agreements establishes the annual compensation package which is comprised of salary, bonus and LTI.
- Buyer might want to substitute the LTI program as the Company's plans will be canceled upon the Change of Control resulting in a risk of triggering the employment agreements' "Good Reason" provision if not substituted and the court rules as material compensation reduction.
- Refer to the *Appendix of the report* for further details on the executive compensation.
- **Other enhanced severance arrangements:** Management has indicated that in addition to the ten executives' agreements which were described above, 10 to 15 other employees have enhanced severance arrangements with notice period ranging from 3 to 12 months of base salary. Management has not provided details about those employees at this stage.

Other Executive Arrangement Comments:

- **Change of Control bonus:** Management has indicated that, with exception to the stock compensation, there is no bonus or benefits to be granted to executives or employees upon close of the transaction.
- **Retention arrangements:** Management indicated that executives and key employees have no retention agreements.
- Client may wish to consider retention packages for those in management roles and to put in place employment agreements to mitigate flight risks and potential loss of market relationship and operational knowledge.
- **Sign in bonus:** 2 executives received in 2021 sign in bonus in the amount of $50,000 each.
- **Stockholders (executives):** Management has indicated that executives hold stocks of the Company and is expected to receive a material cash out upon close of the transaction. Client may consider to use retention mechanisms through the purchase agreement to avoid loss of knowledge or relationship during the transition phase.

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Short term incentive plan and commission

Short Incentive Plan Terms

Annual Bonus

- The Company grants an annual bonus to all eligible employees and target bonus vary from 6% - 50% depending on the job level. The metrics are determined on 3 levels: corporate, business unit, and individual. The compensation committee approves the STIP from the previous year's performance prior to payment in March.

Commission Plans

- There are 4 commission plans granted to eligible employees as follows:
- **FY2022 Mortgage Specialist Variable Compensation Plan:** Eligible for Mortgage Specialists. The plan includes annual and quarterly incentive bonuses comprised of the following components: (i) Management by Objectives (target incentive is $5,000, paid out annually, (ii) Funded Volume Commission: based on the Mortgage Specialist's monthly unit funded volume and paid out on a quarterly basis depending on the number of deals funded per month.
- **FY2022 Inside Sales Variable Compensation Plan:** Inside Sales employees are eligible to participate which has an annual incentive bonus target of up to $20,000.

Commission Plans (continued)

- **FY2022 Business Development Manager Variable Compensation Plan:** Business Development Managers (BDM) are eligible to participate; the plan has an annual incentive bonus target of up to $30,000.
- **FY2022 Sales Director Variable Compensation Plan:** Director of Sales are eligible to participate; the plan has an annual incentive bonus target of up to $35,000.
- All commission plans have goals including: (i) management by objectives, (ii) classic funded model and (iii) accelerator for funded volume commission. The metrics vary depending on the position.

The table below demonstrates the annual incentive payout variations historically paid in 2019, 2020, 2021, and an estimate for 2022.

Summary | Annual incentive payouts

Performance year	2019		2020		2021		2022	
Corporate scorecard	121%		150%		162%		Estimated at Target	
Plan	**HC**	**Actual payout ($)**	**HC**	**Actual payout ($)**	**HC**	**Actual payout ($)**	**HC**	**Actual payout ($)**
Executive	36	3,568,527	42	4,710,151	41	5,062,381	49	4,378,150
Non-executive	702	6,950,661	696	7,690,056	695	8,527,262	844	7,518,940
Sales commission plan		321,816		473,397		722,991		867,000
Total	**738**	**10,841,004**	**738**	**12,873,604**	**736**	**14,312,634**	**893**	**12,764,090**

Source: Analysis of data room documents. VDR reference 7.11.2

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Long term incentive plans

Equity Compensation

- The Company offers to executives and certain employees equity compensation in the form of stock options, restricted stock units (RSU), performance share unit (PSU).
- The Board has the discretion to decide on eligibility, and grant amounts. The equity compensation plan is granted annually, after the performance review and is distributed in March of the following performance year.
- The equity award plans allow Client to substitute the current plan with a new one and transfer the current outstanding awards, the plans also determine that the board has the discretion to accelerate the vesting of the awards upon change of control. Management has indicated that all outstanding awards will vest upon the close of the proposed transaction.

Equity Compensation (continued)

- ***Stock options:*** the CEO and EVPs are eligible for stock options which have vesting period of 4 years (25% each year starting in the 1st anniversary of the grant). As off October 2022 there were10 executives holding 633,970 outstanding options. From this total 265,433 are "out-of-money". Based on the Company's stock price of October 25, 2022 the estimate cash-out of the "in-the-money" options is $3.1 million.
- ***Performance Stock Units (PSU)***: The CEO and EVPs are eligible for PSUs which vest 3 years after the performance period. The performance is based out of ROE (Return on Equity) and stock price compared to public peers. As of October 2022 there were 5 executives holding 142,736 PSUs. Based on the Company's stock price of October 25, 2022, the estimated cash-out of the outstanding PSUs is $3.4 million.
- **Restricted Stock Units (RSUs):** The SVPs, VPs and other employees per discretion of the board, are entitled to RSUs which vest in 3 years after grant. As of October 2022 there were 103 people holding 113,113 RSUs. Based on the Company's stock price of October 25, 2022, the estimated cash-out of the outstanding RSUs is $2.7 million.

Intrinsic value of outstanding equity-based compensation (at $24.17 per share)

			# outstanding as of 10/17/2022			Intrinsic value ($m)		
Equity type	# of employees	Weight-Avg Exec. Price	Vested	Unvested	Total	Vested	Unvested	Total
Options								
In-the-money		15.80	330,539	37,998	368,537	2.8	0.3	3.1
Out-of-the-money		33.29	61,009	204,424	265,433	-	-	-
Subtotal options	10	23.12	391,548	242,422	633,970	2.8	0.3	3.1
Restricted stock	103	*n.a.*	-	113,133	113,133	-	2.7	2.7
Performance share units	5	*n.a.*	-	142,736	142,736	-	3.4	3.4
Total			**391,548**	**498,291**	**889,839**	**2.8**	**6.4**	**9.2**

Source: Analysis of data room documents, VDR ref. 7.11.1 Equity-Based Awards

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Benefits

Employee Benefits

The Company provides a comprehensive employee benefits plan including, medical, dental, and vision insurance, STD, LTD life insurance and defined contribution plans (RRSP) and ESPP with employer match.

- *Health and Dental:* The Company offers three options for health and dental plans to all employees. For the Basic and Comprehensive plans, the monthly premium is fully paid by the Company, for the Enhanced plan the Company pays 70% of he monthly premium.
- *Other Insured Benefits:* The life insurance, AD&D and Long Term Disability (LTD) monthly premiums are paid by the employees. For Short Term Disability (STD) and dependent life insurance is paid by employer.
- *Defined Contribution Plan:* The Company sponsors a GRSP plan for all full-time employees after 6 months of service. The Company will match up to 3% of the salary contribution against the member-required contribution. After 8 years of service, the match increases to 4%. The plan's participation rate is ~60% of eligible employees. The historical GRSP cost was $1.3 million, $1.4 million, and $1.1 million for FY 20, FY21, and YTD Sep-22, respectively.
- *Employee Share Purchase Plan (ESPP):* All full-time employees are eligible to participate in the ESPP after 6 months of service. The employees are eligible to contribute up to 10% of their base salary to the ESPP and receive a 50% employer match. The plan's participation is ~50% of eligible employees.

Post-Retirement Benefits

- There are 7 retirees who are receiving post-retirement benefits as a special arrangement with the Company. The plan is not funded, and the cost is considered as part of the current Manulife Group benefit plan. Benefit to the retirees include health, dental and EAP (employee assist program). Management considers the financial impact to be immaterial.
- Client might want to consider the liability associated with the retirement benefits as debt-like.

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Tax supporting analysis

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General tax compliance overview (1/2)

Status of tax years

- The following chart illustrates the status of open tax years and tax audits of Target:

Compliance status and audit history						
Period ending	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Home Capital Group						
Federal income tax						
Provincial income tax						
Sales tax						
Payroll tax						
Compliance status and audit history						
Period ending	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Home Trust Company						
Federal income tax						
Provincial income tax						
Sales tax						
Payroll tax						
Compliance status and audit history						
Period ending	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Home Bank						
Federal income tax						
Provincial income tax						
Sales tax						
Payroll tax						

Source: Based on year end date and Management representations

	open year - not audited		normally closed year - not audited
	open year - audited		normally closed year - audited
	currently under audit		not applicable

Tax compliance status

- Target's federal and provincial tax returns will, in general terms and subject to certain exceptions noted below, become statute-barred 4 years from the mailing date of the original Notice of Assessment ("**NOA**") ("normally closed"). Transactions with a non-arm's length non-resident ("International transactions"), e.g., transfer pricing, are normally open for additional 3 years.
- Taxation authorities may re-open a taxation year normally closed in circumstances in which the taxpayer has made misrepresentations that are attributable to neglect, carelessness, or willful default or has committed any fraud in filing the return for the year.
- We have not received NOAs for HCG, HTC, and HB for FY16 to FY18 and HTC for FY21. However, based on the general timing of receiving NOAs (generally around 9 months from the date of the taxpayer's year-end), it is anticipated that FY18 onwards are generally open for reassessment.
- Sales tax returns become normally closed 4 years after the later of the day the sales tax returns are filed and the day such returns are due to be filed.
- Payroll tax returns for CPP contributions become normally closed 4 years from the end of the calendar year and payroll tax returns for EI premiums become normally closed 3 years from the end of the calendar year.
- A taxation year that has been audited may still be adjusted if the adjustments fall within the above time limits or a waiver has been signed, extending the normal reassessment period.
- Management represented that waivers have been signed to extend the normal reassessment period for HTC's FY16 and FY17 federal and provincial income tax returns.
- Management represented all Target entities have been, and continue to be, in compliance with tax filings, instalment payments and remittances

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General tax compliance overview (2/2)

