Court File No. 349/17CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

CLAIRE R. MCDONALD

Plaintiff

- and -

HOME CAPITAL GROUP INC., GERALD M. SOLOWAY, ROBERT MORTON, and ROBERT J. BLOWES

Defendants

Proceeding under the *Class Proceedings Act*, 1992

STATEMENT OF CLAIM

(Notice of Action Issued on February 13, 2017)

DEFINITIONS

1. The following definitions apply for the purpose of this Statement of Claim:

(a) "**AIF**" means Annual Information Form;

(b) "**Blowes**" means the Defendant Robert J. Blowes;

(c) "**Board**" means the Board of Directors of **Home Capital**;

(d) "**Brokerages**" means "certain mortgage brokers" referred to in the **July 10 News Release** and the **July 17 Material Change Report**, and the "18 independent mortgage brokers and 2 brokerages" referred to in the **July 29 News Release** and the **July 29 Material Change Report**;

(e) "**Change**" means individually or collectively the following facts: (i) the discovery by **Home Capital** that the **Brokerages** had been submitting falsified loan application documentation to **Home Trust**; (ii) that **Home Trust** had been issuing loans on the basis of falsified loan application documentation submitted by the **Brokerages**; (iii) the termination of the relationships between **Home Trust** and the **Brokerages**; (iv) the resulting decrease in mortgage originations by **Home Trust**; and (v) the negative alteration of the risk profile of Home Capital's mortgage portfolio, all of which occurred beginning in **Q3/2014** and ended no later than March 2015;

(f) "**CEO**" means Chief Executive Officer**;**

(g) **"CFO"** means Chief Financial Officer**;**

(h) "***CJA***" means the *Courts of Justice Act*, RSO 1990, c C.43, as amended;

(i) "**Class**" or "**Class Members**" means all persons, other than Excluded Persons, wherever they may reside or be domiciled, who acquired Home Capital common shares during the **Class Period**;

(j) "**Class Period**" means the period from and including November 5, 2014 to and including the close of trading on the **TSX** on July 10, 2015;

(k) "***CPA***" means the *Class Proceedings Act*, *1992*, SO 1992, c 6, as amended;

(l) "**CSA**" means the Canadian Securities Administrators;

(m) "**DC&P**" means disclosure controls and procedures, as defined in section 1(1) of **National Instrument 52-109**;

(n) “**Defendants**” means **Home Capital,** and the **Individual Defendants**;

(o) “**Excluded Persons**” means each of **Home Capital,** the **Individual Defendants**, and the past or present subsidiaries or affiliates, officers, directors, partners, legal representatives, consultants, agents, successors and assigns of **Home Capital**, and any member of each of the **Individual Defendants**’ families, their heirs, successors or assigns;

(p) “**GAAP**” means Canadian generally accepted accounting principles;

(q) “**Home Capital**” means the Defendant, Home Capital Group Inc.;

(r) “**Home Trust**” means Home Trust Company, a subsidiary of **Home Capital**;

(s) “**ICFR**” means Internal Controls over Financial Reporting, as defined in section 1(1) of **National Instrument 52-109**;

(t) “**Impugned Documents**” means the following **Home Capital** documents:

(i) Q3/2014 Interim Financial Report released on November 5, 2014;
(ii) Q3/2014 MD&A released on November 5, 2014;
(iii) Q3/2014 Certification of Interim Filings signed by CEO Soloway and released on November 5, 2014;
(iv) Q3/2014 Certification of Interim Filings signed by CFO Blowes and released on November 5, 2014;
(v) 2014 Annual Financial Statements released on February 11, 2015;
(vi) 2014 Annual MD&A released on February 11, 2015;
(vii) AIF for the year ended December 31, 2014 released on March 26, 2015;
(viii) Certification of Annual Filings signed by CEO Soloway, and released on March 26, 2015;
(ix) Certification of Annual Filings signed by CFO Morton, and released on March 26, 2015;
(x) Q1/2015 Interim Financial Report released by Home Capital on May 6, 2015;
(xi) Q1/2015 MD&A released on May 6, 2015;
(xii) Q1/2015 Certification of Interim Filings signed by CEO Soloway and released on May 6, 2015; and
(xiii) Q1/2015 Certification of Interim Filings signed by CFO Morton and released on May 6, 2015;

(u) “**Individual Defendants**” means the Defendants, **Soloway, Blowes** and **Morton;**

(v) “**July 10 News Release**” means the news release issued by **Home Capital** on July 10, 2015;

(w) “**July 17 Material Change Report**” means the material change report released by **Home Capital** on July 17, 2015;

(x) “**July 29 News Release**” means the news release issued by **Home Capital** on July 29, 2015;

(y) “**July 29 Material Change Report**” means the material change report released by Home Capital on July 29, 2015;

(z) “**MD&A**” means Management’s Discussion and Analysis;

(aa) “**Morton**” means the Defendant Robert Morton;

(bb) “**National Instrument 51-102**” means the **CSA**’s National Instrument 51-102, Continuous Disclosure Obligations, as amended;

(cc) “**National Instrument 52-109**” means the **CSA**’s National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings, as amended;

(dd) “**National Instrument 52-110**” means the **CSA**’s National Instrument 52-110, Audit Committees, as amended;

(ee) “***OBCA***” means the *Business Corporations Act*, RSO. 1990, c B 16, as amended;

(ff) “***OSA***” means the *Securities Act*, RSO 1990, c S5, as amended;

(gg) “**Q3/2014**” means the three month period from July 1, 2014 to September 30, 2014;

(hh) “**Q4/2014**” means the three month period from October 1, 2014 to December 31, 2014;

(ii) “**Q1/2015**” means the three month period from January 1, 2015 to March 31, 2015;

(jj) “**Q2/2015**” means the three month period from April 1, 2015 to June 30, 2015;

(kk) “**Securities Legislation**” means, collectively:

(i) *Securities Act*, RSBC 1996, c 418, as amended;

(ii) *Securities Act*, RSA 2000, c S-4, as amended;

(iii) *Securities Act*, SNB 2004, c S-5, as amended;

(iv) *The Securities Act*, CCSM c S50, as amended;

(v) *The Securities Act 1988*, SS 1988-89, c S-42.2, as amended*;*

(vi) *Securities Act*, RSNS 1989, c 418, as amended;

(vii) *Securities Act*, RSNL 1990, c S-13, as amended;

(viii) *Securities Act*, RSPEI 1988, c S-3.1, as amended; and

(ix) *Securities Act*, RSQ c V-1.1, as amended;

(ll) "**SEDAR**" means the System for Electronic Document Analysis and Retrieval used for electronically filing most securities related information with the **CSA**;

(mm) "**Soloway**" means the Defendant Gerald M. Soloway;

(nn) "**TSX**" means the Toronto Stock Exchange;

(oo) "**VWAP**" means the volume weighted average price.

PRAYER FOR RELIEF

2. The Plaintiff claims:

(a) An order granting the Plaintiff leave to pursue an action pursuant to sections 138.3(1), (2) and (4) of Part XXIII.1 of the *OSA*, and, if necessary, the analogous provisions of the Securities Legislation;

(b) an order certifying this action as a class proceeding and appointing the Plaintiff as a representative for the Class, or for such other class or sub-classes as may be approved by the Court;

(c) a declaration that Home Capital is vicariously liable for the acts and omissions of the Individual Defendants and its other officers, directors and employees;

(d) general and special damages in the sum of $200,000,000, or such other sum as this Court deems appropriate at the trial of the common issues or at a reference or references;

(e) a declaration that, during the Class Period, the Defendants made a misrepresentation or misrepresentations (individually or together "misrepresentation(s)") within the meaning of the *OSA* and analogous provisions of the Securities Legislation and that the Class was damaged thereby;

(f) a declaration that the Individual Defendants authorized, permitted or acquiesced in the making of the misrepresentation(s) within the meaning of the *OSA* and analogous provisions of the Securities Legislation and that the Class was damaged thereby;

(g) a declaration that, during the Class Period, the Defendants made the misrepresentation(s) and they did so negligently and that the Class was damaged thereby;

(h) a declaration that the Change was a material change or were material changes (individually or together "material change(s)") for the purposes of the *OSA* and analogous provisions of the Securities Legislation;

(i) a declaration that the Defendants, or any of them, were required pursuant to the *OSA* and analogous provisions of the Securities Legislation to disclose the Change forthwith upon the occurrence of the Change;

(j) a declaration that the Change occurred no later than the beginning of the Class Period, or in the alternative, at some point to be determined during the Class Period but no later than May 6, 2015;

(k) a declaration that the Defendants, or any of them, failed to disclose the Change in accordance with the *OSA* and analogous provsions of the Securities Legislation;

(l) a declaration that the Defendants, or any of them: (i) knew of the Change and that the Change constituted a material change(s) within the meaning of the *OSA* and analogous provisions of the Securities Legislation; and/or (ii) deliberately avoided acquiring knowledge of the Change and that the Change was a material change(s) within the meaning of the *OSA* and analogous provisions of the Securities Legislation; and/or (iii) were guilty of gross misconduct in connection with the failure to disclose the Change in a timely way as required by the *OSA* and analogous provisions of the Securities Legislation;

(m) a declaration that the Individual Defendants or any of them authorized, permitted or acquiesced in Home Capital's failure to disclose the Change in a timely way contrary to the requirements of the *OSA* and analogous provisions of the Securities Legislation;

(n) a declaration pursuant to s. 248 of the *OBCA* that:

(i) the acts and omissions of Home Capital and, or its affiliates have effected a result;

(ii) the business or affairs of Home Capital and, or its affiliates have been carried on or conducted in a manner; and, or

(iii) the powers of the directors of Home Capital or its affiliates have been exercised in a manner,

that is or has been oppressive or unfairly prejudicial to or that unfairly disregards or disregarded the interests of the Plaintiff and the Class Members;

(o) pursuant to section 248(3)(j) of the *OBCA*, an order compensating the Plaintiff and the Class Members;

(p) an order directing a reference or giving such other directions as may be necessary to determine issues not determined at the trial of the common issues;

(q) prejudgment and postjudgment interest, compounded or pursuant to sections 128 and 129 of the *CJA*;

(r) costs of this action on a substantial indemnity basis or in an amount that provides full indemnity in addition to, pursuant to section 26(9) of the *CPA*, the costs of notice and of administering the plan of distribution of the recovery in this action, plus applicable taxes; and

(s) such further and other relief as to this Honourable Court may seem just.

OVERVIEW OF THIS ACTION

3. Home Capital is an Ontario public company whose shares trade on the TSX under the symbol “HCG”. At all material times, Home Capital was a holding company operating primarily through its federally regulated subsidiary, Home Trust, which offered residential and non-residential commercial mortgage lending, consumer lending and other financial services. The core business of Home Capital, through Home Trust, was as an alternate lender, providing first mortgages to borrowers who would be unable to qualify for a mortgage with a major bank. The success of that business depended on the ability of Home Trust to originate new mortgages. Its sustainability, in turn, depended on the quality of the mortgages, namely that mortgages were issued by Home Trust to qualified borrowers based on genuine mortgage application documentation which was the subject of effective due diligence by Home Trust and Home Capital. Mortgage origination was achieved through independent mortgage brokers and brokerages with whom Home Trust had ongoing contractual relationships. The success of Home Capital, therefore depended on the origination of quality mortgages through brokerages contracted with Home Trust.

4. In its Q1/2015 Financial Report, which was released on May 6, 2015, Home Capital reported that its mortgage originations during that quarter were \$1.38 billion compared with \$2.29 billion in Q4/2014 and \$1.68 billion for Q1/2014. The reason given by Home Capital for the decrease in mortgage originations was as follows:

> “The first quarter was characterized by a traditionally slow real estate market, exacerbated by very harsh winter conditions. The Company has remained cautious in light of continued macroeconomic conditions and continues to

> perform ongoing reviews of its business partners ensuring that quality is within the Company's risk appetite. During Q1 2015, the Company launched the first phase of a new originations technology platform, which will allow the Company to increase its capacity and operational efficiency to support future growth of its loans."

5. The next day, May 7, 2015, during a conference call with securities analysts to discuss the Q1/2015 Interim Financial Report, CEO Soloway reiterated that the reason for the decrease, year-over-year, in mortgage originations was (1) "extremely harsh winter conditions"; (2) macroeconomic factors and Home Capital's conservative response to same; and (3) the launch of a new originations technology platform which had experienced "a few growing pains."

6. On the same conference call, CFO Morton was asked whether the origination decrease was attributed to broker related factors, to which CFO Morton responded "…there's been no new change of broker, brokers are exactly the same…".

7. Contrary to the representations in the Q1/2015 Interim Financial Report and the public oral statements made by Soloway and Morton to analysts on May 7, 2015, the real reason for the drop off in mortgage originations was the fact that, after a tip from an external source to the Home Capital Board in or about September 2014, and an investigation by Home Capital, Home Trust terminated its relationships with several mortgage brokerages and brokers due to material irregularities in mortgage application materials; namely Home Capital learned that certain brokers and brokerages had submitted falsified mortgage application documentation on the basis of which, in material part, Home Trust had provided mortgages. The termination of the brokers and brokerages resulted in an immediate negative impact on mortgage originations.

8. These facts, individually or collectively, were material facts in relation to the securities of Home Capital and material change(s) in relation to the business and operations of Home Capital.

9. The identification of the problem with the brokerages and brokers submitting falsified loan documentation, and the resulting investigation and termination of brokerages and brokers commenced in Q3/2014. The termination of the Brokerages was completed by March 2015. This was known by the Defendants but not publically disclosed until Friday, July 10, 2015, after the close of trading on the TSX when Home Capital issued the July 10 News Release. In it, the following was stated:

> "In the Company's 2015 first quarter report, Home Capital disclosed that its mortgage originations had been impacted by, among other things, its ongoing review of its business partners, its conservative approach to growing its residential mortgage business and the competitive market for prime insured mortgages.
>
> **Home Capital's ongoing review of its business partners led to the Company terminating relationships with certain mortgage brokers, which caused an immediate drop in originations.** In addition, the Company's continued conservative approach has slowed growth in the Company's residential mortgage business. These factors, along with the competitive landscape, help explain the lower than expected mortgage originations **in the first and second quarters of 2015."**
>
> [Emphasis added]

10. The July 10 News Release was followed by the July 17 Material Change Report which repeated, among other things, the foregoing statement from the July 10 News Release describing it as a material change to the business of Home Capital.

11. In the Q1/2015 Interim Financial Report, and in the public oral statements made by Soloway and Morton on May 7, 2015, Home Capital did not disclose that its mortgage originations had been impacted by its ongoing review of its business partners. Home Capital reported that it "…continues to perform ongoing reviews of its business partners ensuring that quality is within the Company's risk appetite", but it made no connection between these "ongoing reviews" and the drop off in mortgage originations nor did it suggest that there was any sort of problem with its "business partners." To the contrary, Morton said that "…there's been no new change of broker, brokers are exactly the same…".

12. As a direct result of the revelations in the July 10 News Release, the market price for Home Capital's shares fell by $7.95 per share or approximately 19% during trading on Monday, July 13, 2015 on abnormally high trading volume. This one day drop in the price of the securities of Home Capital resulted in a loss in its market capitalization of more than $500 million. The slide continued in subsequent sessions. The VWAP over the ten trading days following the July 10 News Release was $32.40 per share. That is, over the ten trading days following the July 10 News Release, there was a drop of $9.61 per share or approximately 23% from the share price immediately prior to the July 10 News Release.

13. On July 29, 2015, at the request of the Ontario Securities Commission, Home Capital disclosed more detail regarding the investigation and termination of the Brokerages. Home Capital did so in the July 29 News Release and the July 29 Material Change Report which both stated, among other things, that:

(a) “In late 2014 … an external source alerted Home Capital’s Board of Directors to possible discrepancies in income verification information submitted by certain mortgage brokers.”

(b) “The Company immediately commenced a thorough investigation into this allegation including the reliability of other information submitted with the loan applications”. The investigation was conducted by independent professional advisors which investigation was overseen by independent members of the Board; and

(c) “The brokers associated with the mortgage applications were identified and during the period of September 2014 to March 2015, the Company suspended its relationship with 18 independent mortgage brokers and 2 brokerages, for a total of approximately 45 individual mortgage brokers.”

14. Based on Home Capital’s July 10 News Release and July 17 Material Change Report, the termination of the Brokerages “caused an immediate drop in originations”; and, by Home Capital’s July 29 Material Change Report, the investigation into and the termination of the Brokerages occurred starting in Q3/2014 and was completed well in advance of the May 6, 2015 release of the Q1/2015 Interim Financial Report, and the public oral statements of Soloway and Morton on May 7, 2015.

15. The representations in the Q1/2015 Interim Financial Report and the May 7, 2015 public oral statements of Soloway that the drop off in mortgage originations was due to severe winter weather, macroeconomic factors, and growing pains in a new technology platform, and the affirmative public oral statement by Morton that the

"brokers are exactly the same" were misrepresentations directed at obscuring the seriousness of the problem with the Brokerages, which had already been terminated, and the material negative impact on originations caused by the terminations which had already been experienced.

16. As described with more particularity below, the following material facts ("Five Material Facts"): (i) Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust; (ii) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages; (iii) the relationships between Home Trust and the Brokerages were terminated; (iv) there was a resulting decrease in mortgage originations by Home Trust; and (v) there was a negative alteration of the risk profile of Home Capital's mortgage portfolio, were individually or collectively a material change(s) to the business or operations of Home Capital, and, pursuant to the *OSA* and analogous provisions of the Securities Legislation, should have been publically disclosed forthwith and in any event no later than:

(a) November 5, 2014, when Home Capital released its Q3/2014 Interim Financial Report and related MD&A and CEO and CFO certifications; or in the alternative,

(b) February 11, 2015, when Home Capital released its Fiscal 2014 Annual Financial Statements, and related MD&A; or in the alternative,

(c) March 26, 2015, when Home Capital released its Fiscal 2014 AIF and Certifications of Annual Filings by its CEO and CFO; or in the alternative,

(d) May 6, 2015, when Home Capital released its Q1/2015 Interim Financial Report and related MD&A and CEO and CFO certifications.

17. As described with more particularity below, the failure by the Defendants to disclose in the Impugned Documents any or all of the Five Material Facts was a misrepresentation in each of those Impugned Documents.

18. As a result of the misrepresentations alleged herein and, or the failure of Home Capital to make timely disclosure of the Change as a material change to its business or operations, Home Capital's stock price was artificially inflated during the Class Period, and the Class Members suffered damages as a result of purchasing or acquiring and/or holding the securities of Home Capital at inflated prices.

19. Furthermore, during the Class Period, while Home Capital's stock price was artificially inflated, certain Home Capital insiders, including CEO Soloway, with knowledge of the Five Material Facts and or the Change as a material change(s), none of which were generally disclosed, sold Home Capital securities for their personal benefit thereby avoiding losses that they would have otherwise incurred had the material facts and the material change(s) been generally disclosed in a timely manner. This sale of Home Capital securities with knowledge of material facts and, or material change(s) which were not generally disclosed was contrary to section 76 of the *OSA*.

20. Furthermore, the release by Home Capital of the Impugned Documents containing misrepresentations as described herein was contrary to section 122 of the *OSA*.

21. The Plaintiff and the Class Members were legally entitled to full, true and plain disclosure from Home Capital of all material facts and material changes regarding the business and affairs of Home Capital in a timely way, and they did not get it. They were kept in the dark by the Defendants and were damaged thereby.

22. The Plaintiff, on her own behalf and on behalf of the proposed Class Members, sues the Defendants for damages on the basis of misrepresentations and failure to make timely disclosure of a material change pursuant to Part XXIII.1 of the *OSA*, and the equivalent provisions of the Securities Legislation; negligent misrepresentation, and oppression pursuant to the *OBCA.*

THE PARTIES

The Plaintiff

23. The Plaintiff, Claire R. McDonald, a resident of Calgary, Alberta, purchased, in total, 1100 common shares of Home Capital on February 15, 2015 at $43.05 per share and sold those same shares on August 31, 2015 at $25.86 per share. The Plaintiff is a "complainant" pursuant to section 245 of the *OBCA.*

Home Capital

24. Home Capital is a publicly traded holding company that operates primarily through its principal, federally regulated subsidiary, Home Trust, which offers insured and uninsured deposits, residential and non-residential commercial mortgage lending and consumer lending. Licensed to conduct business across Canada, Home Trust has offices in Ontario, Alberta, British Columbia, Nova Scotia, Quebec and Manitoba.

25. Home Capital was continued under the *OBCA* and has its registered and head office in Toronto, Ontario. Its present address is:

Home Capital Group Inc.
145 King Street West, Suite 2300
Toronto, Ontario M5H 1J8

26. At all material times, Home Capital's shares traded on the TSX under the trading symbol "HCG". At material times, Home Capital's shares also traded on the Alpha exchange in Toronto, the Aequitas NEO Exchange in Toronto, Canadian alternative trading systems: Chi-X Canada, Omega, CX2 and Pure Trading; and, on the US Grey Market and German alternative trading systems.