Third party tax advisory

- Management represented that the compliance roles and responsibilities as they pertain to tax are as follows:

Tax compliance - roles and responsibilities		
	Internal responsibility	External advisor
Corporate tax compliance	✓	✓ EY Canada
Payroll tax	✓	✓ Shareworks
Indirect tax compliance	✓	×

Source: Responses from Management

Note: ✓ × = Involved / No involvement

Tax audits

- HTC was subject to a GST/HST audit for the period January 1, 2017 – December 31, 2017, for which a waiver was signed to extend the normal reassessment period. Management represented that the audit was completed with immaterial adjustments.
- HTC is currently under audit for the period January 1, 2015 – December 31, 2017, relating to their schedule 5 provincial allocation of income, for which waivers were signed to extend the normal reassessment period. Management represented that if the CRA were to reassess the income allocation, the tax impact resulting from changes to the effective tax rate are expected to be minimal (see Key tax findings).
- HTC was audited for the period January 1, 2015 – December 31, 2016, relating to the tax treatment of software development costs, for which a waiver was signed to extend the normal reassessment period. Management represented that the audit was completed and the return was refiled.
- HTC is currently under audit for the period January 1, 2016 – December 31, 2017, relating to the tax treatment of software development costs, for which a waiver was signed to extend the normal reassessment period. Management opposes the CRA's proposed audit adjustment to disallow a $98 million deduction for the closing reserve balance of capitalized development costs. Should the CRA proceed with a reassessment based on the proposed audit adjustment, Management will file an objection and expects to prevail.
- Management represented that Target has not been subject to any income tax, sales tax, or payroll tax audits in open taxation years, other than the audits mentioned above.

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Appendix

1. Engagement letter procedures
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9. Loan portfolio
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Engagement letter procedures (1/3)

SCOPE OF WORK

Financial Due Diligence

Unless otherwise noted, our work will be undertaken on information prepared by and provided to us by management and will concentrate on the fiscal years ended December 31, 2020, 2021 and the most recent trailing twelve months for FY22 period ("FY20", "FY21" and "TTM June-22") for Home Capital Group Inc. ("Target").

1. **Financial overview –** Summarize and comment on the key headline numbers of Target:
   a. Key indicators of financial performance for Mortgage and Credit Card and Lines of Credit portfolios (including net interest margin, efficiency ratio, return on average assets, provision as a percentage of gross loans, net write-off as a percentage of gross loans, etc.);
   b. Income statement and balance sheet, and reconciliation to audited financial statements;
   c. Length of relationships with key brokers;
   d. Management's assessment of COVID impact;
   e. Understand the related party transactions
   f. Recent or contemplated changes in accounting principles, procedures, or estimates or changes in methodology for provision of credit losses; and
   g. Information obtained during the diligence process.
2. **Quality of earnings/net income –** Evaluate the financial information by key business units and consider other potential adjustments to historical net income identified in the course of diligence, including the impact of:
   a. Trajectory and growth in different portfolio (e.g. Residential Mortgage, Commercial Mortgage, Credit Card and Lines of Credit, etc.)
   b. Public company costs;
   c. Digitalization costs;
   d. Research and development cost consideration on technology and infrastructure;
   e. Pro forma impact of historical acquisitions and disposal of loan portfolio;
   f. Impact on income of discontinuing the NHA-MBS securitization business;
   g. Any other recent changes to the run-rate level of net income;
   h. Significant accounting policies, management estimates or adjusting entries on reported results; and
   i. Other supporting analysis to quality of earnings.
3. **Operating expenses** – Obtain and read an analysis of Target's operating expenses and inquire about:
   a. Employee costs: headcount and staff compensation (salary, payroll tax, bonus, pensions, other benefits, key contractual terms), and any capitalization of such costs;
   b. Stock options: consider the impact of stock options and other non-cash incentive tools used;
   c. Commissions, finders' fees, securitization transaction costs, etc.;
   d. Infrastructure and other technology direct expenses;
   e. Research and development expenses and the related capitalization;
   f. Marketing and business development expenses;
   g. Shared services cost allocations and description of services rendered, including allocation of costs within internal line of business management reporting, if applicable;
   h. General and administration costs, including allocation of costs within internal line of business management reporting; and
   i. Unusual and extraordinary items.
4. **Balance sheet -** Obtain and read analysis of Target's historical balance sheet items and comment on:
   a. Securities;
   b. Loans Held for Sale;
   c. Restricted assets;
   d. Derivative assets;
   e. Securitization assets;
   f. Other assets;
   g. Deposits by category;
   h. Securitization liabilities; and
   i. Other liabilities.
5. **Commitments and contingencies –** Inquire about significant commitments and contingent liabilities including:
   a. Pending or threatened litigation or regulatory investigations;
   b. Lease commitments;
   c. Purchase commitments, rebates;
   d. Incentive compensation and employee benefit obligations; and
   e. Off-balance sheet liabilities;

Credit Risk Due Diligence

1. Obtain the loan tapes and summarize the Target's loan portfolio (e.g. maturity, delinquency, credit loss, recovery rate, COVID impact, etc.) as at December 31, 2020, December 31, 2021 and June 30, 2022.
2. Highlight any key observations on the loan portfolio.
3. Assess the reasonability of provisions and collective allowance for the loan portfolio. This includes review of the ECL methodology, key inputs and assumptions and use of management overlays.

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Engagement letter procedures (2/3)

Human Resources Due Diligence

1. **Data room:** Read data room documents and inquire about the Target's workforce (permanent, contingent, exempt, non-exempt, D&I metrics) HR infrastructure, compensation and employee benefit programs, and workforce trends.
2. **Management Discussion:** Hold discussions with representatives at the target with knowledge of the HR platform, including workforce, compensation and employee benefit platforms from both a design and cost perspective.
3. **Compensation and benefit plans:** Inquire about compensation structures (in the major countries) and most significant employee benefits (significant in cost and/or value).
   a) Quality of Earnings: Inquire about potential quality of earnings adjustments and run rate considerations affecting key employee benefit and compensation programs (e.g., defined benefit-type plans, defined contribution, health & welfare, bonus, equity-based plans, minimum wage, etc.).
   b) Debt-like Items: Obtain supporting analysis from Target and provide observations on balance sheet liabilities for key employee benefit and compensation plan obligations (e.g., defined benefit-type plans, PTO, ST / LT incentive compensation, self-funded group health insurance, LTD, etc.).
   c) High-level review of potential COVID-19 related run rate cost impacts on employee benefits / compensation, including from any potential relief the Target currently is (or is planning to) utilize.
4. **Management Compensation** - Transaction / CIC-Related Payments: Read documents relating to employment, transaction/ retention, CIC-related agreements, performance bonuses, deferred compensation, equity-based compensation, and nonqualified arrangements and comment on contractual transaction related obligations, adverse tax implications, and retention issues that may be triggered due to the transaction to the extent identified.
   a) Comment on historical annual fair value of equity-based programs in aggregate for each of the last 3-5 years – split by management (or those expected to receive equity in Client, as identified by you) and all others, if available, for planning / replacement purposes.
   b) Obtain support for total intrinsic value of outstanding equity-based compensation (including number of shares granted and historically reported values), and comment on the range of potential available tax deduction at Close, before potential tax deduction limitations.
5. **HR & Talent Considerations:**
   a) Inquire about current and historical labor relations issues and outstanding labor disputes.
   b) Inquire about the severance arrangements and policies in place.
   c) Comment on the HR structure and services in place across the business.
   d) Inquire about retention plans in place to retain critical individuals and critical vacant roles including mitigating actions, to identify any issues post close.

Note that KPMG does not interpret or provide legal advice.

Tax Due Diligence

We will carry out due diligence with respect to corporate, employment and indirect tax matters in accordance with the scope set out below.

We will report our material findings to you on a regular and on-going basis (verbally or through email correspondence) as the due diligence process progresses and will set out our conclusions in a written tax due diligence report.
Tax due diligence procedures will be performed with respect to the company and its subsidiaries ("Target").

Unless otherwise specifically noted below, our scope of work will be restricted to the periods FY19 to FY21, and year-to-date ("YTD") FY22 (hereinafter termed as "period under investigation "). References to accounts and associated data are for these periods.

Due diligence procedures will be undertaken through discussions with management, and where applicable, Target's tax advisors, and through reading limited documents as described below.

1. **Corporate income tax**
   a) Obtain and read Canadian corporate tax returns for the period under investigation filed by Target including legal entity financial statements, supporting work papers, and other relevant information, as made available to us.
   b) Obtain and read copies of correspondence received from tax authorities for the period under investigation including the most current statements of account, notices of assessment/reassessment, and audit information requests, as made available to us.
   c) Obtain and read schedules of tax basis of significant assets of Target and unused loss carry overs by jurisdiction (if any), including date of expiration and applicable restrictions on use.
   d) Consider implications of an acquisition of control of Target on the availability of unused losses, and tax basis of material assets.
   e) Obtain and read correspondence from internal and external tax advisors with respect to tax matters, including acquisitions, restructurings, and tax strategies, as made available to us.
   f) Obtain and read the applications prepared or filed by Target and supporting documentation with regards to any COVID related tax subsidies or incentives received.
   g) Inquire with Target management and/or their tax advisors about:
      — Overview of business operations;
      — Structuring of significant transactions in the period under investigation (including strategies, acquisitions, dispositions, and reorganizations) and tax treatmentthereof;
      — Structuring of financing arrangements (including use of financing vehicles, derivatives, etc.);
      — Tax planning profile/strategies implemented, and benefits obtained;

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Engagement letter procedures (3/3)

- Results of tax audits in the period under investigation including jurisdictions subject to audit, quantum of known or proposed audit adjustments and, status of current/pending audits (income tax);
- Historical tax positions taken including the quantum of tax reserves included in the financial statements and the basis for those reserves;
- Quantum of non-arm's length transactions in the period under investigation including basis of pricing/valuation, type of transaction and documentation available to support the transaction;
- Overview of tax function and compliance processes, including internal procedures related to tax compliance and the extent to which Target relies on outside advisors for tax advice, planning, and preparation;
- Nature of systems to ensure compliance with tax laws (in applicable jurisdictions including income, sales tax, and payroll); and
- Activities conducted outside of Canada, if any, which may create presence for a permanent establishment or other legal presence of the Target, as applicable.