Soloway

27. Soloway is a resident of Toronto, Ontario. He was, during the material time, the CEO of Home Capital, the CEO of Home Trust, a Director of Home Capital and a Director of Home Trust.

Blowes

28. Blowes is a resident of Waterloo, Ontario and was Executive Vice-President and CFO of Home Capital and Home Trust during the material time until December 31, 2014. Blowes became a Director of Home Capital on May 13, 2015.

Morton

29. Morton is a resident of Toronto, Ontario. He is, and was during the material time commencing on January 1, 2015, the CFO and Executive-Vice President of Home Capital.

HOME CAPITAL'S DISCLOSURE OBLIGATIONS

30. By its own election, Home Capital was a reporting issuer throughout the Class Period. Home Capital elected to become a reporting issuer in order to render its securities publicly tradable, which provided it with a broader ability to raise capital.

31. In order to maintain its status as a reporting issuer, Home Capital was required throughout the Class Period to release and file with SEDAR the following documents and information, free from misrepresentation:

(a) forthwith, upon the occurrence of a material change in the affairs of Home Capital, a News Release authorized by a senior officer disclosing the nature and substance of the change;

(b) as soon as practicable and in any event within 10 days of the occurrence of a material change in the affairs of Home Capital, a material change report in accordance with the regulations to the *OSA*, National Instrument 51-102 and Form 51-102FE;

(c) within 45 days of the end of each quarter, quarterly interim financial reports prepared in accordance with applicable accounting principles that must include a comparative statement to the end of each of the corresponding periods in the previous financial year;

(b) within 90 days of the end of the fiscal year, annual financial statements prepared in accordance with applicable accounting principles, including comparative financial statements relating to the period covered by the preceding financial year;

(c) contemporaneously with each of the above, MD&A for each of the above interim financial reports and annual financial statements; and

(d) within 90 days of the end of the fiscal year, an AIF.

32. A material change report must be filed in accordance with form 51-102F3 and include a brief but accurate summary of the nature and substance of the material change as well as sufficient additional disclosure to enable a reader to appreciate the significance and impact of the material change without having to refer to other material. The July 17 Material Change Report and the July 29 Material Change Report were filed by Home Capital in purported compliance with Form F1-102F3.

33. MD&As are a narrative explanation of how the company performed during the period covered by the financial statements or financial reports, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that have affected the financial statements or financial reports, and trends and risks that are reasonably likely to affect them in future.

34. In particular, Item 1.4(g) of Form 51-102F1 – Management's Discussion & Analysis (which prescribes the content of MD&As required under NI 51-102) required Home Capital to disclose in each annual and interim MD&A any commitments, events, risks or uncertainties that it reasonably believed would materially affect Home Capital's future performance, total revenue and income or loss before discontinued operations and extraordinary items.

35. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of historical and future development. The AIF describes the company, its operations and prospects, risks and other external factors that impact on the company specifically.

36. The Defendants controlled the content of Home Capital's MD&As, annual financial statements, interim financial reports, AIFs and the other documents particularized herein and the misrepresentations made therein were made by the Defendants.

INDIVIDUAL DEFENDANTS' ROLES IN DISCLOSURE

37. Each of the Individual Defendants knew, from the time that he accepted his position with Home Capital, that Home Capital was a reporting issuer and that in his role as a director and/or officer of Home Capital, he would have direct responsibility for ensuring the accuracy and completeness of Home Capital's disclosure documents.

38. The *OSA*, the Securities Legislation and certain National Instruments and Companion Policies promulgated thereunder imposed specific obligations on the Individual Defendants in the preparation of Home Capital's continuous disclosure documents.

39. Sections 77 and 78 of the *OSA*, and the concordant provisions of the Securities Legislation, informed by NI 52-109, required Soloway as CEO, and Morton and Blowes as CFOs to review, approve and certify the accuracy of Home Capital's annual financial statements, interim financial reports and MD&A released during the Class Period.

40. NI 51-102 requires the board of directors of a reporting issuer to approve each annual financial statement, interim financial report, and accompanying MD&A released by an issuer prior to the release of those documents. As such, Soloway, as a director of Home Capital throughout the Class Period was required to approve the Home Capital FY/2014 Annual Financial Statement, the Q3/2014 Interim Financial Report, the Q1/2015 Interim Financial Report and the accompanying MD&A prior to their release.

26. Each Individual Defendant was aware of and accepted these obligations, as applicable, in assuming his position as a director and/or officer of Home Capital.

MISREPRESENTATIONS

Q3/2014 Disclosures – released November 5, 2014

41. Home Capital's Q3/2014 Interim Financial Report incorporated Home Capital's Q3/2014 MD&A. These documents were released on November 5, 2014. As quoted verbatim in Schedule "A" to this Statement of Claim, this disclosure by Home Capital:

(a) identifies credit, operational and reputational risk as among the risks to which Home Capital was exposed;

(b) describes Home Capital’s credit risk as “the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason”;

(c) describes the operational risk to which Home Capital was exposed as “the risk of loss resulting from inadequate or failed internal processes, people and systems…”;

(d) identifies how the risks are managed by Home Capital; and

(e) describes factors, and risk management policies and practices as substantially unchanged from those identified in Home Capital’s fiscal 2013 MD&A.

42. As quoted verbatim in Schedule “B” to this Statement of Claim, the disclosure from Home Capital’s fiscal 2013 MD&A which was referred to and adopted in the Q3/2014 Interim Financial Report and Q3/2014 MD&A:

(a) identifies credit, operational and reputational risks as among the seven principal risks that are material to the business of Home Capital with reputational risk as an overarching risk;

(b) describes management oversight over a high level of due diligence on each individual transaction with all transactions being subject to detailed reviews of among other things an assessment of the applicant’s ability to service the loan;

(c) describes the impact of Home Capital’s operational risk as including financial loss, loss of competitive advantage, or regulatory action, among others;

(d) describes Home Capital's reputational risk as the risk that shareholders or the public will, with or without basis, judge Home Capital's operations or practices negatively, potentially resulting in a decline in its value; and

(e) describes how a failure to effectively manage Home Capital's reputational risk can result in reduced market capitalization.

43. Having described these credit, operational and reputational risks as material to Home Capital's business, and the efforts taken by Home Capital to manage the risks, it was a misrepresentation by Home Capital, Soloway and Blowes to not also describe in the Q3/2014 Interim Financial Report and Q3/2014 MD&A (which incorporated the Annual 2013 MD&A) how these risks had in fact been realized during that reporting period. In particular, the following material facts which were not stated, were required to be stated or were necessary to make the foregoing Q3/2014 disclosure statements not misleading in light of the circumstances under which they were made:

(a) In or about September 2014 and prior to November 5, 2014, Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust;

(b) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages;

(c) As a result of the discovery, the relationships between Home Trust and the Brokerages were terminated;

(d) There was an immediate material negative impact on mortgage originations.

44. In addition, the Q3/2014 MD&A did not disclose the specific, identifiable risks posed by Home Trust's lending based on falsified mortgage application documentation, and, or the resulting termination of brokers and brokerages. Namely, that the former would materially affect the credit quality of the Home Capital loan portfolio, and the latter would materially affect the level of future mortgage originations. These specific identifiable risks were also material facts, and the failure to disclose them in the Q3/MD&A was also a misrepresentation.

45. It was also a misrepresentation to say there was management oversight of "a high level of due diligence on each individual transaction" and that "all transactions are subject to detailed reviews of ... an assessment of the applicant's ability to pay". In fact, as pleaded elsewhere herein, there was a complete breakdown in due diligence, management oversight, and internal controls which went undetected by the Board, until September 2014 when the Board was informed by an external source that mortgage brokers submitted falsified loan application documentation to Home Trust and that Home Trust had been issuing mortgages on the basis of such falsified documents. Had there been the described management oversight of the "high level of due diligence" and "detailed review" this never would have occurred.

46. The foregoing facts, individually or collectively, were material facts in relation to the securities of Home Capital and a material change(s) in relation to the business or operations of Home Capital.

47. As quoted verbatim in Schedule "C" to this Statement of Claim, in its Q3/2014 Form 52-109F2 "Certification of Interim Filings" signed by CEO Soloway and CFO

Blowes, released on November 5, 2014, both Soloway and Blowes, on behalf of Home Capital certified that:

(a) they reviewed the Q3/2014 Interim Financial Report and Q3/2014 MD&A and these interim filings "do not contain any untrue statement of material fact or omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the interim filings";

(b) they designed or caused to be designed under their supervision DC&P to provide reasonable assurance that "material information relating to the issuer is made known to us by others…," and "information required to be disclosed by the issuer in its … interim filings or other reports filed or submitted by it under securities legislation is … reported within the time periods specified in securities legislation";

(c) they designed or caused to be designed under their supervision ICFR "…to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP."

48. These were misrepresentations in that:

(a) The Q3/2014 Interim Financial Report and Q3/2014 MD&A did contain untrue statements of material fact and did omit to state material facts that were required to be stated or that were necessary to make statements in those interim filings not misleading in the light of the circumstances under which they were made, namely they failed to disclose one or more of the following Five Material Facts:

(i) in or about September 2014 and prior to November 5, 2014, Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust;

(ii) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages;

(iii) as a result of the discovery, the relationships between Home Trust and the Brokerages were terminated;

(iv) there was an immediate material negative impact on mortgage originations; and

(v) there was a negative alteration of the risk profile of Home Capital's mortgage portfolio.

(b) Home Capital's DC&P did not and could not provide reasonable assurance that material information relating to Home Capital that was required to be disclosed by Home Capital in its filings and reports was reported in accordance with relevant securities legislation. Had the DC&P been designed and functioning effectively, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the Five Material Facts described above, and the Change as a material change(s).

(c) Home Capital’s ICFR was not designed to provide reasonable assurance regarding the reliability of Home Capital’s financial reporting because, had it been so designed, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the Five Material Facts described above, and the Change as a material change(s).

FY/2014 Annual MD&A – released February 11, 2015

49. Home Capital’s 2014 Annual MD&A was released on SEDAR on February 11, 2015. As quoted verbatim in Schedule “D” to this Statement of Claim, in this MD&A Home Capital:

(a) identifies credit, operational and reputational risk as among the seven principal risks that are material to the business of Home Capital with reputational risk as an overarching risk;

(b) describes credit risk as the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company;

(c) describes management oversight over a high level of due diligence on each individual transaction with all transactions being subject to detailed reviews of among other things an assessment of the applicant’s ability to service the loan;

(d) describes Home Capital’s operational risk as including financial loss, loss of competitive advantage, or regulatory action, among others;

(e) describes Home Capital's reputational risk as the risk that shareholders or the public will, with or without basis, judge Home Capital's operations or practices negatively, potentially resulting in a decline in its value; and

(f) describes how a failure to effectively manage Home Capital's reputational risk can result in reduced market capitalization.