2. Indirect tax

a) Inquire with Target management and/or their tax advisors about:

- Target's indirect tax (sales tax) compliance status, including internal procedures related to indirect tax compliance;
- Indirect tax status of Target's revenue, e.g., taxable/non-taxable supplies and recovery of input tax credits; and
- Completion of tax compliance/reporting specific to financial institutions.

b) Obtain and read a sample (e.g., 1 per month) of GST/HST/QST/PST returns and remittances for the past 6 months and supporting working papers.

c) Obtain and read indirect tax correspondence with tax advisors, auditors and/or tax authorities for the period under investigation, including finalized, on-going and/or pending indirect tax audits or indirect tax rulings.

3. Employment taxes

a) Inquire with Target management and/or their tax advisors about:

- Target's payroll tax compliance status, including internal procedures related to payroll tax compliance, and reporting of benefits (non-taxable benefits, and employee stock option/equity-based plans);
- Payments to key employees that are contingent on closing of the transaction;
- Whether Target has been subject to payroll tax audits in the period under investigation;
- The nature and extent of use of individual independent contractors; and
- Compliance history for payroll tax.

b) Obtain and read details of equity-based compensation plans

Tax Structuring

- We will provide tax input with respect to the proposed acquisition structure (including financing), and possible combination with other business lines/entities or any other required pre-closing regulatory/legal reorganizations/divestitures.
- We will provide guidance on the acquisition of control rules and associated implications with respect to tax attributes.
- To the extent material structuring work is required in connection with the acquisition structure, we will prepare a tax step plan to document same and work with your legal counsel to ensure the proposed steps are appropriately documented and implemented.

Definitive Agreements

- We will work together with your legal counsel to review, and where appropriate/applicable, provide comments with respect to the definitive agreements in respect of the transaction (Arrangement Agreement, Plan of Arrangement, etc.).
- To the extent applicable, we will also review and provide input on any R&W Insurance Policy and the treatment of tax related items thereunder (exclusions, etc.).

Closing

- We will provide tax input with respect to closing of the Definitive Agreements (flow of funds, transaction expenses, etc.) and any applicable pre-closing reorganization, including discussions with you and your legal counsel regarding the proposed steps and will review any implementation documents from a tax perspective.

Any required post-closing work to be carried out in connection with the acquisition will form part of a separate engagement.

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Adjusted income statement

Adjusted IS	Income before income taxes, reported			Diligence adjustments			Diligence adjusted			Pro forma adjustments			Pro forma adjusted		
$'000	FY20	FY21	TTM Sep-22	FY20	FY21	TTM Sep-22	FY20	FY21	TTM Sep-22	FY20	FY21	TTM Sep-22	FY20	FY21	TTM Sep-22
Interest from loans	781,708	698,864	715,629	-	-	-	781,708	698,864	715,629	(17,844)	(5,325)	(2,786)	763,864	693,539	712,843
Other interest	9,901	4,456	12,157	-	-	-	9,901	4,456	12,157	-	-	-	9,901	4,456	12,157
Dividends from securities	1,032	772	908	-	-	-	1,032	772	908	-	-	-	1,032	772	908
Interest and fees on credit facilities	(9,497)	(5,339)	(14,474)	-	-	-	(9,497)	(5,339)	(14,474)	-	-	-	(9,497)	(5,339)	(14,474)
Interest on deposits	(328,427)	(230,259)	(305,292)	(53)	(53)	507	(328,481)	(230,312)	(304,785)	6,064	1,437	834	(322,417)	(228,875)	(303,951)
Net interest income non-securitized assets	454,716	468,494	408,927	(53)	(53)	507	454,663	468,441	409,434	(11,780)	(3,888)	(1,952)	442,883	464,553	407,482
Interest income from securitized loans and assets	94,922	85,136	118,184	-	-	-	94,922	85,136	118,184	-	-	-	94,922	85,136	118,184
Interest expense on securitization liabilities	(74,803)	(59,878)	(78,862)	-	-	-	(74,803)	(59,878)	(78,862)	-	-	-	(74,803)	(59,878)	(78,862)
Net interest income securitized loans and assets	20,119	25,258	39,321	-	-	-	20,119	25,258	39,321	-	-	-	20,119	25,258	39,321
Net interest income	474,835	493,752	448,248	(53)	(53)	507	474,782	493,699	448,756	(11,780)	(3,888)	(1,952)	463,002	489,811	446,804
Fees and other income	42,223	41,439	46,273	1,262	-	(1,885)	43,485	41,439	44,388	(407)	(62)	(56)	43,078	41,377	44,333
Securitization income	18,700	9,179	9,789	-	-	-	18,700	9,179	9,789	1,680	(124)	(31)	20,380	9,055	9,758
Net realized and unrealized gains (losses) on securities and loans	(980)	5,127	568	-	-	-	(980)	5,127	568	-	-	-	(980)	5,127	568
Net realized and unrealized (losses) gains on derivatives	1,142	(152)	(5,042)	-	-	-	1,142	(152)	(5,042)	-	-	-	1,142	(152)	(5,042)
Non-interest income	61,084	55,593	51,588	1,262	-	(1,885)	62,346	55,593	49,703	1,273	(186)	(87)	63,619	55,407	49,616
Revenue	535,919	549,345	499,836	1,209	(53)	(1,378)	537,128	549,292	498,458	(10,507)	(4,074)	(2,038)	526,621	545,218	496,420
Provision for credit losses	(34,066)	33,659	(9,969)	1,100	(1,100)	-	(32,966)	32,559	(9,969)	11,713	(4,760)	(1,570)	(21,253)	27,799	(11,539)
Other operating expenses	(159,207)	(134,345)	(145,387)	17,087	(187)	10,001	(142,120)	(134,533)	(135,386)	16,375	2,833	3,134	(125,745)	(131,700)	(132,252)
Salaries and benefits	(93,589)	(105,039)	(104,767)	1,605	3,129	5,010	(91,984)	(101,910)	(99,758)	1,016	1,012	1,080	(90,968)	(100,898)	(98,678)
Premises	(9,775)	(9,448)	(9,634)	-	-	-	(9,775)	(9,448)	(9,634)	-	-	-	(9,775)	(9,448)	(9,634)
Non-interest expenses	(262,571)	(248,832)	(259,788)	18,692	2,941	15,010	(243,879)	(245,891)	(244,778)	17,391	3,845	4,214	(226,487)	(242,046)	(240,564)
Current income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	**239,283**	**334,172**	**230,079**	**21,001**	**1,788**	**13,632**	**260,284**	**335,960**	**243,712**	**18,597**	**(4,988)**	**606**	**278,880**	**330,972**	**244,317**

Source: Management provided information; KPMG analysis

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Mortgage continuity schedule

Mortgage continuity			
$'000	FY20	FY21	TTM Sep-22
Single-family residential mortgages			
Balance at the beginning of the period	14,359,497	15,002,930	15,348,315
Originations[1]	5,175,364	7,453,315	8,286,009
Renewal of mortgages previously derecognized[2]	521,803	315,185	96,887
Scheduled payments and prepayments[3]	(353,348)	(509,801)	(480,860)
Discharges	(4,727,220)	(5,438,446)	(4,843,682)
Capitalization and amortization of fees and other	39,523	40,442	(37,238)
Sale of mortgages	(12,689)	(690,472)	(112,374)
Balance at the end of the period	15,002,930	16,173,153	18,257,057
Residential commercial mortgages			
Balance at the beginning of the period	589,671	369,973	335,083
Originations [1]	1,258,116	867,904	1,311,112
Renewal of mortgages previously derecognized [2]	45,638	293,387	236,619
Scheduled payments and prepayments [3]	(10,211)	(9,002)	(7,346)
Discharges	(388,428)	(305,138)	(426,142)
Capitalization and amortization of fees and other	9,968	2,923	28,844
Sale of mortgages	(1,134,781)	(736,807)	(1,081,711)
Balance at the end of the period	369,973	483,240	396,459
Non-residential commercial mortgages			
Balance at the beginning of the period	1,591,742	1,547,400	1,426,527
Originations [1]	517,121	539,276	772,500
Renewal of mortgages previously derecognized [2]	-	-	-
Scheduled payments and prepayments [3]	(67,154)	(29,941)	(27,035)
Discharges	(507,138)	(690,086)	(726,178)
Capitalization and amortization of fees and other	12,829	22,151	11,147
Sale of mortgages	-	-	-
Balance at the end of the period	1,547,400	1,388,800	1,456,961
Total mortgage lending [4]	**16,920,303**	**18,045,193**	**20,110,477**

Source: Company financial report, KPMG analysis

Notes:

1. *Represents mortgages that were advanced during the period and includes the gross amount of refinanced mortgages, as well as further draws on certain commercial mortgages.*
2. *Represents renewals of mortgages that were previously derecognized and included in the off-balance sheet portfolio. Upon renewal, the mortgages are recognized on the balance sheet.*
3. *Includes regularly scheduled principal payments and unscheduled partial payments.*
4. *Includes loans held for sale.*

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Customer lending continuity schedule

Consumer lending continuity			
$'000	FY20	FY21	TTM Sep-22
Credit card loans and lines of credit			
Balance at the beginning of the period	479,613	442,857	408,088
Advances and draw-downs	386,263	418,555	526,636
Repayments	(463,195)	(479,423)	(449,657)
Capitalization of interest and fees, and other	40,176	39,471	43,410
Ending balance	442,857	421,460	528,477
Other consumer retail loans			
Balance at the beginning of the period	299,943	109,465	36,826
Advances and draw-downs	24,264	-	-
Repayments	(156,053)	(94,227)	(26,231)
Sale of loan portfolios	(105,020)	-	-
Capitalization of interest and fees, and other	46,331	16,836	10,956
Ending balance	109,465	32,074	21,551
Total consumer lending [1]	**552,322**	**453,534**	**550,028**

Source: Company financial report, KPMG analysis
Note 1: Includes loans held for sale.

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Change in allowance for credit losses

Change in allowance for credit losses			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Single-family residential mortgages			
Balance at the beginning of the period	34,613	20,198	25,741
Provision for credit losses	(5,472)	(95)	615
Write-offs	(733)	(125)	(185)
Recoveries	42	60	54
Balance at the end of the period	28,450	20,038	26,225
Of which is securitized	197	1,240	1,869
Of which is non-securitized	28,253	18,798	24,356
Commercial mortgages [1]			
Balance at the beginning of the period	30,587	11,341	10,916
Provision for credit losses	1,904	1,673	2,735
Write-offs	(3)	(9)	(7)
Recoveries	107	13	-
Balance at the end of the period	32,595	13,018	13,644
Of which is securitized	44	-	-
Of which is non-securitized	32,551	-	-
Credit card loans and lines of credit			
Balance at the beginning of the period	3,467	1,535	2,313
Provision for credit losses	93	100	1,205
Write-offs	(492)	(254)	(416)
Recoveries	126	111	119
Balance at the end of the period	3,194	1,492	3,221
Other consumer retail loans			
Balance at the beginning of the period	9,339	2,601	1,194
Provision for credit losses	(4,264)	(685)	(185)
Write-offs	(9)	(9)	(2)
Recoveries	1,469	74	6
Balance at the end of the period	6,535	1,981	1,013
Allowance for credit losses, ending balance	**70,774**	**36,529**	**44,103**
Provision for credit losses	**(7,739)**	**993**	**4,370**

Source: Company financial report, KPMG analysis

Note 1: Commercial mortgages include both non-residential and residential commercial mortgages. Residential commercial mortgages include non-securitized multi-unit residential mortgages and commercial mortgages secured by residential properties.

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Off-balance sheet arrangements

Off-balance sheet arrangements			
	As at		
$'000	31-Dec-20	31-Dec-21	30-Sep-22
Future advances on mortgage loans			
Outstanding amounts for future advances on residential mortgages	764,061	1,124,269	775,472
Unutilized non-residential commercial loan advances	416,313	234,384	223,718
Outstanding future advances for the Equityline Visa portfolio	21,718	31,859	78,427
Total outstanding amount for future advances on mortgage loans	**1,202,092**	**1,390,512**	**1,077,617**
Unutilized credit card balances			
Unutilized credit card balances	532,116	534,558	600,994

Source: Company financial report, KPMG analysis

The Company offers credit products to meet the financial needs of its customers and has outstanding amounts for future advances on mortgages. These amounts include offers made but not yet accepted by the customer as of the reporting date. Offers for the loans remain open for various periods. Included within the outstanding amounts for future advances on mortgage loans are unutilized non-residential commercial loan advances and outstanding future advances for the Equityline Visa portfolio. Off-balance sheet arrangements also include unutilized credit card balances. The unutilized credit and offers to extend credit are in the normal course of business and are considered through the Company's liquidity and capital management processes.

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Summary of leases

Summary of leases

$'000	Start date	End date	Term (months)	Monthly rent per sq. ft ($)	Square feet	Monthly base rent	Annual base rent
1 200 Granville street, Vancouver, BC							
	1-Apr-14	31-Mar-19	60	3.58	2,618	9.4	113
	1-Apr-19	31-Mar-20	12	3.67	2,618	9.6	115
	1-Apr-20	31-Mar-21	12	3.75	2,618	9.8	118
	1-Apr-21	31-Mar-22	12	3.83	2,618	10.0	120
	1-Apr-22	31-Mar-23	12	3.92	2,618	10.3	123
	1-Apr-23	31-Mar-24	12	4.00	2,618	10.5	126
2 145 King street west, Toronto, ON							
Suite 1600	1-Mar-14	31-Dec-17	46	2.33	12,280	28.7	344
2000A	1-Dec-14	30-Jun-23	103	2.33	16,482	38.5	461
	1-Jul-23	30-Jun-25	24	2.46	16,482	40.5	486
	1-Jul-25	30-Jun-28	36	2.71	16,482	44.6	536
2000B	1-May-15	30-Jun-23	98	2.33	8,214	19.2	230
	1-Jul-23	30-Jun-25	24	2.46	8,214	20.2	242
	1-Jul-25	30-Jun-28	36	2.71	8,214	22.2	267
2300	1-Jul-13	30-Nov-15	29	1.92	25,233	48.4	580
	1-Dec-15	30-Jun-23	91	2.08	25,233	52.6	631
	1-Jul-23	30-Jun-25	24	2.46	25,233	62.0	744
	7-Jan-25	30-Jun-28	42	2.71	25,233	68.3	820
2400	1-Jul-13	30-Nov-15	29	1.92	25,233	48.4	580
	1-Dec-15	30-Jun-23	91	2.08	25,233	52.6	631
	1-Jul-23	30-Jun-25	24	2.46	25,233	62.0	744
	1-Jul-25	30-Jun-28	36	2.71	25,233	68.3	820
2500A	1-Jul-13	30-Jun-23	120	2.08	24,566	51.2	614
	1-Jul-23	30-Jun-25	24	2.46	24,566	60.4	725
	1-Jul-25	30-Jun-28	36	2.71	24,566	66.5	798
2500B	1-Jul-13	30-Jun-23	120	2.33	775	1.8	22
	1-Jul-23	30-Jun-25	24	2.46	775	1.9	23
	1-Jul-25	30-Jun-28	36	2.71	775	2.1	25
2600A	1-Jul-13	30-Nov-15	29	1.96	5,393	10.6	127
	1-Dec-15	30-Jun-23	91	2.08	5,393	11.2	135
	1-Jul-23	30-Jun-25	24	2.46	5,393	13.3	159
	1-Jul-25	30-Jun-28	36	2.71	5,393	14.6	175
2600B/2600C	1-Jul-13	30-Jun-23	120	2.08	19,988	41.6	500
	1-Jul-23	30-Jun-25	24	2.46	19,988	49.1	590
	1-Jul-25	30-Jun-28	36	2.71	19,988	54.1	650
Storage 116	1-Jul-13	30-Jun-23	120	2.50	395	1.0	12
	1-Jul-23	30-Jun-28	60	2.67	395	1.1	13
Storage 205	1-Jul-13	31-Dec-17	54	2.50	223	0.6	7
	1-Jul-23	30-Jun-28	60	2.67	223	0.6	7
Storage 2030	1-Dec-14	30-Jun-23	103	2.50	587	1.5	18
	1-Jul-23	30-Jun-28	60	2.67	587	1.6	19
16th floor	1-Nov-13	31-Dec-17	50	*n.a.*	12,286	-	-
Additional area - unit 12	1-Jan-15	31-Jan-15	1	4.17	1,765	7.4	88
Additional area - unit 12	1-Feb-15	31-Jan-20	60	4.17	1,896	7.9	95

Summary of leases (continued)

$'000	Start date	End date	Term (months)	Monthly rent per sq. ft ($)	Square feet	Monthly base rent	Annual base rent
3 10 Ave S.W., Calgary, Alberta							
	1-Jan-15	31-Dec-16	24	2.92	5,000	14.6	175
	1-Jan-17	31-Dec-19	36	3.00	5,000	15.0	180
	1-Jan-20	31-Dec-24	60	3.17	5,000	15.8	190
Additional rent				1.25	5,000	6.2	75
4 1949 Upper water street, Halifax, Nova Scotia							
	1-Nov-15	31-Oct-20	60	1.33	4,510	6.0	72
	1-Nov-20	30-Apr-21	6	-	4,510	-	-
	1-May-21	31-Oct-25	54	1.33	4,510	6.0	72
5 340 Ferrier street, Markham, ON							
	1-Sep-21	31-Aug-26	60	1.00	1,960	2.0	24
Operating cost	1-Sep-21	31-Aug-26	60	1.08	1,960	2.1	25
6 2020 University street, Montreal, QC							
	1-Feb-09	31-Mar-14	62	1.42	2,506	3.6	43
	1-Apr-14	31-Oct-14	7	1.50	2,635	4.0	47
	1-Nov-14	31-Dec-15	14	1.50	3,476	5.2	63
	1-Jan-15	31-Mar-19	51	1.50	3,529	5.3	64
	1-Apr-19	31-Mar-24	60	1.67	3,529	5.9	71
Electric	1-Feb-09	31-Mar-19		0.09	2,365	0.2	3

Source: Item #115 leases, KPMG analysis

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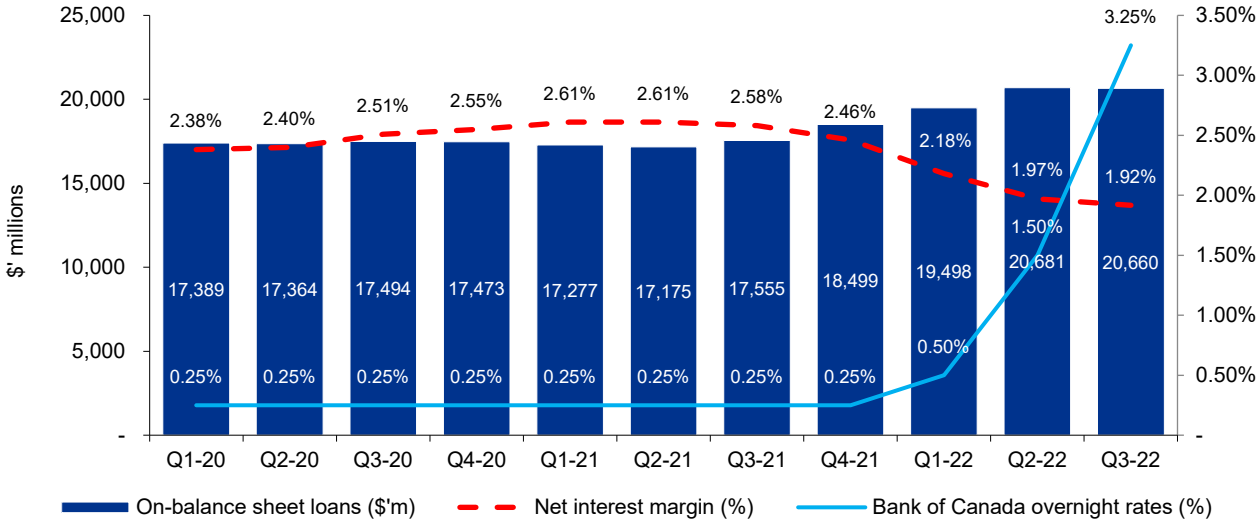
Net interest margin

Net interest margin



Source: Management provided information, KPMG analysis

Net interest margin

- The Company's loan portfolio experienced growth from Q2-21 to Q2-22, but remained consistent in the most recent quarter (i.e. Q3-22) due to lower originations. Net interest margin was in decline during the same period, as the rising interest rates on deposits outpaced the interest rates earned on mortgage assets. In response to the volatility in the net interest margin, Management represents that the Company has increased interest rates on its mortgages during FY22. Management expects the resulting improvement to net interest margin will become evident over time.