50. Having described these credit, operational and reputational risks as material to Home Capital's business, and the efforts taken by Home Capital to manage the risks, it was a misrepresentation by Home Capital, Soloway and Morton to not also describe in the FY/2014 Annual MD&A how these risks had in fact been realized during that reporting period. In particular, the following material facts which were not stated, were required to be stated or were necessary to make the foregoing FY/2014 disclosure statements not misleading in light of the circumstances under which they were made:

(a) in or about September 2014 and prior to February 11, 2015, Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust;

(b) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages;

(c) as a result of the discovery, the relationships between Home Trust and the Brokerages were terminated; and

(d) there was an immediate material negative impact on mortgage originations.

51. In addition, the FY/2014 Annual MD&A did not disclose the specific, identifiable risks posed by Home Trust's lending based on falsified mortgage application documentation, and, or the resulting termination of brokers and brokerages. Namely, that the former would materially affect the credit quality of the Home Capital loan portfolio and the latter would materially affect the level of future mortgage originations. These specific identifiable risks were also material facts, and the failure to disclose them in the FY/2014 Annual MD&A was also a misrepresentation.

52. It was also a misrepresentation to say there was management oversight of "a high level of due diligence on each individual transaction" and that "all transactions are subject to detailed reviews of ... an assessment of the applicant's ability to pay". In fact, as pleaded elsewhere herein, there was a complete breakdown in due diligence, management oversight, and internal controls which went undetected by the Board until September 2014, when the Board was informed by an external source that mortgage brokers submitted falsified loan application documentation to Home Trust and that Home Trust had been issuing mortgages on the basis of such falsified documents. Had there been the described management oversight of the "high level of due diligence" and "detailed review" this never would have occurred.

53. The foregoing facts, individually or collectively, were material facts in relation to the securities of Home Capital and a material change(s) in relation to the business or operations of Home Capital.

54. In addition, in its 2014 Annual MD&A, Home Capital:

(a) describes how Home Capital had DC&P which was designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure, and that the CEO and the CFO evaluated the DC&P and concluded that the DC&P was effective as December 31, 2014; and

(b) describes how Home Capital established and maintained ICFR "…to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP", and that the CEO and CFO evaluated the ICFR and concluded that the ICFR was "operating effectively" as of December 31, 2014, and that there "were no significant changes in 2014 that have affected or could reasonably be expected to materially affect" ICFR.

55. These statements regarding Home Capital's DC&P and ICFR were misrepresentations because Home Capital's DC&P and ICFR were not effectively designed or operating effectively as at December 31, 2014 or throughout 2014. In particular:

(a) Home Capital's DC&P did not and could not provide reasonable assurance that material information relating to Home Capital that was required to be disclosed by Home Capital in its filings and reports was reported in accordance with relevant securities legislation. Had the DC&P been designed and functioning effectively, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the material facts described above, and the Change as a material change(s).

(b) Home Capital's ICFR did not and could not provide reasonable assurance regarding the reliability of Home Capital's financial reporting because, had it been so designed and operating effectively, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the material facts described above, and the Change as a material change(s).

FY/2014 AIF and Annual CEO and CFO Certifications – released March 26, 2015

56. As quoted verbatim in Schedule "E" to this Statement of Claim, in its FY 2014 AIF, Home Capital:

(a) reported on the growth in its loans under administration "…reflecting the Company's continued focus on the traditional mortgage portfolio";

(b) described the various types of risks to which it was exposed including credit, operational and reputational risk, among other risk factors;

(c) incorporated the explanation of the risk factors as set out in its FY 2014 Annual MD&A.

57. Inasmuch as Home Capital's 2014 AIF incorporated the explanation of the risks to its business as set out in its FY 2014 MD&A, the 2014 AIF contained misrepresentations

as pleaded in previous paragraphs which are directed specifically at the FY 2014 MD&A.

58. In addition, by specifically reporting in its 2014 AIF on the growth in loans under administration and emphasizing its focus on its traditional mortgage portfolio, it was a misrepresentation by Home Capital, Soloway and Morton to not also describe in the 2014 AIF, at a place reasonably proximate to those representations, how the sources of traditional mortgage originations was materially compromised and the reasons therefore including the following Five Material Facts:

(a) In or about September 2014 and in any event well prior to March 26, 2015, Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust;

(b) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages;

(c) as a result of the discovery, the relationships between Home Trust and the Brokerages were terminated;

(d) there was an immediate material negative impact on mortgage originations; and

(e) there was a negative alteration of the risk profile of Home Capital's mortgage portfolio.

59. As quoted verbatim in Schedule "F" to this Statement of Claim, in its FY 2014 Form 52-109F1 "Certification of Annual Filings Full Certificate" signed by CEO Soloway

and CFO Morton, released on March 26, 2015, Soloway and Morton, on behalf of Home Capital, certified that:

(a) They reviewed the FY/2014 AIF, annual financial statements, and annual MD&A for the year ended December 31, 2014, and these annual filings “do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings”;

(b) They designed or caused to be designed under their supervision, DC&P to provide reasonable assurance that “material information relating to the issuer is made known to us by others…,” and “information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is … reported within the time periods specified in securities legislation”;

(c) They designed or caused to be designed under their supervision, ICFR “…to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP”;

(d) They evaluated, or caused to be evaluated under their supervision, Home Capital’s DC&P and ICFR at the financial year end (December 31, 2014), and their conclusions regarding the evaluation were disclosed in Home Capital’s Annual 2014 MD&A.

60. The foregoing certification regarding Home Capital's 2014 AIF was a misrepresentation because, for reasons pleaded above, the 2014 AIF omitted to state material facts required to be stated or that were necessary to make statements in the 2014 AIF not misleading in light of the circumstances under which they were made.

61. Furthermore, as pleaded above, the CEO's and CFO's conclusions as disclosed in Home Capital's Annual 2014 MD&A were that, as at December 31, 2014:

(a) the DC&P was effective; and

(b) the ICFR was "operating effectively", and that there "were no significant changes in 2014 that have affected or could reasonably be expected to materially affect" ICFR.

62. These statements regarding Home Capital's DC&P and ICFR were misrepresentations because Home Capital's DC&P and ICFR were not effectively designed or operating effectively as at December 31, 2014 or throughout the 2014 reporting period for reasons pleaded elsewhere, including:

(a) Home Capital's DC&P did not and could not provide reasonable assurance that material information relating to Home Capital that was required to be disclosed by Home Capital in its filings and reports was reported in accordance with relevant securities legislation. Had the DC&P been designed and operating effectively, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the Five Material Facts described above, and the Change as a material change(s).

(b) Home Capital’s ICFR was not designed and effectively operating to provide reasonable assurance regarding the reliability of Home Capital’s financial reporting because, had it been so designed and operating, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the Five Material Facts described above, and the Change as a material change(s).

Q1/2015 Disclosures – released May 6, 2015

63. Home Capital’s Q1/2015 Interim Financial Report incorporated Home Capital’s Q1/2015 MD&A. These documents were released on May 6, 2015. As quoted verbatim in Schedule “G” to this Statement of Claim, this disclosure by Home Capital:

(a) describes a decline in mortgage originations in Q1/2015 to $1.38 billion compared with $2.29 billion in Q4/2014 and $1.68 billion in Q1/2014;

(b) explains the drop in mortgage originations by reference to very harsh winter conditions, continued macroeconomic conditions and the launching of the first phase of a new originations technology platform;

(c) states that Home Capital “continues to perform ongoing reviews of its business partners ensuring that quality is within the Company’s risk appetite”;

(d) identifies credit, operational and reputational risk as among the risks to which Home Capital was exposed;

(e) describes Home Capital's credit risk as "the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason";

(f) describes Home Capital's operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems…";

(g) identifies how the risks are managed by Home Capital;

(h) describes factors, and risk management policies and practices as substantially unchanged from those identified in Home Capital's annual 2014 MD&A.

64. As quoted verbatim in Schedule "D" to this Statement of Claim, the disclosure from Home Capital's fiscal 2014 MD&A which was referred to and adopted in the Q1/2015 Interim Financial Report and Q1/2015 MD&A:

(a) identifies credit, operational and reputational risk as among the seven principal risks that are material to the business of Home Capital with reputational risk as an overarching risk;

(b) describes credit risk as the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company;

(c) describes management oversight over a high level of due diligence on each individual transaction with all transactions being subject to detailed reviews of among other things an assessment of the applicant's ability to service the loan;

(d) describes Home Capital's operational risk as including financial loss, loss of competitive advantage, or regulatory action, among others;

(e) describes Home Capital's reputational risk as the risk that shareholders or the public will, with or without basis, judge Home Capital's operations or practices negatively, potentially resulting in a decline in its value; and

(f) describes how a failure to effectively manage Home Capital's reputational risk can result in reduced market capitalization.

65. Having described these credit, operational and reputational risks as material to Home Capital's business, and the efforts taken by Home Capital to manage the risks, it was a misrepresentation by Home Capital, Soloway and Morton to not also describe in the Q1/2015 Interim Financial Report and Q1/2015 MD&A (which incorporated the Annual 2014 MD&A) how these risks had in fact been realized during that reporting period. In particular, the following material facts which were not stated, were required to be stated or were necessary to make the foregoing Q1/2015 disclosure statements not misleading in light of the circumstances under which they were made:

(a) In or about September 2014 and well prior to May 6, 2015, Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust;

(b) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages;

(c) As a result of the discovery, the relationships between Home Trust and the Brokerages were terminated; and

(d) There was an immediate material negative impact on mortgage originations.

66. In addition, the Q1/2015 MD&A did not disclose the specific, identifiable risks posed by Home Trust's lending based on falsified mortgage application documentation, and, or the resulting termination of brokers and brokerages. Namely, that the former would materially affect the credit quality of the Home Capital loan portfolio, and the latter would materially affect the level of future mortgage originations. These specific identifiable risks were also material facts, and the failure to disclose them in the Q1/2015 MD&A was also a misrepresentation.

67. It was also a misrepresentation to say there was management oversight of "a high level of due diligence on each individual transaction" and that "all transactions are subject to detailed reviews of ... an assessment of the applicant's ability to pay". In fact, as pleaded elsewhere herein, there was a complete breakdown in due diligence, management oversight, and internal controls which went undetected by the Board until September 2014, when the Board was informed by an external source that mortgage brokers submitted falsified loan application documentation to Home Trust and that Home Trust had been issuing mortgages on the basis of such falsified documents. Had there been the described management oversight of the "high level of due diligence" and "detailed review" this never would have occurred.