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Loan portfolio

Loans under administration	As at			As a % of total		
$'000	31-Dec-20	31-Dec-21	30-Sep-22	31-Dec-20	31-Dec-21	30-Sep-22
CMHC-sponsored securitized single-family residential mortgages	2,729,702	2,882,618	3,039,263	*11.9%*	*11.9%*	*11.3%*
CMHC-sponsored securitized multi-unit residential mortgages	2,235	-	-	*0.0%*	-	-
Other securitization single-family residential mortgages	187,558	803,240	1,462,062	*0.8%*	*3.3%*	*5.5%*
Securitized mortgages	2,919,495	3,685,858	4,501,325	*12.7%*	*15.3%*	*16.8%*
Classic single-family residential mortgages	11,080,673	11,812,521	12,885,331	*48.3%*	*48.9%*	*48.1%*
Accelerator single-family residential mortgages	1,004,997	674,774	871,249	*4.4%*	*2.8%*	*3.3%*
Residential commercial mortgages	362,566	413,315	328,623	*1.6%*	*1.7%*	*1.2%*
Non-residential commercial mortgages	1,547,400	1,388,800	1,456,040	*6.7%*	*5.7%*	*5.4%*
Credit card loans and lines of credit	442,857	421,460	528,477	*1.9%*	*1.7%*	*2.0%*
Other consumer retail loans	109,465	32,074	21,551	*0.5%*	*0.1%*	*0.1%*
Non-securitized mortgages and loans	14,547,958	14,742,944	16,091,271	*63.4%*	*61.0%*	*60.1%*
Loan portfolio	17,467,453	18,428,802	20,592,596	*76.1%*	*76.3%*	*76.9%*
Loans held for sale	5,172	69,925	67,837	*0.0%*	*0.3%*	*0.3%*
On-balance sheet loans	17,472,625	18,498,727	20,660,433	*76.1%*	*76.6%*	*77.1%*
Single-family residential mortgages	644,049	746,381	653,167	*2.8%*	*3.1%*	*2.4%*
Multi-unit residential mortgages	4,834,518	4,909,098	5,481,976	*21.1%*	*20.3%*	*20.5%*
Off-balance sheet loans	5,478,567	5,655,479	6,135,143	*23.9%*	*23.4%*	*22.9%*
Total loans under administration	**22,951,192**	**24,154,206**	**26,795,576**	***100.0%***	***100.0%***	***100.0%***

Source: Company financial report, KPMG analysis

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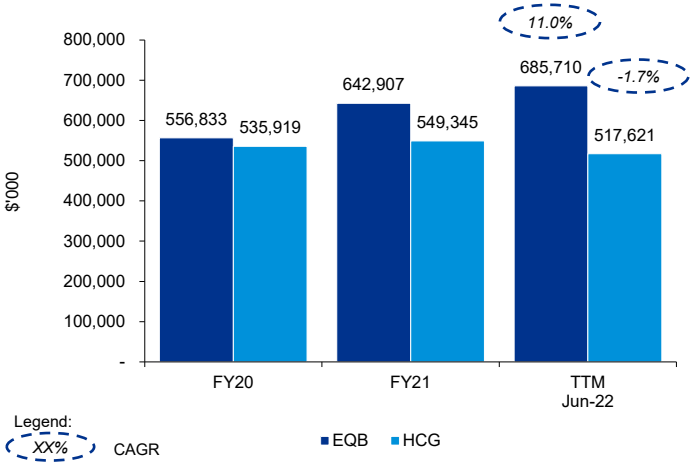
EQB vs. HCG benchmarking (1/4) - *Financial highlights*

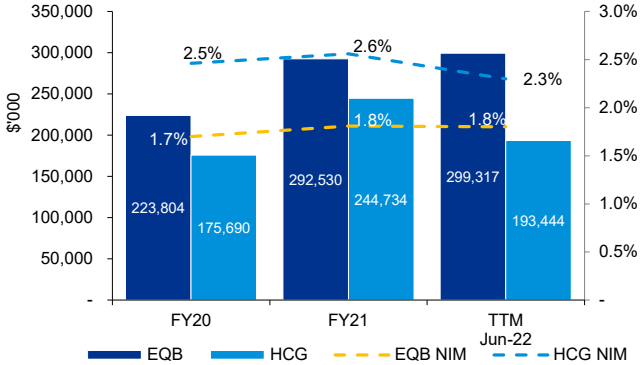
EQB's revenue has grown at a faster rate with lower efficiency ratio as compared to HCG over the historical period. However, HCG has maintained higher net interest margins up to Q2-22.

Revenue



Source: Company financial reports, KPMG analysis

Net income



Source: Company financial reports, KPMG analysis

EQB vs. HCG benchmarking

	FY20		FY21		TTM Jun-22	
$'000	**EQB**	**HCG**	**EQB**	**HCG**	**EQB**	**HCG**
Revenue	556,833	535,919	642,907	549,345	685,710	517,621
Non-interest expenses	(214,060)	(262,571)	(260,176)	(248,832)	(291,078)	(252,221)
Net income	223,804	175,690	292,530	244,734	299,317	193,444
NIM (%)	*1.70%*	*2.46%*	*1.81%*	*2.56%*	*1.80%*	*2.30%*
LUA ($'m)	33,347	22,951	38,663	24,154	42,492	26,796
Efficiency ratio (%)	*38.40%*	*48.99%*	*41.00%*	*45.30%*	*47.70%*	*48.80%*
Leverage ratio (%)	*5.1%*	*7.8%*	*4.9%*	*7.2%*	*5.1%*	*6.5%*
ROE	*14.8%*	*10.5%*	*17.0%*	*15.1%*	*11.6%*	*10.9%*
CET1 ratio (%)	*15.3%*	*19.8%*	*13.3%*	*18.4%*	*13.5%*	*16.3%*
Full-time employee (FTE)'	890	755	1,036	778	1,247	819

Source: Company financial report, KPMG analysis
.Note 1: Headcount numbers represent period average. YTD Jun-22 average headcount was used as proxy for TTM Jun-22, as the information was not readily available for both EQB and HCG.

Refer to the next 3 pages for additional details. Please note that NIM by product is not readily available for TTM Jun-22 through Company financial reports, therefore YTD Jun-22 NIM is presented on page 98.

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EQB vs. HCG benchmarking (2/4) - *NIM*

Net interest income and margin | EQB

$'000	FY20 Average balance [2]	FY20 Revenue/ expenses	FY20 Average rate
Revenue			
Cash resources and securities	1,990,228	28,883	*1.45%*
Alternative single-family mortgages	11,313,808	532,981	*4.71%*
Prime single-family mortgages	7,417,506	155,678	*2.10%*
Credit cards and lines of credit	*n.a.*	*n.a.*	*n.a.*
Other consumer	*n.a.*	*n.a.*	*n.a.*
Decumulation loans / Reverse mortgages	48,939	2,206	*4.51%*
Personal loans	18,780,253	690,865	*3.68%*
Conventional commercial loans [1]	4,185,720	237,876	*5.68%*
Equipment leases	502,608	55,306	*11.00%*
Insured Multi-unit residential mortgages	3,866,261	108,735	*2.81%*
Commercial loans	8,554,589	401,917	*4.70%*
Other assets	*n.a.*	*n.a.*	*n.a.*
Total	29,325,070	1,121,665	*3.82%*
Expenses			
Deposits	(15,739,574)	(364,047)	*(2.31%)*
CMHC-sponsored securitization liabilities	*n.a.*	*n.a.*	*n.a.*
Securitization liabilities	(11,214,298)	(250,690)	*(2.24%)*
Secured backstop funding facility	-	(2,483)	*n.a.*
Other	(608,177)	(7,039)	*(1.16%)*
Total	(27,562,049)	(624,259)	*(2.26%)*
Net interest income and margin		**497,406**	***1.70%***

Net interest income and margin | HCG

$'000	FY20 Average balance [2]	FY20 Revenue/ expenses	FY20 Average rate
Revenue			
Cash resources and securities	1,167,862	10,933	*0.94%*
Classic single-family residential mortgages [3]	11,335,595	597,559	*5.27%*
Accelerator single-family residential mortgages [4]	3,559,188	96,602	*2.71%*
Credit cards and lines of credit	472,444	41,319	*8.75%*
Other consumer	212,026	17,844	*8.42%*
Decumulation loans / Reverse mortgages	*n.a.*	*n.a.*	*n.a.*
Personal loans	15,579,253	753,324	*4.84%*
Residential and non-residential commercial mortgages	2,037,216	119,944	*5.89%*
Equipment leases	*n.a.*	*n.a.*	*n.a.*
CMHC-sponsored securitized multi-unit residential mortgages	81,105	3,361	*4.14%*
Commercial loans	2,118,321	123,305	*5.82%*
Other assets	450,300	-	-
Average interest earning assets	19,315,736	887,562	*4.60%*
Expenses			
Deposits	(14,086,809)	(337,924)	*(2.40%)*
CMHC-sponsored securitization liabilities	(2,932,516)	(63,826)	*(2.18%)*
Securitization liabilities	(289,168)	(10,977)	*(3.80%)*
Secured backstop funding facility	*n.a.*	*n.a.*	*n.a.*
Other liabilities and shareholder's equity	(2,007,243)	*n.a.*	*n.a.*
Average interest bearing liabilities	(19,315,736)	(412,727)	*(2.14%)*
Net interest income and margin		**474,835**	***2.46%***

Source: Company financial report, KPMG analysis
.Note 1: EQB conventional commercial loans include: 1) Mortgages to corporate and small businesses, 2) Specialty financing loans, and 3) Construction loans.
Note 2: EQB average balances are calculated based on the daily average balances outstanding during the period, while HCG average is calculated with reference to opening and closing monthly asset and liability and shareholders' equity balances.
Note 3: This category includes: 1) Classic single-family residential mortgages, and 2) Mortgages securitized through other programs.
Note 4: This category includes: 1) Classic single-family residential mortgages, 2) CMHC-sponsored securitized single-family residential mortgages, and 3) Assets pledged as collateral for CMHC-sponsored securitization.