68. It was also a misrepresentation to attribute the decline in mortgage originations in Q1/2015 to very harsh winter conditions, continued macroeconomic conditions and

the launching of the first phase of a new originations technology platform, when in fact the decline in originations was due in material part to the termination of the Brokerages which began in September 2014 and was completed by no later than March 2015.

69. It was also a misrepresentation to say that Home Capital "continues to perform ongoing reviews of its business partners ensuring that quality is within the Company's risk appetite" and not also disclose that well before May 6, 2015, the "review of its business partners" had already resulted in the termination of the Brokerages and a material decline in mortgage originations.

70. The foregoing facts, individually or collectively, were material facts in relation to the securities of Home Capital and a material change(s) in relation to the business or operations of Home Capital.

71. As quoted verbatim in Schedule "H" to this Statement of Claim, in its Q1/2015 Form 52-109F2 "Certification of Interim Filings" signed by CEO Soloway and CFO Morton, released on May 6, 2015, both Soloway and Morton, on behalf of Home Capital certified that:

(a) they reviewed the Q1/2015 Interim Financial Report and Q1/2015 MD&A and these interim filings "do not contain any untrue statement of material fact or omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made with respect to the period covered by the interim filings";

(b) they designed or caused to be designed under their supervision, DC&P to provide reasonable assurance that "material information relating to the issuer is made known to us by others…," and "information required to be disclosed by the issuer in its … interim filings or other reports filed or submitted by it under securities legislation is … reported within the time periods specified in securities legislation"; and

(c) they designed or caused to be designed under their supervision, ICFR "…to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP."

72. These were misrepresentations in that:

(a) The Q1/2015 Interim Financial Report and Q1/2015 MD&A did contain untrue statements of material fact and did omit to state material facts that were required to be stated or that were necessary to make statements in those interim filings not misleading in light of the circumstances under which they were made, namely they failed to disclose one or more of the following Five Material Facts:

(i) in or about September 2014 and in any event well prior to May 6, 2015, Home Capital discovered that the Brokerages had been submitting falsified loan application documentation to Home Trust;

(ii) Home Trust had been issuing loans on the basis of falsified loan application documentation submitted by the Brokerages;

(iii) as a result of the discovery, the relationships between Home Trust and the Brokerages were terminated;

(iv) there was an immediate material negative impact on mortgage originations; and

(v) there was a negative alteration of the risk profile of Home Capital's mortgage portfolio.

73. Home Capital's DC&P did not and could not provide reasonable assurance that material information relating to Home Capital that was required to be disclosed by Home Capital in its filings and reports was reported in accordance with relevant securities legislation. Had the DC&P been designed and functioning effectively, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the five material facts described above, and the Change as a material change(s).

74. Home Capital's ICFR was not designed to provide reasonable assurance regarding the reliability of Home Capital's financial reporting because, had it been so designed, Home Capital would have, in accordance with relevant securities legislation, publicly disclosed far sooner than July 10, 2015, any or all of the Five Material Facts described above, and the Change as a material change(s).

Misrepresentations in Public Oral Statements – May 7, 2015

75. On May 7, 2015, CEO Soloway and CFO Morton attended on an earnings conference call wherein they made public oral statements about the business and affairs of Home Capital in general, and the Q1/2015 Interim Financial Report and Q1/2015 MD&A in particular.

76. Regarding the decline in mortgage originations for Q1/2015, CEO Soloway stated in prepared remarks:

> "Traditional uninsured residential mortgage originations for the first quarter were $960 million compared to ($100,070,000) last year or about 11% less than last year.
>
> …
>
> The first quarter, traditionally, is the slowest quarter for adding new non-insured mortgages and that was exasperated [sic] in 2015 by extremely harsh winter conditions. What happens is people do not like to list their homes in the middle of a blizzard or heavy snow conditions; and as a result, there are fewer properties for sale unusually, fewer sales but in addition, the Company also continued to apply caution to its lending approach given the continued macroeconomic uncertainty, we're talking about a falling dollar, falling oil prices, gloomy economic reports during the first couple of months of the year, all of which caused Home to take a very cautious approach to some loan opportunities that might – I say might, might have been approved today as the Canadian economy looks somewhat more positive than it did three months ago.
>
> The Company also launched the first phase of its new originations technology platform which will allow the Company to increase its underwriting capacity, operational efficiency and controls to support future growth in its loan portfolio. Now, after a few growing pains, we're confident in saying it's now fully integrated into the lending process."

77. This public oral statement by CEO Soloway on behalf of Home Capital was an elaboration of that which was stated in the Q1/2015 Interim Financial Report and Q1/2015 MD&A that the decline in mortgage originations was due to severe winter weather, macroeconomic conditions, and "growing pains" with a new technology platform.

78. This was a misrepresentation made by CEO Soloway in that the reason for the material drop off in mortgage originations was due in whole or in material part to the termination of the Brokerages as pleaded elsewhere; not due to bad weather, macro-economic conditions and a new technology platform.

79. When CEO Soloway made this statement, he knew that the Brokerages had already been terminated and that was the reason for the material decline in originations in Q1/2015.

80. Regarding the drop off in originations, CFO Morton was asked by an analyst on the earnings call whether the new technology platform caused any brokers to lose market share, to which he answered, on behalf of Home Capital:

> "None of that's changed. I think is [*sic*] very similar to what it was last year. There isn't one dramatic one quarter change. There's been no new competitor, there's been no new change of broker, brokers are exactly the same…".

81. This was a misrepresentation made by CFO Morton, because there had been material changes to the brokers and the brokers were not "exactly the same". As pleaded elsewhere, when CFO Morton made this statement, Home Capital had already

terminated the Brokerages (which consisted of two brokerages and 18 independent brokers for a total of approximately 45 brokers).

THE TRUTH EMERGES

82. After the markets closed on Friday, July 10, 2015, Home Capital issued the July 10 News Release which stated, in part:

> "In the Company's 2015 first quarter report, Home Capital disclosed that its mortgage originations had been impacted by, among other things, its ongoing review of its business partners, its conservative approach to growing its residential mortgage business and the competitive market for prime insured mortgages.
>
> Home Capital's single-family residential mortgage originations for the second quarter of 2015 were as follows: (a) traditional mortgage originations were $1.29 billion in Q2 2015, as compared to $1.53 billion in Q2 2014 and $0.96 billion in Q1 2015; and (b) Accelerator (insured single-family) residential mortgage originations were $280.0 million for Q2 2015, as compared to $619.6 million in Q2 2014 and $180.0 million in Q1 2015.
>
> Home Capital's ongoing review of its business partners led to the Company terminating relationships with certain mortgage brokers, which caused an immediate drop in originations. In addition, the Company's continued conservative approach has slowed growth in the Company's residential mortgage business. These factors, along with the competitive landscape, help explain the lower than expected mortgage originations in the first and second quarters of 2015."

83. On the next trading day, Monday July 13, 2015, the market price for Home Capital's shares fell by $7.95 per share from $42.01 to $34.06 or approximately 19% on extraordinarily heavy trading volume. This one day drop in the price of the securities of Home Capital resulted in a loss in its market capitalization of more than $500 million.

84. The share price continued to fall in subsequent trading sessions. The 10 day VWAP post disclosure is $32.40 ($9.61 off the pre-disclosure price).

85. On July 17, 2015, Home Capital released the July 17 Material Change Report describing the circumstances surrounding the decline in originations as a material change to its business. The July 17 Material Change Report stated in part:

> **"5.1 Full Description of Material Change**
>
> In the Company's 2015 first quarter report, Home Capital disclosed that its mortgage originations had been impacted by, among other things, its ongoing review of its business partners, its conservative approach to growing its residential mortgage business and the competitive market for prime insured mortgages.
>
> Home Capital's ongoing review of its business partners led to the Company terminating relationships with certain mortgage brokers, which caused an immediate drop in originations. In addition, the Company's continued conservative approach has slowed growth in the Company's residential mortgage business. These factors, along with the competitive landscape, help explain the lower than expected mortgage originations in the second quarter of 2015. Having signaled a concern about mortgage originations in its Q1 2015 Report, the Company determined to release Q2 mortgage origination results as soon as they became available.
>
> Home Capital's single-family residential mortgage originations were as follows: (a) traditional mortgage originations were $1.29 billion in Q2 2015, as compared to $1.53 billion in Q2 2014 and $0.96 billion in Q1 2015; and (b) Accelerator (insured single-family) residential mortgage originations were $280.0 million for Q2 2015, as compared to $619.6 million in Q2 2014 and $180.0 million in Q1 2015."

86. On July 29, 2015, at the request of the Ontario Securities Commission, Home Capital issued the July 29 Material Change Report providing further disclosure regarding the termination of the Brokerages and the material change to the business of Home Capital. The July 29 Material Change Report stated, in part:

“5.1 Full Description of Material Change

<u>1. July 10, 2015 News release and Material Change Report</u>

On July 10, 2015 Home Capital disclosed that its ongoing review of its business partners led to the Company terminating relationships with certain mortgage brokers which resulted in an immediate drop in originations.

…

<u>II. Additional Information Related to Suspension of Relationships</u>

The Ontario Securities Commission has requested that Home Capital provide further disclosure regarding the suspension of relationships with certain mortgage brokers. In particular disclosure of the nature of issues identified with certain mortgage brokers, the remedial actions taken by the Company and the financial and operational impacts of these actions.

Reasons for the Review of Broker Conduct

In late 2014, simultaneous with the Company’s own internal review of broker relationships and operations, an external source alerted Home Capital’s Board of Directors to possible discrepancies in income verification information submitted by certain mortgage brokers.

Findings of the Review

The Company immediately commenced a thorough investigation of this allegation including the reliability of other information submitted with the loan applications. The Company retained independent professional advisors to guide the investigation, which was overseen by independent directors. The investigation determined that falsification of income information had occurred but that there was no evidence of falsification of credit scores or property values. The brokers associated with the mortgage applications were identified and during the period of September 2014 to March 2015, the Company suspended its relationship with 18 independent mortgage brokers and 2 brokerages, for a total of approximately 45 individual mortgage brokers.