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EQB vs. HCG benchmarking (3/4) - *NIM*

Net interest income and margin | EQB	FY21		
$'000	Average balance [2]	Revenue/ expenses	Average rate
Revenue			
Cash resources and securities	2,007,703	23,983	*1.19%*
Alternative single-family mortgages	12,297,513	504,350	*4.10%*
Prime single-family mortgages	7,971,634	149,703	*1.88%*
Credit cards and lines of credit	*n.a.*	*n.a.*	*n.a.*
Other consumer	*n.a.*	*n.a.*	*n.a.*
Decumulation loans / Reverse mortgages	172,393	6,892	*4.00%*
Personal loans	20,441,540	660,945	*3.23%*
Conventional commercial loans [1]	4,988,293	259,325	*5.20%*
Equipment leases	621,733	62,167	*10.00%*
Insured Multi-unit residential mortgages	4,154,490	100,900	*2.43%*
Commercial loans	9,764,516	422,392	*4.33%*
Other assets	*n.a.*	*n.a.*	*n.a.*
Total	32,213,759	1,107,320	*3.44%*
Expenses			
Deposits	(18,481,560)	(307,684)	*(1.66%)*
CMHC-sponsored securitization liabilities	*n.a.*	*n.a.*	*n.a.*
Securitization liabilities	(11,804,162)	(214,535)	*(1.82%)*
Secured backstop funding facility	-	-	*n.a.*
Other	(488,957)	(2,492)	*(0.51%)*
Total	(30,774,679)	(524,711)	*(1.71%)*
Net interest income and margin		**582,609**	***1.81%***

Net interest income and margin | HCG	FY21		
$'000	Average balance [2]	Revenue/ expenses	Average rate
Revenue			
Cash resources and securities	1,090,652	5,228	*0.48%*
Classic single-family residential mortgages [3]	11,524,151	537,209	*4.66%*
Accelerator single-family residential mortgages [4]	3,793,271	90,690	*2.39%*
Credit cards and lines of credit	419,575	35,459	*8.45%*
Other consumer	58,075	5,325	*9.17%*
Decumulation loans / Reverse mortgages	*n.a.*	*n.a.*	*n.a.*
Personal loans	15,795,072	668,683	*4.23%*
Residential and non-residential commercial mortgages	1,909,757	115,290	*6.04%*
Equipment leases	*n.a.*	*n.a.*	*n.a.*
CMHC-sponsored securitized multi-unit residential mortgages	733	27	*3.68%*
Commercial loans	1,910,490	115,317	*6.04%*
Other assets	455,793	-	-
Average interest earning assets	19,252,007	789,228	*4.10%*
Expenses			
Deposits	(13,900,090)	(235,598)	*(1.69%)*
CMHC-sponsored securitization liabilities	(2,884,358)	(50,178)	*(1.74%)*
Securitization liabilities	(327,015)	(9,700)	*(2.97%)*
Secured backstop funding facility	*n.a.*	*n.a.*	*n.a.*
Other liabilities and shareholder's equity	(2,140,544)	*n.a.*	*n.a.*
Average interest bearing liabilities	(19,252,007)	(295,476)	*(1.53%)*
Net interest income and margin		**493,752**	***2.56%***

Source: Company financial report, KPMG analysis
.Note 1: EQB conventional commercial loans include: 1) Mortgages to corporate and small businesses, 2) Specialty financing loans, and 3) Construction loans.
Note 2: EQB average balances are calculated based on the daily average balances outstanding during the period, while HCG average is calculated with reference to opening and closing monthly asset and liability and shareholders' equity balances.
Note 3: This category includes: 1) Classic single-family residential mortgages, and 2) Mortgages securitized through other programs.
Note 4: This category includes: 1) Classic single-family residential mortgages, 2) CMHC-sponsored securitized single-family residential mortgages, and 3) Assets pledged as collateral for CMHC-sponsored securitization.

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EQB vs. HCG benchmarking (4/4) - *NIM*

Net interest income and margin | EQB	YTD Jun-22		
$'000	Average balance [2]	Revenue/ expenses	Average rate
Revenue			
Cash resources and securities	1,916,169	15,623	*1.63%*
Alternative single-family mortgages	15,297,042	289,142	*3.81%*
Prime single-family mortgages	7,507,455	67,069	*1.80%*
Credit cards and lines of credit	*n.a.*	*n.a.*	*n.a.*
Other consumer	*n.a.*	*n.a.*	*n.a.*
Decumulation loans / Reverse mortgages	378,653	8,399	*4.48%*
Personal loans	23,183,151	364,610	*3.18%*
Conventional commercial loans [1]	5,996,932	152,466	*5.12%*
Equipment leases	772,616	37,588	*9.81%*
Insured Multi-unit residential mortgages	4,417,189	59,232	*2.70%*
Commercial loans	11,186,737	249,286	*4.50%*
Other assets	*n.a.*	*n.a.*	*n.a.*
Total	36,286,057	629,519	*3.50%*
Expenses			
Deposits	(21,997,368)	(188,383)	*(1.73%)*
CMHC-sponsored securitization liabilities	*n.a.*	*n.a.*	*n.a.*
Securitization liabilities	(12,129,875)	(103,031)	*(1.71%)*
Secured backstop funding facility	-	-	*n.a.*
Other	(1,603,679)	(9,276)	*(1.17%)*
Total	(35,730,922)	(300,690)	*(1.69%)*
Net interest income and margin		**328,829**	***1.83%***

Net interest income and margin | HCG	YTD Jun-22		
$'000	Average balance [2]	Revenue/ expenses	Average rate
Revenue			
Cash resources and securities	1,112,481	4,767	*0.86%*
Classic single-family residential mortgages [3]	13,588,689	282,228	*4.15%*
Accelerator single-family residential mortgages [4]	3,673,435	40,759	*2.22%*
Credit cards and lines of credit	448,488	18,239	*8.13%*
Other consumer	28,105	909	*6.47%*
Decumulation loans / Reverse mortgages	*n.a.*	*n.a.*	*n.a.*
Personal loans	17,738,717	342,135	*3.86%*
Residential and non-residential commercial mortgages	1,965,119	55,094	*5.61%*
Equipment leases	*n.a.*	*n.a.*	*n.a.*
CMHC-sponsored securitized multi-unit residential mortgages	-	-	-
Commercial loans	1,965,119	55,094	*5.61%*
Other assets	454,327	-	-
Average interest earning assets	21,270,644	401,996	*3.78%*
Expenses			
Deposits	(15,052,545)	(143,557)	*(1.91%)*
CMHC-sponsored securitization liabilities	(2,919,616)	(22,252)	*(1.52%)*
Securitization liabilities	(1,305,367)	(15,902)	*(2.44%)*
Secured backstop funding facility	*n.a.*	*n.a.*	*n.a.*
Other liabilities and shareholder's equity	(1,993,116)	*n.a.*	*n.a.*
Average interest bearing liabilities	(21,270,644)	(181,711)	*(1.71%)*
Net interest income and margin		**220,285**	***2.07%***

Source: Company financial report, KPMG analysis
.Note 1: EQB conventional commercial loans include: 1) Mortgages to corporate and small businesses, 2) Specialty financing loans, and 3) Construction loans.
Note 2: EQB average balances are calculated based on the daily average balances outstanding during the period, while HCG average is calculated with reference to opening and closing monthly asset and liability and shareholders' equity balances.
Note 3: This category includes: 1) Classic single-family residential mortgages, and 2) Mortgages securitized through other programs.
Note 4: This category includes: 1) Classic single-family residential mortgages, 2) CMHC-sponsored securitized single-family residential mortgages, and 3) Assets pledged as collateral for CMHC-sponsored securitization.

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Management forecast analysis

Due to the SAVVYY impairment write off in Sep-22, the Company has missed the Q3-22 Management forecast and will have to generate net income of $45.5 million in Q4-22 to achieve the full year net income budget set at $162.5 million.