Impact of Broker Suspensions

The Company concluded that it is unlikely that this matter will lead to credit losses. The Company continues to actively monitor the subject mortgages and there have been no unusual credit issues. During the course of its review, Home Capital did a broader test to ensure that this

> was not a widespread issue in its portfolio and the Company is comfortable that it is not.
>
> Mortgages originated by the suspended brokers in 2014 could be expected to contribute approximately $6 million to the Company's net income over a full year, or approximately 2% of the total net income of $313 million reported in 2014. The Company has determined that this group originated $960.4 million of single-family residential mortgages in 2014, or 5.3% of the outstanding loan assets on the Company's balance sheet. The majority (approximately 60%) of loans originated by this group were the Company's lower margin Accelerator mortgages. The total value of single-family residential mortgage originations for 2014 was $7.6 billion."

87. On July 30, 2015, Home Capital conducted its Q2/2015 earnings conference call. On that earnings conference call, CEO Soloway stated, in part:

(a) In late 2014, Home Capital commenced an investigation of allegations made by an outside source.

(b) Home Capital looked at three key types of documents in mortgage application files – income statements, property appraisals, and credit scores.

(c) The investigation found falsifications of income statements.

(d) Once the brokers responsible for the mortgage applications were identified, they were immediately suspended.

(e) Home Capital suspended 18 independent brokers and 2 brokerage houses representing 45 brokers in total.

(f) "…as a result of this process and other factors there was decline of originations in the first half of 2015."

(g) The terminated brokers originated $960.4 million worth of mortgages in 2014.

88. On November 5, 2015, Home Capital released its Q3/2015 Interim Financial Report which stated in part:

> "In Q2 2015, the Company disclosed that its mortgage origination volumes were impacted directly by, among other things, the Company suspending, during the period of September 2014 to March 2015, its relationship with 18 independent mortgage brokers and 2 brokerages, for a total of approximately 45 individual mortgage brokers.
>
> The total value of outstanding loans at September 30, 2015 that were originated by the suspended brokers was $1.72 billion. This compares to $1.93 billion as at June 30, 2015. The Company expects this balance to decline as customers pay down loans. The Company continues to actively monitor the subject mortgages and notes that there have been no unusual credit issues."

89. Based on these disclosures by Home Capital on or after July 10, 2015, the following facts emerged:

(a) An outside source informed the Home Capital Board in September 2014 about the falsification of loan documentation submitted by brokers to Home Capital.

(b) Home Capital began an immediate investigation with the assistance of outside professionals which was overseen by independent directors.

(c) Once the brokers responsible for the falsified documentation were identified they were immediately terminated.

(d) Between September 2014 and March 2015, 18 independent brokers and 2 brokerages representing 45 brokers in total were terminated.

(e) As a result of the terminations there was a material decline in originations.

(f) The terminated brokers originated $960.4 million worth of mortgages in 2014.

(g) The total value of outstanding loans at June 30, 2015 that were originated by the suspended brokers was $1.93 billion.

90. These facts, individually or collectively, were material facts in relation to the securities of Home Capital and a material change(s) in relation to business or operations of Home Capital.

91. Contrary to Ontario securities law, and the Securities Legislation as applicable, these facts were undisclosed throughout the Class Period resulting in the market being materially misled about the business and affairs of Home Capital and artificially inflating the price of Home Capital's securities.

CAUSES OF ACTION

Statutory Secondary Market Liability – Part XXIII.1 of the *OSA*

92. On behalf of the Class, the Plaintiff pleads the cause of action found in Part XXIII.1 of the OSA against:

(a) Home Capital, throughout the Class Period, for the misrepresentations made in the Impugned Documents and public oral statements and for the failure to make timely disclosure of the Change as a material change(s), all as described herein;

(b) Soloway, throughout the Class Period, for the misrepresentations made in the Impugned Documents, and for the misrepresentations made in the public oral statements, and for the failure to make timely disclosure of the Change as a material change(s) all as described herein;

(c) Morton, during the Class Period after January 1, 2015, for the misrepresentations made in the Impugned Documents, and for the misrepresentations made in the public oral statements, and for the failure to make timely disclosure of the Change as a material change(s) all as described herein;

(d) Blowes, during the Class Period before January 1, 2015, for the misrepresentations made in the Impugned Documents, and for the failure to make timely disclosure of the Change as a material change(s) all as described herein.

93. The Impugned Documents and the public oral statements contained one or more misrepresentations, as described herein.

94. Home Capital is a "responsible issuer" within the meaning of the *OSA*.

95. Each of the Impugned Documents is a "document" under section 138.1 of the *OSA*.

96. Some or all of the Impugned Documents are "core documents" under section 138.1 of the *OSA*.

Misrepresentations in core documents – *OSA* section 138.3(1)

97. Home Capital, as a responsible issuer at the time that each of the Impugned Documents was released by it is, pursuant to *OSA* section 138.3(1), liable in respect of the misrepresentations contained in such document or documents.

98. Soloway was an officer and director of Home Capital at the time that each of the Impugned Documents was released and is, pursuant to *OSA* section 138.3(1), liable in respect of the misrepresentations contained in such document or documents.

99. Blowes was an officer of Home Capital at the time that each of the Impugned Documents was released prior to January 1, 2015, and is, pursuant to *OSA* section 138.3(1), liable in respect of the misrepresentations contained in such document or documents by virtue of having been an officer at that time.

100. Morton was an officer of Home Capital at the time that each of the Impugned Documents was released after January 1, 2015, and is liable, pursuant to *OSA* section 138.3(1), in respect of the misrepresentations contained in such document or documents by virtue of having been an officer at that time.

Public oral statement misrepresentations – *OSA* section 138.3(1)

101. With respect to the public oral statements, Soloway and Morton either made the public oral statements or authorized, permitted or acquiesced in the making of the public oral statements, and Home Capital, Soloway and Morton knew that such public oral statements contained the misrepresentations that are described above or, in the

alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the public oral statements.

102. Pursuant to section 138.3(2) of the *OSA*, Home Capital, Soloway and Morton are liable in respect of the misrepresentations in the public oral statements.

Failure to make timely disclosure of a material change – *OSA* section 138.3(4)

103. Home Capital, as a responsible issuer at the time it failed to make timely disclosure of the Change as a material change(s) to its business or operations as described herein, is, pursuant to *OSA* section 138.3(4), liable in respect of that failure to make timely disclosure of a material change(s).

104. Soloway, was an officer of Home Capital at the material time, and he authorized, permitted or acquiesced in the failure to make timely disclosure of the Change as a material change(s) to Home Capital's business or operations as described herein, and is, pursuant to *OSA* section 138.3(4), liable in respect of that failure to make timely disclosure of a material change(s).

105. Blowes, was an officer of Home Capital at the material time, and he authorized, permitted or acquiesced in the failure to make timely disclosure of the Change as a material change(s) to Home Capital's business or operations as described herein, and is, pursuant to *OSA* section 138.3(4), liable in respect of that failure to make timely disclosure of a material change(s).

106. Morton, was an officer of Home Capital at the material time, and he authorized, permitted or acquiesced in the failure to make timely disclosure of the Change as a material change(s) to Home Capital’s business or operations as described herein, and is, pursuant to *OSA* section 138.3(4), liable in respect of that failure to make timely disclosure of a material change(s).

Oppression – section 248 of the *OBCA*

107. The Plaintiff and the Class Members are complainants within the meaning of sections 245 and 248(1) of the *OBCA*.

108. The Plaintiff and the Class Members had reasonable expectations about the manner by which the business and affairs of Home Capital would be conducted. Those reasonable expectations arose in part from the statutes governing Home Capital’s formation and internal governance, applicable securities laws, and Home Capital’s disclosure documents.

109. The reasonable expectations of the Plaintiff and the Class Members during the Class Period included the following:

(a) that every director and officer of Home Capital would act honestly and in good faith with a view to the best interests of the corporation, and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;

(b) that Home Capital's financial statements would be prepared in accordance with GAAP and, as such, that those financial statements would accurately represent the financial performance and condition of Home Capital;

(c) that Home Capital had in place ICFR and DC&P that was properly designed and/or operating effectively;

(d) that Home Capital would timely make full, true and plain disclosure of all material facts relating to its securities;

(e) that Home Capital would make timely disclosure of any material changes to its business or operations;

(f) that Home Capital would periodically update its disclosures by issuing interim financial reports, quarterly and annual MD&A, quarterly and annual certifications by its CEO and CFO, audited annual financial statements, and material change reports all in accordance with the *OSA*, which would accurately describe its business, operations, financial results and financial position as at the time that each such disclosure was made, and would be free of misrepresentations;

(g) that the business and affairs of Home Capital would be conducted in a manner that complied with the *OSA* and all applicable laws;

(h) that the Defendants would implement adequate corporate governance procedures and internal controls to ensure that Home Capital disclosed material facts and material changes in the company's business and operations on a timely basis; and

(i) that the trading price of Home Capital's publicly traded securities would reasonably and promptly incorporate all material facts relating to Home Capital's business and would not be artificially inflated by the Defendants' misrepresentations or failure to make timely disclosure of material changes.

110. The Defendants acted in a manner contrary to those reasonable expectations in the following manner:

(a) Contrary to the requirements of the *OSA* and other applicable laws, the Defendants repeatedly made the misrepresentations and failed to disclose in a timely way the Change as a material change(s) to Home Capital's business or operations, all as pleaded herein.

(b) By breaching or causing Home Capital to breach the requirements of the *OSA* and other applicable laws, all as pleaded herein, the Defendants misled the capital markets and caused the price of Home Capital's shares to trade at inflated prices during the Class Period, which directly resulted in damage to the Plaintiff and the Class Members.

(c) During the Class Period while Home Capital's stock price was artificially inflated, certain Home Capital insiders, including CEO Soloway, with knowledge of material facts and material changes which were not generally disclosed, sold Home Capital securities for their personal benefit thereby avoiding losses that they would have otherwise incurred, which insider trading was contrary to section 76 of the *OSA*.

111. This conduct had the effect of oppressing and unfairly disregarding and unfairly prejudicing the interests of the Plaintiff and the Class Members and caused damage to the Plaintiff and the Class Members.

112. The Defendants knew of the impact that their conduct could be expected to have on the investments made by Home Capital's shareholders, including the Plaintiff and the Class Members, and their disregard for the reasonable expectations of the Plaintiff and the Class Members was oppressive or unfairly prejudicial to or unfairly disregarded the interests of the Plaintiff and the Class Members.

113. Given the nature of the interests that the Defendants have disregarded, the appropriate remedy for the oppressive conduct alleged is an award of compensation, pursuant to section 248(3)(j) of the *OBCA.*

Negligent Misrepresentation

114. The Plaintiff pleads negligent misrepresentation against:

(a) Home Capital, for the misrepresentations made in the Impugned Documents and public oral statements as described herein;

(b) Soloway, for the misrepresentations made in the Impugned Documents, and for the misrepresentations made in the public oral statements made by him as described herein;

(c) Morton, for the misrepresentations made in the Impugned Documents after January 1, 2015, and for the misrepresentations made in the public oral statements made by him as described herein; and

(d) Blowes, for the misrepresentations made in the Impugned Documents before January 1, 2015 as described herein.

115. The misrepresentations were materially false and/or misleading for the reasons described herein.

116. The Defendants made the misrepresentations by signing the Impugned Documents containing the misrepresentations, and, or by authorizing the issuance of the Impugned Documents containing the misrepresentations, and, or by making the public oral statements all as described herein.

117. The Impugned Documents were prepared and issued by Home Capital for the purpose of attracting investment and inducing Class Members to purchase Home Capital securities. The Defendants knew and intended at all material times that the Impugned Documents were prepared and issued for that purpose, and that the Class Members would rely reasonably and to their detriment upon such documents in making the decision to buy, hold or sell Home Capital securities.

118. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated promptly into the price of Home Capital's publicly traded securities such that the trading price of those securities would at all times reflect the information contained in such documents.

119. Throughout the Class Period, the Defendants had exclusive access to information about Home Capital's business and operations. As such, they were the primary source of information specifically related to Home Capital's business which was relevant to the decisions of the Class Members to acquire Home Capital's securities and the price at which they would be acquired, held or sold.

120. The Defendants owed to the Plaintiff and the Class Members a duty of care to timely make complete and accurate disclosure of all information that was material to the business and affairs of Home Capital, and to take reasonable steps to ensure that the statements that they made in relation to Home Capital's business and affairs were free of material misstatement or misrepresentation.

121. The Defendants breached that duty by making the misrepresentations as described herein.

122. The Plaintiff and the Class Members relied upon the misrepresentations.

123. Alternatively, the Plaintiff and the Class Members relied upon the misrepresentations by the act of purchasing Home Capital's securities in an efficient market that promptly incorporated into the price of those securities all publicly available material information regarding the securities of Home Capital. As a result, the making of the misrepresentations in the Impugned Documents and public oral statements caused the price of Home Capital's securities to trade at inflated prices during the Class Period, resulting directly in damage to the Plaintiff and the Class Members.

124. As a result of the misrepresentations of the Defendants as pleaded, the Plaintiff and Class Members suffered damages.

VICARIOUS LIABILITY OF HOME CAPITAL

125. Home Capital is vicariously liable for the acts and omissions of the Individual Defendants particularized in this Claim.

126. The acts or omissions particularized in this Claim were authorized, ordered and done by the Individual Defendants and Home Capital's other agents, employees and representatives while engaged in the management, direction, control and transaction of its business affairs of Home Capital and are, therefore, acts and omissions for which Home Capital is vicariously liable.

127. At all material times, the Individual Defendants were officers and, or directors of Home Capital. As their acts and omissions are independently actionable pursuant to the pleaded causes of action, they are personally liable for same to the Plaintiff and the Class Members.

THE RELATIONSHIP BETWEEN HOME CAPITAL'S DISCLOSURES AND THE PRICE OF HOME CAPITAL'S SECURITIES

128. The price of Home Capital's securities was directly affected during the Class Period by the release of the documents and making of the public oral statements containing the misrepresentations as particularized herein. The Defendants were aware at all material times of the effect of Home Capital's disclosure documents and public oral statements upon the price of Home Capital's securities.

129. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

130. Home Capital routinely transmitted the Impugned Documents to the financial press, financial analysts and certain prospective and actual holders of Home Capital's securities. Home Capital provided either copies of the Impugned Documents or links thereto on its website.

131. Home Capital regularly communicated with investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including News Releases on newswire services in Canada, the United States and elsewhere. When Home Capital communicated that new material information about Home Capital's business, and operations and its financial results to the public, the price of Home Capital's securities was directly affected.

132. Home Capital was the subject of analysts' reports that incorporated certain of the information contained in the Impugned Documents and public oral statements, with the effect that any recommendations to buy, hold or sell Home Capital's securities in such reports during the Class Period were based, in whole or in part, upon that information.

133. Home Capital's securities were and are traded, among other places, on the TSX, which is an efficient and automated market. The price at which Home Capital's securities

traded promptly incorporated material information from Home Capital's disclosure documents and public oral statements about Home Capital's business and affairs, including the misrepresentations alleged herein, which were disseminated to the public through the Impugned Documents and public oral statements referred to herein and distributed by Home Capital, as well as by other means.

RELEVANT LEGISLATION

134. The Plaintiff pleads and relies on the *CJA*, the *CPA*, the *OSA*, the *OBCA*, and the Securities Legislation, all as amended.

PLACE OF TRIAL

135. The Plaintiff proposes that this action be tried in the City of London, in the Province of Ontario, as a proceeding under the *CPA*.

February 24, 2017

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Lawyers for the Plaintiff

SCHEDULE "A"

Excerpts from Home Capital's Q3/2014 Interim Financial Report which incorporated Home Capital's Q3/2014 MD&A, as released on November 5, 2014

At page 5:

The discussion and analysis relates principally to the Company's subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2014 included in this report and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2013 included in the Company's 2013 Annual Report. Except as described in this MD&A and these unaudited interim consolidated financial statements, all factors discussed and referred to in the MD&A for fiscal 2013 remain substantially unchanged. This MD&A has been prepared with reference to the unaudited consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS or GAAP) and all amounts are presented in Canadian dollars. This MD&A is current as of November 5, 2014. As in prior quarters, the Company's Audit Committee reviewed this document, and prior to its release the Company's Board of Directors approved it, on the Audit Committee's recommendation.

At page 22:

Risk management is an essential component of the Company's strategy, contributing directly to the Company's profitability and consistently high return on equity. The Company continues to invest in risk management practices and resources. The Company's key risk management practices remain in place and are continually reviewed and enhanced from those outlined on pages 54 through 67 in the MD&A section of the Company's 2013 Annual Report.

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason. The Company's overall exposure to credit risk is governed by a defined credit-specific risk appetite, limits, and a Board-approved Credit Risk Policy and regular independent monitoring and reporting. The Company's approach to establishing, implementing and monitoring credit risk policies and guidelines has not changed significantly from the description provided in the 2013 Annual Report.

At page 28:

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk includes legal risk, but excludes strategic and reputational risk. The key elements of the Company's operational risk framework including governance, risk identification and assessment, risk management, risk monitoring and reporting, business continuity and crisis management and corporate insurance have not changed significantly from the description provided on pages 65 to 66 of the 2013 Annual Report.

At page 50:

The Company is exposed to various types of risk owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include credit, liquidity and funding, interest rate, investment, operational, reputational, and legislative and regulatory risk. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company's ERM structure is supported by a governance framework that includes policies, management standards, guidelines, procedures and limits appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

A description of the Company's risk management policies and procedures is included in the shaded text of the Risk Management section of the Management Discussion and Analysis included in both the Company's 2014 Third Quarter and 2013 Annual reports. Significant exposures to credit and liquidity risks are described in Notes 4, 5, and 13 of this report.

SCHEDULE “B”

Excerpts from Home Capital‘s FY/2013 Annual MD&A, as released on February 12, 2014 and referred to and incorporated in Home Capital’s Q4/2014 Interim Financial Report and MD&A

At page 45:

The Company’s business strategies and operations expose the Company to a wide range of risks that could adversely affect its operations, financial condition, or financial performance, and which may influence an investor to buy, hold, or sell the Company’s shares. When evaluating risks, the Company makes decisions about which risks it accepts, which risks it mitigates, offsets or hedges, and which risks it will avoid. These decisions are guided by the Company’s risk appetite framework. The types of risk to which the Company is subject include, among others, credit, funding and liquidity, market, and operational risks.

At page 48:

Principal Risks
The Company has identified seven principal risks that are material to the business: strategic, credit, market, funding and liquidity, operational, legislative and regulatory, and reputational risk. In addition to these principal risks, The Company employs a risk register to outline risk sub-categories and provide more detailed linkages to the specific risks inherent to, or taken by, the business. These risks are identified, measured, assessed, and monitored on an ongoing basis, with regular reporting to both management and the Board of Directors. Where appropriate, principal and sub-category risks are mitigated through various actions to reduce the inherent risk to acceptable residual levels, as defined by the Company’s risk appetite. Strategic and reputational risks are considered overarching risks, as substantial outcomes from other principal risks could pose significant second order impact to the Company’s reputation or ability to execute strategic objectives.

At page 56:

Operational Risk
Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. The impact of operational risk may include financial loss, loss of competitive position, or regulatory enforcement actions, among others. It is an integral and unavoidable part of the Company’s business as it is inherent in every business and support activity, product and service. While operational risk cannot be eliminated, the Company has taken proactive steps to mitigate this risk. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls. The Company continues to strengthen its operational risk framework,

with the addition of staff, introduction of enhanced risk tools and methodologies including key risk indicators, and improvement in its risk analytics.

…

Key elements of the Company's operational risk framework include:

Governance

The Company maintains a system of comprehensive policies and an internal control framework designed to provide a sound and well-controlled operational environment. Operational risk policies are approved by the Operational Risk Committee and the Risk and Capital Committee of the Board. A three lines of defence model is used to manage operational risk, as described under Risk Governance. Oversight over the Company's operational risk exposures is also provided by the Operational Risk Committee.

At page 57:

Reputational Risk

Reputational risk is the risk that shareholders or the public will, with or without basis, judge the Company's operations or practices negatively, potentially resulting in a decline in its value, brand, liquidity, or customer base.

The Company views reputational risk as an exposure to earnings and/or capital from the consequence or failure to adequately manage any risk, regardless of the source, rather than a specific risk. Failure to effectively manage these risks can result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's strategic objectives.

The Company aims to safeguard its public reputation through its governance, compliance and risk management processes.

SCHEDULE "C"

Excerpts from Home Capital's Q3/2014 Form 52-109F2 "Certification of Interim Filings" signed by CEO Gerald M. Soloway and CFO Robert J. Blowes, as released on November 5, 2014

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of **Home Capital Group Inc.** (the "issuer") for the interim period ended **September 30, 2014.**

2. **No misrepresentations**: based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

…

5. **Design:** Subject to limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by interim filings.

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

i. Material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

ii. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

SCHEDULE "D"

Excerpts from Home Capital's Fiscal 2014 MD&A as released on February 11, 2014

At page 47:

Principal Risks

The Company has identified seven principal risks that are material to the business: strategic, credit, market, funding and liquidity, operational, legislative and regulatory, and reputational risk. In addition to these principal risks, the Company employs a risk register to outline risk sub-categories and provide more detailed linkages to the specific risks inherent to, or taken by, the business. These risks are identified, measured, assessed, and monitored on an ongoing basis, with regular reporting to both management and the Board of Directors. Where appropriate, principal and sub-category risks are mitigated through various actions to reduce the inherent risk to acceptable residual levels, as defined by the Company's risk appetite. Strategic and reputational risks are considered overarching risks, as substantial outcomes from other principal risks could pose significant second order impact to the Company's reputation or ability to execute strategic objectives.