Management forecast | Income statement						
	Actual	Actual + Forecast	Variance	Forecast	Variance	Forecast
$'000	YTD Q3-22	FY22	YTD Q3-22 (A) vs FY22 (A+F)	Q4-22	Implied Q4-22 vs Q4-22 (F)	FY23
Net interest income non-sec. assets						
Interest from loans	548,622	762,259	213,637	218,473	4,836	1,061,544
Dividends from securities	708	970	262	273	11	1,092
Other interest	11,028	23,231	12,203	11,653	(550)	47,603
Net interest income non-sec. assets	560,358	786,460	226,102	230,399	4,297	1,110,239
Interest on deposits	(249,936)	(374,648)	(124,712)	(128,151)	(3,439)	(639,778)
Interest on borrowings	(13,724)	(21,423)	(7,699)	(7,616)	83	(12,276)
Net interest income non-sec. assets	296,699	390,389	93,690	94,632	942	458,185
Net interest income securitized assets						
Interest from securitized mortgages	94,141	132,750	38,609	38,025	(584)	176,738
Interest expense on securitization liabilities	(63,589)	(90,569)	(26,980)	(27,153)	(173)	(128,374)
Net interest income securitized assets	30,552	42,181	11,629	10,872	(757)	48,364
Net interest income	327,251	432,570	105,319	105,504	185	506,549
Non-interest income						
Mortgage fees less appraisal expenses	22,335	29,402	7,067	7,246	179	29,363
Credit card fees	10,467	14,657	4,190	4,077	(113)	15,818
Other income	2,732	4,351	1,619	1,279	(340)	6,489
Fees and other income	35,534	48,410	12,876	12,602	(274)	51,670
Securitization gains (loss) on mortgage-backed securities	27	89	62	46	(16)	317
Securitization gains (loss) on canadian mortgage bonds	7,719	11,377	3,658	2,992	(666)	9,027
Securitization income	7,746	11,466	3,720	3,038	(682)	9,344
Realized, unrealized gain (loss) on sale of loan portfolio	80	80	(0)	-	0	3,057
Net realized and unrealized gains or losses on derivatives	(5,166)	(5,717)	(551)	-	551	-
Non-interest income	38,194	54,239	16,045	15,640	(405)	64,071
Revenue	**365,445**	**486,809**	**121,364**	**121,144**	**(220)**	**570,620**
Provision for losses	(8,976)	(11,515)	(2,539)	(4,939)	(2,400)	(20,458)
Revenue after provision for losses	356,470	475,294	118,824	116,205	(2,619)	550,162
Non-interest expenses						
Salaries and staff benefits	(79,677)	(107,559)	(27,882)	(28,036)	(154)	(128,504)
Premises	(7,216)	(9,864)	(2,648)	(2,635)	13	(10,588)
General and administration	(111,195)	(137,565)	(26,370)	(35,473)	(9,103)	(140,558)
Non-interest expenses	(198,087)	(254,988)	(56,901)	(66,144)	(9,243)	(279,650)
Income before income taxes	158,383	220,306	61,923	50,061	(11,862)	270,512
Income taxes	(41,445)	(57,848)	(16,403)	(13,347)	3,056	(70,651)
Net income/(loss)	**116,938**	**162,458**	**45,520**	**36,714**	**(8,806)**	**199,861**

Source: 2.19.1 102422 Updated forecast - Washington, KPMG analysis
Note: YTD Q3-22 included one off pre-tax SAVVYY impairment loss of $9.4 million.

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Executive employment agreements

Employment agreements

		Cash compensation[1]						Est severance upon termination without cause or self-termination for Good Reason										
									Severance terms				Severance amounts					
$'000	Effective date	Base pay	Target bonus %	Target bonus $	Annual LTI	LTI $	Total	Good Reason [2]	Base (mos)	Target Bonus	Pro rated bonus[3]	Medical[4]	Base	Target bonus	Pro rated bonus[3]	Medical[4]	Pro rated equity[5]	Total
President & CEO	03-Aug-17	700	*100.0%*	700.0	175%	1,225	2,625	Yes	24	24	Yes	24	1,400	1,400	1,166	40	*n.q.*	4,006
CFO	01-Sep-17	425	*65.0%*	276.3	*105%*	446	1,148	Yes	18	No	Yes	18	638	-	230	30	*n.q.*	898
EVP, Digital & strategy	24-Jan-22	425	*65.0%*	276.3	*105.0%*	446	1,148	No	6	No	Yes	6	213	-	230	10	*n.q.*	453
CIO	01-Jan-18	370	*50.0%*	185.0	*85.0%*	315	870	Yes	12	No	Yes	12	370	-	154	20	*n.q.*	544
General counsel and corporate secretary	01-May-18	300	*50.0%*	150.0	*60.0%*	180	630	Yes	6	No	Yes	6	150	-	125	10	*n.q.*	285
EVP, Residencial lending and BD	02-Oct-17	300	*50.0%*	150.0	*30.0%*	90	540	No	10	No	Yes	10	250	-	125	17	*n.q.*	392
SVP, HR	11-Oct-17	270	*40.0%*	108.0	*60.0%*	162	540	No	10	No	Yes	12	225	-	90	20	*n.q.*	335
EVP, Underwriting	01-Nov-21	275	*40.0%*	110.0	*50.0%*	138	523	No	6	No	Yes	12	138	-	92	20	*n.q.*	250
SVP, Commercial real estate lending	09-Jul-19	250	*44.0%*	110.0	*55.0%*	138	498	No	12	No	No	12	250	-	-	20	*n.q.*	270
SVP, Internal audit	05-Nov-20	270	*35.0%*	94.5	*40.0%*	108	473	No	6	No	No	6	135	-	-	10	*n.q.*	145
Total (n=10)		**3,585**		**2,160**			**8,992**						**3,768**	**1,400**	**2,212**	**197**	**-**	**7,577**

Source: Analysis of data room documents. VDR Reference 7.5.3 Item #085

Notes:

1. *Reflects base pay compensation as provided in the Census file (VDR ref. 7.13.5.1).*
2. *For CEO, CFO, CIO and General Counsel and Corporate Secretary severance payments will be paid upon termination without Cause or self termination for Good reason by the executive. As such, "Good Reason" is defined as any reason resulting in constructive dismissal by executive's consent, considered as competent jurisdiction by court.*
3. *For executives eligible to receive prorated bonus as part of severance payments, we have assumed a pro-rata bonus will be paid with an assumed termination date of November 1, 2022.*
4. *Medical severance is assumed to be family coverage valued at $20,000 per head per year.*
5. *Management confirmed that equity will be accelerated and paid upon change in control. NQ represents "Non-quantifiable" which means further information and diligence is required to calculate the intrinsic value of equity awards upon change in control.*
6. *Per the terms of the agreement, if the executive's employment is terminated after one year of employment, then severance payment will be equal to six months of salary continuation plus an additional one month per year of service.*
7. *The executive was promoted to EVP Underwriting role effective January 19, 2022. The reflected severance payments are calculated basis the employment agreement of his prior role. We have requested but not yet received the updated employment agreement for the executive.*
8. *Per the terms of the agreement, the salary continuation period is mentioned as 12 months, however if the executive obtains alternative employment or becomes self employed during this salary continuation period, then the severance payments will reduce to 50% of remaining salary continuation payments in a lump sum form. For estimation purposes, we have assumed that executive will receive maximum salary continuation according to 12 months only.*
9. *The executive agreement indicates that in case of termination without cause the Company will provide a seance payment that is customary for executives at the employee level. As illustration we replicate the severance agreed between the Company and the EVP or Underwriting.*

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Headcount summary

Employee demographics as of October 6, 2022					
			Total	Per employee average	
Business unit name	Location	Headcount (active)[1,2,3]	Base pay ($'m)	Base pay ($'000)	Years of service[4]
Underwriting	Toronto	165	12.6	76	6.1
	Vancouver	9	0.7	75	4.0
	Montreal	9	0.7	76	5.8
	Calgary	8	0.6	70	3.8
	Halifax	7	0.6	80	11.1
Underwriting		**198**	**15.2**	**76**	**6.1**
Finance	Toronto	172	15.5	90	7.2
	Montreal	1	0.1	130	8.2
Finance		**173**	**15.6**	**90**	**7.2**
Information Technology	Toronto	141	17.0	121	5.6
	Calgary	3	0.3	116	4.2
Information Technology		**144**	**17.3**	**121**	**5.6**
Digital and Strategy, Deposits	Toronto	118	9.3	79	3.2
	Montreal	5	0.3	54	1.4
	Calgary	5	0.3	58	1.6
	Vancouver	3	0.2	53	2.7
	Toronto Oaken Branch	3	0.1	49	3.4
Digital and Strategy, Deposits		**134**	**10.2**	**76**	**3.0**
Residential Lending	Toronto	91	7.1	78	7.1
	Vancouver	3	0.3	84	2.0
	Montreal	3	0.3	89	2.0
	Calgary	1	0.1	90	4.0
	Halifax	1	0.1	93	0.3
Residential Lending		**99**	**7.9**	**79**	**6.7**
Corporate Compliance	Toronto	42	4.0	94	7.2
Corporate Compliance		**42**	**4.0**	**94**	**7.2**
Enterprise Risk Management	Toronto	27	3.7	137	6.8
Enterprise Risk Management		**27**	**3.7**	**137**	**6.8**
Human Resources	Toronto	17	1.8	106	4.8
Human Resources		**17**	**1.8**	**106**	**4.8**
Internal Audit	Toronto	13	1.7	128	4.5
Internal Audit		**13**	**1.7**	**128**	**4.5**
Commercial Lending	Toronto	9	1.2	133	3.0
Commercial Lending		**9**	**1.2**	**133**	**3.0**
Corporate	Toronto	1	0.7	700	5.2
Corporate		**1**	**0.7**	**700**	**5.2**
Total / Wtd. Avg.		**857**	**79.3**	**92**	**5.8**

Source: Analysis of data room documents. VDR reference 7.13.6.1

Notes:

1. *856 employees are Full-Time employees & one (1) is Part-Time employee*
2. *Excludes 39 employees on unpaid Leave of Absence. All employees are located in Toronto.*
3. *All active employees are located in Canada across the below mentioned locations: Toronto (796 FTEs), Montreal (18 FTEs), Calgary (17 FTEs), Vancouver (15 FTEs), Halifax (8 FTEs) and Toronto Oaken Branch (3 FTEs)*
4. *Years of service is calculated as of November 1, 2022*