…

Credit Risk

Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason.

…

At a transactional level, loans are independently approved by credit staff commensurate with their experience and expertise to extend credit within the bounds of the Company's credit risk policies. A foundation of the Company's approach to credit is a high level of due diligence on each individual transaction, with oversight from a management team with strong industry experience. All transactions are subject to detailed reviews of the underlying security, an assessment of the applicant's ability to service the loan, and the application of a standard risk rating or credit score. Enhanced due diligence is conducted on transactions deemed to carry higher credit risks based on pre-defined parameters. Transactions in excess of individual authority are approved by the Credit Risk Transactional Sub-Committee of the Credit Risk Committee and ultimately by the Risk and Capital Committee of the Board as required.

At page 57:

Operational Risk

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The impact of operational risk may include financial loss, loss of competitive position, or regulatory enforcement actions, among others. It is an integral and unavoidable part of the Company's business as it is inherent in every business and support activity. While operational risk cannot be eliminated, the Company has taken proactive steps to mitigate this risk. Strategies to manage operational risk include avoidance, transfer, acceptance and mitigation by controls. The Company continues to strengthen its operational risk framework, introducing enhanced risk tools and methodologies, including event data monitoring, line-of-business risk and control self-assessments, measurement and monitoring of key risk/performance indicators, a new initiatives risk assessment framework, and stress testing and scenario analytics.

At page 59:

Reputational Risk

Reputational risk is the risk that shareholders or the public will, with or without basis, judge the Company's operations or practices negatively, potentially resulting in a decline in its value, brand, liquidity, or customer base.

The Company views reputational risk as an exposure to earnings and/or capital from the consequence or failure to adequately manage any risk, regardless of the source, rather than a specific risk. Failure to effectively manage these risks can result in reduced market capitalization, loss of client loyalty, and the inability to achieve the Company's strategic objectives.

The Company aims to safeguard its public reputation through its governance, compliance and risk management processes.

At page 61:

Disclosure Controls and Internal Control over Financial Reporting

Management is responsible for establishing the integrity and fairness of financial information presented in the consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles. As such, management has established disclosure controls and procedures and internal controls over financial reporting to ensure that the Company's consolidated financial statements and Management's Discussion and Analysis present fairly, in all material respects, the financial position of the Company and the results of its operations.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2014. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective as of December 31, 2014.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and receipts and expenditures are being made in accordance with authorizations of management and the Board of Directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Due to inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. As a result, the Company's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of a change in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework and COBIT, an IT governance framework, to evaluate the design of the Company's internal controls over financial reporting.

An evaluation of the design and operating effectiveness of internal controls over financial reporting was conducted as of December 31, 2014. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's internal controls over financial reporting were operating effectively as of December 31, 2014.

Changes in Internal Control over Financial Reporting

There were no significant changes in 2014 that have affected or could reasonably be expected to materially affect internal control over financial reporting.

SCHEDULE "E"

Excerpts from Home Capital's FY/2014 Annual Information Form as released on March 26, 2015

At pages 4-5

GENERAL DEVELOPMENT OF THE BUSINESS

Highlights of the Last Three Years

…

The Company recorded solid performance for 2014. The Company continued to experience growth in its loans under administration, reaching $22.57 billion, reflecting the Company's continued focus on the traditional mortgage portfolio. Deposit and securitization liabilities were $18.24 billion, reflecting increases in deposits to fund the non-securitized loan portfolio, and a decline in securitization liabilities, reflecting planned changes in asset mix. Total deposits raised through the Company's deposit diversification initiatives, Oaken Financial, high-interest savings accounts and institutional deposits, totaled $2.42 billion. During the year, the Company launched Oaken Online Banking. Total net interest income increased to $459.5 million, reflecting higher average loan balances of $18.90 billion and improved total net interest margin (TEB) of 2.25%. On March 10, 2014, the Company paid a stock dividend of one common share per each issued and outstanding common share to shareholders.

Additional information about the Company's highlights can be found in the 2014 Annual Report under the 2014 Strategies and Achievements, 2015 Strategies, 2015 Overall Outlook and the Five Year Financial Highlights

At page 7:

Risk Factors
The Company, through its wholly owned subsidiary Home Trust, like other financial institutions, is exposed to various types of risk owing to the nature of the business activities it carries on. These risks include credit, funding and liquidity, interest rate, investment, operational, reputational and legislative and regulatory risk. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company's ERM structure is supported by a governance framework that includes policies, management standards, guidelines, procedures and limits appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

Explanations of the types of risks cited above and the way in which the Company manages these risks can be found in the Management's Discussion and Analysis (MD&A) in the 2014 Annual Report, which is incorporated herein by reference and is available on SEDAR at www.sedar.com. The Company cautions that the discussion of risks is not exhaustive. When considering whether to purchase common shares of the Company, investors and others should carefully consider these factors as well as other uncertainties, potential events and industry and Company-specific factors that may impact the Company's future results.

SCHEDULE “F”

Excerpts from Home Capital’s FY/2014 Form 52-109F1 “Certification of Annual Filings Full Certificate” signed by CEO Gerald M. Soloway and CFO Robert Morton, as released on March 26, 2015

1. **Review**: I have reviewed the AIF, annual financial statements and the annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of **Home Capital Group Inc.** (the “issuer”) for the financial year ended December 31, 2014.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in the light of the circumstances under which it was made, for the period covered by the annual filings.

…

4. **Responsibility:** The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer and I have, as at the financial year end

   a. designed DC&P, or caused it to be designed under our supervision to provide reasonable assurance that:

      i. material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      ii. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded; processed, summarized and reported within the time periods specified in securities legislation; and

   b. designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.

…

6. **Evaluation:** The issuer's other certifying officer and I have

   a. evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and

   b. evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed its annual MD&A

      i. our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; …

…

7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any changes in the issuer's ICFR that occurred during the period beginning **October 1, 2014** and ended **December 31, 2014** that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

…

SCHEDULE “G”

Excerpts from Home Capital‘s Q1/2015 Interim Financial Report which incorporated Home Capital’s Q1/2015 MD&A, as released on May 6, 2015

At page 3

Total Q1 2015 mortgage originations were $1.38 billion for Q1 2015, compared to $2.29 billion for Q4 2014 and $1.68 billion for Q1 2014. The first quarter was characterized by a traditionally slow real estate market, exacerbated by very harsh winter conditions. The Company has remained cautious in light of continued macroeconomic conditions and continues to perform ongoing reviews of its business partners ensuring that quality is within the Company’s risk appetite. During Q1 2015, the Company launched the first phase of a new originations technology platform, which will allow the Company to increase its capacity and operational efficiency to support future growth of its loans portfolio.

At page 5:

This Management’s Discussion and Analysis (MD&A) is provided to enable readers to assess the financial condition and results of operations of Home Capital Group Inc. (the “Company” or “Home Capital”) for the three months ended March 31, 2015. The discussion and analysis relates principally to the Company’s subsidiary Home Trust Company (Home Trust), which provides residential mortgage lending, non-residential commercial mortgage lending, consumer and credit card lending and deposit-taking services. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the period ended March 31, 2015 included in this report and the MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 included in the Company’s 2014 Annual Report. Except as described in this MD&A and these unaudited interim consolidated financial statements, all factors discussed and referred to in the MD&A for fiscal 2014 remain substantially unchanged. This MD&A has been prepared with reference to the unaudited consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS or GAAP) and all amounts are presented in Canadian dollars. This MD&A is current as of May 6, 2015. As in prior quarters, the Company’s Audit Committee reviewed this document, and prior to its release the Company’s Board of Directors approved it, on the Audit Committee’s recommendation. The Non-GAAP measures used in this MD&A and a glossary of terms used in this MD&A and financial statements are presented in the last section of this MD&A.

At page 21:

RISK MANAGEMENT

…

Risk management is an essential component of the Company’s strategy, contributing directly to the Company’s profitability and consistently high return on equity. The Company continues to invest in risk management practices and resources. The Company’s key risk management practices remain in place and are continually reviewed and enhanced from those outlined on pages 54 through 70 in the MD&A section of the Company’s 2014 Annual Report.

Credit Risk
Credit risk is the risk of the loss of principal and/or interest from the failure of debtors and/or counterparties to honour their financial or contractual obligations to the Company, for any reason. The Company’s overall exposure to credit risk is governed by a defined credit-specific risk appetite, limits, and a Board-approved Credit Risk Policy and regular independent monitoring and reporting. The Company’s approach to establishing, implementing and monitoring credit risk policies and guidelines has not changed significantly from the description provided in the 2014 Annual Report.

At page 27:

Operational Risk
Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. The key elements of the Company’s operational risk framework including governance, risk identification and assessment, risk measurement, risk monitoring and reporting, business continuity and crisis management and corporate insurance have not changed significantly from the description provided on pages 68 to 69 of the 2014 Annual Report.

At page 53:

The Company is exposed to various types of risk owing to the nature of the business activities it carries on. Types of risk to which the Company is subject include credit, funding and liquidity, interest rate, investment, operational, reputational, and legislative and regulatory risk. The Company has adopted enterprise risk management (ERM) as a discipline for managing risk. The Company’s ERM structure is supported by a governance framework that includes policies, management standards, guidelines, procedures and limits appropriate to each business activity. The policies are reviewed and approved annually by the Board of Directors.

A description of the Company’s risk management policies and procedures is included in the shaded text of the Risk Management section of the Management’s Discussion and Analysis included in this report. Significant exposures to credit and liquidity risks are described in Notes 4, 5, and 12 of this report.

SCHEDULE "H"

Excerpts from Home Capital's Q3/2014 Form 52-109F2 "Certification of Interim Filings" signed by CEO Gerald M. Soloway and CFO Robert Morton, as released on May 6, 2015

1. **Review:** I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of **Home Capital Group Inc.** (the "issuer") for the interim period ended **March 31, 2015.**

2. **No misrepresentations**: based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

…

5. **Design:** Subject to limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by interim filings.

   (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

   i. Material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

   ii. information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

Claire R. Mcdonald
Plaintiff

and

Home Capital Group Inc. , et al.
Defendants

Court File No: 349/17CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at London

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

(NOTICE OF ACTION ISSUED FEBRUARY 13, 2017)

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