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HR functions headcount

HR function as of October 6, 2022			
		Per employee average	
Department/ Title	Count	Base pay ($'000)	Years of service
Human Resources			
Senior Vice President, Human Resources	1	270	5.0
Director, Total Rewards and Workforce Analytics	1	180	5.2
Director, Talent Acquisition and Development	1	178	1.8
Director, Organizational Effectiveness & People Experience	1	155	4.7
Director, Learning and Development	1	140	4.0
Director, Organizational Effectiveness and Talent Management	1	134	4.3
Manager, Total Rewards and Workforce Analytics	1	105	4.7
HR Business Partner	2	98	2.8
Training Manager, Learning and Development	1	90	1.1
Technical Writer, Learning and Development	1	82	4.9
People Experience Specialist	1	60	1.4
Trainer, Contact Centre	2	51	1.5
Talent Acquisition Specialist	1	46	0.7
Total / Wtd. Avg.	15	116	3.1

Source: Analysis of data room documents. VDR reference 7.13.6.1

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Salary structure

Salary structure - 2022					
Pay grade	**Job level description**	**Min ($)**	**Mid ($)**	**Max ($)**	**Target STI**
L02	Administrator I	41,600	52,000	62,400	6%
L03	Administrator II	41,600	52,000	62,400	6%
L04	Technical Analyst	49,600	62,000	74,400	8%
L05	Technical / Functional Specialist	60,800	76,000	91,200	10%
L06	Manager	74,400	93,000	111,600	12%
L07	Senior Manager	88,000	110,000	132,000	15%
L08	Director - Functional Manager	104,800	131,000	157,200	17%
L09	Director - Manager of key / multiple functions	122,400	153,000	183,600	20%
E01	VPs	160,000	200,000	240,000	25%-50%

Source: Analysis of data room documents. VDR reference 7.7.3.1.
Note:
1. Minimum salary and maximum salary reflects 80% and 120% of the mid point of the salary range respectively.

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Executive outstanding equity

Outstanding equity based compensation - SVP and above (at $24.17 per share)								
	Outstanding awards[1]				Outstanding awards value ($'000)[1,2]			
Title	Stock Option[3]	PSU	RSU	Total	Stock Option[3]	PSU	RSU	Total
President and Chief Executive Officer[3]	339,328	63,915	-	403,243	1,764	1,545	-	3,309
Chief Financial Officer	91,604	24,308	-	115,912	414	588	-	1,002
Chief Information Officer	51,790	14,282	-	66,072	225	345	-	570
EVP, Residential Lending and Business Development	41,555	9,927	-	51,482	198	240	-	438
EVP Chief Risk Officer	40,765	9,866	-	50,631	199	238	-	437
General Counsel and Corporate Secretary	37,130	9,998	-	47,128	172	242	-	414
EVP, Digital and Strategy	14,470	7,981	-	22,451	-	193	-	193
EVP, Underwriting	4,458	2,459	5,724	12,641	-	59	138	197
SVP and Treasurer	-	-	9,282	9,282	-	-	224	224
SVP, Chief Compliance Officer and CAMLO	-	-	8,168	8,168	-	-	197	197
Senior Vice President, Human Resources	373	-	7,605	7,978	3	-	184	187
SVP, Commercial Real Estate Lending	-	-	6,984	6,984	-	-	169	169
SVP, Finance and Chief Accounting Officer	-	-	5,063	5,063	-	-	122	122
SVP, Internal Audit	-	-	4,543	4,543	-	-	110	110
SVP, Operations	-	-	4,278	4,278	-	-	103	103
SVP, Production and Portfolio Management	-	-	3,074	3,074	-	-	74	74
SVP, Applications Development	-	-	2,380	2,380	-	-	58	58
Total	**621,473**	**142,736**	**57,099**	**821,308**	**2,975**	**3,450**	**1,379**	**7,804**

Source: Analysis of data room documents, VDR ref. 7.15.1.1. SVP and up Equity

Note:

1. *Equity outstanding as of 10/25/2022*
2. *Illustrative outstanding equity value is calculated using stock price as of 10/26/2022 - $24.17. For stock options, outstanding equity value includes in-the money options only.*
3. *For President and Chief Executive Officer, stock options additionally include 27,096 non-qualified stock options.*

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Open positions

Open positions		
Job requisition	**Key role**	**Level**
Senior Continuous Improvement Analyst, Underwriting	Yes	L06
Director, Oaken Stores	Yes	L08
Senior Manager, Enterprise Integrations	Yes	L08
Director, Marketing Lines of Business	Yes	L08
Senior Manager, Operational & Non Financial Risk	Yes	L07
Senior Manager, Operational & Non Financial Risk	Yes	L07
HR Business Partner	Yes	L06
Front End Developer	Yes	L05
SAP Data Services & BW Developer	No	L06
Quality Control Analyst	No	L04
Senior Manager, Financial Operations	No	L07
Manager, Investor Relations	No	L06
Senior Financial Analyst, BU Finance Support	No	L06
Financial Analyst, Shareholder and Financial Reporting	No	L05
Underwriter, Small Commercial	No	L05
Commercial Mortgage Specialist	No	L03
Mortgage Funder	No	L03
Default Recovery Legal Specialist	No	L03
Deposit Administrator	No	L02
Senior Deposit Operations QC Specialist	No	L04
Command Centre Analyst	No	L04
Customer Care Specialist	No	L04
Customer Care Specialist	No	L04
Customer Care Specialist	No	L04
Customer Care Specialist	No	L04
Senior IT Engineer	No	L06
Residential Underwriter - Accelerator	No	L05
Enhanced KYC/Due Diligence Specialist	No	L04
Financial Analyst, Financial Operations	No	L05
Senior Mortgage Renewal Specialist	No	L03
Team Lead, Contact Centre	No	L04
Training and Quality Assurance Analyst	No	L03
Mortgage Funder	No	L03
Mortgage Officer (Regular and Bilingual)	No	L03

Source: 7.13.5.1 Item #127 Open Positions

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Tax information read and outstanding

Information Read

- Organizational chart
- FY19-FY21 T2s for HCG, HTC, and HB
- FY19-FY21 HCG financial statements and MD&A
- ss. 225.2(4) elections between HTC & HCG, HCG & HB, and HTC & HB
- ss. 10.1(1) election for HB and HTC
- GST27 election for HTC
- FY19-FY21 NOAs for HCG and HB
- FY19-FY20 NOAs for HTC
- Statements of account for HCG, HTC, and HB
- FY16 & FY17 HTC waivers
- FY18 Mortgage transfer and service agreement between HTC & HB
- FY20 Mortgage transfer and service agreement between HB & HTC (including amendment and waiver)
- July 1, 2022 – September 30, 2022 related party acknowledgement and report form
- FY17 HTC audit summary
- FY19-FY21 GST/HST/QST returns
- GST/HST/QST remittances for the past 6 months

Information Outstanding

- FY21 NOAs for HTC

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Glossary (1/2)

$ / CAD	Canadian dollars
$'000	Thousands of dollars
AASB	Auditing and Assurance Standards Board
ACB	Adjusted cost base
AOC	Acquisition of control
AD&D	Accidental death and dismemberment
Adj.	Adjustment
AFS	Audited financial statements
AOCI	Accumulated other comprehensive income
AUA	Assets under administration
BDM	Business Development Managers
BoC	Bank of Canada
BoD	Board of Directors
bps	Basis points
CCA	Capital cost allowance
CDIC	Canada Deposit Insurance Corporation
CDOR	Canadian dollar offered rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Client / You	Smith Financial Corporation
CMB	Canada Mortgage Bond
CMHC	Canada Mortgage and Housing Corporation
CoC	Change of control
COVID-19	Coronavirus disease
CPP	Canada pension plan
CRA	Canada Revenue Agency
CRM	Customer relationship management
DPD	Days past due
DTA	Deferred tax assets
ECL	Expected credit losses
EI	Employee Insurance
ELV	Equityline Visa, a home equity line of credit product
ERM	Enterprise Risk Management
ESPP	Employee Share Purchase Plan
EVP	Executive vice president
FDD	Financial due diligence
FLC	Fully loaded costs
FLI	Forward looking information
FMV	Fair market value
FS	Financial statements
FSA	Forward Sortation Area
FTE	Full time employee
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
FYXX	Fiscal year ended December 31, 20XX
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GIC	Guaranteed Investment Certificate
GRSP	Group Registered Retirement Savings Plan
GST	Goods and Services Tax
HB	Home Bank
HCG / Target / the Company	Home Capital Group
HELOC	Home equity line of credit
HR	Human resource

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DRAFT

Glossary (2/2)

HRIS	Human Resource Information System
HST	Harmonized Sales Tax
HTC	Home Trust Company
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ITA	Income Tax Act
ITC	Input Tax Credit
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LGD	Loss Given Default
LLP	Limited Liability Partnership
LOS	Loan origination system
LTI	Long term incentives
LTV	Loan to value (ratio expressed as a percentage)
LUA	Loans under administration
Management / Mgmt	Management of Target
MBS	Mortgage-Backed Securities
MD&A	Management's discussion and analysis
n.a.	Not applicable
n.q.	Not quantifiable
NCIB	Normal Course Issuer Bid
NHA	National Housing Act
NIACS	Net income available to common shareholders
NOA	Notice of Assessment
NOL	Non-Capital Losses
NPL	Net non-performing loans
OCI	Other comprehensive income
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions Canada
OTC	Over the counter
PCL	Provision for credit losses
PSU	Performance share unit
QofE	Quality of earnings
QoQ	Quarter over Quarter
QST	Quebec Sales Tax
QX	Quarter X
Repo	Repurchase obligation
RMBS	Residential mortgage-backed security
ROA	Return on assets
ROE	Return on equity
ROU	Right-of-use
RRSP	Registered retirement savings plan
RSU	Restricted stock units
RWA	Risk-weighted assets
SIB	Substantial Issuer Bid
SRED	Scientific and experimental development
STIP	Short term incentive plan
SVP	Senior vice-president
TDSR	Total debt servicing ratio
TLCA	Trust and Loan Companies Act (Canada)
TTM	Trailing twelve months
VDR	Virtual data room
VP	Vice president
YE	Year end
YoY	Year over year
YTD	Year to date

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